



Donald Trump's Economic Policy: Consequences for Germany

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The economic policy announced by Donald Trump, especially the introduction of restrictions on foreign trade and expansionary fiscal policy, raise many challenges for Germany's economic interests. In response, Germany will seek to consolidate the European Union and strengthen its position in the global economy. It will not succeed without the rapid conclusion of disputes that weaken cooperation between Member States.

In the sphere of international economic relations, Germany has three main interests. These are the promotion of the idea of free trade, the protection of the interests of creditor states, and support for economic development based on low-emission technologies.

The idea of free trade is key to the German model of economic growth due to the scale of its exports. In 2015, German companies sold abroad goods worth €1.2 trillion, of which close to 45% went to markets outside the EU. The structure of this exchange is highly beneficial for Germany, as evidenced by the predominance of exports over imports amounting to almost €250 billion.

The second priority is largely the result of this surplus, and is associated with protecting the interests of creditor countries. Germany's net investment position in the world economy (NIIP) is close to €1.5 trillion (49% of GDP). Therefore, it is in the country's interests that indebted states meet their obligations and do not try to reduce them by driving inflation, announcing insolvency, or trying to force loan restructuring. This is clearly visible in the functioning of the Eurozone, which, according to German priorities, forces the debtors (such as Greece) to implement strict austerity policy.

The third interest focuses on energy policy. This is important for Germany not only as a tool to combat global warming, but also as an economic factor. Germany wants to earn on the export of new energy production technologies. It is also in Germany's interests that other countries do not improve their competitiveness by using cheaper, "dirty" energy sources. This could result in the deterioration of conditions for the development of the German economy, which, in recent years, has undergone a costly transformation designed to reduce greenhouse gas emissions drastically.

In the context of these interests, Donald Trump's victory in the U.S. presidential election may prove to be a challenge for Germany. The president-elect is proposing a significant change of course in economic policy, and Germany is among the countries which stand to lose a lot as a result.

The New Protectionism. One of Trump's main ideas is to protect U.S. industry from foreign competition. As a result, new jobs in industry are to be created in the United States, and hence unemployment should fall and wages rise. Duties on imported goods will be the main instrument of this policy.

The new protectionism is directed mainly against China, but is also cause for concern in Berlin. First, higher tariffs would mean big losses for Germany. U.S. is the most important market for German companies, which in 2015 sold goods worth €114 billion there. This represented almost 10% of total exports. Secondly, Trump could argue that there is an unbalanced exchange in relations with Germany. Indeed, Germany has a huge surplus in trade with the United States, reaching €55 billion. Many U.S. economists believe that such a deal is neither stable nor fair. While the U.S.

plays the role of demand locomotive in the world economy, other countries, including Germany, practise a kind of neo-mercantilism and contribute to the destabilisation of international economic relations.

German entrepreneurs are concerned about the potential restrictions. This is evidenced, for example, by the words of Reiner Dulger, chairman of the employers' association Gesamtmetall, who announced that, if the U.S. implements such actions, it may face retaliation from other trading partners. Germany also fears that the existing rules of the game in the global economy may be challenged. Trump may introduce the motto of "good" protectionism to the mainstream discussion about globalisation, which could win support in other countries and begin an era of "de-globalisation." This would be particularly bad for Germany, considering the dependence of its economy on exports (around 50% of GDP), and the fact that these exports are directed to a large extent outside the EU area.

Higher Budget Spending. Another important point in Trump's programme is expansionary fiscal policy, which will consist of infrastructure investments and tax cuts. The government will have to finance them by issuing bonds, which will result in increased interest rates. Access to capital could also become more expensive due to a good performance of the U.S. economy, which will encourage the Federal Reserve to raise interest rates (so far, they have been very low, between 0.25% and 0.5%). This upward trend began in December 2016 and will continue for the next few months. It will probably translate to the rise of the dollar against other major currencies.

Trump's programme, increasing spending on roads, bridges and railways, may seem beneficial for the German economy. Higher demand means more orders, especially as companies from Germany specialise in the capital goods necessary to build a "hard" infrastructure. Moreover, the more expensive dollar could further strengthen the competitiveness of German production, provided of course that the U.S. does not apply the aforementioned protectionist measures.

Trump's macro-economic policy may, however, have many negative side effects for the stability of the Eurozone, a sphere of interests crucial for Germany. For a long time, it has depended on low interest rates, which allow for a peaceful "roll-over" of commitments and recovering investors' confidence in the most indebted Member States. The change in the U.S. could disturb this delicate balance. Bloomberg, in the 14 days following Trump's election, reported greater price movements on the bond markets than at any time in the previous 26 years. In a short time, interest rates on 10-year bonds increased in the U.S. from 1.7% to 2.3%, and on German bonds, which had hitherto enjoyed the rare privilege of a negative interest rate, to 0.3%. It is very likely that conditions for raising capital will worsen for countries such as Italy, Spain and Greece, which have high public debt and serious economic problems. The European Central Bank will also be in a difficult situation, since it still intends to keep interest rates near zero. This policy may lead to a weakening of the euro, the outflow of capital, and the increased risk of disintegration of the single currency zone.

Moreover, the outcome of the U.S. election and the probable change in economic policy might in general hinder the implementation of the German idea of healing the Eurozone. Angela Merkel's government made aid for indebted countries subject to their determination in carrying out budget cuts, reducing social privileges, and implementing labour market reforms. This policy, often referred to as austerity, has long been challenged by France and the countries of the south, which argue that it inhibits economic growth and strengthens the populist and Eurosceptic movements. Trump's victory makes the argument more credible, and hinders the continuation of current German policy.

A Stronger Europe. The scale of the economic challenges for Germany may be increased by the announcement that the U.S. will back down from the Paris Agreement, abandon anti-emission regulations introduced by Barack Obama, and return to supporting the production of energy from fossil fuels. Thus, the chances of a swift proliferation of "clean" but expensive methods of energy production are decreasing. In Trump's view this was the way to reduce the cost of industrial production and attract investors. German industrial companies could be among them, since they have long criticised their government for the excessive costs of "energy transformation" and "excess regulation" associated with it. It would be bad news for both the budget and the labour market in Germany.

These economic problems may lead to a deterioration of relations between Germany and the United States. Concerns about the future of this relationship are reinforced by uncertainty about the political plans of the new administration, in particular the sanctions imposed on Russia, the implementation of the Minsk agreements, and ending the war in Syria. It was no coincidence that Merkel's congratulatory letter to Trump included both a declaration of cooperation, as well as a warning that this is possible only if based on common values.

From the point of view of German internal politics and the upcoming elections, this was justified. The Chancellor took the opportunity to show herself as a leader, not only of Europe, but of the "free world." However, the effectiveness of policy towards the United States, and the development of appropriate tools to influence the American standpoint, remain a challenge. They are beyond Germany's reach, for on the global scale this country is still an average-sized player devoid of strengths other than economic power. In this situation, the only option for Germany seems to be strengthening European integration, so that the EU can effectively defend the interests of its Member States in regard to third countries. To achieve this goal, Germany will strive to complete disputes that weaken the EU, particularly those relating to fiscal policy in the Eurozone, solving the refugee crisis, and energy policy. The unity of Europe is to be a reaction to the uncertainty arising after the elections in the United States.