



Global headwinds make continental value chains more attractive

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The German export sector has had to cope with numerous challenges over the last few years. These include “homemade” problems, above all in the auto industry, but also the shift in US trade policy. Climate change has become an increasingly important issue, too; in fact, it implies massive changes. That is why the long-term trend in many manufacturing sectors appeared unclear even ahead of the coronavirus pandemic. Now, COVID-19 has compounded already existing uncertainties. From our vantage point, a number of reasons support our hypothesis that continental value chains are likely to gain importance.

ESG considerations raise questions about whether global supply chains really make sense.

Attention is shifting towards humanitarian, social and ecological issues. The “Fridays for Future” activists, who are getting much attention in the media, openly call on corporate managers to take responsibility for environmental and climate damage. There is a broad social consensus that climate protection should play a major role in the recent stimulus packages. Carbon tariffs, if they were introduced, would change industrial cost structures as well. Economists have already discussed this measure in a climate-policy framework. In fact, carbon tariffs were suggested as a potential steering and financing tool in the discussion about the EU Recovery Fund.

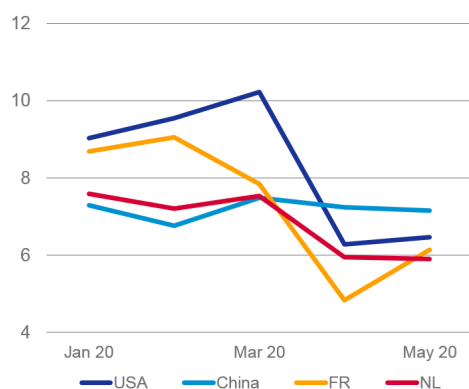
Even though we are currently experiencing the deepest recession since the Second World War, consumers are increasingly re-thinking their consumption patterns. More and more of them (if still not enough) are boycotting goods produced without respect for minimum social standards (not to mention inhuman conditions). The fact that the German government is currently discussing a new “supply chain law” underlines that this is a relevant topic for society as a whole. The new law will oblige companies to monitor their global value chains and make sure that social, environmental and climate protection standards are adhered to around the world. A Herculean task indeed. And the law comes at an inopportune moment for companies, seeing that will increase corporate expenses right when a virus-related spike in insolvencies is looming. The related risks might cause not only SMEs to avoid certain countries.



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2020 Top 4 Bilateral German Exports

EUR bn per month



Sources: Deutsche Bank Research, Federal Statistical Office

Geopolitical tensions make global supply chains less attractive.

In 2019, the most important markets outside Europe were the US, with a share of almost 9% in total German exports, and China, with a share of more than 7%. Both countries are important production and research locations, too. The increase in geopolitical tensions comes at the worst possible moment for the German export sector. After all, a strong economic upswing in China might help to stabilise the situation in Germany and thus protect jobs. At the same time, sales opportunities in the US appear to be deteriorating, at least in the coming months, as the pandemic spreads. This means that China might be the most important market for German exporters – and not just in April or May, but also for the remainder of the year. The economic divergence between the two global powers is likely to remain on the political agenda regardless of the outcome of the US presidential elections on 3 November. This means that Germany may have to walk a fine line between security and growth.

Geopolitical trends and the growing importance of ESG issues already suggested before the COVID-19 outbreak that major changes in the supply chains might be necessary in the long run. The virus-related supply shortages have led to a considerable increase in the desire for security. There are, therefore, significant incentives to scale back the global supply chains, which were established for maximum efficiency, and return to more regional supply patterns. This development is likely to increase corporate expenses in the short term and weigh on global productivity growth in the medium term. Still, as numerous global challenges loom, it might also make the economy more crisis-resilient.

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