Here's why Germany's trade surplus with the U.S. is so big

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American car snobs love BMWs and Mercedes. U.S. hospitals love German-made medical instruments. U.S. manufacturers depend on German precision tools.

They're all big contributors to the huge trade surplus Germany has run up with the United States in recent years, trailing only China and Japan.

President Trump has bemoaned the imbalance in recent tweets, saying Tuesday: "We have a MASSIVE trade deficit with Germany...Very bad for U.S. This will change."

The surplus isn't a byproduct of any particularly unfair trade policies in Germany, economists say, but a result of Germans' reputation for quality and efficiency, plus one big advantage beyond its direct control: a weak euro versus the dollar that makes German exports cheaper and U.S. goods in Germany more expensive.

We have a MASSIVE trade deficit with Germany, plus they pay FAR LESS than they should on NATO & military. Very bad for U.S. This will change

In 2016, German companies sold $114 billion worth of goods in the U.S., much of it in cars, high-end medical equipment and machinery. American companies sold $49 billion of goods in Germany, resulting in a $65 billion trade deficit, 35% wider than 10 years ago.

Finding evidence that Germany's trade surplus causes lasting damage to the U.S. economy or results from unfair German trade policy is difficult, economists say. They note that BMWs and other German products are popular in the U.S. and considered good value. And the surplus can't be blamed on cheap wages: Compensation is higher for German manufacturing workers than for their U.S. counterparts, according to a 2012 Labor Department survey.

"The U.S. trade deficit with Germany is largely a symbol of Germany's competitiveness in specific categories of imports for which demand in the U.S. is very strong," said Eswar Prasad, an economics professor at Cornell University. "It is not because of trade or other barriers in Germany that restrict U.S. imports."

One hurdle for American companies is that exports they excel at — such as agricultural products, machinery and equipment, and financial services — compete in sectors in which German companies also thrive.

In addition, part of the German surplus comes from American companies' purchases of German parts used in U.S. manufacturing, said Dan Ikenson, director of the Center for Trade Policy Studies at the Cato Institute.

At the same time, Americans' increased appetite for German products has an upside for the U.S. economy. Companies, such as BMW, Daimler, Siemens and Volkswagen have expanded operations in the U.S., creating more jobs. Daimler, the maker of Mercedes-Benz cars and trucks, has nine factories in the U.S. with nearly 22,000 employees. It's also in the midst of spending $1.3 billion to expand its factory in Tuscaloosa, Ala. to produce SUVs for American consumers. Volkswagen operates a factory in Chattanooga, Tenn., where 8,000 workers produced nearly 94,000 Passats last year. Siemens, a German conglomerate, employs 50,000 in the U.S. with more than 60 factories.

The bigger problem for the global economy may be Germany's worldwide current account surplus of about $300 billion.

While China has been reducing its surplus, Germany has enjoyed unique advantages of being the most competitive economy in Europe. The euro, the European Union's currency, is relatively weak versus the dollar, reflecting Europe's slower recovery from the Great Recession that hit the U.S. in 2007-09. Since 2014, the euro has lost more than 20% of its value against the dollar.

Because Germany is part of the EU, it benefits from the weak euro even though it is the strongest economy in the EU by far. "It's not that (the U.S. doesn't) produce good cars. It's just that quality-per-dollar seems higher with German cars," said Caroline Freund, senior fellow at the Peterson Institute for International Economics. Germany is "hyper-competitive because of the undervalued exchanged rate," she added.

The currency advantage has worked to Germany's advantage at the expense of the U.S. and other nations whose companies find global competition too tough and shutter their domestic factories, said EPI's Scott. Like China, Germany has "effectively engaged in 'beggar thy neighbor' trade policies that exported unemployment to trade partners" while supporting employment in Germany, especially in manufacturing industries.

Despite stiff competition from China, Germany's total share of world exports between 1997 and 2013 declined only slightly from 11% to 10.4%, Scott noted. The U.S. share fell by nearly one-third, from 13.7% to 9.5%**,** falling from second place to third place behind China and Germany. Unlike U.S. exports, which represent a small slice of the American economy, German exports account for nearly half of Germany's GDP.

Trump's tweets that have focused attention on the trade imbalance could pressure Germany to consider some changes, such as stimulating domestic demand through higher government investment and raising government workers' wages to boost imports from the U.S. and other countries and reduce its trade surplus. "This would add to global demand, which would certainly be helpful in solidifying the global economic recovery," Prasad said.

Hardliners in the Trump administration could push for trade barriers, such as direct tariffs to deter German exporters. But that would force U.S. companies to scramble to find suppliers elsewhere and pay more for machinery parts.

American manufacturers would oppose protectionist measures that could backfire in the form of retaliatory measures from Germany. But they could push for other ways to ease doing business in Germany, such as relaxing regulations there, Ikenson said.

“I don’t think there’s going to be a whole lot of antagonistic economic policy on Germany,” he said. “But if it were to get Germany to address the kind of global imbalances... , I think that would be the outcome I’d like to see.”