CIO | VIEW
Chart of the Week
May 17, 2019

DWS

IN THE EYE OF THE STORM

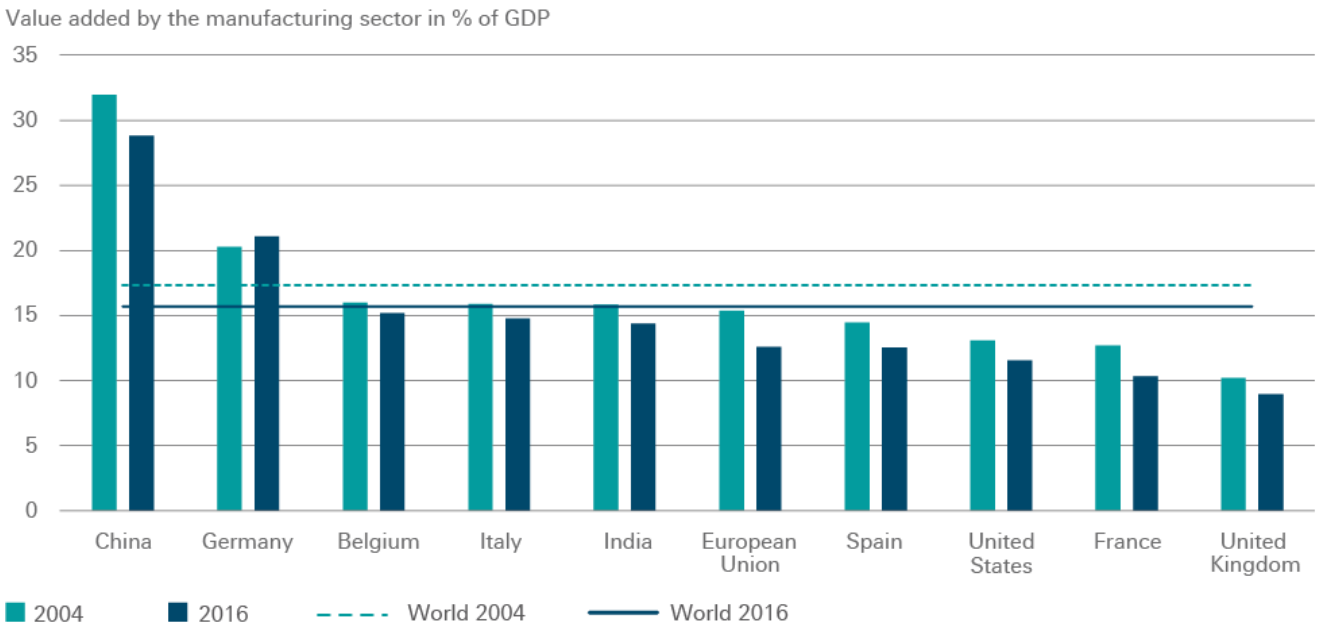
Why has manufacturing taken center stage in the current trade war?

What a difference a decade or three can make! If you are old enough to remember, recall how producing actual stuff was regarded two decades ago. In the late nineties, at the peak of the hype about the new economy, manufacturing was ridiculed as the "old economy." Clinging to industry was seen as a hopeless strategy, given the competition from low-cost producers in emerging markets. Ten years on, after the financial crisis, it was suddenly back in fashion, and many countries have announced plans to strengthen their re-industrialization efforts. Today, in the current trade dispute, the main focus is on industrial goods. Korean dish washers, Canadian steel and Chinese solar panels were among the first products to be slammed with punitive import tariffs. In the coming months, German cars could well be among Donald Trump's next targets.

How important is manufacturing today? Our "Chart of the Week" suggests some revealing answers. It demonstrates that the share of manufacturing activity to overall gross domestic product (GDP) varies widely between countries. If the global trade conflict were to intensify, countries with a higher exposure to manufacturing naturally would have more to lose. Hence, China is very vulnerable, and so is Germany. In the case of the latter, the dependence has even increased over the past years, defying a global trend.

But what is behind this global trend towards a diminishing manufacturing share of GDP in most countries? And what explains the renewed obsession with manufacturing among trade warriors? It turns out that the two questions are quite closely related. According to both standard economic theory and two centuries or so of economic history, manufacturing has mainly been a product of its own success. Productivity growth tends to be easier to realize in making stuff than providing personal services. (Think of assembly lines making widgets versus hair dressing, say.) So, over time, the share of jobs and value added in manufacturing tends to shrink for the world as a whole.

That has proven politically explosive. Assembly lines long tended to offer solid jobs, paying good wages for generations of relatively low skilled workers. An electoral backlash is perhaps not all that surprising. Add the fact that goods tend to be easier to count and tax, and it is perhaps no wonder that the current administration considers it politically advantageous to target foreign goods. The problem is that elsewhere, too, many policy makers wish to revive manufacturing within their own borders. Unfortunately, that is unlikely to work out well for the world economy as a whole.



Sources: The World Bank, DWS Investment GmbH as of 5/15/19

GLOSSARY

Emerging markets (EM)

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Financial crisis

The **financial crisis** refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

Gross domestic product (GDP)

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

IMPORTANT INFORMATION