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Economic Comment

Effects of China-Poland trade disruptions

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The economic consequences of emergence of new coronavirus in China for the global economy are still difficult to estimate. Thus, assessment of full implications for Poland is also blurred. Our estimates, limited to direct effects of disruption in Poland-China trade relations suggest that the impact of the new disease on the Polish GDP growth would be negligible provided that shutdowns in China end after one month. In an extremely negative scenario, assuming a permanent and total blockade of trade with China, Polish annual GDP growth could decline by 1.5 pp. Let us remind that full effects for the economy would also include indirect effects, stemming from possible slowdown in other European countries, and we do not account for these in this report.

Since January, markets are worried about spread of new coronavirus type named 2019-nCov and about its potential impact on the global economy. Actions taken in response to the epidemic: quarantine, shutdown of many factories, limitations in transport and trade, will be affecting the economic activity in China and other countries. Main potential channels of impact are:

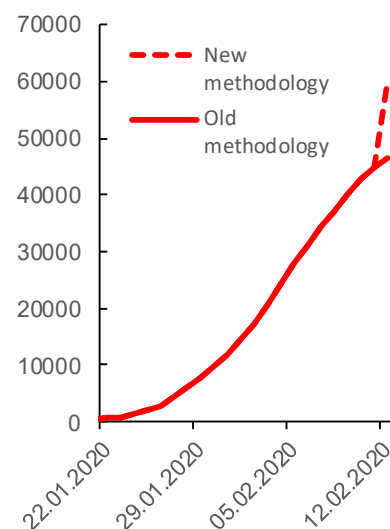
- Disruptions in global value chains,
- Decline of global demand,
- Decline of global commodity prices,
- Disruptions in tourism,
- Potential substitution of import from China with imports from other countries, including Poland.

In this report, we would like to analyse direct effects of disruptions in Poland-China trade (situation when there is no possibility to sell Polish products in China and Chinese in Poland) and their potential impact on the domestic GDP. We cannot rule out, however, that indirect effects (e.g. slowdown in Germany) will be similarly strong or even stronger.

In 2019, Poland imported goods from China worth €29.1bn, accounting for 12.4% of total Polish imports and 5.5% of Polish GDP. Capital and consumer goods constitute a bulk of imports, yet the input-output tables for the Polish economy show that about 60% of goods imported from China are consumed directly, while 40% are used by Polish companies in their supply chains. Thus, a blockade of trade with China would strip Polish economies of final goods for sales (impact mostly on trade) and of input to production (impact mostly on manufacturing). Based on analysis of Polish imports and share of imports in demand for intermediate goods in different sectors, we see that disruptions would translate to problems in economic sectors dealing with manufacture of computer, electronic and optical products, manufacture of leather and related products, manufacture of wearing apparel and manufacture of textiles. These sectors could face a double-digit decline of selling capacity. We estimate that loss of supplies is more severe for the domestic value added than the loss of final goods ready for sales.

Polish exports to China amounted to €2.6bn in 2019, making up 1.1% of Poland's exports and 0.5% of Polish GDP. In our view, lack of possibility to sell to China will not be an important problem. First, the scale of Polish exports is not significant. Second, when Polish companies would be dealing with declining production potential (due to disruptions in supplies), the minor decline in demand should not pose a problem, at least in sectors, where Poland shows a trade deficit versus China. Among above 5k foreign trade categories in CN classification, Poland registered a positive balance against China in only 350 with surplus totaling €1bn. About half of this amount is attributed to Polish exports of copper cathodes and we could pinpoint this sector as vulnerable to decline in demand from China. However, total effects of decline in Polish exports to China are in our view negligible.

Infections with SARS-CoV-2 virus in China



Source: China National Health Commission, Santander

Potential loss of sales due to disruptions in imports from China, %

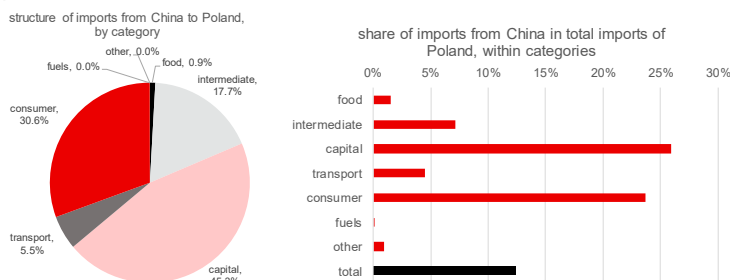
Computer, electronic and optical products	35.6
Leather and related products	24.6
Wearing apparel	20.8
Textiles	15.8
Electrical and non-electr. equipment, household equipment	13.0
Machines and equipment n.e.s.	8.5
Furniture	5.8
Other industries	<5.0

Source: GUS, Santander

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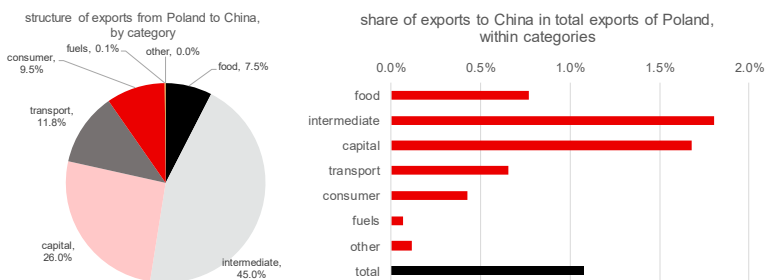
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Imports from China to Poland, 2019



Source: GUS, Santander

Exports from Poland to China, 2019



Source: GUS, Santander

Our estimates based on analysis on input-output data for the Polish economy and breakdown of Polish trade with China suggest that a permanent and total blockade of trade with the Middle State would deduct 1.5 pp from the annual GDP growth (without accounting for possible secondary effects). This loss would be primarily caused by lack of possibilities to import, with negligible effects of no exports. Negative effects would be concentrated in the textile and electronics industries. The effect would be less severe if Polish companies could substitute Chinese imports (yet possibly at higher prices). This could possibly be easier in case of less processed goods (textiles), but we cannot say how probable the substitution could be, given the global scale of China as a supplier. If disruptions in trade are prolonged, then Polish companies could be forced to cut employment, which would increase the scale of the initial shock.

In reality, we would not assume a total blockade of trade with China. Assuming that trade would go down by 50% for one month (assuming no substitution with other imports and lack of sufficient inventories), we estimate the impact on GDP growth at less than 0.1% (and at about 0.2-0.3% for 1Q20 growth). Disruptions lasting for 3 months would deduct 0.2 pp from the annual GDP growth.

Actual effects will largely depend on the scale of disruptions in Poland-China trade (so far we do not have precise information and that) and shutdown period in Chinese factories. More accurate estimates will be possible after data on Chinese industrial output and Polish foreign trade are released.

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