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Allianz Research

Testing resilience

Allianz Trade Global Survey 2023

Executive Summary

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- **In our 2023 Allianz Trade Global Survey, we decided to check the pulse of companies in seven countries – the US, the UK, Germany, France, Italy, Spain and Poland.** Over three weeks to mid-April, we surveyed a sample of high-level executives in around 3,000 companies that have export activities and suppliers and production sites located in foreign countries.

- **Exporters remain cautiously optimistic.** Roughly 70% of corporates expect business turnover generated through exports to increase in 2023 (against close to 80% in the 2022 edition and 94% before the start of the war in Ukraine). One in two exporters sees a moderate turnover increase, between +2% and +5%, down from the double-digit turnover growth registered in 2022. This compares with our latest global trade growth forecasts for 2023: +0.7% in volume terms and -0.1% in value terms. Companies in the countries most affected by the energy crisis are the least optimistic, with Germany, Poland and Italy being the most pessimistic.

- **Companies have a smaller appetite for new markets, favoring a consolidation of existing ones.** 63% of corporates favor increasing investment in countries where they are already present and 56% plan to gain further market share in those markets. Only 47% plan to invest in new countries, with US firms being the least outward looking. The recession in global trade of goods that began last October has dragged on corporates' optimism, and prospects remain weak going forward.

- **Cash remains king for export financing although payment terms are back in the top three sources of export financing.** With interest rates on the rise, our survey also finds that a lack of or expensive financing is expected to have significant impact for at least one-third of firms, with US and Spanish firms being most concerned. Interestingly, beyond traditional sources of financing, companies are increasingly turning to Buy Now, Pay Later schemes to finance their exports. For companies in the UK and France, this is cited as the third source of financing after cash and bank loans.

- **40% of exporters fear a rise in non-payment risk in 2023.** Compared to last year, more respondents expect the length of export payment terms to increase (42% vs. 31%), with the share this year reaching levels close to 50% in both the US and the UK. The share of respondents expecting an uptick in export non-payment risk has also increased compared to our early 2022 survey, rising +11pps to 40% overall. The increase is widespread across countries but especially visible in the UK and Germany (both +16pps), while it increased only by +6pps in Italy.

- **Supply-chain-related challenges and risks remain top of mind but financial constraints are starting to show.** When asked about challenges and risks, respondents across our sample most frequently (nearly 75%) rated transportation risk and costs as having a moderate to significant impact on export activity in 2023.

- **What is at the top of exporters' wish lists when it comes to government support? Upskilling and a pause on regulation.** Companies are using less direct state support, but nearly half of respondents cited financing support (e.g. from Export Credit Agencies, development banks, state guaranteed loans, grants) as their preferred form of support to boost international development, constant compared to last year's survey. Corporates in the US, Spain and Poland stood out compared to the overall average. Next on the list are active labor policies for labor upskilling (47% of corporates, +3pps more compared to last year), especially for corporates in Germany, France, Italy and Spain, followed by lower barriers to trade and regulation (39% of total corporates), especially for corporates in Poland and France.

- **Nothing seems likely to budge significantly global supply chains.** Even though Covid-19 and the energy crisis quite significantly disrupted their activities, and despite their acknowledgement of growing ESG and political risks, companies have not majorly overhauled their supply chains. Only 25% did so post-Covid and most do not plan to do so because of the energy crisis. Only about 20% are considering changing location or suppliers to mitigate ESG and political risks.

- **Digitalization and slight adjustments to locations and targets are the most likely resilience strategies.** Highly digitized companies experience less impact from shocks and are more agile to cope with them as they are proactively mitigating supply-chain disruptions, demonstrating the compelling case for digital transformation in an era rife with uncertainty and disruption. Corporates with a strong foothold in their respective regions will maintain it, while firms with larger footprints might look for new opportunities around the world. Corporates based in Western Europe favor Western Europe first, while US-based firms favour the US first. In contrast, firms with locations in APAC are open to considering Latam and Africa for future locations.

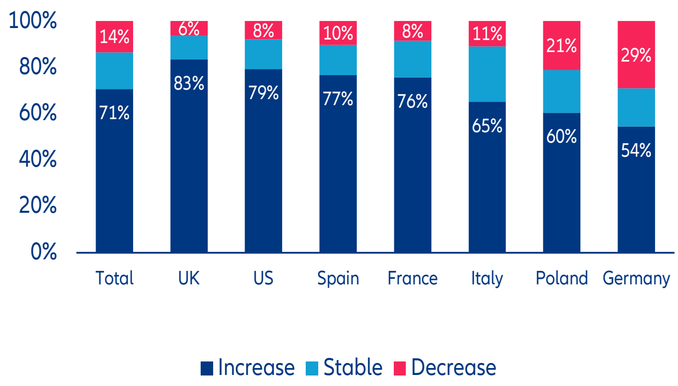
- **To tackle ESG, corporates favor low-hanging fruit and business continuity for now.** While over 75% of respondents state they are knowledgeable about the ESG spend in their firms, despite the current context, 80% would still prioritize business continuity over ESG commitments in 2023. However, business continuity and ESG aren't mutually exclusive, as demonstrated by the 85% of respondents spurred towards a long-term energy transition, probably boosted in their intentions by the recent energy crisis. Companies are also turning to more substantial, structural shifts, such as tying executive compensation to ESG performance, paring back 'brown' activities and fostering sustainable or innovative products and services.

Cautiously optimistic exporters

Most corporates are relatively optimistic about export prospects in 2023, but turnover growth is expected to slow down to less than +5%, three times less than the 2021-22 average. Companies in countries most affected by the energy crisis are the least optimistic, with Germany, Poland and Italy being the most pessimistic. For the second edition of our Global Survey, we asked nearly 3,000 exporters in France, Germany, Italy, Spain, Poland, the UK and the US about their outlook for 2023. We found that they remain quite optimistic: roughly 70% expect business turnover generated through exports to increase compared to last year (against close to 80% in the 2022 edition and 94% before the start of the war in Ukraine), with around 50% seeing a moderate increase (between +2% and +5%). With the exception of the UK, companies in countries most affected by the energy crisis are the least optimistic, with Germany, Poland and Italy exhibiting the lowest shares of companies seeing increasing exports turnover this year. Around 15% of exporters expect turnover growth to fall in 2023, but those in Germany and Poland are more pessimistic: between 20% and 30% of surveyed companies in these countries are bracing for an export turnover recession. Breaking down the results by sector, companies in the EU and mainly in the agricultural, manufacturing and wholesale sectors are less optimistic than their US or UK counterparts (67% against 80% or above).

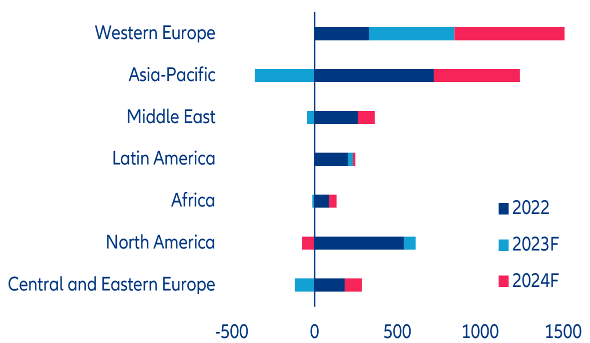
Slowing turnover expectations is in line with our outlook for global trade: We continue to expect flat growth in global trade of goods and services in volume in 2023. The recession in global trade of goods that began last October has dragged on corporates' optimism and prospects remain weak going forward. Our latest global trade growth forecasts for 2023 are +0.7% in volume terms and -0.1% in value terms – after +3.8% and +9.7%, respectively, in 2022. The slowdown mainly comes from lower shipments in cyclical sectors (e.g. electronics, household equipment, machinery & equipment etc.) and slower exports coming out of Asia-Pacific, given the very slow growth in developed economies, with recession expectations in the US and Germany. In value terms, we expect global export gains to reach USD1.5trn, the lowest level since 2018 excluding the recession in 2020. Out of all the regions, Western Europe should see the largest share of export gains (Figure 2).

Figure 1: Expectations for export turnover growth in 2023, % of total companies



Source: Allianz Trade Global Survey 2023

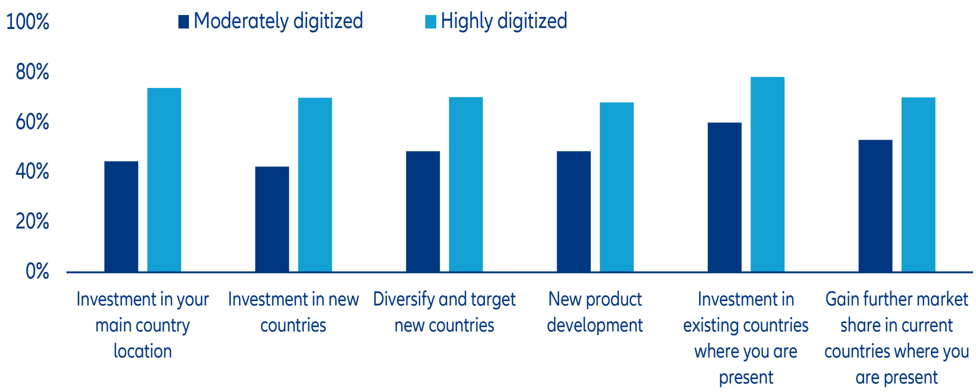
Figure 2: Export gains by region, USDbn



Source: Allianz Research

Companies have a smaller appetite for new markets, favoring a consolidation of existing ones. But highly digitized companies are the exception. 63% of corporates favor increasing investment in countries where they are already present and 56% plan to gain further market share in those markets. Only 47% plan to invest in new countries. Firms in Poland seem bolder, with 58% targeting new markets and 54% wanting to invest in them. Conversely, less than 40% of US firms are considering investing in new markets. Highly digitized companies (i.e. those with electronic invoicing, use of software to monitor production, use of cloud computing, B2B commerce, use of big data etc.) are also more active in expanding their international development, with highest the differences compared to less digitized peers on investment in new countries and targeting new markets (Figure 3).

Figure 3: International development priorities for the whole sample when comparing digitized or less digitized corporates



NB: We take as moderately digitized corporates with between three to five prioritized digital activities to support export activity and highly digitized when above six.

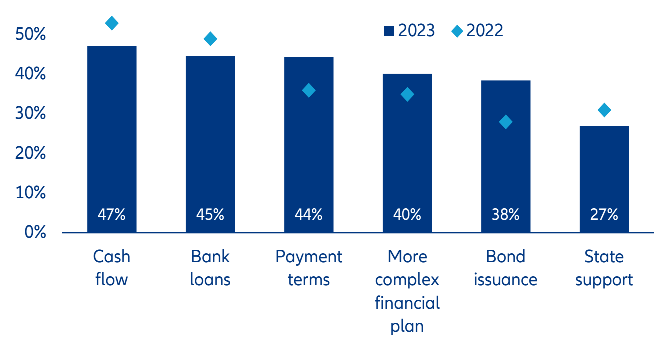
Source: Allianz Trade Global Survey 2023

40% of exporters fear a rise in non-payment risk in 2023

Payment terms are back in the top three sources of export financing sources after cash and bank loans. In last year's survey, cash and bank loans were also the most frequent answers – though the margin compared to other options has clearly declined this year. This is in line with the decline of firms' cash buffers in recent months as banks have kicked off the largest tightening in credit conditions in the Eurozone since end-2011. This has triggered the largest decline in loan demand since Q4 2008 in the area. US financial conditions have also been tightening sharply. As the effects of tightening monetary policies take more than 12 months to be fully transmitted to the real economy, we expect new loans to continue declining in the coming months in the US, UK, France and Spain, and start declining in Germany, Italy and Poland.

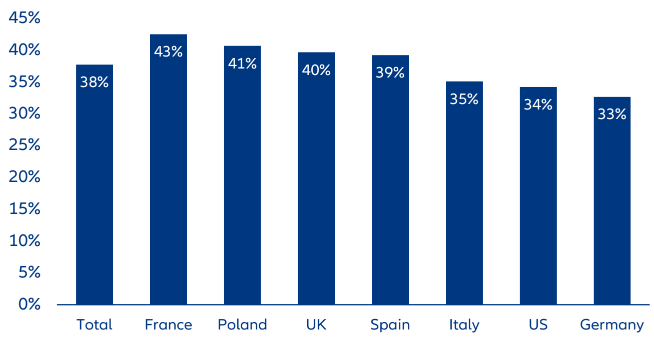
Payment terms is the third preferred financing option for exporters, with a clear increase compared to last year (Figure 4) when it was on par with equity funding and state support. This follows the increase in sales' payment terms (DSO) last year: +5 days to 59 days, against 1 day for suppliers' payment terms (DPO). This highlights the increasing role of suppliers as the invisible bank, given lower access to liquidity and higher funding costs. We expect this trend to continue in 2023, with an increase of 5 days for both DSO and DPO. Interestingly, new sources of financing are growing in importance: Buy Now Pay Later (BNPL) was tapped as the third choice in France and the UK. In contrast, Italian and German respondents seem more conservative as they ranked it last among potential funding sources (Figure 5).

Figure 4: Sources of finance intended to aid international development, 2023 vs. 2022 (see appendix for further details)



Sources: Allianz Trade Global Surveys 2022 and 2023

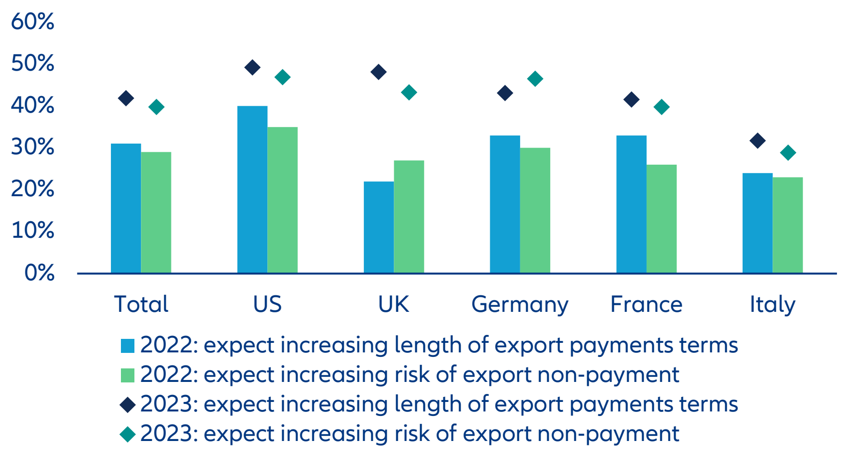
Figure 5: Buy-now-pay-later to fund further international development, % of total respondents



Sources: Allianz Trade Global Surveys 2022 and 2023

Export non-payment risk is expected to rise in 2023, mainly in the UK, Germany, France and the US. Compared to last year, more respondents expect the length of export payments terms to increase (42% vs. 31%), with the share this year reaching levels close to 50% in both the US and the UK. The share of respondents expecting an uptick in export non-payment risk has increased compared to our early 2022 survey, rising +11pps to 40% overall. The increase is widespread across countries but especially visible in the UK and Germany (both +16pps), while increased only by +6pps in Italy. Asked about the length of the increase, 39% of companies expect an increase of up to 30 days, with a higher share in the UK (44%), US (43%) and Germany (42%). This compares with 25% of firms expecting a decrease of up to 30 days and 32% expecting stable export payment terms. Companies whose supply chains have been severely disrupted since the Covid-19 pandemic are the most pessimistic, with nearly 70% expecting an increase (against an average of 32% in the rest of the sample). In addition, one-third of all respondents expect the risk of non-payment to be significantly impactful on their export activity in 2023: For companies in France, it is the second-largest risk, while for those in Italy it is the third and in the UK the fifth.

Figure 6: Share of respondents expecting an increase in export payment terms and non-payment risk, 2023 vs. 2022



Sources: Allianz Trade Global Surveys 2022 and 2023

Supply-chain-related challenges and risks remain top of mind

Supply-chain related challenges and risks remain top-of-mind but financial constraints are starting to show. When asked about challenges and risks, respondents across our sample most frequently (nearly 75%) rated transportation risk and costs as having a moderate to significant impact on export activity in 2023. Compared to our previous survey, when they were asked about 2021, fewer companies in the US and the UK saw a moderate to high impact from transport risk and costs, while they are now more numerous in France and Germany. The perception on input shortages has not changed that much overall, with still around 70% of respondents seeing a moderate to significant impact on export activity in 2023. Labor shortages is perceived among the top five challenges and risks in 2023 in the US, Germany and Poland. High energy prices seem to be less of an issue for most countries, with the exception of the UK, where 73% of corporates see it as the top challenge to overcome this year. Energy prices come second in Spain and fourth in France. However, the lack of or expensive financing is top of mind for most countries as 70% or more of respondents see it as having a moderate to significant impact on the export activity. It is a particular concern in Spain (82% of companies) and the US (74%, Figure 7).

Figure 7: Top three challenges and risks with moderate to significant impact on export activity in 2023, % of total corporates

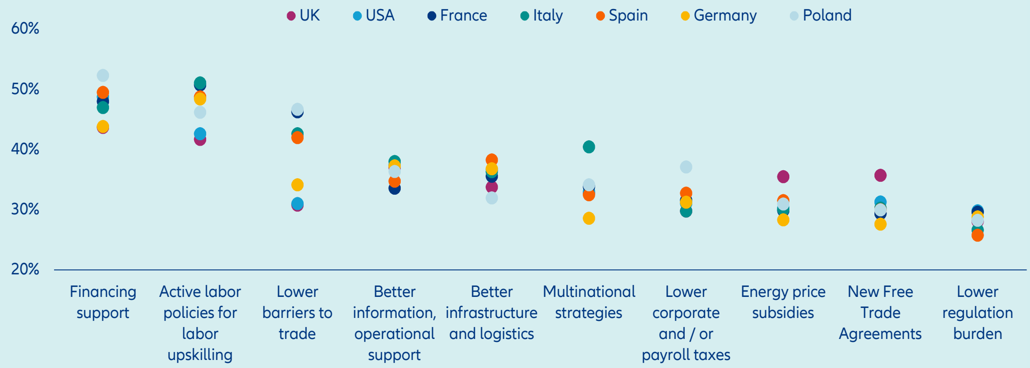
	US	UK	Germany	France	Italy	Spain	Poland
#1	Lack of or expensive financing (73%)	High energy prices (73%)	Transport risk (74%)	Non-payment risk (73%)	High transportation costs (76%)	Lack of or expensive financing (82%)	Transport risk (76%)
#2	High transportation costs (73%)	Shortage of inputs (73%)	Protectionism in export markets (73%)	Political risk (73%)	Lack of information (73%)	High energy prices (82%)	High transportation costs (75%)
#3	Shortage of labor (72%)	Political risk (71%)	Reputational and counterfeiting risk (71%)	Legal, regulatory and ESG risk (72%)	Non-payment risk (27%)	FX risk (81%)	Political risk (75%)

Sources: Allianz Trade Global Surveys 2022 and 2023

What is on exporters' wish lists for government support? Upskilling and a pause on regulation

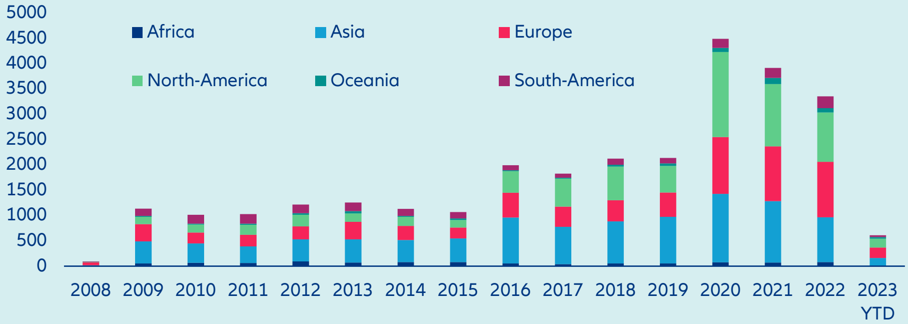
In 2023, more exporters are looking for active labor policies for labor upskilling compared to last year. Companies are reducing their reliance on direct state support as a source of financing (Figure 4 above). But nearly half of respondents cited financing support (e.g. from Export Credit Agencies, development banks, state guaranteed loans, grants) as their preferred form of government support to boost international development, constant compared to last year's survey. Corporates in the US, Spain and Poland stood out compared to the overall average (Figure 8). The second most popular government policy was the implementation of active labor policies for labor upskilling: cited by 47% of corporates, +3pps more compared to last year. In this, corporates in Germany, France, Italy and Spain stood out compared to the overall average. Lower barriers to trade and regulation stood out as the third most preferred option (39% of total corporates), with Poland and France on top. This is understandable as exporters have been exposed to 2.5 times more protectionist measures since the pandemic, compared to pre-pandemic average (Figure 9). Interestingly, new free-trade agreements (FTAs), energy price subsidies and lower corporate/payroll taxes stood out as the least urgent government policy measures needed by exporters across our sample. UK exporters in particular are seeking new FTAs and energy price subsidies, while Italian exporters are seeking multinational strategies (Figure 8).

Figure 8: Ranking of financing sources for international development, % of total corporates



Sources: Allianz Trade Global Surveys 2022 and 2023

Figure 9: Trade restrictions by year and by continent, number



Sources: GTA, Allianz Research

Nothing seems likely to budge significantly global supply chains

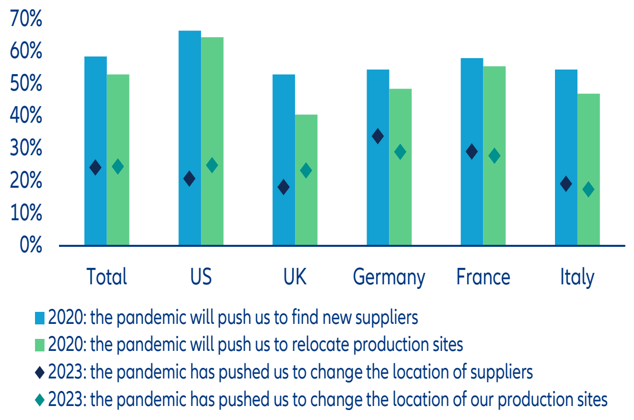
A quarter of firms walked the pandemic talk of shifting locations of suppliers or production sites. We find the highest gap between intentions and reality in the US, and the lowest in Germany and the UK. In the context of disruptions caused by the Covid-19 pandemic, almost 80% of respondents said they made some changes to their supply chains, and a quarter of firms changed suppliers or locations. Of the companies that reported fair to severe disruption, only 10% made no changes to the locations of their suppliers or production sites in the past three years (compared to between 20-25% for the overall sample).

We also find that the impact of the pandemic on companies' supply chains differs depending on where their suppliers are located. For example, companies that experienced fair to severe impacts from the pandemic and with top suppliers in Asia-Pacific or Eastern Europe much more frequently answer that they did not make any changes to the location of their suppliers. Probably because they cannot afford more expensive products from domestic or closer suppliers.

More importantly, for all the talk in 2020 about relocating suppliers and production sites, action fell far short. While 50-60% of companies in the previous edition of our survey (in the US, UK, Germany, France and Italy) said they would make changes to their supply chains, this turned out to be a largely unfulfilled promise (see Figure 10). Our latest survey reveals that only around a quarter actually followed through with relocation plans over the last three years. We observe the largest gaps between intentions in 2020 and actual changes in the US.

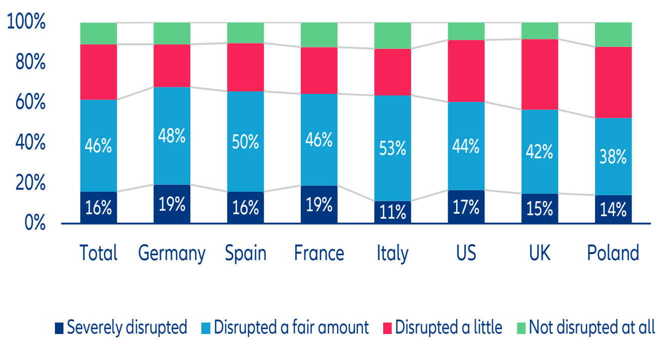
The energy crisis is another major disrupter for exporters. The ongoing energy crisis in Europe is generating deep-rooted problems within firms' supply chains, with an overwhelming majority (89%) of respondents reporting disruptions. These appear rather uniform across countries, revealing the regional (if not global) nature of the crisis. However, within this overall picture, there are some national contrasts. German firms, for instance, report particularly acute disruptions, with nearly 70% stating that the disruption to their operations has been fair to severe. This highlights the vulnerability within Germany's industrial sector and its dependency on Russian gas. Conversely, just over half of Polish companies report similar levels of disruption despite the country's proximity to Russia. This reflects Poland's heavy reliance on coal, which provided a buffer against the current crisis. Overall, the European energy crisis is pushing companies to reevaluate their processes and their (energy) dependencies.

Figure 10: Relocating suppliers and production sites, 2023 actual vs. 2020 intentions



Sources: Allianz Trade Global Surveys 2022 and 2023

Figure 11: Impact of energy crisis on supply chain

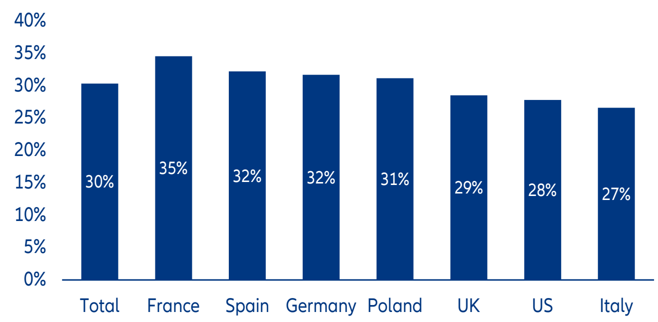


Sources: Allianz Trade Global Surveys 2022 and 2023

Nevertheless, it is unlikely to shake up supply chains either. This time around, to mitigate disruptions to their supply chains, companies favor monitoring and risk management and many other options before changing suppliers or relocating production sites. The favored options include breaking down the complex web of supply chains, bolstering risk management measures and amplifying their ESG due diligence on suppliers. Polish firms are particularly keen on the latter, with 40% adopting this approach compared to a third across the whole sample. Supply-chain insurance is the preferred option among French companies, while their Italian counterparts seem less attracted by this prospect.

When it comes to uprooting or diversifying suppliers or moving production bases domestically or regionally, companies are noticeably reluctant to pull the trigger. They are the least popular options and this reveals a clear hesitancy towards drastic change, possibly reflecting the complexities and costs associated with such moves.

Figure 12: Share of respondents buying supply-chain insurance to mitigate disruptions



Sources: Allianz Trade Global Surveys 2022 and 2023

Amid the polycrisis of the recent years, companies are now also more concerned with environmental, political and reputational risks against the stability of their supply chains. Companies' concerns have seen a shift since 2020, with less fretting over factors such as production costs, supply shortages and transport risks. Instead, the spotlight now falls on supply-chain complexity, ESG risks with potential repercussions on production or reputation and political risks such as confiscation, expropriation and sanctions. These concerns hold sway among the 16 options available across the seven countries surveyed. The UK and Italy share a heightened sensitivity to environmental risks such as natural disasters, while US and German firms are worried about quality issues in production. Respondents from Spain and Poland, meanwhile, are jumpy about labor shortages and social unrest, including strikes. Energy costs, however, are generally regarded with surprising nonchalance and rank low as a top-three risk – Italy being the notable exception as firms there are concerned about energy availability. Protectionism, too, seems to have fallen out of favor as a major concern, particularly for US companies, where it ranks second to last. This is striking given the global climate, suggesting firms are either (i) adapting to the reality of a more insular and less cooperative international trade landscape or (ii) not convinced that these trends will continue.

But again, ESG and political risks will not drive change. Despite acknowledging that ESG and political risks are high on their list of major threats, just 20% of our respondents state that either risk would be the major reason for them to scout for new suppliers or new locations. French and German firms slightly stand out as about 25% of firms in France state that both risks could lead them to relocate or find new suppliers while in Germany, 25% of respondents could look for new locations to mitigate political and ESG risks.

Figure 13: Risks posing the greatest threat to current production sites and supply chains

	Total	US	UK	Germany	France	Italy	Spain	Poland
Most frequent in top 3	Complexity*	Issues with quality of production	Natural disaster	Complexity *	Complexity *	ESG risk	Complexity *	Shortage of labor
2nd most frequent	ESG risk	ESG risk	ESG risk (tied with...)	ESG risk	Issues with quality of production	Complexity *	Shortage of labor	ESG risk
3rd most frequent	Political risk	Political risk	Damage or loss during transportation	Shortage of labor	ESG risk	Availability of energy	ESG risk	Complexity *

** many suppliers and/or production sites in many countries and across difference sectors*

Notes:

Structure of supply chain and factors of production

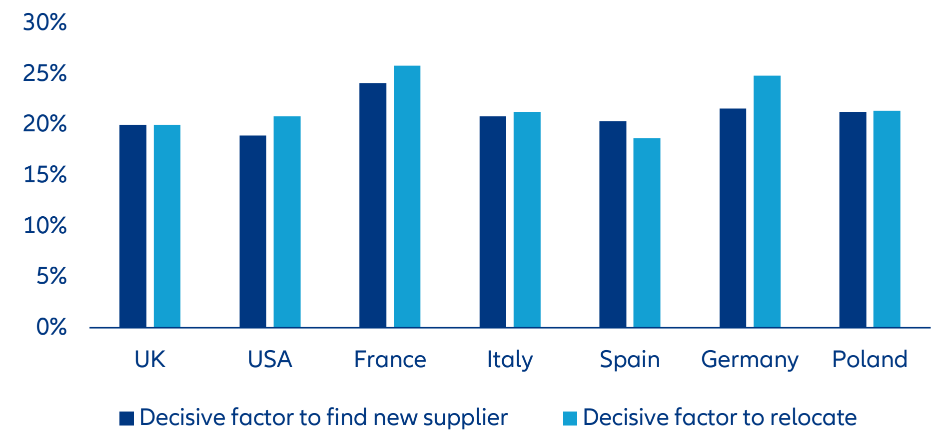
Energy crisis

Financial risks and other costs

Policy-related and reputational risks

Sources: Allianz Trade Global Surveys 2022 and 2023

Figure 14: Share of respondents to relocate production sites or suppliers due to ESG risks



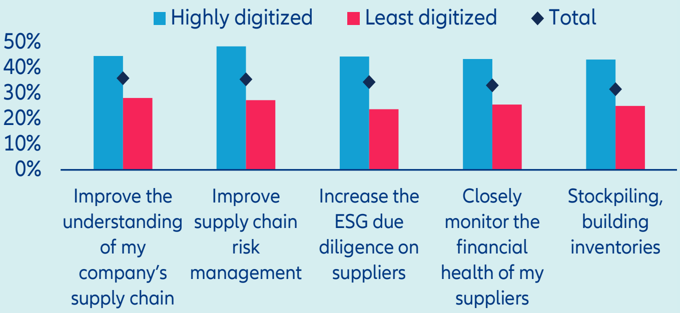
Sources: Allianz Trade Global Surveys 2022 and 2023

Digitalization and slight adjustments to locations and targets are most likely resilience strategies

Highly digitized companies experience less impact from shocks and are more agile to cope with them. Highly digitized firms (i.e. those responding that they undertake six to eight different digital activities[1]) prove more resistant to the recent crises. Among those respondents, only about 60% report fair to severe disruptions due to the Covid-19 pandemic, dropping to just under 50% for the energy crisis. Their less digitized counterparts, with zero to two digital activities, are bearing the brunt, with about 80% hit by the pandemic and over 70% by the energy crisis. These digitally advanced firms aren't just sitting pretty; they're also the ones proactively mitigating supply-chain disruptions, demonstrating the compelling case for digital transformation in an era rife with uncertainty and disruption.

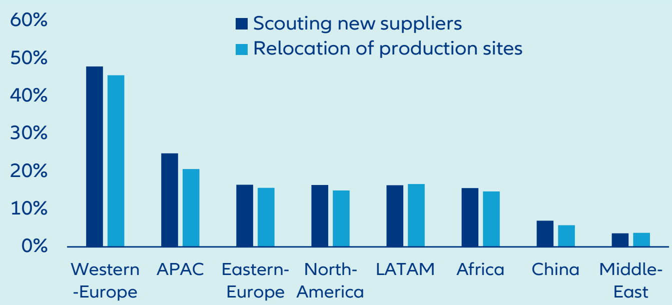
Corporates with a strong foothold in their respective regions will maintain it, while firms with larger footprints might look for new opportunities around the world. Western Europe steals the limelight as the preferred region for scouting new suppliers and relocating production sites across the survey. However, APAC (excluding China), holds a slight edge when it comes to sourcing new suppliers. Beyond these two, other regions see a roughly even distribution of about 15% across respondents' choices, with China and the Middle East less favored. Among Europe-based respondents, every second one is eyeing Western Europe for their supply and production needs, with Polish respondents bucking the trend in favor of Eastern Europe, and Italians preferring APAC over Western Europe for new suppliers. US-based companies showcase a distinct inclination towards North America first, followed by Western Europe – a trend that intensifies when region-switching comes into play. This pattern speaks to a broader trend of firms gravitating towards familiar and potentially more stable terrains in their supply-chain decisions.

Figure 15: Supply-chain disruption mitigating actions (top 5 out of 11 on the overall sample)



Sources: Allianz Trade Global Surveys 2022 and 2023

Figure 16: Regions considered across respondents to scout new suppliers or relocate production sites



Sources: Allianz Trade Global Surveys 2022 and 2023

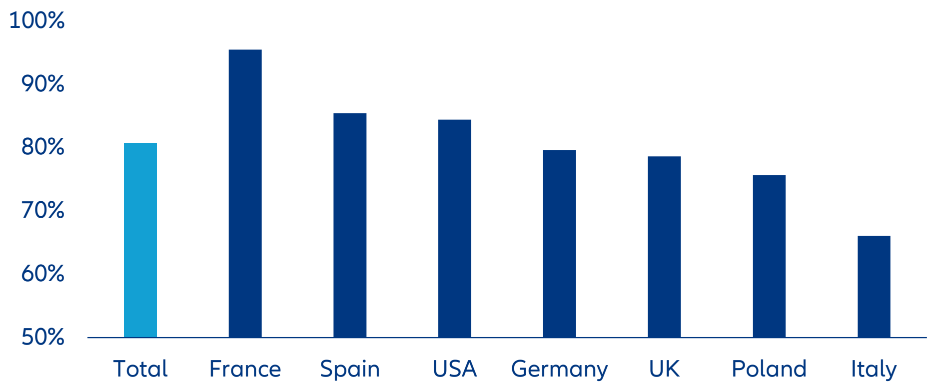
[1] Our respondents could choose their digital activities from these: electronic invoicing, use of software to facilitate collaborative work, use of software to monitor production or other activities, use of cloud computing, B-to-B e-commerce, B-to-C e-commerce, use of social media to recruit employees, use of big data or suggest one that was not on this list.

Over half of respondents with a primarily Western-Europe-based supply chain would opt to stay local if change were on the cards. If entwined with APAC or China, around 40% would consider rerouting to Western Europe, a figure that swells to 50% among those severely disrupted by the Covid-19 pandemic. An interesting subplot is the budding interest in Africa as a supply or production base, with 30% of respondents with Latam or APAC supply chains open to a move. On the other hand, North American respondents reflect a split preference – 50% would either stay put or explore Western Europe, with a smaller faction (less than 25%) looking towards APAC and just 10% at China.

At the aggregate level, one in three respondents would consider aligning suppliers with their company's main activity location and one in four would do so for production sites. This 'homecoming' sentiment is more pronounced among US respondents, with over 40% favoring the idea – a nod to the country's growing protectionist leaning. Spain, however, sees this drop to 20%, the lowest in the cohort. Of the European countries surveyed, France emerges as the most vocal advocate of reshoring, exhibiting the highest willingness to bring suppliers and production sites back home.

To tackle ESG, corporates favor low-hanging fruit and business continuity for now. While over 75% of respondents state they are knowledgeable about ESG spend in their firms, given the current context, 80% would unsurprisingly still prioritize business continuity over ESG commitments in 2023. Italy bucks the trend, with only 66% sharing this sentiment, while France, the US and Spain see a surge of continuity prioritization at around 85%. However, business continuity and ESG aren't mutually exclusive – as demonstrated by the 85% of respondents spurred towards a long-term energy transition, probably boosted in their intentions by the recent energy crisis. Spain, the US and France lead the pack in this regard. ESG measures, for the most part, gravitate towards short-term actions, such as increasing supplier ESG standards, reconsidering transport choices and bolstering health and safety standards within supply chains. But companies are also turning to more substantial, structural shifts, such as tying executive compensation to ESG performance, paring back 'brown' activities and fostering sustainable or innovative products and services.

Figure 17: Share of respondents to prioritize business continuity over ESG commitments



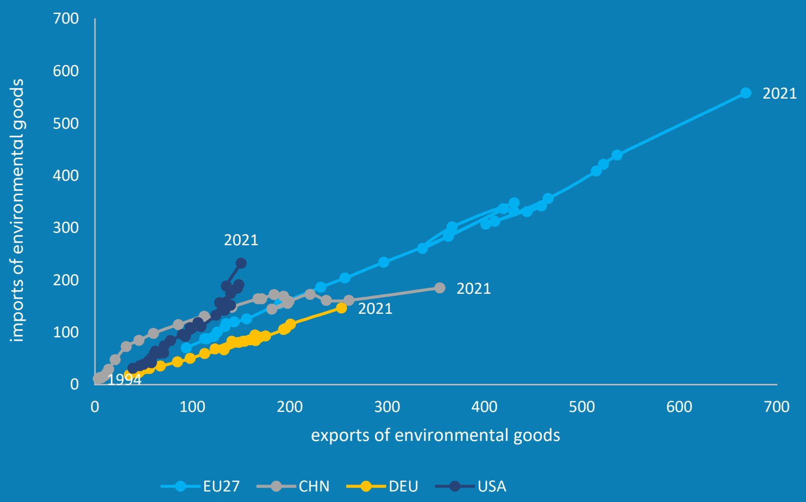
Sources: Allianz Trade Global Surveys 2022 and 2023

Box: Trade in green environmental goods

Expanded global trade and the increased integration of global value chains raise questions on how trade can contribute to the environment and achieve the CO2 emission goals set in the Paris Agreement. If environmental stringency differs across countries, trade liberalization may lead to a specialization in pollution-intensive activities in some countries ("pollution havens"). However, trade in environmental goods and services can in turn also contribute to a greater capacity in managing the environment more effectively by supporting economic growth, development and social welfare. More importantly, it can enable access to and help diffuse new technologies embodied in environmental products that make local production processes more efficient by diminishing the use of inputs, such as energy or water. Liberalizing trade in green goods and services could thus potentially benefit the environment. The elimination of customs duties on environmental products would make them cheaper for companies and consumers and, in this way, increases their use. This would ultimately reduce emissions and raise welfare.

The concept of environmental goods and services is rather intuitive but defining the scope has proven to be rather complex, particularly in trade negotiations. Green products are environmental goods and services that cover a broad range of products. They are used to measure, prevent, limit, minimize and correct environmental damages, including those related to climate change. This particularly concerns damage to water, air and soil, as well as problems related to waste, noise and ecosystems (OECD and Eurostat "OECD list of EG"). The OECD list of environmental goods comprises 247 HS-6 product codes, accounting for 7.3% of global trade in 2021.

Figure 18: Evolution of trade in environmental goods over time (in USDbn, 1994 - 2021)



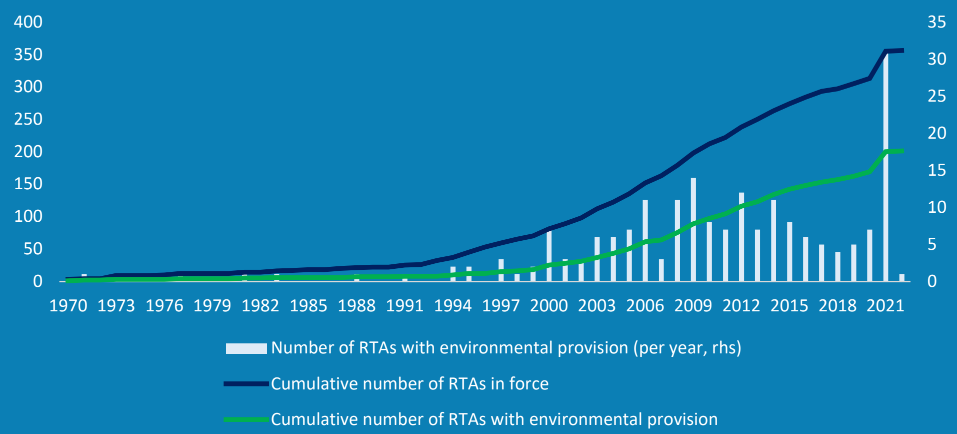
Sources: UNComtrade, Allianz Research. Note: Definition of environmental goods taken from OECD. Each node represents a year and shows the evolution of exports and imports in environmental goods, starting from 1994 to 2021.

There is scope for intensifying trade in environmental goods and services as growing concerns about the environment boost demand for green goods and services worldwide. Although the industry around environmental products is still emerging in many developing countries, it is a very dynamic and fast-growing sector providing important job opportunities. Trade in green goods has been dynamic, but not equally so in all regions. Industrialized countries are the main exporters and importers of environmental goods. The top five exporters account for 57.5% of global environmental goods exports in 2021. While exports and imports increased relatively quickly between 1994 and 2021, the EU27 are far ahead of the curve, followed by China, Germany and the US (Figure 18). In 2021, the share of the EU27 in worldwide environmental goods exports (imports) accounted to 41.3% (36.3%). Germany alone was responsible for 15.6% of worldwide green goods exports and 9.5% of imports. While China exports (21.9%) more environmental goods than it imports (12.0%), it is the other way around for the US, with a share of 9.3% of global exports in environmental goods and 15.1% of imports.

But barriers to trade in environmental goods and services are still significant. On average, tariffs on environmental goods are 2.7pps lower compared to tariffs for conventional goods. Yet, trade in green products is often affected by various non-tariff measures, particularly technical barriers to trade including technical regulations and conformity assessment procedures. These tend to be higher in industrialized countries. Overall, little progress has been made in negotiating the multilateral liberalization of environmentally friendly products.

The development and deployment of green goods and services require greater international cooperation. Multilateral negotiations to reduce or eliminate tariffs and non-tariff barriers to environmental goods and services were launched as part of the Doha Development Agenda in 2001. The lack of progress ultimately led 46 WTO members to launch the negotiations of a plurilateral Environmental Goods Agreement in 2014. But negotiations stopped altogether in 2017 and have not resumed since.

Figure 19: Regional Trade Agreements and Environmental Provisions, 1970 – 2022



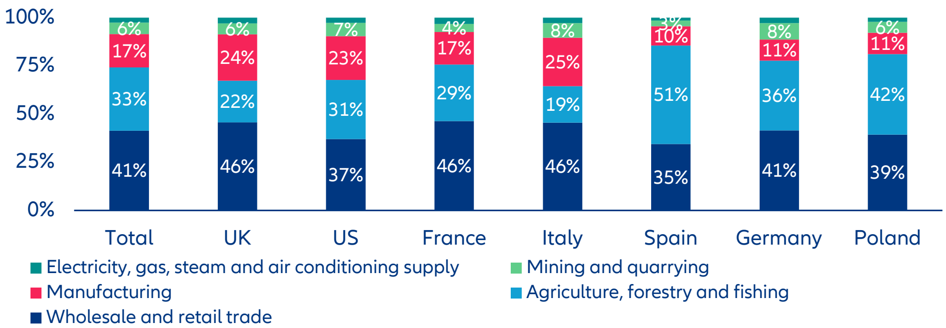
Sources: WTO RTA Gateway, Allianz Research. Note: Count of environmental provisions in RTAs in force.

Hurdles in the criteria defining the scope of environmental goods and services have led to difficulties in reaching consensus on the multilateral and the plurilateral stage. Countries have thus turned to regional cooperation to promote trade in green products. Since 1970, the number of regional trade agreements including an environmental provision has risen tremendously. This has helped to harmonize environmental regulation and standards. Still, environmental provisions included in trade agreements are heterogeneous and may range from environmental topics in the preamble to concrete articles on environmental standards, tariff reductions, or cooperation in specific articles or amendments. In 2022, 201 of the 356 regional trade agreements in force contained some sort of environmental provision (Figure 19). While the numbers vary significantly over time, 31 trade agreements containing some sort of environmental provision entered into force in 2021 alone.

The transition to a low-carbon economy will be possible only if green technologies are developed, deployed and diffused at an unprecedented pace. International trade in environmentally friendly goods and services can play a major role in supporting the development and in scaling up the adoption of green products and technologies. But to make further progress, we need to push trade liberalization in green goods and services much further, not only through regional trade initiatives, but also by promoting plurilateral initiatives currently pursued.

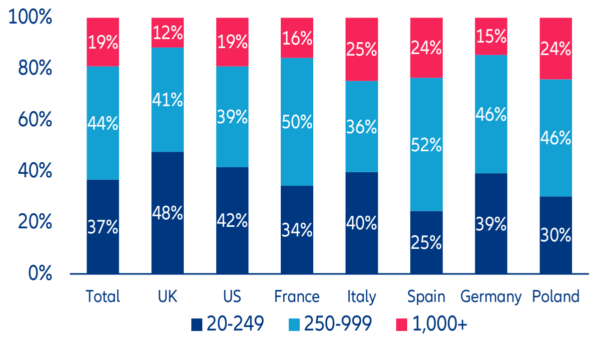
Appendices

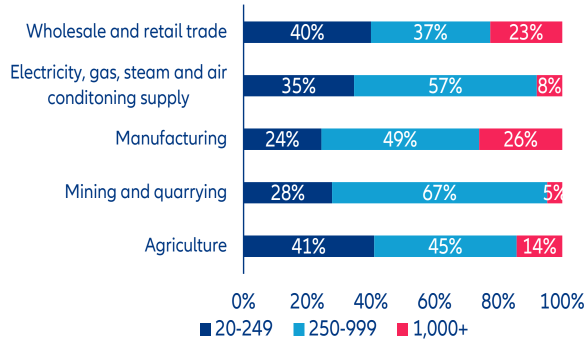
Industry distribution across respondents



Sources: 2022 and 2023 Allianz Trade Global Surveys

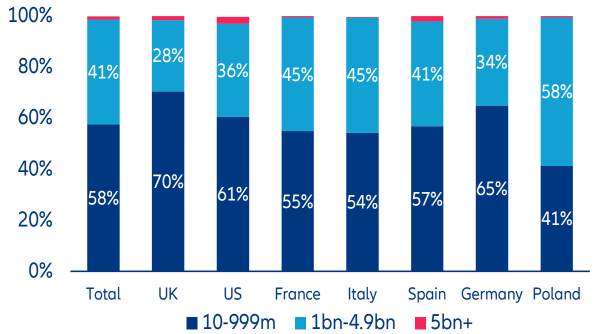
Organization's size distribution by country and sector

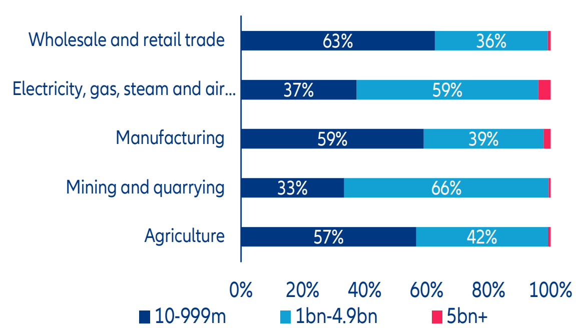




Sources: Allianz Trade Global Surveys 2022 and 2023

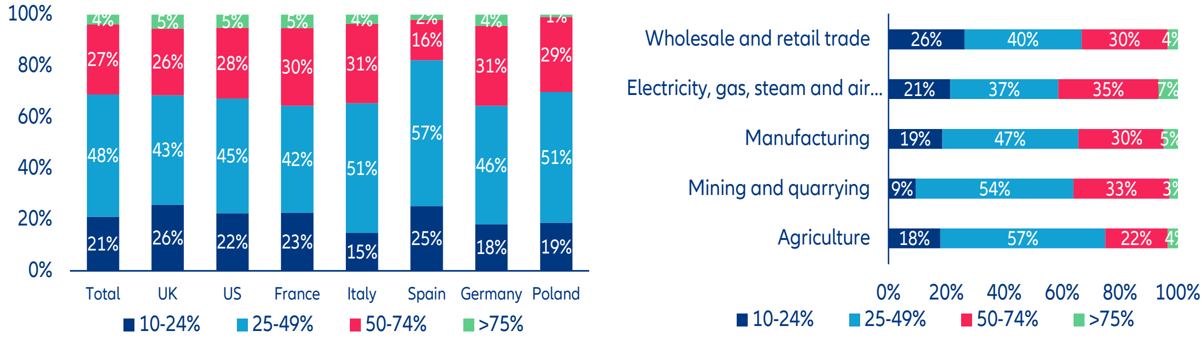
Organization's turnover distribution by country and sector





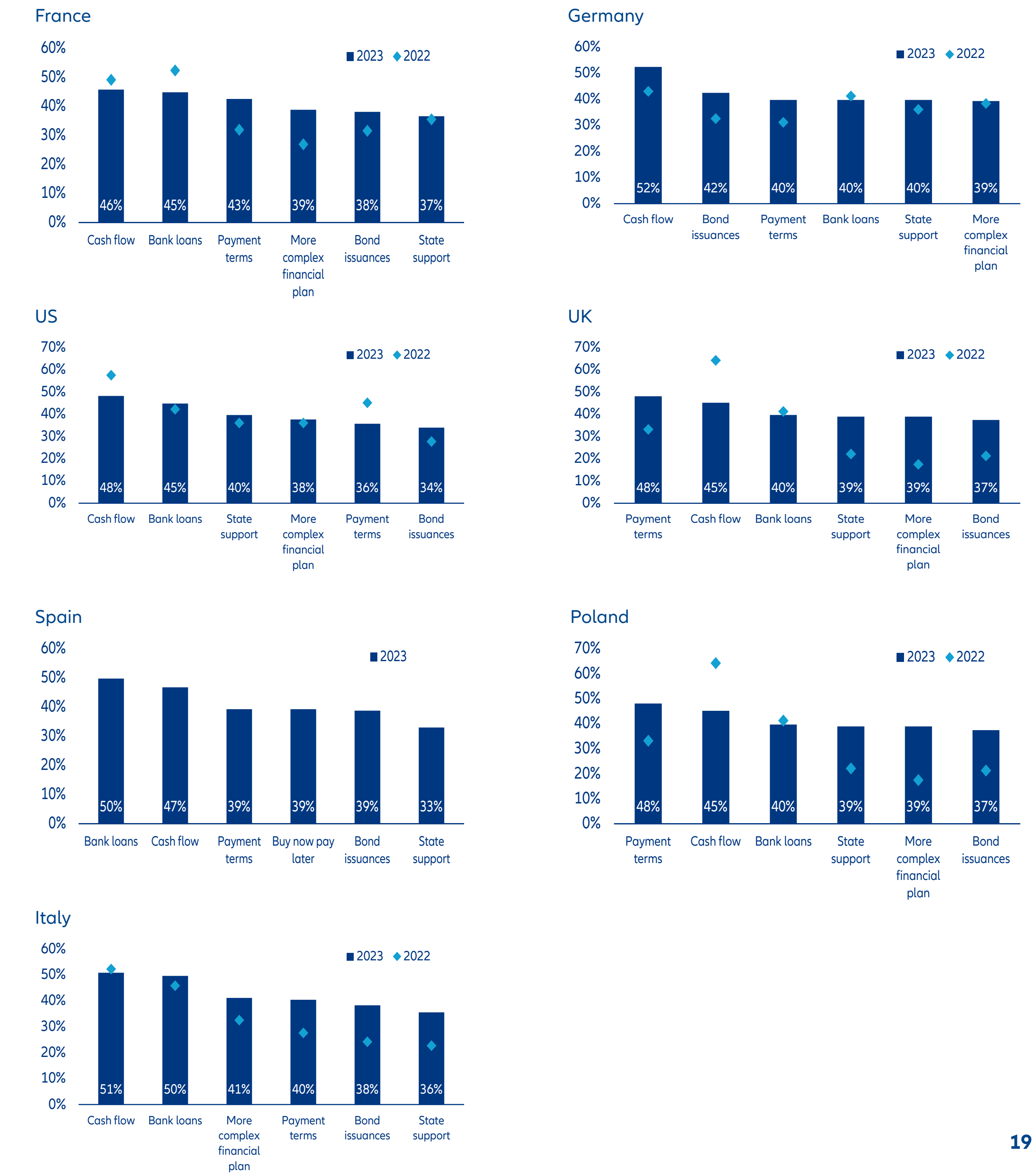
Sources: Allianz Trade Global Surveys 2022 and 2023

Distribution of companies based on the percentage of turnover generated outside of their country's 'main location'



Sources: Allianz Trade Global Surveys 2022 and 2023

Sources of finance intended to aid international development, 2023 vs. 2022, by country



Source: Allianz Research

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