

## What America's Economy First Means for Europe

*By Philipp Liesenhoff and Peter Sparding*

The future of transatlantic economic cooperation is currently dubious. Policymakers in Europe are trying to ascertain what drastic policy proposals in Washington might mean for the continent. Initial statements and actions by the new U.S. administration indicate a shift from bilateral to multilateral negotiations and plans for increased infrastructure investments and other fiscal measures.

This brief examines the potential direction of future U.S. policy and analyzes its impact on European economies and transatlantic economic relations in such areas as trade, fiscal, and monetary policy. While Europe might see some short-term economic benefits, these are outweighed by significant long-term downside risks posed by the potential policy changes in Washington.

The election of Donald Trump in November 2016 has raised significant questions about the future direction of U.S. economic policy and its potential impact on Europe. As a result, the outlook for transatlantic cooperation on economic matters has changed dramatically. After all, it was only a few years ago that transatlantic leaders launched negotiations for a sweeping Transatlantic Trade and Investment Partnership (TTIP), describing it at times as the second pillar of the transatlantic partnership or “economic NATO.” Today, even the significance of NATO itself has been put into question.

President Trump's sweeping and unconventional comments on the campaign trail on issues ranging from the future of trade agreements and monetary policy to financial deregulation have left European economic policymakers, already shaken by the ongoing euro crisis and complicated Brexit negotiations, concerned about the future role of the world's biggest economic power. As a candidate Trump often remained vague about details, while promising wide-ranging changes in many economic policy fields. His first weeks in office have similarly produced a variety of actions and comments.

Current outlooks regarding the future direction of U.S. economic policy are therefore characterized by “radical uncertainty.”<sup>1</sup> The only certainty seems to be that President Trump views international economic relations largely as a zero-sum game in which he has promised to put “America first” going forward. The conceivable outcomes of Trump's economic policies in this regard range from “mildly reassuring to utterly catastrophic,” as Barry Eichengreen argues.<sup>2</sup> This brief examines these potential outcomes and estimates their impact on European economies and transatlantic economic relations in such areas as trade, economic governance, fiscal, and monetary policy.

1 Kundnani, Hans 2016: Trump and the Consequences of Radical Uncertainty, <http://www.gmfus.org/blog/2016/11/10/trump-and-consequences-radical-uncertainty>.

2 Eichengreen, Barry 2016: The Age of Hyper-Uncertainty, <https://www.project-syndicate.org/commentary/age-of-hyper-uncertainty-by-barry-eichengreen-2016-12>.



## Trump's Positions

### Trade

Trade was one of the few issues on which Trump maintained a consistent position throughout the primary and general election campaign. The fact that his narrow electoral win has been ascribed in particular to winning over a vast share of the white working class, a demographic group often designated as having been “left behind” by trade liberalization and globalization,<sup>3</sup> has further elevated trade to a key policy area for the new president. At the same time, trade has also been one of the issue areas in which Donald Trump departed most significantly from long-established Republican doctrine, by loudly opposing free trade agreements ordinarily favored by the majority of Congressional and establishment Republicans.

The stated goal of Trump's trade policy is to eliminate the U.S. trade deficit and to bring back manufacturing jobs. Of course, these are not new goals and tough rhetoric on trade is not a new phenomenon in American politics. President Barack Obama himself ran on a promise to renegotiate NAFTA in his 2008 bid for the presidency. In 2016, the Obama administration also put China, Germany, Japan, South Korea, Switzerland, and Taiwan on a currency watch list to monitor these countries' substantial trade and current account surpluses with the United States (though none of the countries listed were found to have unfairly manipulated its foreign exchange rate).<sup>4</sup>

However, the new administration has thus far taken a much harsher tone on trade and related issues. It has promised to incentivize firms to keep manufacturing jobs in the United States through a mixture of corporate tax cuts, public shaming of corporations that outsource production steps, and protectionist measures against alleged unfair competition from abroad. The cornerstones of this proclaimed trade agenda include withdrawing the United States from the Trans-Pacific Partnership (TPP; which Trump did on January 23), revising the North American Free Trade Agreement (NAFTA), and taking a particularly tough stance against China by threatening to classify the country as a currency manipulator (despite the above mentioned Treasury findings), to bring legal cases against China at the World Trade Organization (WTO), and to potentially install high punitive tariffs on Chinese goods. Moreover, the Trump transition team floated the idea of introducing a 10 percent general tariff on imports aimed at spur-

3 Tankersly, Jim 2016: How Trump Won. The Revenge of the White Working Class, [https://www.washingtonpost.com/news/wonk/wp/2016/11/09/how-trump-won-the-revenge-of-working-class-whites/?utm\\_term=.83bf5d9bf63c](https://www.washingtonpost.com/news/wonk/wp/2016/11/09/how-trump-won-the-revenge-of-working-class-whites/?utm_term=.83bf5d9bf63c).

4 U.S. Department of the Treasury 2016: Foreign Exchange Policies of Major Trading Partners of the United States, October 14, 2016: [https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2016-10-14%20\(Fall%202016%20FX%20Report\)%20FINAL.PDF](https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2016-10-14%20(Fall%202016%20FX%20Report)%20FINAL.PDF).

ring U.S. manufacturing.<sup>5</sup>

It is less clear what the new administration intends to do regarding TTIP. While criticism of the TPP was a hallmark of Trump's campaign, he has been remarkably silent about its transatlantic counterpart. As opposed to the 12-country agreement for the Asia-Pacific, TTIP can technically be viewed as a bilateral agreement, given that the EU negotiates for all of its member states, although it is not clear whether the Trump

administration will treat the transatlantic deal in this way and Trump's National Trade Council Director, Peter Navarro recently described TTIP as a “multilateral deal in bilateral dress.”<sup>6</sup> Given that TTIP was already in trouble due to growing protest in many European countries and that the U.S. side under President Trump is unlikely to make more concessions than was already the case under President Obama, it is reasonable to consider TTIP as failed or at least “in the freezer” as Trade Commissioner Malmstrom noted.<sup>7</sup> While the economic impact of a failed TTIP agreement is likely not an immediate concern for Europe, the symbolism behind the failure of the biggest transatlantic project in recent years would be significant.

From a legal and constitutional point of view the new president is able to unilaterally make good on most, if not all of his campaign promises regarding trade agreements, even though the implementation of NAFTA, obligations under the WTO, and normal trade relations with China were initially approved by Congress.<sup>8</sup> U.S. trade law and treaty practice offer the president significant powers to rescind agreements and to restrict imports.<sup>9</sup> Although there is some symbolic pushback from Congressional

5 King, John/Diamond, Jeremy 2016: Trump team floats a 10% tariff on imports, CNN, December 21, 2016: <http://www.cnn.com/2016/12/21/politics/donald-trump-tariffs/>.

6 Donnan, Shawn 2017: Trump's top trade adviser accuses Germany of currency exploitation, *Financial Times*, January 31, 2017: <https://www.ft.com/content/57f104d2-e742-11e6-893c-082c54a7f539>.

7 Stearns, Jonathan 2016: EU Sees Trump Freezing Talks on Transatlantic Trade Pact, November 11, 2016, *Bloomberg*: <https://www.bloomberg.com/news/articles/2016-11-11/eu-s-malmstrom-signals-free-trade-talks-with-u-s-to-be-frozen>.

8 See Hufbauer, Gary Clyde 2016: Could a President Trump Shackle Imports?, in: Noland, Marcus et al.: *Assessing Trade Agendas in the U.S. Presidential Campaign*, p. 6f., <https://piie.com/publications/piie-briefings/assessing-trade-agendas-us-presidential-campaign>.

9 Van Grasstek, Craig 2016: What Will Happen to U.S. Trade Policy When Trump Runs the Zoo?, *ECIPE*, p. 3, <http://ecipe.org/publications/what-will-happen-to-u-s-trade-policy-when-trump-runs-the-zoo/>.

“ **The symbolism behind the failure of the biggest transatlantic projects in recent years would be significant.** ”

Republicans,<sup>10</sup> it is, at least initially, unlikely that President Trump will face significant political opposition as long as his popularity among potential Republican primary voters remains high.

Furthermore, although the incoming administration features a number of supporters of TPP-like free trade agreements, for example Secretary of State Rex Tillerson,<sup>11</sup> it is likely that trade policy will be shaped by cabinet members and advisors much more in line with Trump's approach, such as Wilbur Ross (Commerce Department), the aforementioned Peter Navarro (National Trade Council Director), and Robert Lighthizer (United States Trade Representative-designate). At least initially, there appear to be few domestic hurdles standing in the way of this agenda. The question therefore is whether potential international obstacles, such as retaliatory measures by trading partners and the threat of a trade war, would deter the incoming administration.

### *Fiscal Policies*

Since the financial crisis in 2008 and while the U.S. economy was operating below its potential, there had been a broad and growing consensus among many politicians and economists that the U.S. government should be taking advantage of current low borrowing cost for U.S. public debt and channel it into productive investments, especially in infrastructure. With high enough growth, so the thinking went, a further significant reduction in debt overhangs could reignite private investments and would let the U.S. return to a higher long-term growth trajectory.

Although Republicans, by and large, rejected calls for such fiscal stimuli throughout the Obama presidency and Trump repeatedly painted a gloomy picture about the state of U.S. debt during the campaign, he also signaled support for a range of expansionary policies. Most notably, this has included promises to invest in infrastructure projects and significant increases to defense expenditures.

However, there are a few reasons to be skeptical regarding the chances and potential positive impact of a Trump fiscal stimulus. First, it remains to be seen if the Trump administration can gather the political support needed to enact such a program. Opposition to an overall increase in gov-

10 Gillespie, Patrick 2017: Republican Senator's bill aims to reel in Trump's trade power, January 19, 2017: <http://money.cnn.com/2017/01/19/news/economy/trump-tariff-bill-republican-senator-mike-lee/>.

11 Gaouette, Nicole 2017: Rex Tillerson breaks with Trump on TPP, foreign policy issues, <http://www.cnn.com/2017/01/11/politics/tillerson-confirmation-hearing/>.

ernment spending from at least some Congressional Republicans seems likely and Trump himself has picked an outspoken fiscal hawk in Representative Mick Mulvaney to be the director of the Office of Management and Budget. Secondly, as opposed to the situation in the years following the financial crisis, the U.S. economy today is approaching full employment with an unemployment rate of 4.7 percent in December 2016 and the Federal Reserve is already set to raise interest rates throughout the year. If economic growth, currently at close to 2 percent, were to accelerate significantly, the Federal Reserve might step up rates accordingly. In this case, the positive effects of a fiscal expansion on the economy would likely be offset by a more constrained monetary policy.

Beyond infrastructure and defense spending, the incoming administration has also signaled plans for a massive across-the-board income-tax cut. The stimulative effects of such a demand-sided tax reform at a time when the U.S. output gap, that is the difference between actual and potential output of an economy, is small are unclear, however. On the other hand, potential reforms of the corporate tax system could have a more significant immediate impact. Trump's plan to reduce the corporate tax rate to 15 percent could lower the effective average tax rate (EATR) of U.S. corporations to around 21 percent, (approximately the average of the European corporate tax rate<sup>12</sup>) potentially reducing incentives for corporate tax evasion and spurring the repatriation of corporate profits.

In addition to these plans, the new administration and Congress could enact a Republican plan to create a "border tax adjustment"<sup>13</sup> as part of a broader reform of the corporate tax system, under which revenues from exports would be forgiven while the cost of imported goods would no longer reduce a company's tax liabilities. Such an export-friendly border-adjustment tax would create disincentive against imports while favoring exports, though its implementation would likely require an act of Congress and may be prohibited by WTO rules.<sup>14</sup> However, some observers argue that any positive effects of such a move for U.S. competitiveness will be limited, as potential gains would be offset by an appreciating dollar and could actually erode America's net foreign-asset position.<sup>15</sup>

“ **The positive effects of a fiscal expansion on the economy could be offset by a more constrained monetary policy.** ”

12 Heinemann, Friedrich 2017: Effektive Steuerlast für US-Unternehmen sinkt auf EU-Durchschnittsniveau, ZEW, January 2, 2017: <http://www.zew.de/de/presse/pressearchiv/effektive-steuerlast-fuer-us-unternehmen-sinkt-auf-eu-durchschnittsniveau/?cHash=9b2d68bdd19bcc312ca98628781f89b2>.

13 For an overview over the proposed Border Tax Adjustment plans, see Huffbauer, Gary Clyde/Lu Zhiyao 2017: Border Tax Adjustments: Assessing Risks and Rewards, Peterson Institute for International Economics, January 2017: <https://piie.com/publications/policy-briefs/border-tax-adjustments-assessing-risks-and-rewards>.

14 Verma, Sid 2017: Trump's Border Tax Threat May Weaponize the Dollar, Bloomberg, January 11, 2017: <https://www.bloomberg.com/news/articles/2017-01-11/trump-s-border-tax-threat-may-weaponize-the-dollar>.

15 Fahri, Emmanuel/Gopinath, Gita/Itskhoki, Oleg 2017: Trump's Tax Plan and the Dollar, <https://www.project-syndicate.org/commentary/trump-tax-plan-hurts-competitiveness-by-emmanuel-fahri-et-al-2017-01>.

## Monetary Policy

The success of Trump's fiscal policies will significantly depend on how U.S. monetary policy will be conducted. A large increase in government spending at a time of limited slack in the U.S. economy could well trigger higher inflation, which in turn could drive the Federal Reserve to further raise interest rates. Such a move, however, would likely create additional incentives for foreign capital inflows into the United States, further appreciating the dollar and potentially increasing the U.S. trade deficit. Should the Trump administration want to keep its essential campaign promise to create more manufacturing jobs and to reduce the trade deficit, it would need to manage this appreciation. This could either be done in a cooperative approach with other central banks, or in a confrontational approach by employing monetary interventions against some or all trading partners.

In this situation, monetary policy will be a balancing act and it is unclear how active the incoming administration will seek to influence it. The president has repeatedly spoken out against the approach of the Federal Reserve under Chair Janet Yellen. Given these comments and previous breaches of political norms, there has even been speculation whether a Trump administration would go so far as to challenge the independence of the Federal Reserve to hold interest rates low and allow for even higher growth in the short-term, though this would normally seem unlikely. However, two current vacancies on the Board of Governors (soon to be three, given the announced departure of board member Daniel Tarullo in April) and the looming end of Yellen's term as chair in a year could offer opportunities for the new president to influence the Federal Reserve's stance.

## Short-term Impact on Europe

Despite uncertainty over the exact shape of the Trump administration's economic policy, it is evident that momentous changes away from long-standing principles of U.S. policy are afoot. Given the importance of the transatlantic economic relationship both in terms of trade and investment, significant consequences for Europe in a number of areas are to be expected. Some observers have already celebrated possible spillover effects of a potential Trump boom for Europe (and especially Germany).<sup>16</sup> However, in the long run, the new course from Washington offers significantly more downsides and risks for Europe than upsides.

Most European economies found themselves in an almost opposite macroeconomic situation from the U.S. outlook for much of the post-crisis era, with looser monetary policy by the ECB and tighter fiscal policies trying to fulfill the deficit rules of the Maastricht Treaty. However, GDP growth in the euro area outpaced the United States in 2016 due to the substantial

16 Straubhaar, Thomas 2016: Trump im Weißen Haus ist gut für Deutschlands Wirtschaft, *Die Welt*, November 11, 2016: <https://www.welt.de/wirtschaft/article159427145/Trump-im-Weissen-Haus-ist-gut-fuer-Deutschlands-Wirtschaft.html>.

slack in European economies. In this situation, an external growth impulse from the other side of the Atlantic could further sustain the EU's economic recovery. At first glance, an increase in demand in the United States as a result of a potential fiscal stimulus could indeed have positive direct effects in Europe. Higher government spending and tax cuts in the United States could deliver a considerable push for demand for U.S. imports from Europe. The United States is a major trading partner for

European countries. In 2015 the United States actually surpassed France as Germany's biggest trading partner. For France, Italy, and the Netherlands, the United States represents the second, third, and fifth most important trading partner respectively.<sup>17</sup>

Thus, some hope that there could be positive growth effects for Europe as a whole from Trump's potentially expansionary fiscal policy. Countries and regions such as Greece, Southern Italy, Southern Spain, Portugal, and new EU member states like Bulgaria and Croatia, whose export products consist to a large extent of less specialized and more price sensitive goods, would benefit via the lower exchange rate of the euro versus the dollar. Due to the European Central Bank's monetary easing and the strengthening dollar, the price competitiveness of European exports is likely to increase. Meanwhile other member states and regions that are integrated into European manufacturing value chains, like Germany, France, Northern Italy, the Netherlands, Scandinavia, the Baltics, the Czech Republic, and Hungary, could benefit from increased demand for specialized capital intensive products from the surge of U.S. demand.<sup>18</sup>

However, there are reasons to be skeptical about the stimulative impact of Trump's proposed infrastructure plan. While proclamations of a \$1 trillion infrastructure package and comments from some Trump advisors, most notably Steve Bannon,<sup>19</sup> have prompted expectations of a Keynesian-style fiscal stimulus, Trump's original campaign proposal relied mostly on public private partnerships (PPPs), in which private businesses receive tax

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17 World Bank. World Integrated Trade Solution (WITS) Database: <http://wits.worldbank.org/>.

18 Gros, Daniel. Project Syndicate. Can Trump save the Euro. December 2016: <https://www.project-syndicate.org/commentary/italy-referendum-trump-economic-boost-by-daniel-gros-2016-12>.

19 See: Levitz, Eric 2016: Steve Bannon Says 'Darkness is Good' - As is Deficit Spending: <http://nymag.com/daily/intelligencer/2016/11/bannon-darkness-is-good-and-so-is-deficit-spending.html>.

credits for risk capital they invest in infrastructure projects.<sup>20</sup> Increased tax revenues from new corporate profits and employees are then supposed to offset these tax credits and finance such programs in a budget neutral way. In October 2016, Trump's economic advisors put forward a plan to attract private investments of up to \$1 trillion in this manner. Yet it is far from certain if such a scheme could attract sufficient private investment at a time when interest rates are bound to rise and other investment opportunities might provide more lucrative prospects. In addition, changes in U.S. trade policy and the introduction of new trade barriers could minimize positive spillover effects for Europe. Thus the stimulative impact of the infrastructure package could be — given the complete picture — smaller than expected.

## Long-term Risks for Europe

While there may be a possibility for short-term economic gains for Europe from potential policy changes in the U.S., these gains are far from certain and may in any case be short-lived. However, the negative long-term consequences of policy changes in Washington could be profound. There are at least three potential dangers for Europe.

### *The End of Multilateralism*

After World War II, the United States set out to establish the Western liberal order by setting the stage for the creation of multilateral platforms, such as NATO, the International Monetary Fund, and even the EU itself.<sup>21</sup> These efforts coupled with America's massive rebuilding efforts in the form of the Marshall Plan enabled Europe to stabilize, rebuild, and prosper. Subsequently, these structures of multilateral decision-making have become part of the political DNA of the European Union and its member states, which have relied upon them in external as well as internal policy processes.

First signals from the new administration and its supporters indicate a critical shift in U.S. policy away from multilateralism. President Trump's threat during the campaign to withdraw the United States from the WTO<sup>22</sup> challenges the very existence of the rules-based global system on which EU trade policy is based. Instead, President Trump's "likely hostility to trade-policy rules that constrain government behavior" is expected to lead to an increase of "purely transactional relationships based on quid

20 Ross, Wilbur/Navarro, Peter 2016: Trump Versus Clinton On Infrastructure, October 27, 2016: <http://www.peternavarro.com/sitebuildercontent/sitebuilderfiles/infrastructurereport.pdf>.

21 See Kundnani, Hans 2017: President Trump, the U.S. Security Guarantee, and the Future of European Integration, GMF, January 17, 2017: <http://www.gmfus.org/publications/president-trump-us-security-guarantee-and-future-european-integration>.

22 Dyer, Geoff 2016: Donald Trump threatens to pull US out of WTO, *Financial Times*, July 24, 2016: <https://www.ft.com/content/d97b97ba-51d8-11e6-9664-e0bdc13c3bef>.

pro quo."<sup>23</sup> Yet, while China and other Asian economies are used to such thinking, the EU, at least in its external dealings, is "unaccustomed to dealing with transactional forms of economic diplomacy."<sup>24</sup>

Only a global power in economic terms, the EU may find itself without the necessary weight and internal consensus to pursue its interests and values in such international negotiations.

Upholding the multilateral trading system in its current form could prove impossible in the absence of the United States. The direct consequence of an U.S. departure from multilateral fora will be a vacuum of leadership. Other powers will likely attempt to fill the void. With the United States pulling out of TPP, China, for example, may set out to create a regional trade regime more favorable to its own interests in the Asia-Pacific. As a result, we are likely to see new geo-economic and potentially geopolitical realignments in which the EU will have to position itself.

### *European Divisions*

Support for European integration has been a long-standing position of the U.S. government, which has viewed European stability as a clear U.S. economic and national security interest. President Obama, for example, went so far as to voice public support for the United Kingdom to remain in the EU in the run-up to the British referendum in 2016. In President Trump, however, the EU is for the first time faced with an American leader who at best is indifferent to the EU as an organization or might even favor its break up, as his support for Brexit indicated.<sup>25</sup>

Not only does the new U.S. administration signal a halt of ideological and political support for European integration, but its trade agenda (especially the emphasis on a new bilateral deal with the U.K.) threatens to work as a pull factor for other European countries to follow the U.K.'s example in order to engage in new trade relations that promise larger short-term gains. With global trade slowing significantly, the zero sum analogy for gains from trade might come true in the short run and incentives for economically struggling countries in the European Union could rise fast.

In addition, President Trump and his advisors seem to be playing to existing anti-Germany sentiments within Europe by for example depicting the

“ **The direct consequence of an U.S. departure from multilateral fora will be a vacuum of leadership.** ”

23 Erixon, Fredrik/Lee-Makiyama 2016: Europe in the Trumpworld: EU trade and security under the new US executive, ECIPE, p. 3, <http://ecipe.org/publications/europe-in-the-trumpworld/>.

24 Ibid, p. 4.

25 Levin, Sam 2016: Donald Trump backs Brexit, saying UK would be 'better off' without EU, *The Guardian*, May 5, 2016: <https://www.theguardian.com/us-news/2016/may/05/donald-trump-brexit-uk-leaving-european-union>.

EU as a “vehicle for Germany.”<sup>26</sup> Of course, criticism from Washington regarding the German approach to the euro area is not new, but the harsher and more direct tone from the new U.S. administration could signal an attempt at widening existing divisions in order to set the stage for a stronger focus on bilateral relations with European countries.

## *Transatlantic Disputes*

There is an increasing danger of direct economic conflict between the U.S. and Europe. With President Trump already calling out Germany in a newspaper interview for its trade surplus with the U.S. and the country previously being included on a currency watch list under the Obama administration, the potential for a confrontation should be taken seriously. Although much of the U.S. focus in this regard has long been on China, Germany may be a logical target, as well. Comments by Trump’s top trade advisor, David Navarro, accusing Germany of continuing “to exploit other countries in the EU as well as the U.S. with an ‘implicit Deutsche Mark’ that is grossly undervalued”<sup>27</sup> are a clear sign that a confrontation with Germany over economic policy is a possibility. While China is increasingly refraining from monetary interventions and is shifting its economic model toward domestic demand, Germany still benefits from a low exchange rate of the euro and continues to rack up record trade and current account surpluses. Although this is not a result of German monetary intervention, it could be argued that Germany’s reluctance to address Europe’s lackluster demand by allowing for a more stimulative fiscal policy has left the European Central Bank (ECB) with a quasi-political mandate for monetary easing in order to guarantee the sustainability of European government debt and survival of some of Europe’s largest banks.

Aside from singling out Germany in a newspaper interview, President Trump’s comments also pointed to the automobile industry as a potential area for transatlantic trade disputes — despite the fact that BMW, a German company, is the largest exporter of cars from the United States.<sup>28</sup> In order to preserve or return manufacturing jobs in the United States, President Trump has threatened a tax of up to 35 percent for companies currently taking advantage of provisions in NAFTA that allow them to produce cars for the U.S. market in Mexico.<sup>29</sup> The economic impact of a transatlantic confrontation over cars would be significant for Europe, as

26 Mance, Henry/Donnan, Shawn/Shotter, James 2017: Donald Trump takes swipe at EU as ‘vehicle for Germany’, *Financial Times*, January 15, 2017: <https://www.ft.com/content/1f7c6746-db75-11e6-9d7c-be108f1c1dce>.

27 Donnan, Shawn 2017: Trump’s top trade adviser accuses Germany of currency exploitation, *Financial Times*, January 31, 2017: <https://www.ft.com/content/57f104d2-e742-11e6-893c-082c54a7f539>.

28 Isidore, Chris 2017: Despite Trump’s latest threat, BMW won’t budge on Mexican plant, CNN, January 16, 2017: <http://money.cnn.com/2017/01/16/news/companies/trump-bmw-mexico/index.html>.

29 Taylor, Edward/Rinke, Andreas 2017: Trump threatens German carmakers with 35 percent U.S. import tariff, *Reuters*, January 17, 2017: <http://www.reuters.com/article/us-usa-trump-germany-autos-idUSKBN1500VJ>.

the automotive industry is responsible for 4 percent of European GDP and 12 million jobs in the EU.

## Conclusion

Despite the remaining uncertainty regarding the exact shape of future U.S. economic policy, it seems evident that the new president and his team are intent on altering global economic relations according to a more narrow definition of U.S. interests. The key features of this approach will be an emphasis on bilateral negotiations, in which the United States is likely to have more leverage, and the willingness to include the full spectrum of U.S. influence in negotiations. For the European Union and its member states this cannot be beneficial.

While there may be some short-term benefits for European economies, if stimulative measures are successful in raising growth rates in the United States, these are offset by significant downside risks as a result of heightened and lasting uncertainty, the diminished importance of rules-based international systems, and increased chances of direct trade disputes. The EU’s ability to react to these challenges will depend on its capacity to maintain unity going forward and to mend and curtail existing divisions, for example by allowing for more flexible solutions to tackle continuing economic problems.

The views expressed in GMF publications and commentary are the views of the author alone.

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## About the Europe Program

GMF's Europe Program engages in the discussion on the drivers of disintegration and integration in the European Union and explores the implications of these developments for the transatlantic partnership. GMF further contributes to the policy debate on the future of the EU through its research, convening, and networking activities.

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