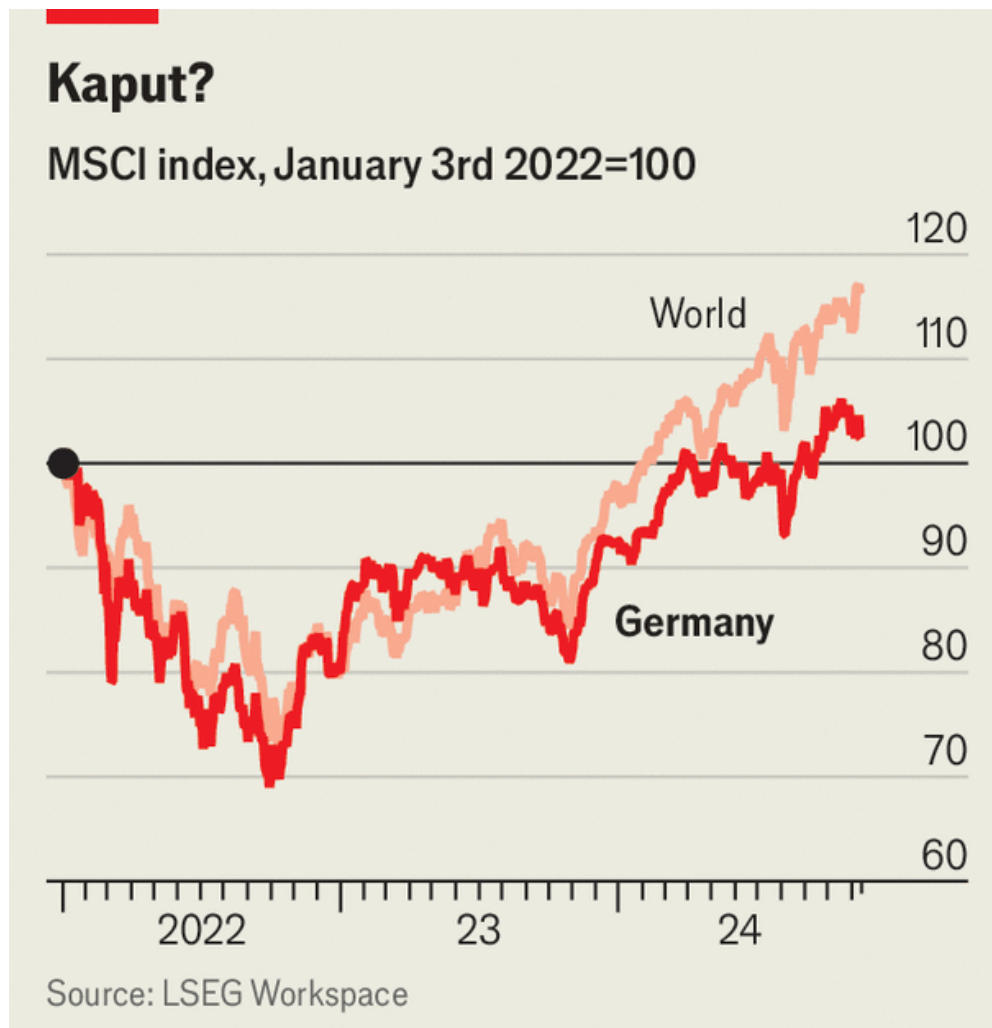


Donald Trump is bad news for German business

German bosses can't catch a break. Since Russia's invasion of Ukraine nearly three years ago their firms have been pummelled by surging energy prices, slowing demand in [China](#), stiffening competition, fractious workers and a dysfunctional (though soon to be ousted) government. Shares in German companies have risen by just 2% since the start of 2022, compared with 16% for those in rich countries as a whole (see chart). Now they are wringing their hands over [Donald Trump](#)'s return to power.



German businesses have much at stake. America is by far their biggest export market. Last year Germany shipped \$160bn-worth of goods there, and imported \$77bn-worth

in return. Only China, Mexico and Vietnam have larger trade surpluses with America. That will put German businesses squarely in Mr Trump's protectionist cross-hairs. Shortly after the American election the bdi, Germany's main industry association, warned that, with Mr Trump back in the White House, "the tone will become harsher and the protectionist course will consistently be pursued." The Ifo Institute for Economic Research in Munich has estimated that German exports to America could drop by as much as 15% if the president-elect sticks with his promise of slapping a tariff of 10-20% on all imports.

Germany's bosses may take solace from three things. The first is that Mr Trump often blusters, and much of what he has said will not come to pass. "Nobody knows what lies ahead with the *Wundertüte* [bag of surprises] Trump," says Michael Hüther, head of the German Economic Institute, a think-tank in Cologne. In 2018 Mr Trump imposed tariffs on European steel and aluminium, but he stopped short of a wider trade war with the continent. A 25% tariff on European cars that he threatened during his first term was never imposed.

However hard Germany is hit with tariffs, China is bound to be hit harder still—a second source of consolation for Deutschland AG. Mr Trump has spoken of imposing a 60% levy on imports from China, which compete with those from Germany in industries ranging from white goods to machinery. German goods should also become relatively more attractive to customers in America as the dollar strengthens, thanks to expectations that a Trumpian cocktail of tariffs and tax cuts will rekindle inflation and keep interest rates elevated.

Perhaps the biggest source of comfort, at least for some German businesses, will be the investments they have already made to manufacture more of their wares in America. Lured by the country's relatively cheap energy and the lavish subsidies on offer through the Inflation Reduction Act, German companies announced almost \$16bn of investments in America last year, roughly double the previous year's level and far in excess of the \$6bn they pledged to China, according to fDi Intelligence, a data provider. Investments in America accounted for 15% of the total by German businesses abroad in 2023, compared with 6% the year before.

On the campaign trail Mr Trump declared, “I want German car companies to become American car companies. I want them to build their plants here.” They have already done that. Last year German carmakers manufactured 900,000 cars in America, half of which were exported, according to the vDA, a lobby group for Germany’s auto industry. That is more than double the 400,000 they exported to America. BMW employs 11,000 people at its plant in Spartanburg, South Carolina—one of its largest. Mercedes-Benz has 6,100 workers at its factory in Tuscaloosa, Alabama. Volkswagen employs 5,500 in Chattanooga, Tennessee. It would be costly to reconfigure these plants to replace imported models hit by tariffs, but doing so could help lessen the blow (though not for workers back home or in Mexico, where a number of German carmakers also have factories). The day after the election Oliver Zipse, the boss of BMW, mused that American tariffs may even give his firm an advantage over rivals thanks to its large footprint in the country.

Germany’s smaller manufacturers, collectively known as the *Mittelstand*, will not be so lucky. Few of them have the scale necessary to set up a factory in America. Germany’s machinery industry exports around 14% of its production to the country, says Karl Haeusgen, chairman of Hawe, a maker of hydraulic pumps, who used to lead the association of machinery makers (VDMA). Roughly 90% of the VDMA’s member firms have fewer than 250 employees. Germany’s bosses are right to worry about the return of Mr Trump—but some stand to lose more than others.