

3rd FIW Round Table: Trump 2.0 – All Change?
WKO, Vienna, 20 January 2025

**FIW**Forschungsschwerpunkt
Internationale Wirtschaft

(Eastern) Europe's Dependence on the US

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So...he is back, and we have a problem



Our first problem: We are more dependent than ever



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Our second problem: Trump is off the leash this time

1. He will undermine the quality of US institutions.
2. He will (rightly) feel that he has a lot more power this time.

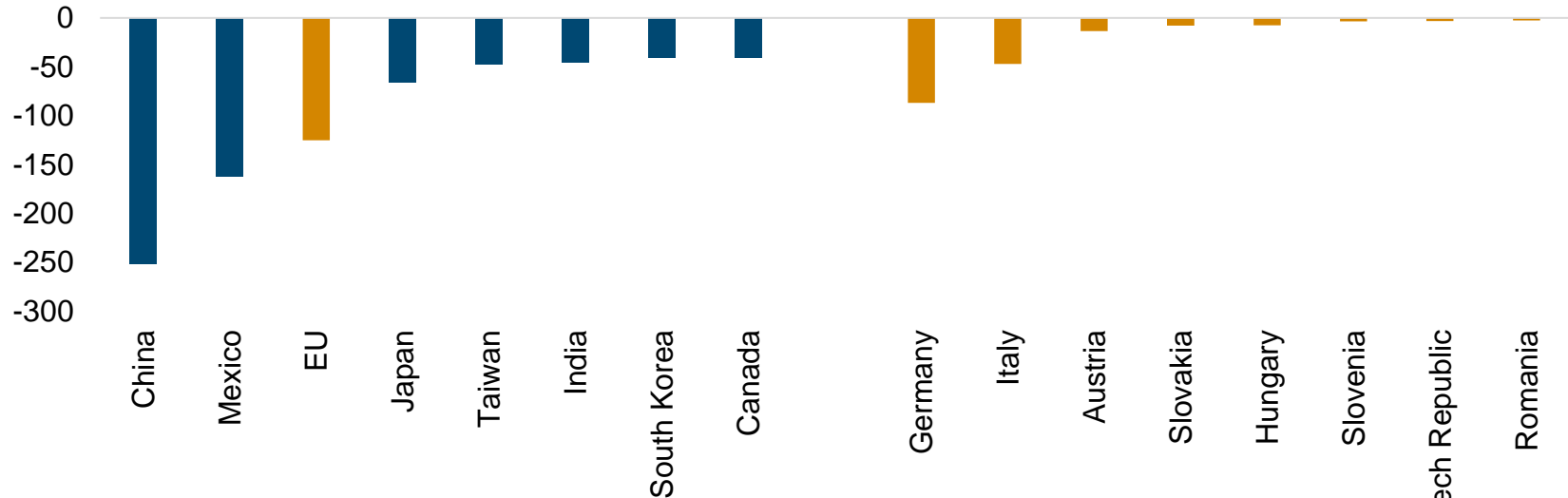


So he is likely to „achieve“ a lot more than he did in 2016-2020.

So concretely what could this mean for us?

1. Trade will be affected by tariffs

US trade deficit by partner, US\$ billion, 2023



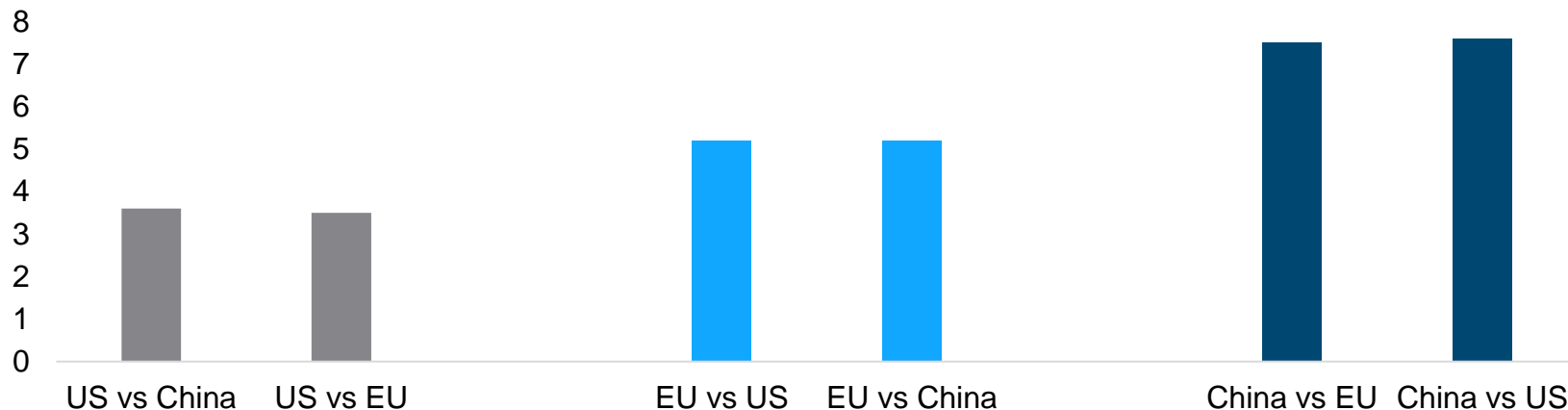
Source: BEA.

New tariffs will cause economic damage in Europe, especially via Germany.



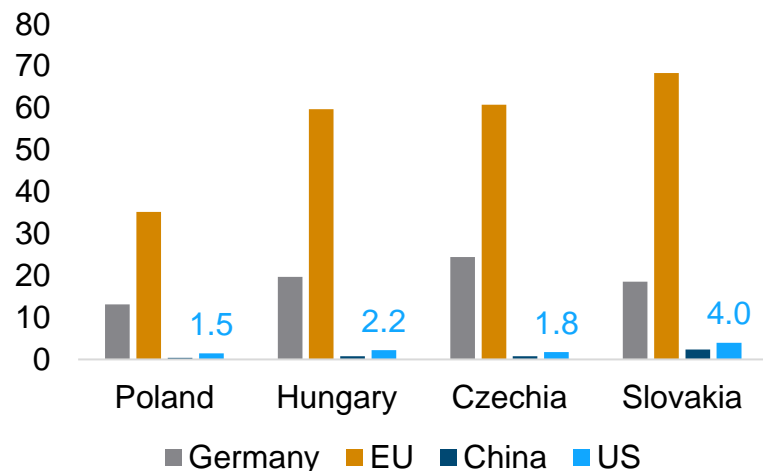
Even if the USA 'only' raises the tariffs for the EU and China to 10%, this would mean a tripling of the current level.

Current average tariff on goods, %

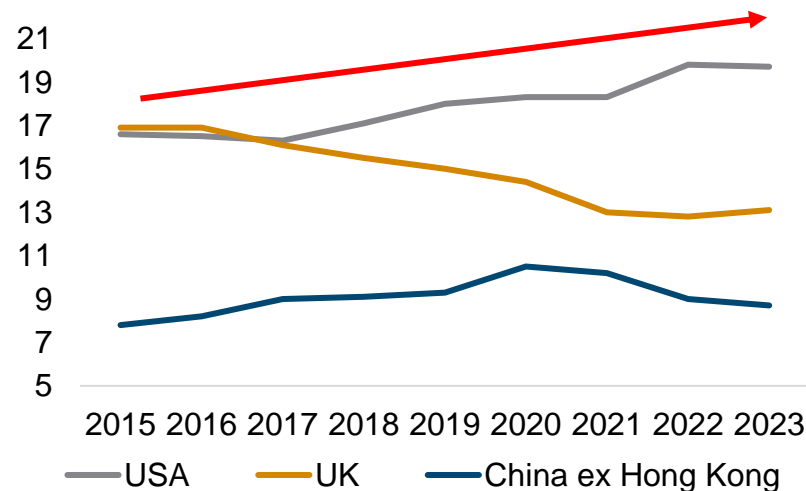


Overall income effects for the EU limited (-0.05%), but major negative impact on CESEE exports via Germany/EU

CESEE exports, % of total, 2023



EU Exports, % of total by value



As last time, who we send to Washington for the negotiations will probably be very important

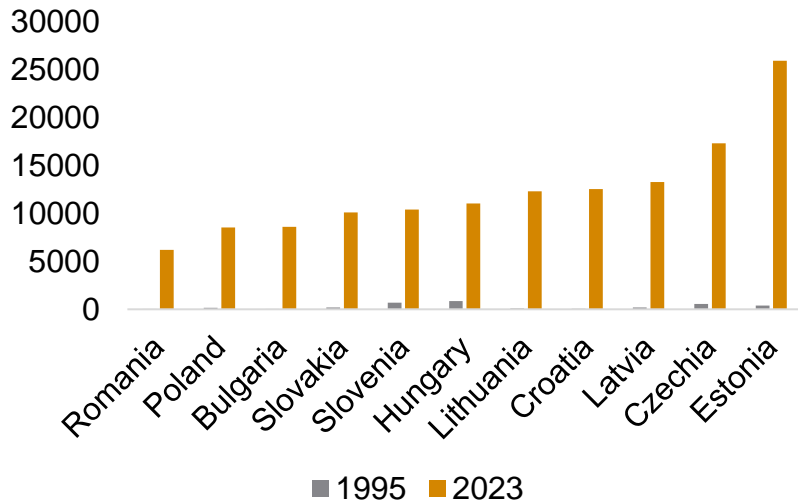


Fallout from US-China decoupling will be costly for businesses across Europe and CESEE

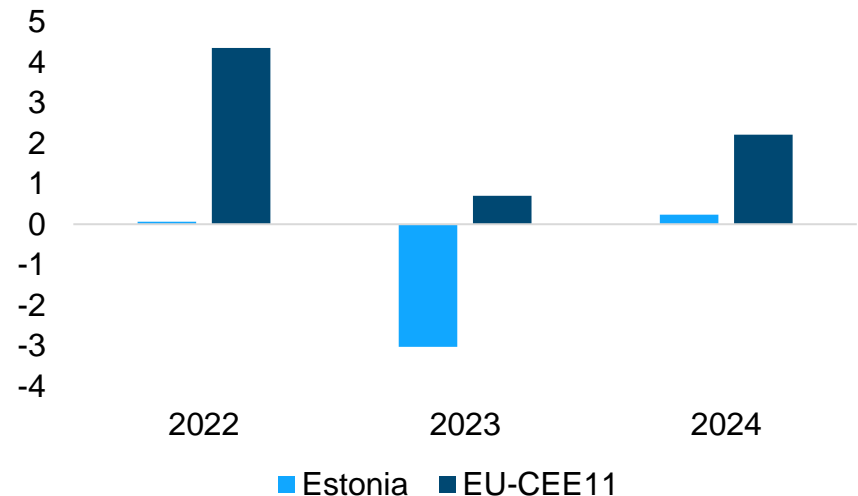
- **Hard decisions for firms** dealing with China and US.
- More **volatility** in input prices and shipping rates.
- Geopolitical fragmentation will probably exert **upward pressure on inflation**. No going back to long periods of almost no inflation.
- **Consumers** will have to make hard choices and will demand higher wages.

2. Security and investment: „Bad“ peace deal in Ukraine would probably hurt investor sentiment towards CESEE

FDI inward stock per capita, EUR



Real GDP growth, % per year



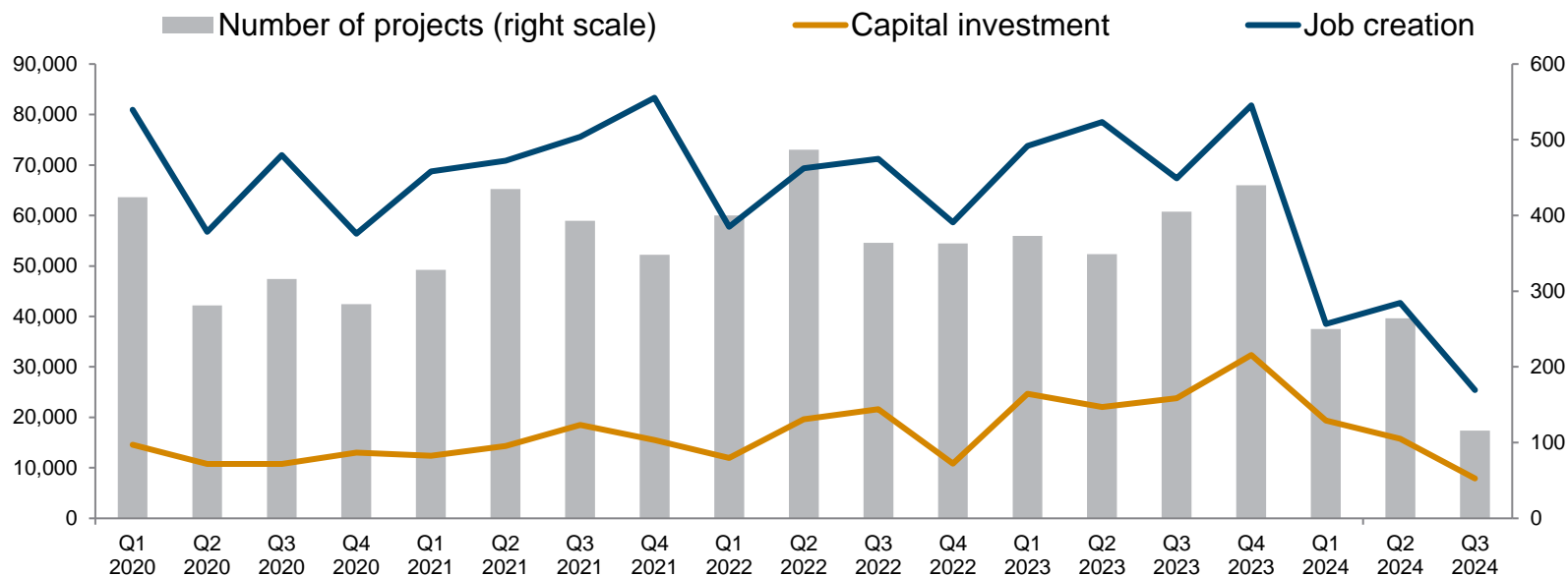
Sources: Eurostat, national sources, wiiw.

CESEE again a „contested space“? For some of the region, this is now a bigger risk

- **NATO** expansion has been an important part of the CESEE economic success story over the past 30 years.
- **Frozen and potential conflict zones** in CESEE feasibly include the Baltic states, Moldova, and parts of the Western Balkans.
- **End to the peace dividend**, with CEE countries spending more on defence and less on other things (not necessarily bad for business).

CESEE receives substantially less investment in Q1-3 '24

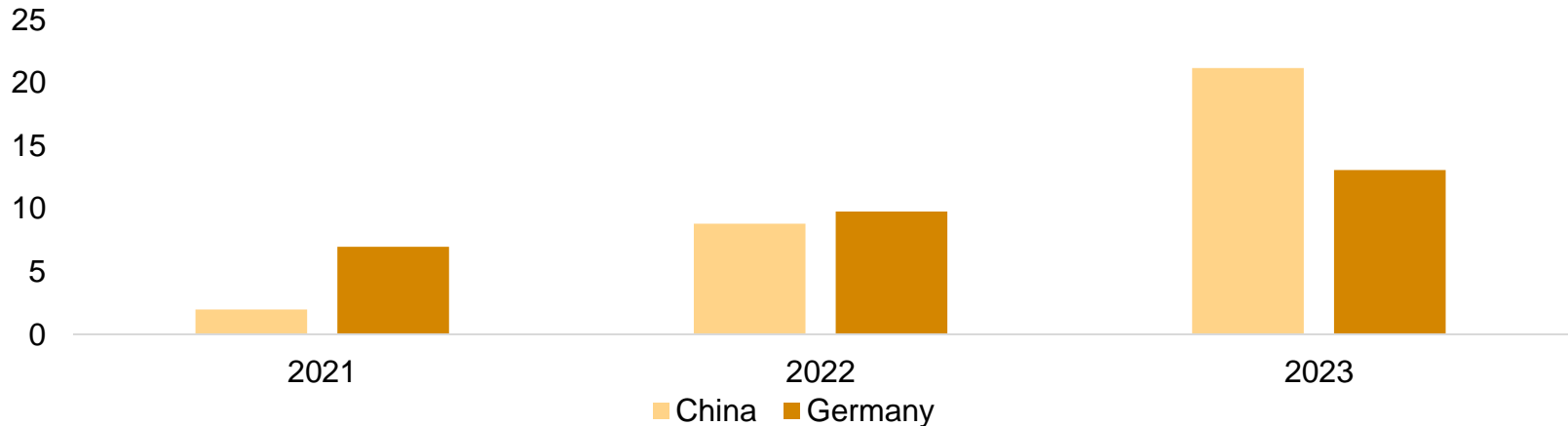
Greenfield FDI projects announced in CESEE: number of projects, pledged capital in EUR million and number of jobs to be created



Sources: FDI markets, wiiw.

This geo-economic competition is already playing out in and affecting CESEE: China easily overtook Germany as the region's main investor

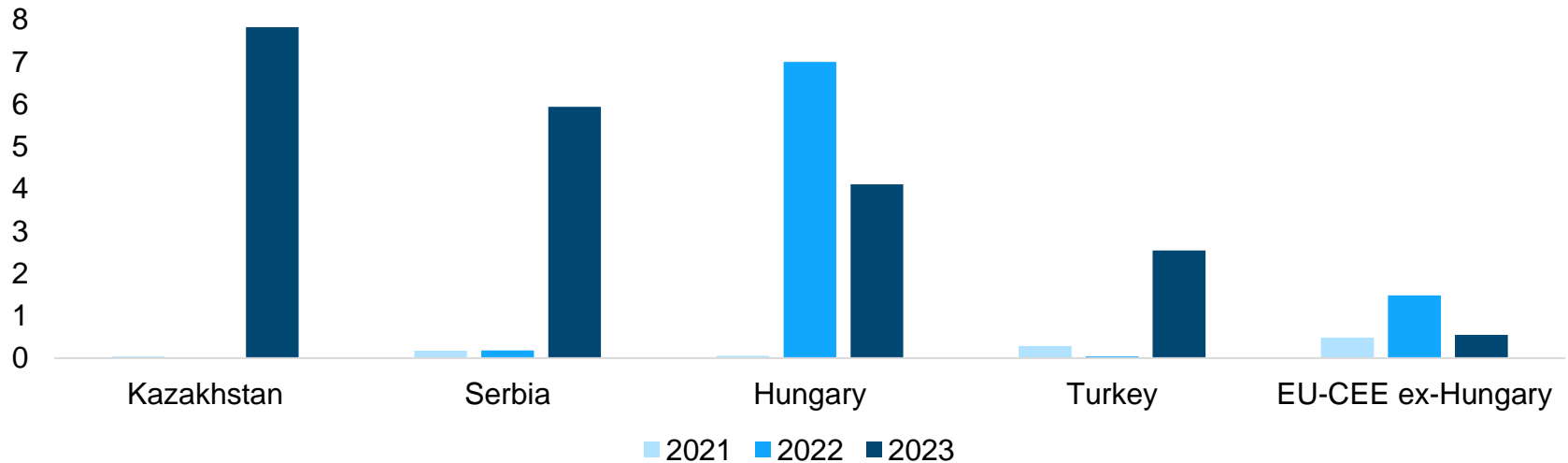
Greenfield investment in CEE by source, new capital pledged, EURbn



Sources: FDI markets, wiiw.

Chinese investments are *very* targeted and linked to geopolitics

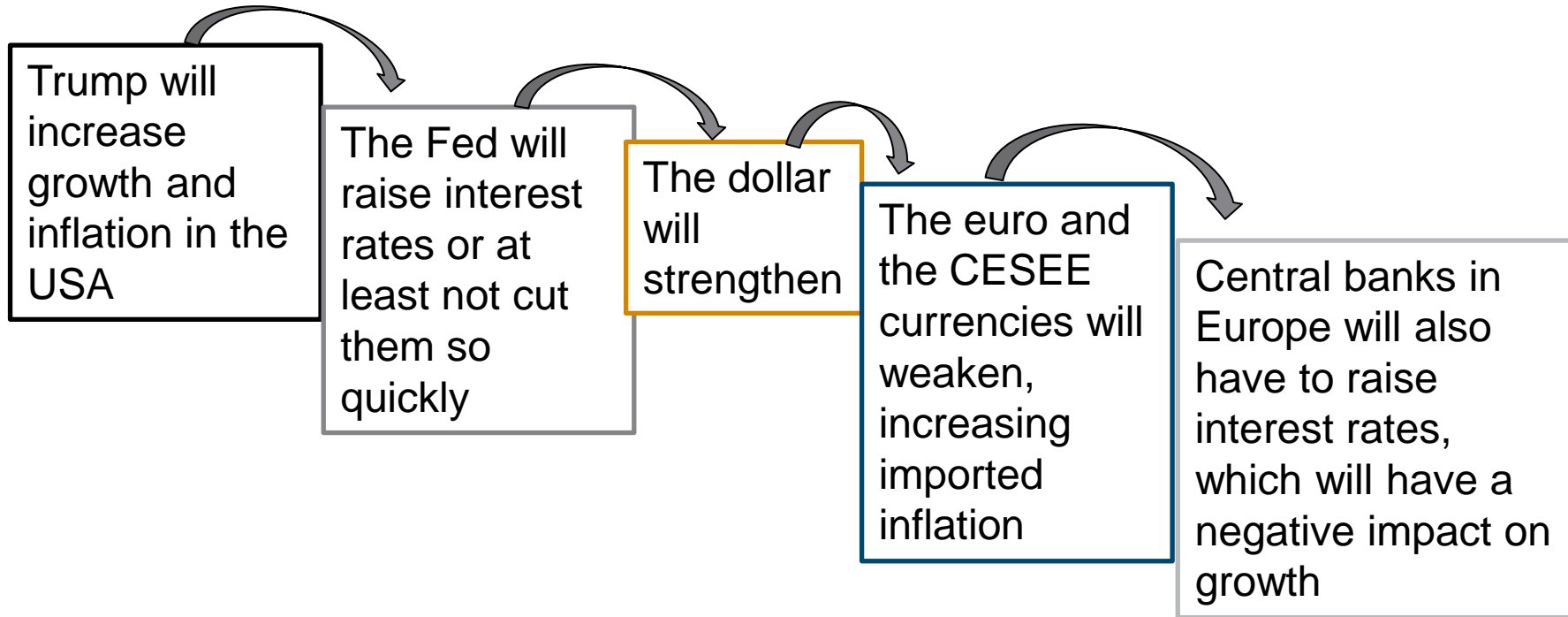
Chinese Greenfield investment in CEE; new capital pledged, EURbn



Sources: FDI markets, wiiw.

3. Stronger dollar and the return of inflation in Europe?

„Consensus“ expectations:



This scenario is entirely possible, but Trump wants low interest rates and could well try to influence Fed policy.

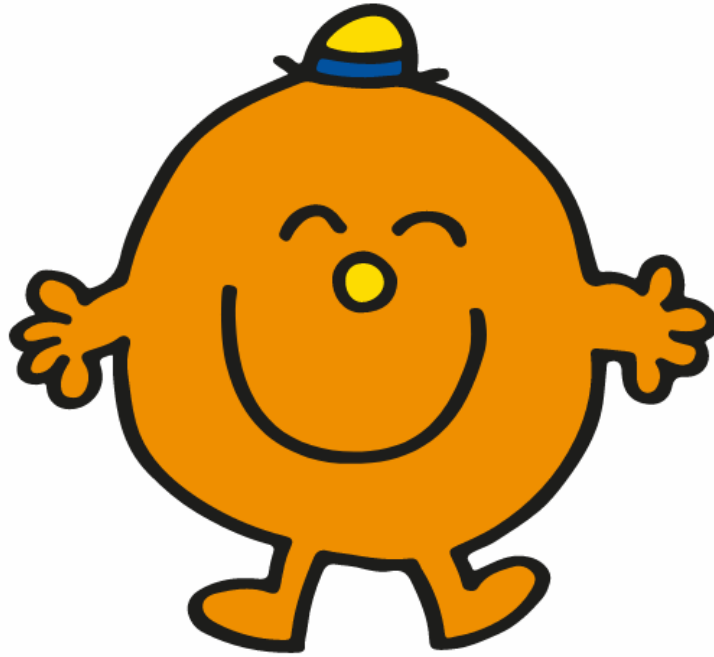
Donald Trump warned against meddling with the Federal Reserve's independence

Any effort by president-elect to interfere in interest rate policy could destabilise markets



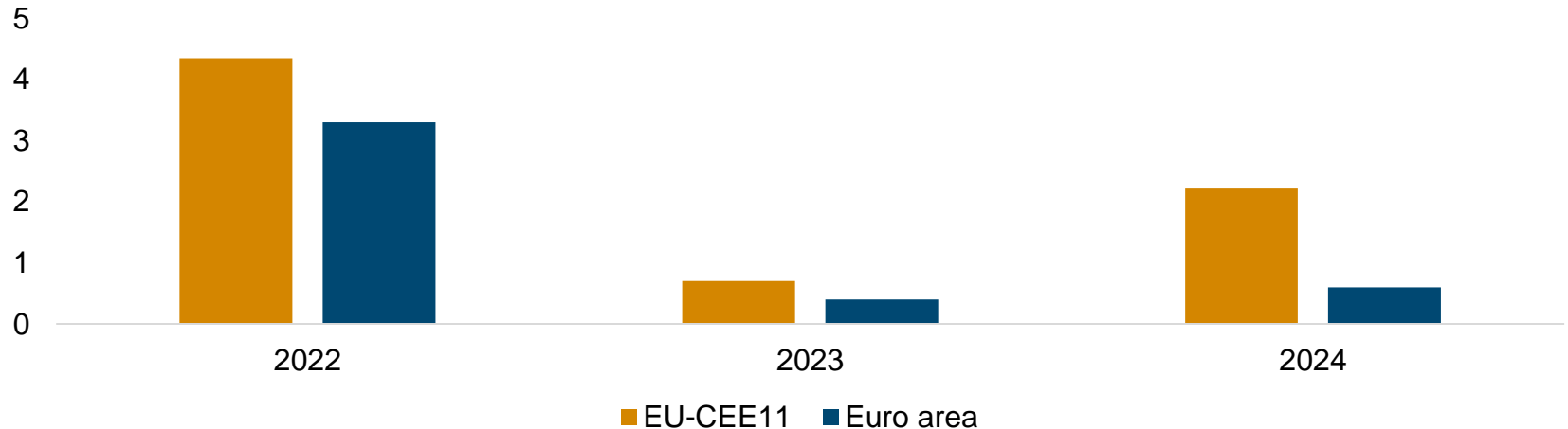
Donald Trump announces his nomination of Jay Powell to be Fed chair in the Rose Garden of the White House in 2017 © Bloomberg

Reasons to be cheerful?



1. Despite biggest war in region since 1945 and German industrial recession, CESEE again very resilient

Real GDP growth, % per year

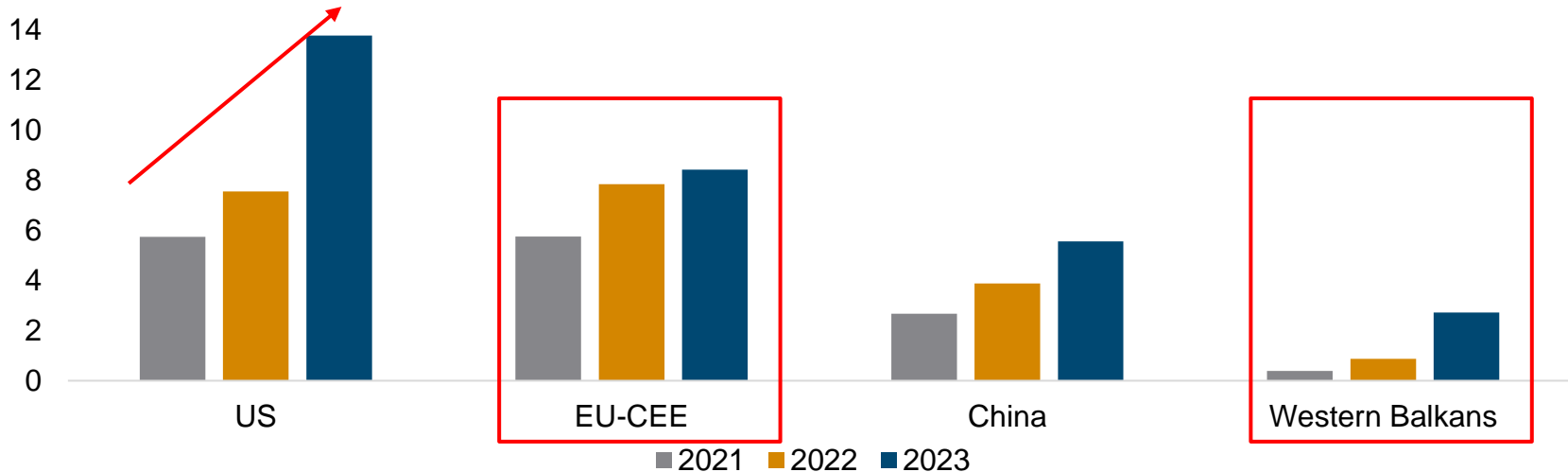


2. A large part of the region will have better relations with the US under Trump than Western Europe.



3. Although German firms are investing a lot more in the US, they are also still increasing their presence in CESEE

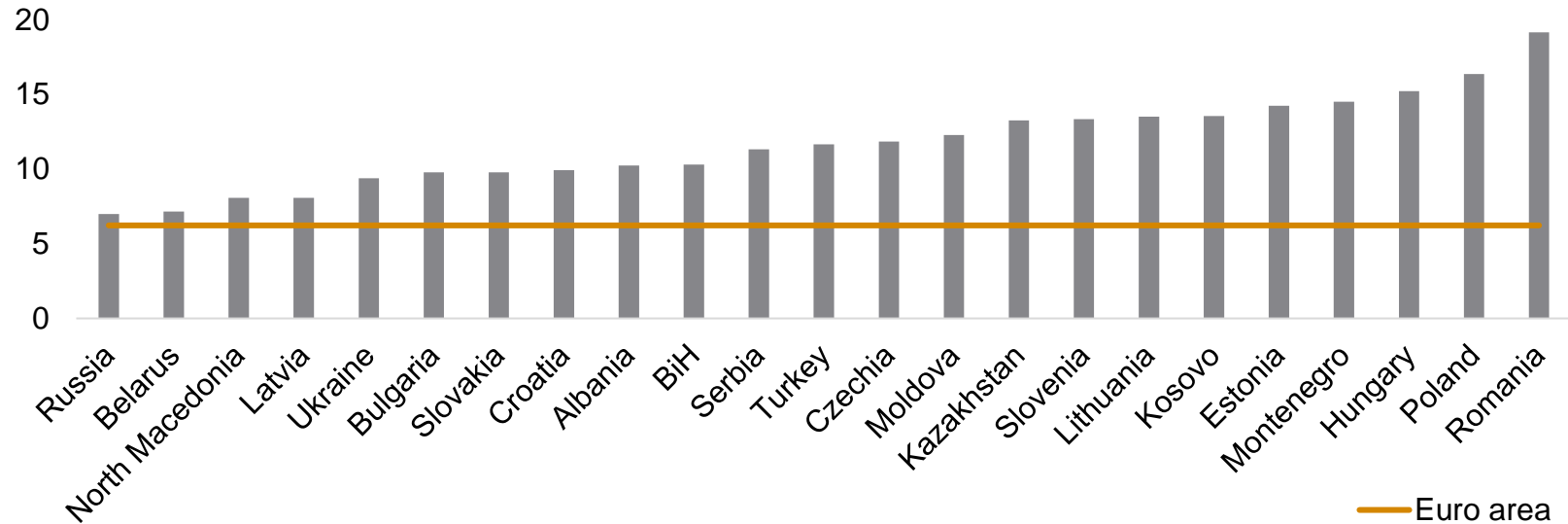
Germany greenfield investments in selected markets, new pledged capital, EUR billions



Sources: FDI markets, Eurostat, national sources, wiiw.

4. The last time Trump was president, CESEE had three great years (pre-COVID)

Cumulative real GDP growth in the first three years of the last Trump presidency (2017-2019), %



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Thank you for your attention

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