

# LETTER FROM BERLIN



## Merz's Hopeful Start

*Negotiating around Trump trade land mines.*

BY KLAUS C. ENGELN

In preparing for his first visit at the White House with Donald Trump, it would have been wise for the new German Chancellor Friedrich Merz, who also is the leader of the Christian Democratic Union party, to include in his briefing papers the findings and recommendations from the Trump administration's "Report to the President on the America First Trade Policy" from April 3, 2025.

The report details a broad assault on the rules-based global trading system that was the basis for post-World War II global prosperity. It provides a justification for starting a trade war against the rest of the world that still is in full swing as we go to press.

As *Handelsblatt* headlined on July 8, 2025, "With a mixture of threats, pressure, and deals, the U.S.

president is working against the global trading system. His policy of maximum uncertainty leaves partners with little opportunity to respond properly."

This is the unprecedented global economic and political crisis scenario that Merz, representing Europe's largest economy and export nation, faced during his meeting at the White House.

After taking office on May 6, 2025, Merz had his first meeting with U.S. President Donald Trump a month later on June 5 at the White House.

Even though Merz has more experience with America than any previous German chancellor, he and Trump had never previously met.

According to the official readout from the German side, the chancellor mentioned the German origin of Trump's family and said that it

could be a "very good basis for close cooperation between America and Germany." And pointing to D-Day, Merz also emphasized his deep gratitude to the United States for the liberation of Germany from Nazi rule eighty years go: "We will never forget that."

At the press conference in the Oval Office following the meeting, Merz offered a strong statement on Russian aggression in the Ukrainian war. "We agree on how terrible this war is, and we are looking for ways to end it." Merz emphasized that the U.S. president has the power to influence the Russian president, and to persuade him to agree to a ceasefire in Ukraine.

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This first White House meeting was conducted in a manner of mutual respect. This continued in the encounters between Merz and Trump at the following G7 meeting in Canada (that Trump left early) and especially at the historic NATO meeting in The Hague. And this is supported by what Trump has been saying about Merz. Reports that Merz and Trump are in telephone contact are encouraging.

### EURO AREA'S ANCHOR NO MORE

Such a successful first White House meeting would hardly have been imaginable if the chancellor had shown up in the fiscal straitjacket of the old German "debt brake" that left no fiscal room to finance the increased NATO defense commitments urgently needed and strongly demanded by Trump in his first presidency.

As we documented in a previous column, with timely preparation by some senior SPD officials, on March 18, 2025, the CDU/CSU, the SPD, and the Greens voted in a debt brake reform amendment, including a special fund of over €500 for infrastructure, and exempted defense spending over 1 percent of GDP, resulting in a another €500 billion for defense.

Such a large German debt expansion is urgently needed to ensure

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Germany is meeting its NATO defense requirements and securing essential infrastructure investments in the coming years.

The huge German debt expansion has also major implications for the other EU member countries and the future role of the European Union that are not yet fully recognized.

When the Merz coalition of the CSU/CDU and the SPD presented their budget planning, *Eurointelligence*, on



German Chancellor **Friedrich Merz** and U.S. President **Donald Trump** meet during the 2025 NATO summit at The Hague.

June 25, came up with an assessment of the 2026 budget implications: "The big headline number is that the debt-to-GDP ratio will rise from 60 to 80 percent by the end of the present legislature in 2029. One of the important, and disturbing, consequences of this massive fiscal expansion is for the euro area, given Germany's role as its anchor. The first consequence is that this budget kills the idea of European debt because it takes away most of the fiscal space that would be required for it. What the Germans have just done is that they crowded into the available fiscal space and took it all for themselves. At a level of 80 percent, debt-to-GDP is perfectly sustainable, and still at the lower end among advanced nations, but it removes the fiscal space that people think Germany had."

With this unprecedented fiscal expansion, Lars Klingbeil, who as head of the SPD took over the finance ministry as Merz's coalition partner, is working on spending plans for the legislative period through 2029 in the gigantic range of €850 billion, with a large portion in newly mobilized debt for defense and infrastructure investments.

When justifying the need for much greater military spending, Klingbeil, as head of a party that for decades stood for *detente* and good relations with Russia, defends the new NATO requirements. He is not

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worried about his image. He points out that outstanding SPD chancellors such as Willy Brandt and Helmut Schmidt had to lead coalition governments where around 3.5 percent of GDP was required for defense. Brandt, in 1971, received the Nobel Peace Prize.

### HISTORIC NATO SUMMIT

"Can Donald Trump Be Convinced to Remain Engaged in Europe?" read the headline of an impressive June 6 article in *Der Spiegel* on the NATO summit in The Hague, where leaders gathered to discuss the future of the alliance. "The biggest question, though, will be whether Trump plays nice. Or whether he continues to call

the trans-Atlantic relationship into question.”

The central feature of the NATO alliance is the collective defense clause, based on Article 5 of the North Atlantic Treaty, that an armed attack on one alliance member “shall be considered an attack against them all.” In his first term, Trump insisted that the United States would only accept the protection guarantee if NATO members would meet a price tag of 2 percent of GDP.

With the war in the Ukraine going on and the Russian military threat to Europe looming ever larger, the thirty-two NATO member countries agreed to spend 5 percent of their GDP on defense. This will be made up of 3.5 percent of GDP on core defense and 1.5 percent of GDP on defense-related expenditures. The deadline by which the allies must meet these targets is still up for negotiations.

This historic defense package was thoroughly prepared by NATO Secretary General Mark Rutte, who was the Netherlands’ prime minister from 2010–2024. Rutte, who was close to Trump for years, also ensured that this historic NATO summit would be held in The Hague.

Fred Kempe, head of the Atlantic Council, in his “Inflection Point,” comes to a surprisingly positive dispatch from The Hague: “It’s been Trump’s week in Europe and Iran.” Kempe argues, “What connects the events in Iran and the NATO Summit is that they won’t be remembered for the threats countered but rather for the opportunities seized, a rare moment in Western leadership these days.”

Kempe notes Trump told the gathered journalists: “I came here because it was something I’m supposed to be doing.” The media knew both that Trump hates multilateral gatherings and that he had walked out of the G7 meeting in Canada just a few days earlier. “But he then added that he would leave The Hague ‘a little

bit differently. I watched the heads of these countries get up, and the love and the passion they showed for their country was unbelievable. I’ve never quite seen anything like it.”

Trump—the vilifier of European deadbeats on defense and crusader against allies for what he sees as un-

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fair trade practices—sounded like an altered man. “I left here saying those people really love their countries,” said Trump. “It’s not a rip-off. And we are here to help them protect their country.”

Only Spain and its embattled premier Pedro Sánchez outright rejected the increased defense pledges that the other NATO member countries accepted.

Following the historic NATO summit, NATO Secretary General Rutte went to Berlin to attend the ceremony marking the seventieth anniversary of Germany’s accession to NATO.

Addressing Chancellor Merz, German Defense Minister Boris Pistorius, German Foreign Minister Johann Wadephul, and others, Rutte said, “In my office at NATO headquarters hangs a large black and white photograph—right above my desk. It captures the moment the Federal Republic of Germany signed the protocol of accession to NATO. That was in October 1954.”

Rutte enumerated why Germany is so important for NATO: “You are the largest European contributor of military aid to Ukraine, helping the

Ukrainian people defend their freedom and their sovereignty. You host the NATO command in Wiesbaden, that coordinates the provision of military equipment and training to Ukraine. And provide critical air defense for a logistical hub in Poland that helps ensure that the support Ukraine needs gets where it needs to go. As the world becomes more dangerous, and our security is at stake, Germany continues to step up. You are spending more and more on defense. And your defense industry is accelerating production. That’s exactly what we need.”

**“TAKE IT OR LEAVE IT”**

For Europe, the big trade blow from Trump came on July 12, when he published a letter on Truth Social announcing that the U.S. government, starting August 1, would charge a 30 percent tariff on goods from the European Union and Mexico.

EU chief Ursula von der Leyen responded the next day with the statement that the bloc was ready to continue working toward an agreement by August 1 and remained ready to “take all necessary steps to safeguard EU interests, including the adoption of proportionate countermeasures if required.”

After his April 2 “Liberation Day” announcement of sweeping new tariffs on U.S. trade partners, Trump hailed a new chapter in U.S. economic history. These trade partners, including the European Union, were under pressure to come up with new trade agreements with the United States.

In the lead-up to the August 1 deadline, the mood among European policymakers was combative.

As *Handelsblatt* on July 8 summed up the trade war with the hint of Trump’s “Take it or leave it” when coming up with ever-new tariff decisions, “EU politicians reject the offers of the USA and require a

harder response. In the EU capitals and the EU Parliament are growing fears that a new trade deal with the U.S. administration will fail,” reports an insider to the negotiations. “Clear commitments to important industry sectors—automobiles, steel, and pharma—are missing. There is growing pressure on the EU Commission President von der Leyen from France, Spain, and Denmark, but also from Berlin, where Chancellor Merz has been pushing for a fast deal. The EU Commission is in a very difficult position.”

On July 6, von der Leyen had a phone call with Trump. She let it be known: “A good exchange—we want to avoid tariffs. We believe they cause pain. We want to achieve win-win outcomes, not lose-lose outcomes.” But an agreement at that point was not in sight.

So far, von der Leyen has not been not invited to the White House, which is seen in Brussels as a basically hostile stance against the European Union and the EU Commission in the trade war.

Leading members of the EU Parliament considered it alarming that the recent trade agreement the United States concluded with the United Kingdom was much more favorable than what the EU Commission could expect.

The European Union is acting too cautiously in the tariff dispute with the United States, warned Bernd Lange (SPD), the longtime head of the International Trade Committee of the EU Parliament, in an interview with *Deutschlandfunk*. “For four months, imports of European steel, aluminum, and cars have been subject to high special tariffs in the U.S. This puts up to 50,000 jobs at risk. The EU must now take a clear stand and put the countervailing trade measures into effect.” Lange accused Trump of blackmailing the European Union. He also sharply criticized von

der Leyen’s too-cautious negotiation stance and German Chancellor Merz for putting pressure on the EU Commission head “to stick to a fast and simple solution” of the trade conflict with the Trump administration.

As the head of the Internal Market committee in the EU Parliament, Anna Cavazzini (Greens) warned: “The EU should not accept vague promises. If for example the so-called deal would not include regulations for the existing sectoral tariffs, the EU will have to put the already-prepared countermeasures in force.”

Under the heading “Waiting for Mail from Trump,” Hendrik Kafsack, Brussels correspondent for *Frankfurter Allgemeine Zeitung*, came to the conclusion that the EU Commission under von der Leyen was trying to avoid a strong retaliation stance, since most EU member countries would not back the EU Commission in a hard confrontation. This was especially the case for Germany and Italy. Longtime observers saw the EU Commission avoiding

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provocations, realizing that in one way or another Trump would come out as the trade war winner.

In the view of Kafsack, the negotiating power of the EU Commission against Trump was also much weaker than China’s because Beijing has an economic bargaining chip, namely “rare earth” minerals that the United States urgently needs.

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*Eurointelligence* was pessimistic about a deal. “Forget Taco,” it said. “We think the chances of a trans-Atlantic trade war are very high now because each side is taking steps to make deals less likely. We pick up a lot of complacency about Donald Trump’s threat to impose a 30 percent tariff, based on the premise that Trump always chickens out. One additional complication is that EU leaders are divided about their response, which makes it harder for the Commission to propose a deal that could break the gridlock.”

### THE LOSER

Confounding that prediction, on July 27 the finale arrived for Trump’s trade war with Europe. *Politico* noted, “There was something deeply ironic in the EU’s top brass having to fly to Britain to seal the bloc’s biggest deal since Brexit—but that’s what Donald Trump wanted and that’s what Donald Trump got.” The article credited von der Leyen with “a much-needed personal triumph.”

The *Financial Times* editorial board, however, made clear its opinion that Europe had come out the loser. “The EU has validated Trump’s bullying trade agenda,” read its headline. The editorial continued: “The EU, with its economic heft and leverage as a net importer of U.S. services, had one of the better shots at finding a middle ground. Instead it, too, capitulated. ... All that Europe really gets is the avoidance of even higher tariffs, and slightly less uncertainty.” ♦