



## MEMORANDUM

November 2016

The American Council for Contemporary German Studies held a half day conference last week at the offices of Deutsche Bank.<sup>1</sup> Here are the main points.

### TRADE:

For President Trump, renegotiating NAFTA is a high priority. But if the US wants to withdraw from NAFTA, it is a long process, starting with 6 months' notice. It will take years to undo.

TPP and TTIP have no chance in their current forms. The US may engage in some small, bi-lateral trade negotiations, such as with the UK, Japan or Viet Nam. Any treaty with the UK must await its having left the EU. There will be no big deals. Anything "big" and international is bad. Germans say the pivot to Asia was a bad idea. But we see what China is already doing to fill the vacuum Trump will leave in the Pacific.

China's trade with its regional partners is declining. The Chinese want a deal with Trump; they think they are smarter than he is.

Jeff Sessions (Senator from Alabama, nominated to be Attorney General) is critical of China's currency policies and Trump is likely to declare China to be a currency manipulator under WTO rules. Americans have gotten used to inexpensive, good quality Chinese products.

### US ECONOMY:

Trump might be able to pay for his infrastructure stimulus by using lower taxes to entice US companies to repatriate profits held abroad. But note that infrastructure programs do not necessarily stimulate growth long term. The money has to be spent across all congressional districts, so it is not so productive. [I have also heard it may be spent in the form of tax credits, thereby privatizing these projects. Americans will end up "renting" the improvements and paying for them with fees.]

Tax reform is high priority generally. Republicans need only 50 votes [51?] if the tax program is limited to 10 years. This is how the Bush tax cut went through. Chuck Schumer (Democrat Senator from New York) is also interested in tax reform.

Short term, the dollar will strengthen against the Euro, possibly to 1-1. This will help German exports.

### INTERNATIONAL MEETINGS:

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<sup>1</sup> Although there was no announcement that the meeting was "off the record," I will not attribute the comments to any of the panel members. It should be enough to know that they were all experienced observers of Washington or the trans-Atlantic scene.

At the G-7 economic summit in Sicily March, 2017, Trump will claim that he has done his share for the world economy by getting his stimulus program through. The rest is up to other countries. Europe needs to clean up its banks' balance sheets. Trump can't do anything about that. The G-20 will meet in Hamburg July 7-8.

The G-20 growth initiative begun in 2009 has "drifted into irrelevancy." Recent financial efforts are regional. Brexit is a significant even in the world economy.

In international affairs as in economic, Trump needs to show his constituency that he is carrying out his promises. Any initiative must be framed in a way so that he can tell them he is fighting for them and winning.

#### US POLITICS GENERALLY:

Trump ended two ruling dynasties, one in each party: first the Bush family and then Bill and Hillary Clinton. This leaves a very new situation in which all issues can be re-examined. Both parties have to examine their makeup. Trump essentially organized a hostile takeover of the Republican Party (with years of help from the Tea Party, which the Republicans welcomed.)

Washington, DC has panicked. No one expected a Trump victory. Indeed, many thought the Democrats would be the majority in the Senate and win more seats in the House than they did. The Republicans will have internal troubles because Trump is not consistently small-government or debt-focused. He intends big defense and infrastructure spending, with little attention to how to pay for the expenditures. Congress will have to raise the debt limit about July, 2017. Republicans will have to negotiate among themselves. Some Republicans are pro-trade.

Many Republicans are happy the Democrats can block legislation, so the Republicans can blame them.

#### IMMIGRATION:

Faced with resistance from Congress, Obama ruled largely by executive order. Trump can reverse them without Congress. The ones on immigration and climate change will be the first to go.

The US has not taken many asylum seekers, but the US does provide 40% of the UN's immigration budget. How much will a Trump administration pay? Senator Sessions spoke to a delegation of the Atlantik Bruecke earlier this year, mainly about immigration. He's against it.

#### OBAMA:

Germans loved Obama and had great hopes for him. They were disappointed. They don't like Trump, but could be positively surprised. [Not my prediction.]

There was an initiative to change the voting formula for the IMF. Obama did not get this done and now Trump will not consider it. The other IMF members are upset that Obama did not accomplish this.

Helmut Schmidt did not like Jimmy Carter. When Ronald Reagan was elected, Schmidt arranged a final meeting with Carter, so he could go to Washington then meet with President elect Reagan. Merkel lost this opportunity when Obama visited her last week in Berlin.

#### INTERNATIONAL AFFAIRS GENERALLY:

Trump has said he likes the UN, but his UN Ambassador will not be cabinet level as Obama's was. John Bolton has been mentioned.

Renegotiating the Iran deal will not be easy. Now Iran has the money. The leverage is gone. The other countries that imposed sanctions will not re-impose them.

Trump will have an effect on 2017 elections in the Netherlands, France and Germany. They all have populist movements. If Trump is reasonable, they will say "See, it is not so bad." If it *is* bad, then the US will be alienated from the EU. Russia and China will like that.

In negotiating with Putin, Trump needs to be sure other countries do not think he is "negotiating over their heads." Do sanctions really have effects or just make the West feel good? Russians are very resilient, defiant in the face of sanctions.

As to Syria, the US should have been more involved. Putin would not take Holland and Merkel seriously. He wanted to deal with Obama.

#### THE US and GERMANY:

The US and Germany need to develop a new narrative of their relationship. The old ones based on the liberation, the Marshall Plan, the Berlin airlift, support for reunification - these are all old and not persuasive.

Trump's support for torture goes against German [and my own] need for values, the need to believe Germans are good. [John McCain argues that torture does not work. This detracts from the moral argument.]

Only recently has Ms. Merkel said anything about Germany's defense budget. For most of her 11 years, it has not been an issue. [I just happened to read that prior to the fall of the wall it was 25% of the West German budget. The number of Germans in the military has dropped from 500,000 to 170,000.] Trump has made German and Japanese "freeloading" on US security a major issue.

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