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Trade War Between the US and Germany?

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Trump is engaged in a trade war not only with China, but also against many of America's closest allies and trading partners including Canada, Mexico, South Korea, France and Germany.

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The heat has been rising recently in the relationship between the US and Germany. Despite Washington's regular attempts to bring its allies to heel under the auspices of their cooperation as part of NATO and the fabricated threat of a "common enemy" as represented by Russia, Europe's largest economy is increasingly irritating its transatlantic partner by strengthening its own positions. The main reason for this is purely economic in nature.

After all, in political terms Germany has remained a US protectorate and even an officially occupied country ever since the end of World War II.

But in an economic sense, the opposite picture has emerged — the US is now practically a German colony. America' trade deficit with that country is perilously close to $70 billion a year, taking the honors for second place and trailing behind only the imbalance in US commerce with China. President Donald Trump doesn't like this situation and wants to change it. But, despite his stated desire to protect the US and US workers by his actions, there is every reason to suspect that his true goals are to harm America's competitors and undermine Berlin's positions.

According to the director of the Dusseldorf-based Macroeconomic Policy Institute (IMK), **Gustav Horn**, Trump's line on trade could push Germany into a recession. And there are very real grounds for concern: although the risk of a recession was estimated at 6.8% in March 2018, just one month later that probability has now increased to 32.4%, i.e. the likelihood has almost quintupled! Protectionist statements by the US president have a profound impact on the financial markets and the economy throughout Germany.

Germany's current period of rapid economic growth has now lasted for five years. That's a good long run by today's standards, particularly considering the economic problems in the other countries of Europe. Unemployment in Germany is now at such a low level that corporations and firms often have to decline orders because of their labor shortage. The recent, record-setting tax revenues brought in by **Angela Merkel'**s government also leap to mind. But the very strength of Germany's export-oriented economy may also prove to be a weakness. Trump the "protectionist" is very displeased with the countries that have a trade surplus with the US. And Berlin, which he claims is ostensibly sucking the marrow out of the

American economy, has been singled out by him for criticism on more than one occasion, along with China and Japan.

In January 2017, the New York State Department of Financial Services fined Deutsche Bank $425 million for violating American anti-money laundering laws with a scheme that moved approximately $10 billion out of Russia between 2011 and 2015. The NY DFS also lectured Germany's biggest bank with the admonishment: "In today's interconnected financial network, global financial institutions must be ever vigilant in the war against money laundering and other activities that can contribute to cybercrime and international terrorism." This was understood to mean that the bank had been working with clients who were among the targets of the sanctions that had been levied due to the events in Ukraine.

At around the same time, Trump dealt a heavy blow to the German automotive industry. In an interview with Germany's *Bild* newspaper, in which he was purportedly defending the interests of US carmakers, he harshly criticized BMW, Volkswagen, and Daimler for trying to export too many cars into the US instead of building them on American soil, threatening those automakers with a 35% border tax.

The reaction was swift. Volkswagen was the first to respond, confirming its agreement with the US Justice Department to pay a fine of $4.3 billion dollars stemming from its diesel emissions scandal, as well as "additional measures to further strengthen the system of oversight."

It is quite telling that Trump chose the Germany automotive industry to use as an example when he flexed his new protectionist policy. It wasn't just Germany itself he chose for his "whipping boy," but the very symbol of that country's economic might — its automakers. In fact, we have now seen how Berlin is no longer America's privileged partner in Europe, but has instead become its biggest economic competitor, against whom a war with a preordained outcome can be declared.

In addition, it's worth noting how Trump's advisor on trade policy, **Peter Navarro**, in a January 2017 interview with the *Financial Times* accused Germany of manipulating the undervalued euro, allowing Berlin to boost its exports and "exploit" the US as well as its own EU partners. He pointed out that between 2015 and 2016 the euro declined 25% amidst the European Central Bank's record-setting currency emissions. The fact that Berlin is merely following the example set by Washington itself, as well as Beijing, was something that Trump's advisor failed to mention. In addition, Navarro named Berlin as the biggest hurdle to the Transatlantic Trade and Investment Partnership agreement.

The man who was once seen as Trump's likely nominee to become the US ambassador to the EU, **Ted Malloch**, went even further, claiming in January 2017 that the eurozone was at death's door and that the euro "could collapse in the next 18 months." In fact, he was expressing the opinion of Donald Trump himself, who predicted in an interview with *Bild* that German Chancellor Angela Merkel would not last long and that many European Union countries would soon follow Britain out the EU exit door.

So the US attacks on Germany are nothing new. But previously those had been limited to just Trump's words and infamous tweets. Although those had serious consequences, their effect can't be compared to that of tangible actions. Now Washington has moved from words to deeds and seems to mean business, as evidenced by the March tariffs on Chinese goods.

> "We don't yet know whether U.S. punitive tariffs will eventually also apply to European goods, but concerns are mounting," explained Gustav Horn.

It should be noted that because of the declining growth of the continent's economy, other European countries will likely limit their negative reactions to Washington's moves. Many European leaders agree with Trump about the strengthening of the German economy and many feel quite strongly that that has taken place at the expense of the rest of Europe. Indeed, the German economy has benefited greatly from the creation of the eurozone, inside of which Berlin is using the same currency as other countries that lag far behind Germany in economic development.

Donald Trump is not the first American president to express concern over either Germany's excessively lucrative (for the Germans) commerce and trade surplus or the austerity measures Berlin has pushed upon the entire continent. **Barack Obama** also sparred with Angela Merkel, insisting that Germany stimulate its own consumer demand and increase imports from other European countries, rather than merely beefing up its own export industry while ignoring its neighbors.

Given the current environment and based on the results of the study, analysts from the IMK are urging the chancellor to increase spending in order to strengthen Germany's domestic economy, rather than continuing to build up its unsustainable export sectors.

> "There'd be two positive repercussions if we strengthened domestic demand in Germany and Europe," declared Gustav Horn. "Firstly, growth would react less to turmoil on global export markets. Secondly, this would lead to a lower German trade surplus — thus taking the wind out of Trump's sails."

However, in addition to the US president's protectionist aspirations, Washington has revealed its serious commitment to toughening up its anti-Russia sanctions policy. **The damage to German industry could amount to hundreds of millions of euros.** The carmakers Volkswagen and Daimler, as well as Siemens, will once again take the hardest hit. But apparently Angela Merkel has her own plan for how to escape this bind. The German government understands its responsibility to its business community, which has itself always urged investment in Russia. For this reason Berlin will attempt to stand up for the interests of its own homegrown firms. But until some constructive agreements are reached in Washington, even the smaller, mid-sized businesses in Germany are going to be feeling insecure.

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