BDI

Public Comment

External Economic Policy

Comments Regarding Causes of Significant Trade Deficits for 2016 (DOC-2017-0003): Comments by the Federation of German Industries (BDI)

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About BDI

The **Federation of German Industries (Bundesverband der Deutschen Industrie, BDI)** is the umbrella organization of German industry and industry-related service providers. The BDI speaks for 37 sector associations, 15 regional offices, and approximately 100,000 companies with a total workforce of about eight million people. In Washington D.C, our liaison office the **Representative of German Industry and Trade (RGIT)**, represents the interests of German industry in the U.S. on behalf of its principals, the Federation of German Industries (BDI) and the the Association of German Chambers of Commerce and Industry (DIHK).

Executive Summary

Germany's trade surplus vis-à-vis the United States and other countries is a result of a variety of factors. These factors are market-driven and not the result of an explicit export-promotion strategy by the government or by the business community. They include the openness of Germany's economy, the competitiveness of German businesses and products, currency effects, a large foreign direct investment (FDI) position, as well as domestic factors like demographics, the low level of domestic investment, and a relatively high savings rate.

We believe that the U.S. trade deficit with Germany cannot and should not be addressed through trade-related measures. German businesses can contribute to a strong U.S. manufacturing base through investment, exports, employment, workforce development, and R&D activities, only because of an open and rules-based trade and investment relationship between the United States and Germany. The transatlantic trade and investment relationship is vibrant. Yet there are still barriers to trade on both sides of the Atlantic. Removing these barriers would further spur economic growth in the United States and Europe.

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The German economy is extremely open. German companies are deeply integrated in world trade and global value chains.

Germany's trade ratio, i.e. German imports and exports relative to its GDP, is at 84.4 percent (46 percent exports, 38.4 percent imports), compared to roughly 28 percent in the United States. Thus, Germany is not only a leading export nation, but also a leading import nation. The deep integration of German businesses in global value chains contributes to the high competitiveness of German businesses and products "Made in Germany". In transatlantic trade, the trade-weighted average of tariffs is at 2.1 percent in the United States and 2.3 percent in the EU. Thus, while average tariffs in the EU are slightly higher than in the United States, these differences are unlikely to contribute to the German surplus vis-à-vis the United States.

German companies contribute to a strong U.S. manufacturing sector.

German FDI in the United States is at $255 bn (2015), making Germany the 7th largest foreign investor in the United States. At the same time, U.S. investment in Germany is at $108 bn (2015). These investment flows underline the strong economic relationship between the two countries. According to the U.S. Department of Commerce, German companies and their subsidiaries account for 672,000 jobs in the United States, almost half of them in the manufacturing sector. Some of our companies are leading U.S. exporters. German business stands ready to further contribute to the strength of U.S. manufacturing. To that end, market access and strong transatlantic value chains are key.

The German economy is competitive because of a highly educated work force and a strong "Mittelstand".

The German system of dual apprenticeships plays a key role in workforce development. It is a highly skilled workforce, not cheap labor that makes German products attractive and competitive for global customers. In the United States, our companies have created cutting-edge dual apprenticeship programs in various professions and U.S. states, thus contributing to a highly skilled U.S. workforce, in particular in the manufacturing sector. This is especially true for SME companies of the German "Mittelstand". These companies are often highly specialized and world market leaders in their fields.

Domestic factors contribute to Germany's trade surplus. Most of these factors are not the result of political decisions or subject to political influence.

We recognize that a low level of domestic investment contributes to Germany's current account surplus. Currently, the ratio of public investments to GDP is at 2.2 percent in Germany compared to 2.8 percent in the Eurozone. Public and private investment in future-oriented and sustainable projects in Germany should therefore be increased. However, some factors cannot and should not be subject to public policy or political influence. This is, first and foremost, the value of the Euro, which is determined by the politically independent European Central Bank. Wage levels in Germany are by and large negotiated through collective bargaining between individual trade unions and employers' organizations and not politically induced. The high savings rate (17 percent for German households compared to 12.5 percent in the Eurozone) is equally not politically induced and will likely continue due to demographics. The demographic development itself cannot be altered by political decisions in the short-term. Over time, an aging society is likely to consume more and produce (export) less, thus having a potentially mitigating impact on Germany's trade surplus. Furthermore, the high export quota of Germany is favored by the high share of industrial production in German GDP.

Reference to Specific Questions

Assess the major causes of the trade deficit including, as applicable, differential tariffs, non-tariff barriers, injurious dumping, injurious government subsidization, intellectual property theft, forced technology transfer, denial of worker rights and labor standards, and any other form of discrimination against the commerce of the United States or other factors contributing to the deficit.

In transatlantic trade, average U.S. tariffs on industrial goods are at 3.2 percent, whereas average EU tariffs on industrial goods are at 4.2 percent. However, the trade-weighted average is at 2.1 percent in the United States and 2.3 percent in the EU. In addition, while 72 percent of EU tariff lines for industrial goods are between 0 and 15 percent, this is only true for 49 percent of U.S. industrial goods. Thus, while average tariffs in the EU are slightly higher than in the U.S., these differences are unlikely to contribute to the German surplus vis-à-vis the U.S. (Source: WTO Tariff Profiles, April 2017).

Non-tariff barriers (NTBs) play a larger role in transatlantic trade than tariffs. While it is hard to quantify NTBs, a study by the Centre for Economic Policy Research (2013) estimates that EU NTBs against U.S. goods exports account on average for 21.5 percent of total trade costs. In contrast, U.S. NTBs against EU exports account on average for 25.4 percent of costs. For services exports, the numbers are 8.5 percent (EU NTBs) vs. 8.9 percent (U.S. NTBs). These barriers are significant in some sectors and occur in an asymmetrical way. However, it is hard to argue that NTBs tip the overall trade balance in favor of Europe or Germany in a significant way.

In government procurement, the U.S. market is less open to foreign bidders than the EU market. An Ecorys Study (2009) estimates that a reduction of restrictions in government procurement could lead to annual welfare gains in Europe of $12.7 billion, while for the United States, the annual gains in national income would be around $1.2 billion. While these numbers need to be taken with a grain of salt, the dimensions indicate that NTBs in government procurement are much higher in the United States than in the EU (e.g. through "Buy-American-Rules"). In Germany, the granting of state subsidies to companies is severely restricted by EU legislation.

Injurious dumping, injurious government subsidization, intellectual property theft, forced technology transfer, or the denial of worker rights and labor standards are not part of the German business model and not a cause of Germany's trade surplus.

Assess whether the trading partner is, directly or indirectly, imposing unequal burdens on, or unfairly discriminating in fact against, the commerce of the United

States by law, regulation, or practice and thereby placing the commerce of the United States at an unfair disadvantage.

The German economy is one of the most open economies in the world. U.S. and other foreign companies are not discriminated against in the German market. In Germany, foreign investors are not confronted with unequal burdens compared to German companies.

Assess the effects of the trade relationship on the production capacity and strength of the manufacturing and defense industrial bases of the United States.

According to the U.S. Department of Commerce, German FDI in the U.S. is at $255 bn (2015), making Germany the 7th largest foreign investor in the U.S. Our companies and their subsidiaries support 672,000 jobs in the U.S., almost half of them in the manufacturing sector. German businesses contribute to a strong manufacturing base in the United States.

Assess the effects of the trade relationship on employment and wage growth in the United States.

According to the U.S. Department of Commerce, German companies employ about 672,000 workers in the USA (about 314,000 in the manufacturing sector). Manufacturing jobs are on average better paid than jobs in other sectors.

Identify imports and trade practices that may be impairing the national security of the United States.

The activities of German industry in the United States do not harm national security of the United States.

Which bilateral trade deficits are structural or cyclical rather than mercantilist-driven?

Germany's high external surplus is not a policy goal of German government. Germany does not influence the external value of the euro. The development of the exchange rate reflects the relatively weaker recovery in the Eurozone relative to the United States, transatlantic interest rate differentials, and different stages in monetary policy normalization. The German government has no influence on monetary policy decisions of the independent ECB.

The aging society of Germany, on the other hand, has a major influence on trade surplus. People save relatively much and many savings are invested abroad. Consumption and imports are correspondingly low. The trade surplus is partly due to the overhang of national savings on investments for capital export and the current account surplus. Because of this demographic reason, a fast reduction in the saving rate of private households is hardly to be expected. A noticeable increase in domestic demand, which would result in significantly higher imports of private households, can take several years of high wage agreements. The past three years have already had a corrective effect, but they have also become possible only because of the increasingly good labor market situation. A quick remedy is not possible as investment activity, wage developments (and private consumption), and the net position of the state are only gradually changing. Corrections could, in principle, occur more quickly over the exchange rate and/or the oil prices.

To what extent are non-market economies operating within a market-based system create trade imbalances?

This question does not apply to the German economy.

To what extent does chronic industrial overcapacity resulting from government subsidies affect the U.S. trade deficit?

This question does not apply to the German economy.

Have free trade agreements contributed to bilateral trade deficits and how?

There is no free trade agreement between the United States and Europe or Germany. Free trade agreements therefore have no influence on the trade balance between the United States and Germany. We strongly advocate for continuing talks about a transatlantic trade agreement, which would benefit both markets. Through the division of competences between the EU and its member states, Germany cannot negotiate trade agreements on its own. Therefore, such an agreement could only be reached between the EU and the United States.

To what extent have weak enforcement and dispute resolution mechanisms inadequately addressed trade issues that result in trade deficits?

The WTO is of great importance for the fair regulation of international trade. The application of dispute-settlement mechanisms or the implementation and enforcement of trade rules have no bearing on the overall trade balance between the United States and Germany. It is the WTO that settles trade conflicts, including those between the United States and the EU. So far, both sides of the Atlantic usually adhere to the findings of the WTO dispute settlement mechanism and are strong in the implementation of the rulings of its appellate body.

Are there any other factors related to trade deficits that the report should consider?

In addition to trade between Germany and the USA, the positive contribution of German industry to the U.S. economy by its high direct investment in the USA must be considered. German companies employ about 672,000 workers in the USA. 1.9 percent of the exports of the United States are made by German subsidiaries. 2.6 percent of private spending on research and development in the United States comes from U.S. subsidiaries of German companies. The German system of dual apprenticeships plays a key role in workforce development.

With regard to manufacturing and the defense industrial base (with specific focus on electronics, aerospace, avionics, materials, machinery, and equipment), com-

ments may address how the following requirements or practices of trading partners have affected opportunities for increased U.S. exports, profitability, and employment:

(a) Mandated coproduction and licensed production;

This question does not apply to the German economy. In Germany, there are no restrictions or obligations concerning mandated coproduction and licensed production.

(b) mandated subcontracting; counter trade;

This question does not apply to the German economy. In Germany, there are no restrictions or obligations concerning mandated subcontracting or counter trade.

(c) required technology transfer;

This question does not apply to the German economy. In Germany, there are no restrictions or obligations concerning technology transfer.

(d) required collaborative research and development;

This question does not apply to the German economy. In Germany, there are no restrictions or obligations concerning collaborative research and development.

(e) mandated joint ventures and intellectual property transfer; and

This question does not apply to the German economy. In Germany, there are no restrictions or obligations concerning mandated joint ventures and intellectual property transfer.

(f) required capital investments.

This question does not apply to the German economy. In Germany, there are no restrictions or obligations concerning required capital investments.

Annex: Brochure “German Business Matters”