CHIEF ECONOMIST'S COMMENT

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Trump's trade policy: all risk and no fun

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Since his inauguration on 20 January, the US President Donald Trump has signed a flood of executive orders and thus given his supporters, at least, the feeling that he is actually implementing the platform he had campaigned on before the election.

On the issue of trade policy, however, he has remained rather vague, despite the fact that he considers the flow of goods from other trading nations to be manipulated to the detriment of the United States. These economic "enemies" include all countries that export more goods to than they import from the United States. In terms of US dollars, these countries are China, Mexico, Germany, Japan and Canada. It was no surprise, then, that he announced the United States' withdrawal from the Trans-Pacific Partnership immediately upon assuming office, an action which was primarily aimed at hitting Japan. In addition, with an eye to Mexico, he also wants to renegotiate the North American Free Trade Agreement (NAFTA). However, so far there has been no sign of any details of this.

Interestingly, Donald Trump has noticeably toned down his aggressive rhetoric against China. Firstly, although he had originally announced he would identify China as a currency manipulator on his "first day" in office, this has not happened yet, despite the fact that – at least as far as the last two years are concerned – this accusation was unjustified. Secondly, the new government has not yet announced any specific measures to restrict trade. Apparently, Trump wants to talk to the Chinese first. This comparatively moderate approach could be related to the harsh reaction by the Chinese government. Perhaps it is down to the close business relationships that his daughter maintains with China. In any case, it is not a clear strategy on trade policy.

On the other hand, Germany seems to be emerging as "enemy number one" in terms of trade. After all, in all large classes of goods there is a trade deficit in Germany's favour. With a volume of 107 billion euros (2016), the United States is the most important export market for Germany. This also applies to the State of Hesse, where the 12 % share of exports destined for the US is even higher than the national German average (9 %). While vehicles and vehicle parts account for 28 % of exports in Germany as a whole, pharmaceutical products, with a share of 45 %, play a particularly important role in Hesse. In this respect, the direction of Trump's trade policy in the medium term will be absolutely critical to Germany as a whole and to most of its federal states.

Meanwhile, the idea of a "big border tax", the shape of which has so far been sketchy, overshadows everything. But its aim is unmistakable: to encourage domestic and non-US companies to manufacture in the United States, in order to create jobs there. However, for the USA there would be risks associated with trade restrictions such as these: prices there would almost certainly rise, which would particularly hit lower income groups. US companies would be faced with higher production costs, because intermediate goods could no longer be obtained cheaply from abroad. Furthermore, these measures would be highly unlikely to conform to World Trade Organisation (WTO) rules and the United States would be faced with fines or countermeasures by other countries. In this sense, it can only be hoped that Donald Trump's noisy ranting dies down and he refocuses his attention to real American values: peace through free trade and democracy – a combination that has led to lasting prosperity in the United States, too. ■