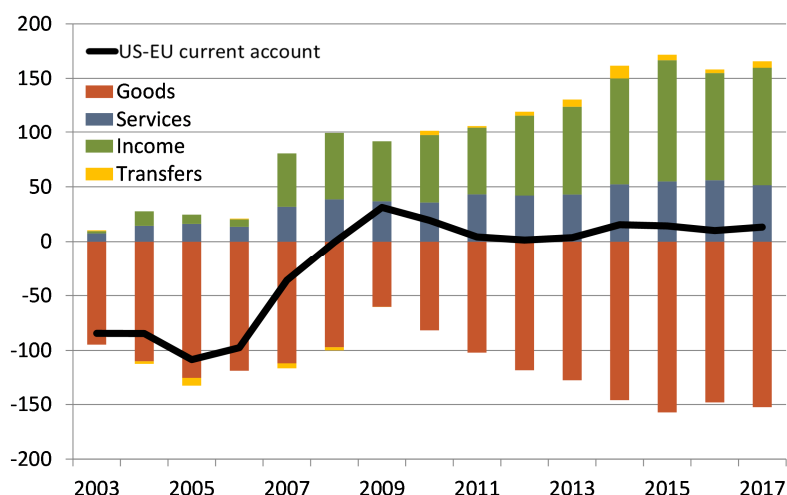


6 July 2018

Trade: how Trump gets Europe wrong – six times over

Who has the surplus? Bilateral US current account balance with the EU



US current account with the EU, overall balance and key components, annual data in billion US \$.
Source: US Census Bureau, Haver Analytics

- **Tit for tat:** By imposing tariffs on \$34bn worth of US imports from China today and eliciting an immediate like-for-like response from China, US President Donald Trump is bringing the world close to a genuine trade war. Escalating trade tensions pose a major risk to our positive [outlook for the global economy](#) and global markets. Trump's threat to invoke "national security" reasons to levy tariffs on car and car-part imports from the EU suggests that the EU may be next. Judging by his rhetoric, he gets key issues wrong on at least six counts, though.
- **1) If China poses a problem, why not join forces with the EU?** In his dealings with China, Trump has half a point. China ought to change some of its practices, including its penchant for forced technology transfer and its habit of discriminating against foreign companies. These legitimate concerns do not apply to the EU. Unfortunately, Trump seems to have rejected the original EU offer to jointly lean on China to mend its ways.
- **2) Can trade barriers reduce a US deficit in a meaningful way?** No, not really. The US current account deficit of 2.3% of US GDP in 2017 is not the result of supposedly unfair practices of trading partners. Instead, it reflects (i) the US appetite for imports as US final domestic demand expands rapidly, and (ii) the fact that the US invests more at home than it saves. Short of actually halting imports, US trade barriers will not change these factors very much.
- **3) Does the EU run a surplus with the US?** Trump complains about some German cars cruising down Fifth Avenue. Although half of those cars may be built in the US, the US indeed imports more goods from the EU than it sells across the Atlantic. But that is only half the truth. The US goods deficit is offset by a small surplus in services and a big surplus in income (largely from the Netherlands where some US companies seem to pool their EU-wide profits). As our chart shows, the US has run a small **current account surplus** with the EU since 2009. What Europe earns by selling goods to the US, it spends on licensing fees for US technology and on US services. Nothing unfair here.
- **4) Is the EU refusing to cut tariffs on US exports?** Trump complains that EU tariffs are high. For cars, that is true. For trucks, it is the other way round. On average, EU tariffs are close to those of the US. In 2017, Trump rejected the TTIP deal that would have abolished almost all tariffs between the US and the EU. He can only blame himself.
- **5) Talk to Brussels, not Wolfsburg:** Trump's ambassador to Berlin, Richard Grenell, has reportedly offered German car companies to mutually abolish all car tariffs. But "divide and rule" will not work. On trade, only the EU can and will strike deals, not Berlin. In its reaction to trade tensions, the EU seems more united than on most other issues.
- **6) Can the US bully the EU on trade?** The EU is no force in global politics. But its sheer size makes it the top trading power of the world. As a result, the EU is less inclined than any other region to give in to trade threats. A well balanced deal to liberalise US-EU trade is possible, but only if Trump's advisors start to understand the EU.

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