



MAKING GERMAN FOREIGN POLICY FIT FOR PURPOSE



Transatlantic Relations

Germany Must Seize the Opportunity

By Markus Jaeger and Julian Müller-Kaler

The growing conflict between the United States and China will pose major challenges for transatlantic relations in the coming years. It is therefore important for Germany to resolve its bilateral disputes with the United States and develop a common strategy toward China – but without losing sight of its own (economic) interests. Together with the European Union, the new German government should coordinate with the United States to reform the World Trade Organization (WTO), set international standards in the field of technology, secure critical supply chains in a cooperative manner, and pursue policies that aim to create a level playing field.

For around seventy years, Germany's security and prosperity have rested on the foundation of close German-US relations. During President Donald Trump's time in office, however, relations hit a historic, post-war era low. Trump's so-called America First policy – semantically harking back to the isolationism of the 1930s – not only weakened transatlantic cooperation, but at times seemed to call it into question entirely. While relations between Germany and the United States have improved significantly under the Biden administration, the new German government can no longer take the traditionally close bilateral relationship for granted, at least in the long term. In short: Germany should no longer blindly rely on the United States.

DETERMINING FACTORS

The US-China Conflict and Its Implications

The shift in the international balance of power and the intensifying great

power competition between the United States and China are driving the continued pivot of US foreign policy to Asia. As a consequence, the United States will become gradually less engaged in Europe. Over time, it will also increase diplomatic pressure on its allies to support a more confrontational and geo-economically oriented policy toward China. The new German government must therefore prepare itself for greater political and economic competition and conflict as well as intensifying great power conflict.

Nonetheless, Germany is currently well positioned to promote the solution of common challenges (e.g., climate, health) as well as the settlement of existing bilateral disputes and problems (e.g., bilateral trade, supply chains) – at least as long as these do not stand in the way of a more hawkish US policy toward China. In addition, there are areas in which the interests of Germany and the United States are largely congruent, such

as the creation of a level playing field in the international economy. Overall, however, the new German government should not assume that it will be able to influence US policy toward China, strategically or geo-economically.

The uncertain domestic political outlook in the United States poses an additional risk. Joe Biden's margin of victory was narrow, and conspiracy theories continue to circulate regarding the presidential election as well as the storming of the Capitol. Republicans could regain a majority in both chambers of Congress as early as the 2022 midterm elections, especially since they have been busy making changes to voting laws in various states that will favor them in future elections. Should a Trumpist once again hold the reins of (foreign) policy after the 2024 election, it would not only jeopardize the continued existence and stability of US alliances, but also lead to an irreparable break in German-US relations.

The “pivot to Asia” by the United States is, first and foremost, problematic from a European perspective, insofar as it is likely to come at the expense of the US military presence in and security commitment to Europe. A weaker US security presence, in turn, forces Germany to boost its military capabilities. Meanwhile, a resurgent Russia that regards eastward NATO enlargement as a violation of its strategic interests is also contributing to greater geopolitical instability in Europe. Such increased security competition further deepens Germany’s security dependence on the United States. Above all, however, the geopolitical and geo-economic conflict between the United States and China harbors the risk of undermining or destabilizing the openness and stability of the international economic system. The comparatively lower trade dependence of the United States and China on Germany makes the latter not only economically but also politically vulnerable.

CHALLENGES
Germany Must Avoid Getting Caught Between the Two Sides

Until now, Germany and its European partners have been able to successfully oppose increasing, but thus far still moderate diplomatic pressure from Washington to support a tougher policy on China – even if individual German and European companies are already affected by US secondary sanctions and export controls. Should Germany or German companies join the US sanctions policy in the context of a geo-economic conflict between the United States and China, however, the risk of Chinese retaliation (unreliable entity list, blocking statute, etc.) increases significantly. China already intends to reduce its international economic dependency (“dual circulation”), which boosts its ability to “weaponize” economic dependencies for political purposes. Not least for these reasons, the risk of getting caught between the geo-economic and geo-technological

fronts must be taken seriously by the new German government.

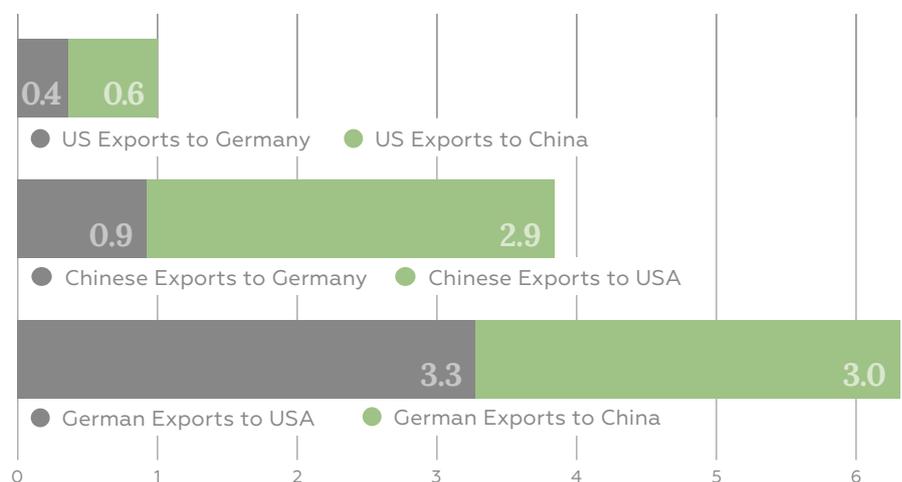
In regard to a more hardline geo-economic policy by the United States toward China, the German government should try to convince its US partners, together with other allies, to pursue a policy aimed at creating a level playing field – especially when it comes to reciprocity and market access, Chinese subsidies and industrial policy, and concerns about intellectual property rights and forced technology transfer. Insofar as such policies do not affect aspects of Washington’s overall China strategy in terms of national security, winning US support for such an approach may be possible. Even if this approach ultimately fails, the resulting transatlantic consensus can serve as a basis for deepening bilateral economic relations. By contrast, a general politicization of economic relations or even an economic decoupling from China in the context of an intensifying US-China rivalry is not in the German interest.

In recent years, a number of bilateral disputes have weighed heavily on the transatlantic and, above all, the

German-US relationship. There were conflicts over trade (steel and aluminum tariffs, digital tax, Airbus-Boeing subsidies, WTO), energy (Nord Stream 2), climate policy, technology (regulation, competition, taxation), and US sanctions policy (Joint Comprehensive Plan of Action or “Iran Agreement”) as well as issues relating to defense policy (NATO defense spending). With the recent agreements on global corporate taxation, Nord Stream 2, and the suspension of the Airbus-Boeing dispute, progress has been made in some areas – or at least a temporary “cease-fire” has been agreed on (steel tariffs) – since Joe Biden took office. The new German government should make the most of this moment and seize the Biden administration’s willingness to resolve bilateral disputes.

Particularly in the fields of technological cooperation, defining tech standards, and securing critical supply chains, additional efforts should be made. In these and other areas consultation mechanisms have been or are being established to advance cooperation among the United States, the European Union, and Germany (see table). These can be used not only to

Bilateral Export Dependency (in % of GDP)



Source: Authors’ own compilation based on data from the WTO/IMF

promote a regular dialogue on existing international and transnational challenges (climate change, technology, health, etc.), but also to calibrate policies toward China, identify differences, and resolve them diplomatically.

RECOMMENDATIONS
Engaging in Cooperation and Boosting Capacities

In the context of the agreements of the recent G7, NATO, US-EU, and German-American meetings (the latter resulting in the Washington Declaration), the new German government should identify common positions in the economic sphere, especially with regard to a WTO reform and the creation of technological standards. Decision-makers should also promote the safeguarding of supply chains for critical goods as well as strengthen cooperation on climate protection and health policy. New bilateral and multilateral forums should be used for consultation, coordination, and cooperation (see table).

Alongside a strategic dialogue at the government level (e.g., a US-German Economic Dialogue), a newly created

German-American Future Forum offers the opportunity to bring American and German experts from science, business, and civil society together to collaborate on important questions about technology, democracy, and necessary global cooperation

Security policy: In order to respond to increased geo-political pressure and boost Germany’s own capacities, a faster increase in defense spending under the NATO agreement might be necessary. Especially in the medium and long term, European NATO partners will need to play a more active role in securing the European north (Arctic), east (Ukraine, Belarus, Russia, etc.) and south (Mediterranean, Middle East, Africa). The new German government should support the creation of a framework to help coordinate defense-related investment within the EU’s Permanent Structured Cooperation (PESCO). Future investment in defense capabilities should take account of existing NATO capabilities – not least in view of developing instruments and tools that could enable Europe to defend selected interests without the support of the United States (e.g., crisis intervention forces). The US withdraw-

al from Afghanistan caused dismay and concern due to a lack of consultation with Germany and other NATO partners. The political momentum could be used to advance defense cooperation within the EU as well as with other NATO partners.

Trade and investment relations: The new German government should work intensively with European partners toward a WTO reform (a transatlantic free trade or bilateral investment agreement would be desirable yet lacks sufficient public support both in the United States and Europe). At the same time, it should support and replicate US efforts to secure critical supply chains – a step that could also be coordinated with other US allies in Asia. Any broader politicization of US trade policy must be resolutely opposed, as should be the Biden administration’s policy to buy more of its own products ([Buy American Rule](#)).

Technology policy: Germany should further promote cooperation with the United States on technological standards and intensify transatlantic, and especially German-American, technology research and development.

Transatlantic and German-American Agenda

G7	NATO	EU-USA	WASHINGTON DECLARATION (bilateral)
Settle the digital tax dispute and jointly combat tax havens	Reaffirm pledge to raise defense spending to 2% of GDP by 2024	Settle the dispute over steel tariffs by the end of 2021	Reaffirm commitment to NATO alliance, democratic values, and the rule of law
Pledge to provide \$100 billion to fight climate change in developing countries	Strengthen technological cooperation, especially in regard to critical technologies	Create a Transatlantic Green Technology Alliance to develop environmental technologies	Create a Climate and Energy Partnership
Provide one billion COVID-19 vaccines to developing countries	Develop NATO’s next Strategic Concept with respect to future political and military challenges	Create an EU-US Trade and Technology Council to set standards in emerging technologies and strengthen and diversify supply chains	Create a US-German Futures Forum consisting of representatives from the non-governmental sector to produce proposals for solutions to transatlantic and global problems
		Create a Joint EU-US Covid Manufacturing and Supply Chain Taskforce	Create a bilateral US-German Economic Dialogue

Source: Authors’ own compilation

The recently created EU-US Trade and Technology Council as well as the Transatlantic Green Technology Alliance can serve as forums for such endeavors. Germany would also be well advised to initiate a strategically oriented national or EU-wide technology and innovation policy, especially in the field of emerging technologies. Strengthening its own tech capacities would have the additional benefit of making Germany a more attractive partner for the United States.

US sanctions policy: To shield Europe from US (secondary) sanctions and possible Chinese retaliatory measures, a longer-term plan for completing the monetary union needs to be worked out. This requires far-reaching reforms – namely, joint deposit insurances, the abolition of the state-bank nexus, the strengthening of crisis management capacities within the Economic and Monetary Union (EMU), and further financial as well as capital market integration. Such comprehensive steps would not only make the EMU more resilient; they would also help – at least in the long term – to make Germany less vulnerable in the face of a tougher US policy on China.

In general, the next German government and new members of the Bundestag should be aware that the solution of transatlantic and global problems as well as the increased focus of the United States on Asia will inevitably force Germany to assume greater international responsibility. Accordingly, they must keep an eye on the need to strengthen German and European capacities, and provide sufficient financial resources to support respective policies. The development of a comprehensive, long-term strategy that goes beyond tactical day-to-day business and the solution of, albeit important, individual problems is essential. For this purpose, it might be helpful to set up a National Security Council as well as a strategic planning task force at the Federal Chancellery.

In this memo series, DGAP offers concise analysis of issues related to foreign and security policy that will shape the agenda of Germany's next legislative period. Each memo provides insight on how the new federal government and parliament can take advantage of opportunities and meet challenges as European and global dynamics grow increasingly complex. Topics include technology, climate, migration, the international order, security, and geo-economics.

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