

Germany on Trump's future policies: fear of anti-globalisation

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The election of Donald Trump as President of the USA came as a shock to German public opinion. Even now, some time after the fact, shock still dominates both the media coverage and the statements by representatives of the political elite. The uncertainty is heightened by concerns about Germany's strategic economic interests, which the new American policy might hinder if it follows the statements made during Donald Trump's election campaign. Germany is worried that the foundations of globalisation, from which Germany has benefited so much in recent years, will be shaken, and that the new US President's policy could lead to a weakening of the EU's cohesion, raise tensions in global trade, and halt the policy of energy transformation based on renewable sources. Chancellor Angela Merkel felt forced to officially express the German position in an article jointly written with Barack Obama and published in the weekly *WirtschaftsWoche*, in which she announced that there will be no return to a world before globalisation. It seems that for now, Germany's only remedy for the uncertainty associated with Trump's future policy is an attempt to develop a coherent EU position which specifies the limits of its cooperation with the new administration. However, this plan may prove difficult to implement due to the numerous lines of division within Europe, such as the rescue of the euro area, Brexit, and migration policy.

'Culture shock' in Germany

The continuing reaction of shock in Germany to Donald Trump's election is affected by several factors. First, the American vote was proof for the German public, after Brexit, that a wave of nationalism is washing around the world which will also strengthen the anti-establishment Alternative for Germany (AfD) party, and could affect the results of the German elections next September. This uncertainty also applies to the results of other relevant elections which will take place in EU states in the coming months, for example in Austria, the Netherlands and France, as well as the constitutional referendum in Italy – and above all, the consequences those votes could entail. Secondly, German politicians have realised that the country's position as leader of the EU was justified not only by its economic power and the weakness of its EU partners, but also to a large extent by Barack Obama's strong endorsement for Berlin's actions. This was particularly visible in the euro area crisis, and in Germany's policy towards Russia. The new US President may pay much less attention to maintaining relations with Germany, and could strengthen relations with the UK as it comes out of the EU; he may also try for another 'reset' with Russia. Thirdly, the uncertainty

is compounded by the lack of contacts between German policymakers and Trump's team, especially his closest foreign policy advisors.

The vote for Trump as US President is being seen as a threat to the foundations of the globalised world economy, from which Germany has derived enormous benefits in recent years, becoming a major global trading power. Germany managed to overcome the effects of the global financial crisis quickly enough, and in recent years it has recorded stable growth. One important source of this success was its rising exports, which stimulated not only the modernisation of the emerging economies, but also the dynamic development of the US economy. In the last few years Germany (next to China) has achieved the highest trade surplus in the world). For this reason, Germany's political actions have lately been aimed at building sound foundations for developing its exports, by deepening political relations with China and concluding new trade agreements with Canada and the United States.

Fear of an American retreat from globalisation

One of the few examples of a neutral German reaction to Trump's victory came from the head of the Bavarian CSU party Horst Seehofer, who asked that Trump be judged by his actions, and not by his campaign statements. However, most German politicians are worried that the new US President's policy will contribute to the further deterioration of global prosperity, which will in turn weaken economic growth in Germany. Trump's declarations that he would withdraw the United States from agreements such as the North American Free Trade Area (NAFTA) and the Trans-Pacific Trade Agreement (TPP) are being treated as an attack on free trade. The Transatlantic Partnership in Trade and Investment (TTIP) currently being negotiated, which German business was counting on to make them money, could also fall victim to the new American approach.

This year, however, more and more barriers to the development of German exports have become apparent; the rise in the export rate is low, and will probably fall below 1%, which will slow the pace of overall economic growth. German exporters are expressing increasing dissatisfaction at the worsening global business climate, which is a result of conflicts in many areas, the slowing economic growth of the global economy, and rising protectionist tendencies.

American actions to boost prosperity on its domestic market may prove to be another contentious issue. Germany expects that this may lead to a protectionist policy aimed at increasing public spending, weakening the dollar, and limiting the independence of the US Federal Reserve. This could also exacerbate disputes over Germany's pro-export policy; in recent years many American economists and politicians have criticised Germany for focusing on exports and failing to boost its domestic demand. Such actions could make EU/US relations more difficult, and also weaken the expansion of German companies onto the US market, a process which has been very dynamic in recent years.

Another area of potential conflict with the US lies in the situation of German companies in the United States and that of American IT enterprises on the European market. In recent years, the US authorities have imposed heavy fines on European companies for their failure to comply with regulations (Deutsche Bank and Volkswagen, but also BNP Paribas and

Credit Agricole), which some European politicians (including Germans) considered to be tantamount to protectionist measures. American corporations have in turn been criticised by the EU for abusing their dominant market position, and also for tax evasion; those penalised have included Google. This approach has met with disapproval from US politicians.

In the opinion of German experts, Donald Trump will very likely withdraw from many of the commitments undertaken by Barack Obama in the field of climate policy; it is also worth assuming that conventional energy sources, in particular shale, will be developed substantially. This may undermine the foundations of the German energy transformation programme, which involves the abandonment of nuclear energy, and in the long run of coal, together with the simultaneous development of renewable energy sources. To this end, the German government has guaranteed many producers in Germany high subsidies for the production of renewable energy, which cost €24 billion a year. If the US floods global markets with low-cost coal and gas from conventional sources, this could completely upset the balance (even in the longer term) of the German energy transition, which already generates high costs. Moreover, the withdrawal of the US from climate negotiations may prevent the implementation of restrictive climate protection objectives; this could limit the growth potential of the market for environmental technologies, from which German exporters have benefited considerably.

Is EU unity the best response to Trump's policies?

Barack Obama's final visit to Berlin was intended to allay German concerns. Merkel invited leaders from France, Spain, Britain and Italy to meet the outgoing US President. The list of invitees indicates what Berlin's course of action will be. It is not surprising that the French president François Hollande was invited; however, the invitation of the prime ministers of Italy and Spain, Matteo Renzi and Mariano Rajoy, shows that Germany wants to ensure the unity of the euro-area states, who are strongly divided as a result of the debt crisis. This may nevertheless prove difficult, as both these southern European countries are grappling with serious social problems resulting from the austerity policy Germany has imposed on them.

The invitation of British prime minister Theresa May is a clear attempt by Germany to include the UK in the process of developing a common European response to Donald Trump's future policy. By so doing, Merkel wanted to show that disputes about Brexit will not undermine Germany's strong political and economic relationship with the United Kingdom. Germany fears that an isolated London could further strengthen its political ties with Washington, which in turn would boost Britain's position in negotiations on the conditions for the UK's departure from the EU.

Another essential question that the German government must face concerns defence expenditure. Trump's allegations during his campaign that some NATO countries spend far too little on this were in large measure addressed to Germany, whose defence budget as a proportion of GDP is one of the lowest in the Alliance (1.2% of GDP, €34 billion in absolute terms). For this reason, the German government may be forced to increase defence spending to maintain its credibility in NATO, and also to confirm plans to strengthen defence cooperation within the EU.

Donald Trump's election win puts Germany in a difficult situation. The German government will try to adapt to the potentially controversial policies of the new administration in Washington, while at the same time working to strengthen its position in relations with President Trump by developing a consistent position within the EU. However, this will require existing political divisions to be overcome; moreover, this will generate certain financial costs for Germany connected with the need to limit its austerity policy in the euro area, achieve consensus on EU migration policy, and increase its defence spending.