The impact of Trump's policies

Focus on Germany

Dr. Michael Heise on Global Economics

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“America First” means headwinds for Germany: higher trade barriers are slowing exports, while increased competition from China is putting additional pressure on margins. The German economy must adapt to a changed world order—and opportunities can only be leveraged with bold reforms.

Donald Trump's trade and economic policy has put Germany in a very difficult position. The US tariff increases have slowed global economic growth and are putting pressure on the German business model. The situation would probably have been even worse if, with the exception of China, the US's trading partners had not refrained from imposing counter-tariffs, thereby preventing a dangerous escalation.

A considerable burden for exporting companies

German exports have been under pressure since Donald Trump took office. In their joint diagnosis, research institutes estimate that higher trade barriers will slow down the German economy by 0.2% in 2025 and 0.8% in 2026. In addition to the development of tariffs, the devaluation of the US dollar and the Chinese yuan has also had a negative impact. German exports to the US were down 7.4% in the first nine months of this year, and exports to China were down 12.3% compared to the same period last year. With regard to China, increased competition in the automotive sector has been a significant factor.

Negative effects on the German economy are also arising from companies relocating production capacities, for example to avoid US tariffs or to take advantage of the competitive advantages of the US in terms of energy prices. Germany's competitive disadvantage due to high energy prices is even greater than before the Ukraine crisis. Since January 2022, production in energy-intensive manufacturing sectors in Germany has declined by around 20%. The impact on jobs and incomes is severe.

The fact that the US is isolating itself even more from China and some other emerging economies like India and Brazil than from Europe also has complex implications. The decline in Chinese exports to the US means that goods are also being diverted to Europe, where suppliers are gaining market share thanks to falling prices in the EU and Germany. The already intense competitive pressure from Chinese suppliers is intensifying further, not only in domestic markets but also in third markets where German and Chinese exporters compete.

On the US market, German companies are gaining an advantage over Chinese competitors, who are subject to significantly higher tariffs. However, the overlap in the products offered by German and Chinese companies in the US market is not particularly significant. Unlike Germany, China is strong in the export of low-cost consumer goods and electronic products to the US, while automobiles and mechanical engineering play a major role for Germany. The advantage in the US markets due to comparatively low tariffs cannot compensate for the increasing competitive pressure from Chinese suppliers on the global markets.

Trade policy continues to pose risks

The future direction of trade and customs policy is of crucial importance for the international business model of the German economy. Based on the current situation, it is unlikely that tensions will ease and there will be a return to multilateralism and free trade. The high current account deficit in the US could even prompt the US government to consider further tariff increases or trade restrictions. In the fiscal year 2025, the US current account deficit is likely to be around 4% of gross domestic product, and according to IMF estimates, it will decline to just 3.5% in 2026.

Higher tariffs will hardly reduce the external trade deficit significantly, as the deficit results from the fact that aggregate demand, which is being stimulated by the government's highly expansionary fiscal policy, significantly exceeds the level of production in the US. However, the twin deficits in the US federal budget are unlikely to change much in 2026. Customs revenues are also likely to be quickly reused to lower taxes or for transfer payments to consumers affected by tariffs, rather than being used for fiscal consolidation.

On the foreign exchange markets, the high US current account deficit is likely to promote a further downward trend of the US dollar. The US government is unlikely to oppose a devaluation, especially since it itself criticizes the high capital imports and calls for significantly lower interest rates, which usually also weaken the currency. A devaluation of the dollar would further increase the headwinds for German exports to the US and other dollar countries. For the US, a devaluation would mean better export opportunities but also a tendency toward higher inflation.

The consequences of the "America First" policy for the world order

The long-term consequences of Donald Trump's policies are severe. The central elements of the post-war order shaped by the US are clearly no longer relevant to US policy. The law of the strongest has replaced the rule of law, and after countless bilateral deals, multilateralism is no longer an option. Trump is pursuing a kind of neo-mercantilism, with tariffs being imposed according to economic self-interest and political preferences. The US is allowing its trading partners to pay for its military protection through high tariffs and concessions.

The German economy must prepare itself for the continuation of an "America First" policy. To make things worse, China is striving for greater economic independence and wants to reduce its dependence on imports. All in all, it is therefore to be expected that the pace of globalization will remain modest. In addition, the formation of blocs or regionalization is likely to continue, with a Western alliance led by the US facing off against a bloc of emerging economies led by China.

Markets are becoming more fragmented and trade within blocs is intensifying, as can be seen in the case of energy products, raw materials, and even military goods. For Germany, with its strong international business, this is not a favorable position. However, new trade agreements, such as those with the Mercosur countries or with Asian and Pacific states, could also provide new impetus for Germany and Europe.

Disruption also brings opportunities

The question is whether Trump's policies will also have positive effects for Germany and Europe. It is true that Donald Trump's "disruptive" policies also create opportunities. In the defense and security sector, for example, the threatened withdrawal of the US has triggered a marked change in policy and a strong expansion of the defense sector in Germany.

It is also clear that Germany and Europe are striving for greater independence in energy supply and the delivery of raw materials. This will improve trade relations with other countries. Finally, the difficult international situation has also increased the focus on measures to improve the economic competitiveness of Europe and Germany. However, only a few minor steps have been taken, such as reducing bureaucracy and improving investment conditions. Far-reaching reforms are still pending at both the European and the national level.

A significant strengthening of growth in Germany and the EU as a whole would be necessary to ensure that hopes for a stronger global role for the euro are not disappointed in the future. Contrary to expectations, Trump's disruptive policies, which call into question the free movement of capital and the independence of the central bank, have hardly increased the euro's importance as a global currency. The global momentum of the euro, which Ms. Lagarde recognized a few months ago, has not yet become a reality. Once again, it is clear that Donald Trump's sometimes disruptive measures do not automatically benefit Europe. It is therefore up to us to attract investment capital from abroad and thus take advantage of Trump's policies.

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Conclusion

Donald Trump's economic policy is a burden on the German economy. This applies both in the short term and in terms of long-term changes in the global trading system, with a loss of regulatory discipline and multilateral orientation. The US economy's resilience to date, which has been positive for European and German companies, has been achieved at the cost of a highly expansionary fiscal policy and enormous increases in debt. Sooner or later, consolidation will be necessary. However, this policy currently poses risks to returns on global capital markets and the value of the US dollar. In order to take advantage of the opportunities presented by the changes in the global economy, it is crucial for Europe and Germany to increase the competitiveness and attractiveness of their locations and to secure this with the broadest possible free trade agreements with important trading partners.

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Rating system of the absolute valuation	
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LeanVal Research GmbH
Bleichstraße 52
60313 Frankfurt am Main
Phone: +49 69 9494 88 050,
Email: research@leanval.investments