

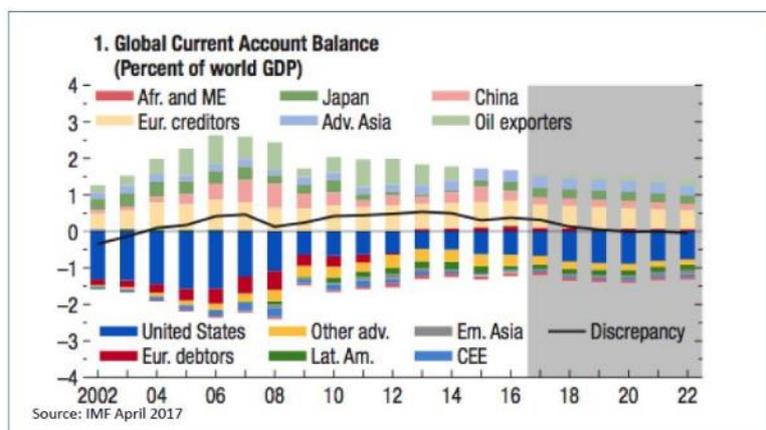
# PRESIDENT TRUMP’S VESTED INTEREST IN A STRONG EURO-AREA

Carlo Bastasin

The recent forecasts on global trade of goods and services highlight the persistency of the US trade deficit. The American current account imbalance is actually expected to widen in the coming years.

We are used to considering China as the antagonist piling up trade surpluses and triggering political reactions in Washington that have brought wide support for a more protectionist agenda and led to the election of Donald Trump. China has indeed increased significantly its bilateral surplus along the past decade. However, according to the IMF forecasts reproduced in the graph below, China’s current account surplus is bound to fade down the road.

Fig 1



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Europe, on the contrary, will keep on having relevant current account surpluses for the foreseeable future. Given the political shockwaves that trade has caused in the US, it seems appropriate to ask whether similar tensions may develop around a presumably contentious trade relationship between the US and Europe as a consequence of their permanent bilateral imbalance.

Fig 2

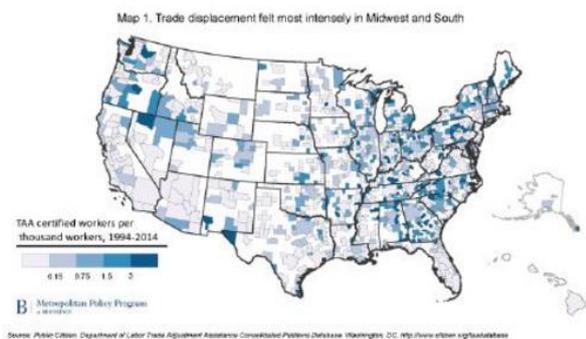
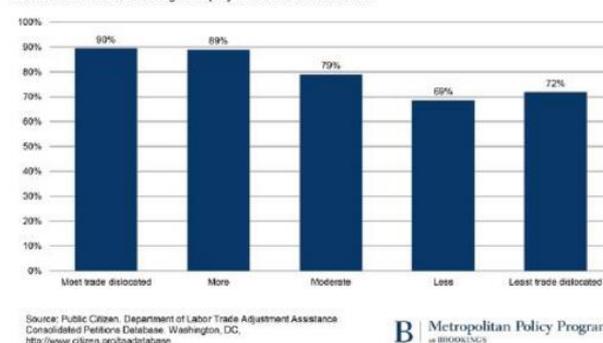


Figure 3. Communities most impacted by trade dislocation voted for Trump

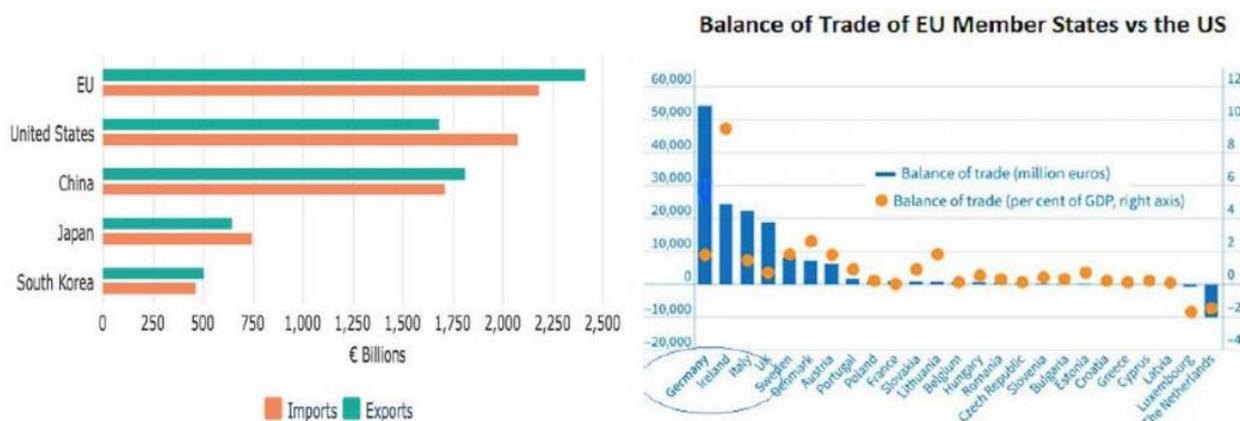


Trade had, and presumably will keep having, a strong impact on the US electors' political choices. The map elaborated by colleagues at the Brookings Metropolitan Policy Program show that between 1994 and 2014 – the two decades coinciding with the surge of Chinese exports to the US – trade has caused huge displacements, loss of jobs and closure of production plants, particularly in the Midwest and in the South. In those regions the percentage of certified workers assisted by the TAA (Trade Adjustment Assistance) is particularly high. Significantly, the right-hand panel in the same graph shows that those communities that were more impacted by dislocations ended up voting for the new President and his protective agenda.

If a trade controversy with Europe is going to emerge, it might take the form of bilateral accusation against single EU member states. Although the European Union has unique competence over trade issues of member states and deals for the Union, as its sole decision maker, it may not be acknowledged as such by the American Administration. In fact, President Trump so far has framed trade controversies in bilateral terms.

In that case single European countries would be more exposed to American reprisals than others. The right-hand panel in the graph below shows that Germany and Italy would be the first on the line (Ireland has a surplus but mostly due to fiscal reasons that the American side is taking care of differently).

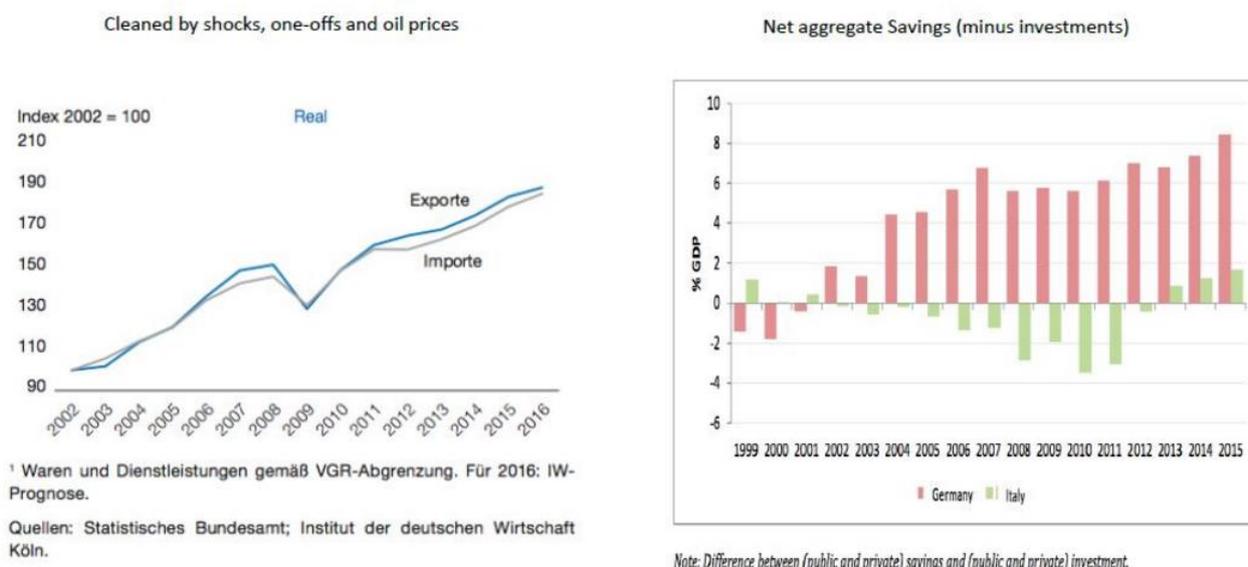
Fig. 3



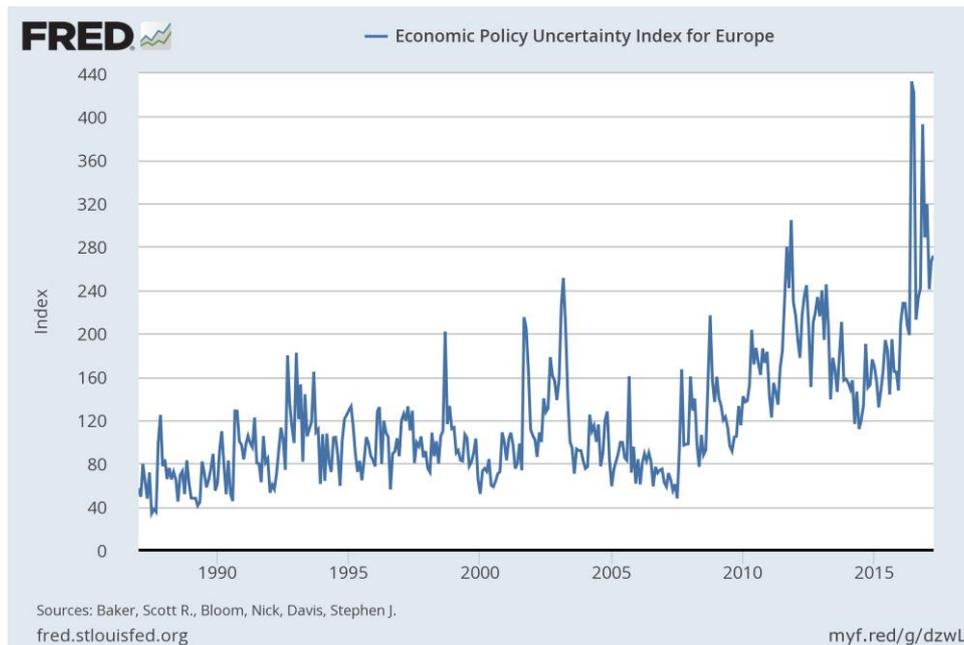
Source: Eurostats, WTO

For both Germany and Italy the current account surplus has to do with the level of net aggregate savings as shown here below in the right-hand panel (Fig 4). In other terms, both countries tend to save more than they invest. The left-hand panel in Fig. 4, elaborated by the Institut der Deutschen Wirtschaft, shows that the behavior of German households and firms is not anomalous. There seems not to be a preference for consuming national goods, as imports track exports closely once “special factors” are factored in, and, more precisely, when one-off events are taken account of such as the effects of exogenous variations of oil prices on imports. In other terms, the behavior of German economic actors is influenced by shocks that induce firms and households to pile up precautionary savings which levels never recede. Fears of instability accumulate and are rarely absorbed. This is probably one of the strongest reasons the current German account surplus is constantly increasing.

Fig. 4



Over the last years, the shock that has had the greatest impact in Germany and Italy has been the fear of a collapse of the euro and of the European Union. The Policy Uncertainty Index shows very clearly an increase in uncertainty coinciding with the major episodes of European crisis: Greece in 2010, Spain and Italy in 2011-12 and finally the Brexit referendum in 2016.



The conclusion is rather simple, albeit surprising for someone. If Washington and Europe have a mutual interest in avoiding trade disputes, then they also have a common interest in strengthening European integration and to avoid encouraging its disruption, as in the past President Trump has been tempted to do.