

Trump, Brexit hit German growth, xenophobia also a threat

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BERLIN (Reuters) - Germany's BDI industry association on Tuesday lowered its 2018 growth forecast and warned of a potential downturn, citing weaker demand for German exports due to U.S. trade policy and Brexit, as well a threat to the economy from xenophobia at home.

The German economy is now expected to grow by 2.0 percent this year, down from a previous estimate of 2.25 percent, BDI President Dieter Kempf said. Exports will rise by 3.5 percent in real terms, below an initial forecast of 5 percent.

The predictions of slower growth were reinforced by Germany's economic institutes. Two government sources familiar with a report to be released later this week said the institutes would cut their 2018 forecast to 1.7 percent from 2.2 percent.

In an unusually strong intervention into domestic politics, the BDI's Kempf warned that the German economy could be hurt by a wave of nationalism, after violent protests in the eastern city of Chemnitz that followed a stabbing blamed on migrants.

"An allegedly homeland-loving nationalism that declares everything foreign an enemy is wrong," he said. "It poses a threat to the business model of our industry which is based on openness - and it's jeopardizing prosperity and employment."

"PREPARE NOW"

While Europe's biggest economy has been growing for nine years and could continue expanding, Kempf said it was urgent that Germans now take steps to prepare for the possibility of a downturn: "We have to take precautions - now."

FILE PHOTO: Aerial view of containers at a loading terminal in the port of Hamburg, Germany August 1, 2018. REUTERS/Fabian Bimmer/File Photo

The BDI called for lower corporate taxes, higher public investment in education and digital infrastructure as well as a completion of the European Union's single market by harmonizing rules in areas such as services, energy and digital business.

"The trade policy of U.S. President Trump, but also the approaching Brexit are dampening investment activity worldwide and with it German export business," Kempf said.

At its event in Berlin, the BDI hosted Chancellor Angela Merkel and World Trade Organization (WTO) Director-General Roberto Azevedo, both of whom spoke out strongly in defense of a trade system that Germany sees as threatened by U.S. policy.

Merkel told business leaders that the WTO was facing “huge challenges”, and criticized a U.S. decision to block the appointment of WTO judges: “If there are no new judges appointed, of course, that’s also an undermining (of the WTO).”

Azevedo said he was counting on Germany and the European Union to support efforts to safeguard the rules-based free trade order. “Of course, the system can be better, in fact it must be better,” Azevedo said, pointing to reform proposals to address trade-distorting practices.

The German economy, with its export-oriented manufacturing sector and an overall export quota of nearly 50 percent, faces a threat from global business and trade uncertainty, Kempf said.

China is Germany’s most important trading partner and the United States is its biggest single export destination. An escalating tit-for-tat tariffs dispute between Washington and Beijing is therefore hitting German exporters as well.

“The United States and China must urgently de-escalate the conflict,” Kempf said, adding it was high time to strengthen the WTO by modernizing its rules framework.

FILE PHOTO: BDI president Dieter Kempf addresses a news conference before the German Industry Day, hosted by the BDI industry association, in Berlin, Germany, June 20, 2017. REUTERS/Hannibal Hanschke

The German growth outlook is also clouded by an impasse in Britain’s negotiations with its European Union partners over the conditions of its departure from the bloc next March.

Kempf said there must be a breakthrough on getting a Brexit deal in the coming weeks to ensure a transition period that would give firms legal certainty until the end of 2020.

Britain still has to decide exactly what it wants out of negotiations with the EU on Brexit, Merkel said. The centre-right leader added that six to eight weeks of hard work lie ahead to reach a possible deal in October.

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