

Transformation at a Crossroads – What Is at Stake in the US Election and How It Affects Europe

By Kira Vinke and Friedrich Opitz

Kamala Harris and Donald Trump offer their voters very different visions for the future of America’s industrial development. Under the motto “foreign policy for the middle class,” the Biden administration expanded protective tariffs against China, thereby scoring points in the industrial heart of the country. With the “Inflation Reduction Act,” Biden made a U-turn on climate policy in the U.S., while continuing the protectionist economic policy of his predecessor. However, a second term for Trump would have even more serious consequences for Germany and Europe.

BACKGROUND

The upcoming presidential election in the U.S. will be crucial for industrial transformation: Will the country remain stuck in the age of fossil industries or will a renewal be initiated that enables long-term competitiveness? The industrial transformation has become an urgent task for governments around the world due to the global drive for decarbonization and technological progress in digitalization and AI. The EU set a path for the green transition with the “Green Deal” (initially approx. 250 billion euros), followed by the “Net Zero Industry Act” and the “Critical Raw Materials Act”. The total investment amounts to one trillion euros by 2030. In the US, the Democrats initiated an industrial renewal with the “Inflation Reduction Act” (IRA), an investment package worth 369 billion euros, as well as the

“CHIPS Act” or the “Infrastructure Investment and Jobs Act”. These included large subsidies for electromobility and renewable energies and the total investment amounts to nearly 1.6 trillion euros.

In contrast, the Republican Party is trying to protect emission-intensive industries from change. The US industrial heartland is the center of American manufacturing and it employs and houses pivotal middle-class constituencies. As the backbone of the economy and national energy supply, reforms are a sensitive issue for these regions. Election polls there are often seen as a crucial barometer of public opinion, not least because many industrial centers are in swing states. The importance of the industrial heartland is reflected in both vice-presidential nominees.

SCENARIOS:

TOGETHER WITH EUROPE OR DISRUPTIVE

Regardless of the election outcome in November, it can be assumed that both potential administrations will use protectionist measures, such as tariffs, to support their different industrial policies. With President Harris, these would probably be more predictable and aligned with the common interests of the European Union, for example in relation to the sustainability transformation, and implemented in pursuit of a liberal international order. Whereas with a second term for Donald Trump, the changes could be far more disruptive for Germany and Europe, as geopolitical aspects, such as the alliance of values with the EU or Russia’s war of aggression against Ukraine, would probably be arbitrary

for the orientation and chosen partners of any industrial policy. In view of the legal proceedings against the former president, it can also be assumed that private business interests could play an important role.

HARRIS 1.0 & TIM WALZ

As a senator Kamala Harris was more ambitious on decarbonization and climate protection than the policies she implemented with the Biden administration. She backed the “Green New Deal,” a far more ambitious but failed precursor to the IRA. Unlike Joe Biden, she supported a fracking ban in the 2019 election campaign; however, she recently revised this position. In the current election cycle, she is linking industrial transformation with labor and social justice issues. A potential continuation of the partly protectionist ‘Bidenomics’ could cause competitive distortions that impact the German and European economies. A possible subsidy race would be hard to win for Germany.

How ambitious Harris’ economic policy will be in terms of climate protection also greatly depends on the makeup of the next US Congress. If Republicans achieve majorities in the House of Representatives and/or Senate, this could constrain the Democrats’ options for legislative proposals, because they would depend on Republican votes. Harris chose the Democrat Tim Walz as her running mate to boost the support for green policies in industrialized regions. He brings experience in dealing with the heartlands to her campaign. Particularly regarding regional economic and industrial policy, the vice-presidential candidate is worth taking a closer look at.

Vignette Tim Walz

Tim Walz was born in Nebraska in 1964 and grew up in a village of 400 people. This “Small Town America” is characterized by close-knit communities,

a slower pace of life and more traditional values. “Here you learn to take care of each other,” Walz said in his acceptance speech. What some disrespectfully call “flyover country” is Walz’s identity-forming brand, which makes him a strong candidate in the industrial centers.

As an adult, Walz joined the National Guard, studied to be a teacher, and spent a year in China, among other places, teaching English and learning Mandarin. Back in the US, he worked as a geography teacher and football coach in Minnesota’s first district. He was then elected to Congress to represent Minnesota in 2006. In 2019, Walz became governor, and in 2023 he was re-elected. During his tenure, Walz mobilizes billions of investments to revitalize dilapidated public infrastructure, cuts tuition fees, strengthens workers’ rights and champions climate issues. Based on his many years of working with farmers and entrepreneurs, he is also able to win key allies and that help him convince the

majority of his constituents of the economic benefits to be gained from the green transformation. In doing so, he set ambitious goals for Minnesota to: have one-fifth of the cars in the state be electrically powered by 2030, to replace its fossil powered plants with 100 percent renewable energy by 2040, and gave the promise of the state being climate neutral by 2050. Walz’s climate policies are supported by higher fuel taxes and income taxes for high earners. These hikes are accompanied by tax cuts for lower income households.

Walz seems to be foreign policy minded and willing to compromise on free trade. A recent agricultural agreement between Minnesota and Ukraine’s Chernihiv region testifies to how geopolitical considerations can influence his policy decisions. Bottom line: a candidate that is locally rooted but globally minded and who’s regional authenticity appeals to many undecided voters far from the liberal coasts.

INDUSTRIAL HEARTLANDS – CENTRAL OF A COUNTRIES INDUSTRY

Industrial Heartlands are regions that play a central role in a given country’s industrial network. For Germany these include the Ruhr area, parts of central Germany or Lusatia. In the United States, they describe the so-called “manufacturing belt” or which have since been disparagingly referred to as the “rust belt”. This rust belt encompasses parts of Wisconsin and Illinois, the tire and automotive manufacturing sites in Michigan and Ohio, and the steel and coal areas of Pennsylvania. These regions have historically benefited from the abundance of natural resources such as coal and ore, innovative entrepreneurs, constant immigration and hard-working people. This is how they became the engine of economic development.

During the Industrial Revolution, the Industrial Heartlands experienced considerable growth. As globalization and the rise of service and information industries led to job losses in manufacturing, the Heartlands faced economic decline and demographic change. They are now undergoing a third transition, towards a green economy, which poses further challenges due to their dependence on fossil resources and energy intensity. Despite their potential for transformation, they often lack the necessary infrastructure to fully adapt to these changes.

A Look into the Future: The “Renewable Heartland” Under Harris and Walz

Voters in the US face a fork in the road in choosing how their industrial heartlands will be redeveloped. In the following, we contrast a possible “renewable” heartland with a “fossil” one.

The “Renewable Heartland” will become a policy priority for Harris and Walz. Through synergies between semiconductor production and green industries, the region can find a path to the future while the automotive or steel industry reposition themselves in the region. All the while the strong university landscape continues to attract young talent. Important university locations (many of the largest universities in the US are located in the region) and many smaller satellite locations flourish. The Great Lakes – one of the largest freshwater resources in the world – also become an integral part of regional hydrogen strategies and revitalized transportation routes. The region also benefits from an attractive investment profile as the favorable climatic conditions offer lower risk when compared to the so-called Sun Belt and states like Arizona, where, among other things, water shortages and heat question the sustainability of investments. Here, it is important for European and German companies to identify synergies in the areas of technology development and foreign trade and to realize medium and long-term potential.

TRUMP 2.0 & J.D. VANCE

In the Trump 2.0 scenario, transformation delays could cause the heartlands to be entrenched in the age of fossil industries – the expansion of protectionist measures would also make market access for German green tech companies more difficult.

“Drill, baby, drill!” is the message from Donald Trump and his recently chosen vice-presidential candidate, J.D. Vance.

They want to exert global energy dominance with hegemonial ambitions and. He wants to end the ‘green fraud from Washington DC’ on his first day in office, Trump proclaimed at the Republican National Convention in Wisconsin. He will immediately cut subsidies for electric cars and simultaneously impose import duties of 100 or even 200 percent on cars from overseas. “Build in America and only in America” should be the motto of his second term. This would also affect German car exports to the US, for example, threatening an essential sales market.

A departure from Biden’s innovation agenda would see these industrial centers face a damaging delay from a transformation that can no longer be stopped.

To combat inflation, Vance plans to cut taxes, including a reduction in the corporate tax rate from 21 to 15 percent. He wants to finance his promises by promoting “liquid gold,” which he believes lies dormant under America’s soil in the form of oil and gas. In doing so, he rejects the scientific consensus that the vast majority of remaining fossil fuel reserves must not be extracted if we are to keep the remaining emissions budget intact.

In the short term, however, Trump and Vance are banking on the appeal of preserving fossil-fuel America and returning to a supposedly better past. However, this plan is based on a fallacy, because developments in China and Europe, but also in the economically strong, democratically governed US states on the coasts, will increase the pressure for transformation in the heartlands in the coming decade.

A departure from Biden’s innovation agenda for the industrialized countries would thus mean a delay in the now unstoppable transformation that would be detrimental to the economy. In addition, there would be economically damaging planning uncertainties – especially in the heartlands. The resulting distortion of market processes, the disruption in car manufacturing caused by the withdrawal of subsidy and funding programs, would have negative effects on value chains. The USA’s biggest competitor, the People’s Republic of China, could take advantage of this delay and

further expand its market dominance in many green technologies – to the renewed detriment of the heartlands and the people there. If the transformation picks up speed globally, there could even be a slump in demand for fossil fuel industries and investments could become “stranded assets”.

At the global level, a second term for Trump would destabilize traditional security alliances, which would have economic consequences for the heartlands. Since Russia’s war of aggression against Ukraine and the subsequent energy crisis in Europe, security considerations are playing an increasingly important role in trade issues.

Moreover, increasingly severe and frequent extreme events prevent a return to a time when the fossil fuels could be used with reckless abandon and not considering consequences for the next generation. This also affects

international climate policy. A failure of industrial transformation in the US would lead to global upheavals with partners who are also increasingly experiencing economic downturns due to climate impacts.

During his first term in office, Trump was unable to shake the global consensus on the need to reduce emissions, even by withdrawing from the Paris Agreement. Nevertheless, a second term poses substantial risks. Continued global greenhouse gas emissions have depleted much of the remaining global emissions budget needed to meet the Paris targets, to the point that only a committed approach will keep the targets within reach. Any further delay could have disastrous consequences for the earth system.

On a global level, a second Trump term would destabilize traditional security alliances ...

Vignette: James David Vance

Vance was born in Middletown, Ohio. The now 39-year-old grew up among the so-called “hillbillies”, people he counts among the “Forgotten Americans”, in the Appalachians of eastern Kentucky. Simple (white*) people who built America “with the labor of their hands” and “love of God and country”.

From the hillbillies of Appalachia, Vance climbed the social ladder steeply into America’s elite. He joined the Marines and studied at The Ohio State University, one of the so-called Public Ivies, which are among the top-performing public institutions in the United States. He then prepared for a career on Wall Street by attending the law school of the elite university Yale. He then returned to his roots among the “forgotten Americans” of

globalization and liberal economic policy with his bestseller “Hillbilly Elegy”, which brought him international attention in 2016 and eventually paved his way into politics.

In 2022, Vance became a senator representing the state of Ohio. He is supported by Donald Trump, a man whom Vance had called an “American Hitler” years earlier. But his economic policy ideas, in particular, increasingly coincide with Trump’s narratives. The ruling elites in Washington, D.C., would rather have concluded trade agreements than worry about hardworking Americans and sent young men like him to fight wars in Iraq and Afghanistan. While Vance, as a banker, was still investing in green technologies, as a senator he focused on protecting the

coal industry and advocated for more intensive fracking. This made Vance a favorite of the coal and gas lobby, which donated heavily to his Senate campaign.

Accordingly, Vance’s opposition to fossil fuel phase-out targets is central to his energy policy work in Ohio. According to Vance, increased fossil fuel extraction would lead to lower energy prices and economic recovery in the Heartlands. He is committed to the expansion of pipelines and has opened new areas for fracking. Despite his current polarizing campaign, Vance, as a Heartlands senator, has repeatedly worked with supposed adversaries like progressive Elizabeth Warren, for example on banking reform. While his election campaign is mobilizing against unionized labor, he is also presenting

himself in a more differentiated way in interviews. He justifies his protectionism, among other things, with the injustices of free trade to the detriment of workers in Ohio, Pennsylvania, West Virginia or Eastern Kentucky.

In terms of foreign policy, he now sees Trump’s political approaches as visionary. We have arrived in an era of rampant multipolarity. Accordingly, an opportunistic approach to foreign policy must be taken. Trump’s decision in favor of Vance shows that he is trying to build on the momentum of the “working class populism” of 2016. Vance’s comments on women’s rights and his regressive abortion policy are poorly received by many undecided female voters in America’s suburbs. Bottom line: He is a “Heartlands” candidate who prioritizes fossil energy and protectionist industrial policy, potentially at the expense of American strategic partners.

The “Fossil Heartland” Under Trump and Vance:

In the “fossil heartland” scenario, the delayed decline of fossil fuel industries in West Virginia or Kentucky, for example, results from a lack of incentives for transformation. This creates significant path dependencies. The path of supposedly least resistance would lead to an economic niche and, in the medium term, to a dead end, while other countries dominate the global market. At the same time, the increasing automation of numerous funding and implementation processes would prevent jobs from returning. Demographic change, already one of the heartlands’ biggest problems, would be further exacerbated. Political polarization will become more extreme, increasing extreme weather events will widen economic inequality. Germany and Europe would lose an important systemic ally in the transformation to a more climate-friendly economy. The markets would be severely restricted by the already announced tariff increases. In foreign policy, too, the renewed

arbitrariness would cause lasting damage, as an increasing erosion of the rules-based international order would be likely.

RECOMMENDATIONS:

TRANSFORMATION THROUGH COOPERATION

The Industrial Heartlands in Germany and the United States are at the forefront of industrial change and are characterized by opportunity. Their economic and social development also points to success stories in the context of structural and political upheaval. After all, these are home to population groups that have experienced extensive transformation before. If leveraged, this wisdom can provide valuable insights and guide ongoing changes.

Regardless of whether Harris or Trump is elected to the White House, the United States, Germany and Europe will benefit from a strong and reliable relationship with one another, not least to implement the common goal of industrial transformation. Even in the event of a Harris administration, uncertainties remain, particularly concerning the composition of the Senate and the House of Representatives. Accordingly, it is worthwhile for those in government in Berlin to actively focus on the regional and local levels. The aim must be to advance the transformation through stronger cooperation and to exert joint pressure on other countries to ultimately ensure global compliance with the Paris Agreement and, in the process, to strengthen the rules-based order. Shaping the necessary change in a way that benefits as many people as possible – and thus also securing a common future as liberal democracies – is a crucial task for the transatlantic alliance.

- Federal and state governments should establish regional partnerships and strengthen city partnerships with

industrial centers in the United States. This can allow an exchange of ideas to take place between regions with transformation expertise, such as eastern Germany, Lusatia or the Rhenish mining area, and the Manufacturing Belt in the United States. This should include an active engagement with industrial heritage and future prospects, to enable a constructive approach that fosters identity and promotes a confident response to the alternative promises of populists.

- Germany should strengthen the engagement of German missions in US states with industrial centers. The German Consulate in Chicago is currently solely responsible for 13 states and 70 million people. In the states of Wisconsin, Ohio and Michigan, in particular, many Americans have German roots. This could be used as a starting point for public relations work and the joint processing of transformation topics.
- This increased exchange must include vocational students and skilled workers, as well as tradespeople and other economic and service sectors. Similarly, cultural and political exchange in civil society should be increased. Here, new extensive scholarship programs are needed for technical colleges, vocational schools, and other publicly accessible educational institutions. Existing programs such as the Fulbright English Teaching Assistant or the Congress-Bundestag Youth Exchange (CBYX) program can serve as models here.
- Philanthropic engagement in the heartlands should be further encouraged to find new funding avenues for the above programs in structurally weak areas. Business and politics have overlapping interests here and can strengthen and network engagement. Foreign and regional policy can be increasingly thought of together as a partial success of exchange and

further developed through citizen consultations, enhancing public acceptance and

- Under a President Harris, the Trade and Technology Council (TTC) would probably continue to exist. This would be a suitable forum for regional transformation and cooperation. It would also enable the interstate and inter-regional levels to be better connected, for example through expert briefings between the US and the EU.

The authors are part of the transatlantic dialog on the “Industrial Heartlands” <https://www.industrial-heartlands.com/>



Advancing foreign policy. Since 1955.

Rauchstraße 17/18
10787 Berlin
Tel. +49 30 254231-0
info@dgap.org
www.dgap.org
📧@dgapev

The German Council on Foreign Relations (DGAP) is committed to fostering impactful foreign and security policy on a German and European level that promotes democracy, peace, and the rule of law. It is nonpartisan and nonprofit. The opinions expressed in this publication are those of the author(s) and do not necessarily reflect the views of the German Council on Foreign Relations (DGAP).

DGAP receives funding from the German Federal Foreign Office based on a resolution of the German Bundestag.

Publisher

Deutsche Gesellschaft für
Auswärtige Politik e.V.

ISSN 749-5542

Layout Luise Rombach



This work is licensed under a Creative Commons Attribution – NonCommercial – NoDerivatives 4.0 International License.

In the memo series “Setting the Transatlantic Course,” DGAP experts analyze possible scenarios for the 2024 US presidential election from various perspectives that include security, trade, geopolitics, and climate foreign policy. They outline the expected consequences for transatlantic relations depending on whether Kamala Harris or Donald Trump is elected and formulate recommendations for Germany and Europe to already begin setting the course for a sustainable partnership.