Greetings to our Esteemed Members and Partners,

October is being quite the month. The Visegrad 4 region has witnessed two critical and closely monitored general elections. Slovakia and Poland have embarked on a new electoral cycle, one that will be pivotal for their future. Tensions are mounting in the Middle East, as a result of the horrific conflict in Palestine and Israel, with spillovers probable throughout the Middle East and with reverberations being felt across the world. In The Topical Box, we bring you an analysis of a potential EV trade war between EU and China, after European Commission's Chief Ursula von der Leyen called out China for flooding Europe with its cheap EVs, propped up by 'huge' state subsidies in her State of the Union speech in Strasbourg. International Spotlight is dominated by the potential economic ructions from the situation unfolding in the Middle East, while this month's Country in Focus is the United States, which will play a sizeable role in continued support of Ukraine and Israel going forward.

One thing is clear, the year-end will be anything but boring, so buckle up and stay tuned *with The Council of Slovak Exporters.*

Foreword by the Chairman

Lukáš Parízek

A CHINA-EUROPE EV TRADE WAR COULD SPELL ADDITIONAL ADVERSITY TO THE GERMAN-V4 AUTOMOTIVE CLUSTER

The European Union's inquiry into Chinese electric vehicles (EVs) due to concerns about unfair subsidies and dumping practices has raised trade-related apprehensions. The potential for an EU-China trade conflict could have a particularly profound impact on the automotive-dependent German-V4 automotive cluster.

Chinese EVs are currently priced approximately 30% lower than their EU or US counterparts, as Chinese manufacturers, backed by the state, aggressively reduce prices to boost overseas sales amid widespread economic concerns. Furthermore, China's share of the European EV market has nearly doubled to around 8% annually.

In response to this, the European Automobile Manufacturers' Association (ACEA), representing 16 major European carmakers, filed a complaint, countering the EU investigation. They argued that the increasing competition from China, supported by various forms of assistance from the Chinese government, including grants, tax exemptions, loans, and export credits, combined with the EU's phase-out of internal combustion engine (ICE) cars, could potentially drive European automakers out of the mass-market car production. ACEA also contended that Chinese EVs posed a threat to the EU's green transition, leadership in clean mobility, and strategic autonomy in the automotive sector. The investigation is anticipated to last nine months and could result in provisional measures by June 2024, including the imposition of definitive duties for five years if illegal subsidies are found.

In contrast to the United States, which has imposed a 27.5% tariff and various trade barriers through the Inflation Reduction Act (IRA) on cars imported from China, Europe maintains a relatively open trade policy, levying a duty of just 10% on Chinese car imports. Chinese-origin EVs represent a small proportion of the EU market, accounting for approximately 9% of Battery Electric Vehicles (BEVs) and 13% of Plug-in Hybrid Electric Vehicles (PHEVs) sales in 2022.

Should Europe determine that the Chinese government's support for EVs is unlawful and increase tariffs on Chinese EV imports, this could slow down the rapid penetration of Chinese EVs in EU markets. This, in turn, could provide EU auto manufacturers with additional time to enhance the competitiveness of their products through research and development and technological innovation, thus reducing costs and increasing the affordability of their EVs compared to their Chinese counterparts.

However, such an action could provoke retaliatory measures from China, introducing additional uncertainty for some European Original Equipment Manufacturers (OEMs). This is because many of the EV sales from China to the EU are facilitated by companies with European affiliations, such as the Geely Group and MG. Additionally, companies like Volkswagen, a German automaker, produce well-known models in Chinese plants, including the Golf, Tiguan, Touareg, Passat, and the new all-electric ID family. This could pose challenges for their operations in China and exports to Europe.

On the consumer side, increased tariffs on Chinese EVs could lead to higher prices for customers interested in purchasing Chinese-made EVs. In V4, battery-only electric cars account for a thin share of the market, boasting the lowest figures in the OECD. If customers face price increases on Chinese EV models due to additional import duties, it could further slowdown the transition away from older vehicles in Central and Eastern Europe, contradicting the EU's goal of rapidly adopting green mobility.

Nevertheless, a recent report from Global Trade Alert suggests that the growing inclination of EU citizens to purchase Chinese EVs has not necessarily come at the expense of sourcing from other EU manufacturers. EU buyers have increasingly turned to German and Spanish automakers, whose market share has grown alongside the Chinese import market share. This may indicate that the robust demand for EVs has created commercial opportunities for any producer capable of supplying competitive EVs, rather than Chinese EV imports crowding out intra-EU sourcing.

INTERNATIONAL SPOTLIGHT

The Annual Meetings of the Boards of Governors of the World Bank Group (WBG) and the International Monetary Fund (IMF) took place in Marrakech, Morocco,

on October 9-15, bringing together central bankers, ministers of finance and development, private sector executives, representatives from civil society organizations and academics. Discussions centered around issues of global concern, including the world economic outlook, poverty eradication, economic development, and aid effectiveness. Also featured regional briefings on the post-earthquake assistance to Morocco, and was tainted by the surge of instability in the Middle East. (IMF/World Bank)

California Republican Kevin McCarthy has been ousted as speaker of the U.S. House of Representatives early in October,

in a historic move that came just days after he reached an 11th-hour deal to avert a government shutdown with the help of House Democrats. The ouster came after Republican Rep. Matt Gaetz acted to force a vote on a motion to vacate the office of the speaker. While other speakers throughout history have stepped down after losing the support of their party, McCarthy is the first to be ousted through a vote of the full House in the middle of a congressional term. (CBS News)

Ngozi Okonjo-Iweala, the Director-General of the World Trade Organization, expressed her hope for a swift resolution to the Israel-Hamas conflict,

emphasizing that an escalation of the conflict across the region could have a substantial negative impact on global trade flows, particularly given the existing challenges, such as rising interest rates, pressures in the Chinese property market, and the ongoing conflict in Ukraine led by Russia. (WTO)

Conflict fears have propped up oil prices,

after Hamas' attacks in Israel. In response, the Bank of Israel has committed to intervening in foreign exchange markets and supplying domestic banks with dollar liquidity. After the attack, there had been limited evidence of a widespread preference for the dollar as a safe-haven currency. However, concerns among investors about a potential escalation of the conflict, possibly involving Iran, have influenced movements in oil and gas prices. (UBS)

Wider war in the Middle East is likely to tip the fragile global economy into recession.

A sharper escalation could bring Israel into direct conflict with Iran, a supplier of arms and money to Hamas, which the US and the European Union have designated a terrorist group. In that scenario, Bloomberg Economics estimated oil prices could soar to $150 a barrel and global growth drop to 1.7% — a recession that takes about $1 trillion off world output. Conflict in the Middle East can send tremors through the world because the region is a crucial supplier of energy and a key shipping corridor. (Bloomberg)

U.S. President Joe Biden addressed the nation in a rare prime-time address,

stressing it is crucial for Israel and Ukraine to win the respective wars, as he looks to build support for a hefty aid package aimed at strengthening both countries. (NBC News)

V4 REGION

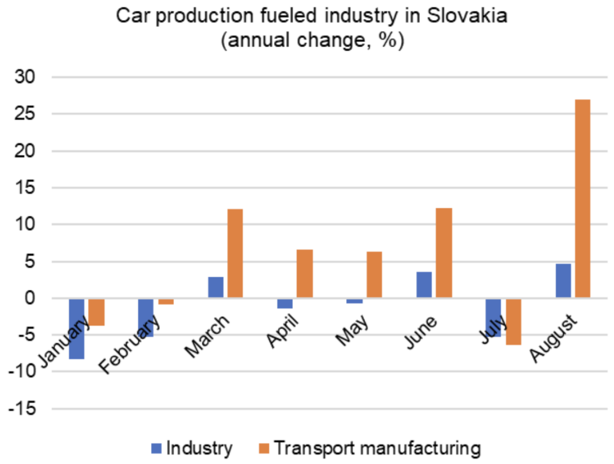
SLOVAKIA

WHAT'S UP

Car production soared in August including due to fewer plant-wide holidays than a year ago, resisting economic slump in Slovakia's most important trading partner, Germany. While car production fell by 6.4 percent year-on-year in July, it rose by up to 27 percent in August, according to the data of the Statistical Office.

WHAT'S NEXT

Economic sentiment data, including expectations of future production, industrial new orders and expected number of new employees have hovered in the positive territory, pointing to resilience of the Slovak car industry despite headwinds from the external environment. In Germany, car manufacturing has been on a declining trajectory for months now, falling by 20 percent in July, 15 percent in August, and by 8 percent in September, according to data from the Association of the German Automobile Industry, with weak new orders pointing to further drops in production.



Source: Slovak statistical office.

CZECHIA

WHAT'S UP

Owing to a severe slowdown in domestic demand in 2023, import growth has decelerated sharply while exports are set to grow moderately, leading to a trade surplus since the beginning of the year, which could amount to US$6.6bn by the year-end.

WHAT'S NEXT

These dynamics are likely to remain largely in place, while a growing services surplus will be counterbalanced by a wide primary income deficit as foreign investment recover. Czechia will find little difficulty in financing current-account deficits owing to its build-up of foreign-exchange reserves and free access to sovereign debt markets but borrowing costs have increased markedly owing to global monetary tightening.

HUNGARY

WHAT'S UP

The current-account deficit is set to narrow sharply in 2023, to 1.3% of GDP, from 8% in 2022. The external balance is set to improve further in 2024 as Hungary's main west European export markets slowly rise from their slumps, while this will be partly offset by recovering domestic demand in Hungary.

WHAT'S NEXT

Falling domestic demand is limiting demand for imports by much more than the slowdown in western Europe is hitting exports. Hungary will not have any issues financing its external deficits, even with EU recovery and cohesion funds remaining suspended. However, if the current-account deficit were to widen significantly, Hungary could face significant turbulence on the currency and bond markets.

POLAND

WHAT'S UP

The parliamentary election on October 15th was a closely fought race between the government led by the nationalist-conservative Law and Justice (PiS) party and centrist and center-left opposition parties. If exit polls prove accurate, the opposition has won enough seats to form a government.

WHAT'S NEXT

Coalition negotiations will prove difficult and require significant efforts but they will manage to reach an agreement. Progress on institutional reforms will be lengthy, but relations with the EU will improve, opening the way for the disbursement of currently frozen EU funds.

COUNTRY IN FOCUS THE UNITED STATES

The United States is the world's largest economy in terms of nominal GDP and has a complex and diverse economy.

In 2021, the United States was the number one economy in the world in terms of GDP (current US$), the number two in total exports, the number one in total imports, and the number 10 most complex economy according to the Economic Complexity Index (ECI). (source)

The top exports of the United States are Refined Petroleum, Petroleum Gas, Crude Petroleum, Cars, and Integrated Circuits,

exporting mostly to Canada, Mexico, China, Japan, and South Korea [4]. The top imports of the United States are Cars, Crude Petroleum, Computers, Broadcasting Equipment, and Packaged Medicaments, importing mostly from China, Mexico, Canada, Germany, and Japan. (source 1)

The EU-US trade and investment relationship has remained strong despite the economic challenges related to the Covid-19 pandemic,

and more recently, the tensions propelled by the Inflation Reduction Act on the US-side. Transatlantic trade reached an all-time high of 1.2 trillion euro in 2021 . Bilateral trade and investment support millions of jobs in both regions. Around 9.4 million people are directly employed. Indirectly, as many as 16 million jobs on both sides of the Atlantic are supported . The size of trade in services and goods between the EU and the US is matched by their mutual investments, which are the biggest in the world and which are a substantial driver of the transatlantic relationship . Total US investment in the EU is four times higher than in the Asia-Pacific region. EU foreign direct investment in the US is around 10 times the amount of EU investment in India and China together . (source 1 and 3)

European exporters could further leverage the existing close trade links, as well as the strong transatlantic bond and likeminded interests with the United States,

especially, in the present era of geo-political and geo-economic fragmentation. They could export goods and services that complement or offer a competitive advantage over existing products, leveraging their expertise in niche markets to offer specialized products and services and cater to specific needs of US consumers, and take an advantage of existing trade agreements (e.g., the Transatlantic Trade and Investment Partnership (TTIP)), gaining access to a wider range of customers and markets.

All sources used:
United States (USA) Exports, Imports, and Trade Partners | OEC.(1)
EU trade relations with United States.(2)
The European Union and the United States | EEAS.(3)
Why the EU-US summit won't yield any breakthroughs on trade.(4)
United States of America - World Trade Organization.(5)
WTO | Trade Statistics - Trade profiles - World Trade Organization.(6)

Events of Note
October-November 2023

CSE Participations

04/10/23

The inaugural conference between the Council of Slovak Exporters and the Ukraine Chamber of Commerce & Industry was a roaring success! - read more

05/10/23

Deputy Chairman; Zulf Hyatt-Khan (aka slovakambassador) was in action again this time at IDEB in Incheba celebrating the brightest and best within Defense and Security sectors in Central Europe - read more

06/10/23

The team paid a visit to Hellenic Embassy in Slovakia to understand more about Greek-Slovak potential - read more

08/09/23

On the back of an excellent event in Kosice between the Council of Slovak Exporters and the Ukraine Chamber of Commerce & Industry, where (then) State Secretary was in attendance, he also had this to say - watch here

13/10/23

Relationship Manager; Daniel Plesko gave an inspiring lecture to aspiring Economic Diplomats At EUBA! - read more

18/10/23

Chairman Lukas Parizek was in Switzerland with member company Heneken as it continues its drive to acquire more businesses, with South Africa next. - read more

20/10/23

Relationship Manager; Daniel Pleško attended a productive conference hosted by the Council of Slovak Exporters' partners Slovenská Sporiteľňa - read more

24/10/23

Council of Slovak Exporters welcomed a strong delegation from South Korea on the Knowledge Sharing program in coordination with the Slovak Innovation & Energy Agency (SIEA) - read more

Upcoming Events

Council *of* Slovak Exporters in London

Deputy Chairman, Zulf Hyatt-Khan will be participating at the 'Strengthening the International Sanctions Regime to Disrupt Defense Sector Sanctions Evasion Activities' in London on October 30-31, 2023 with CRDF Global.

Edition 2 of the Visegrad 4 Business Event

The Council of Slovak Exporters are excited to bring you edition 2 of the Visegrad 4 Business Event in Prague, on the 28th of November – for more information please click here www.visegrad4business.eu

For **more information** on these or any other events please email us at info@exporteri.sk

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Nadácie Ministerstva hospodárstva SR na rok 2023

V4 Business Teaser