

## Germany among the biggest losers of the US-China trade war

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The US-China trade deal (so-called 'Phase 1') came into effect on 14 February. One of its key provisions is that China is obliged to buy US goods worth US\$200 billion in 2020–2021. The two countries have also halved the customs tariffs on a section of trade (goods worth US\$300 billion on the US side and US\$75 billion on China's side). According to an analysis prepared by the German Kiel Institute for the World Economy, the deal will lead to trade shifts strongly affecting Germany (only Brazil will sustain greater losses). It is expected that the German automotive sector will lose US\$1.3 billion, the aviation industry US\$1.6 billion, the machine-building industry US\$0.7 billion and the agricultural sector US\$0.1 billion. So this will pose another barrier to developing trade between Germany and China, after the coronavirus outbreak affected the supply chains of German companies which have factories or subcontractors in China.

### Commentary

- China is still the most important trade partner for Germany as it generates a trade volume worth 206 billion euros (8.5% of total German trade). However, from the German point of view, it is becoming less likely that the Chinese market will remain a major stabiliser of the market situation as it did in the past decade allowing the German economy to withstand the negative economic trends in its immediate environment, such as the eurozone crisis or Brexit. In 2019, German exports to China grew by only 3.2%, while the average annual growth rate in 2006–2018 was around 12.7%. Therefore, it cannot be ruled out that China's economic growth will slow down as a result of the US pressure and the coronavirus epidemic, which will have a negative impact on German exports to this market.
- The US-China deal upsets the principles of functioning of the World Trade Organization as it may limit the application of the most-favoured-nation clause (which guarantees equally beneficial trade conditions to all trade partners). As seen by Germany, this undermines the foundations of its pro-export economic model while also being an effect of its lack of readiness for a global trade architecture reform. Americans have for years criticised such countries as China, Germany and Japan for their excessively high trade surpluses leading to the entrenchment of uneven benefits from participation in global trade.
- Therefore, the German private sector is likely to intensify pressure on easing the sanctions imposed on Russia. If this happened Germany could at least initially expect a

rapid increase in the sales of German goods on the Russian market (which has been stagnant over the past few years). However, a boost in sales in Russia, which imports German goods worth 27 billion euros (less than Poland's 66 billion euros, the Czech Republic's 45 billion euros, and Hungary's 27 billion euros), will not be able to compensate for the stagnation on the Chinese market (96 billion euros). Furthermore, Peter Altmaier, the Minister for Economic Affairs and Energy, wants an enhancement of co-operation with Russia in the energy sector. During the most recent conference of the Association of German Chambers of Industry and Commerce, he concluded that the demand for natural gas in Germany would grow due to the planned decommissioning of nuclear and coal power plants. The minister presented the intention to establish closer co-operation with Russia as a part of the EU's climate policy, pointing to the desire to produce hydrogen from Russian natural gas.