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# AICGS POLICY REPORT

**THE SPECTER OF UNCERTAINTY:  
POLICIES FOR STRENGTHENING THE  
TRANSATLANTIC RELATIONSHIP FROM  
THE NEXT GENERATION OF LEADERS**

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American Institute  
for Contemporary  
German Studies

JOHNS HOPKINS UNIVERSITY

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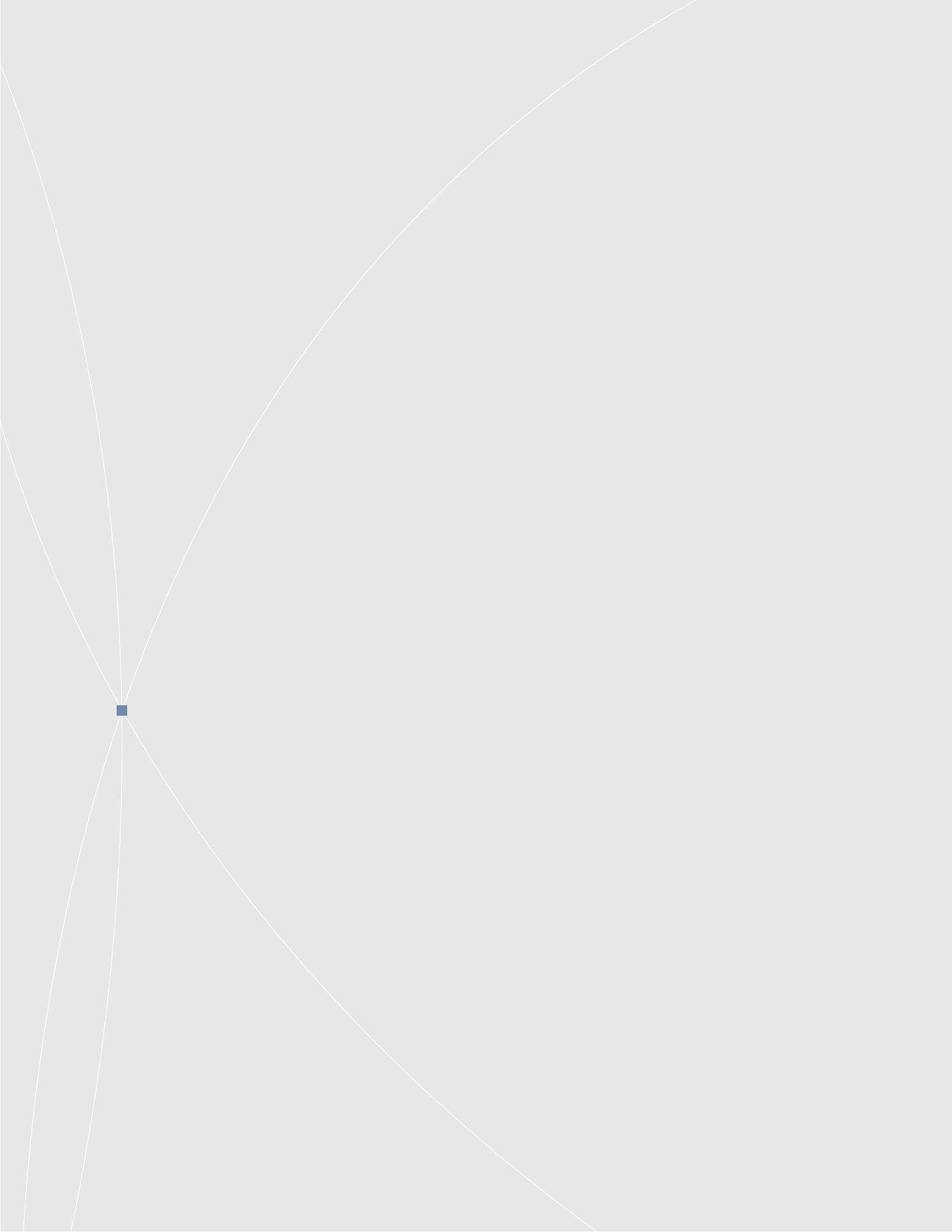
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## FOREWORD

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AICGS is pleased to present the written results of the first year of its new project “A German-American Dialogue of the Next Generation: Global Responsibility, Joint Engagement.” The six authors together with several other young Americans and Germans engaged with each other during the course of several months in 2016/17 in discussions to identify solutions to global issues of concern for the transatlantic relationship. The purpose of the project is to emphasize the important role of the next generation of transatlantic leaders and experts and to give them a platform and voice in the critical dialogue of crucial global issues that require joint transatlantic attention and solutions. The project participants come from a variety of disciplines and have a wide array of expertise. Representing the three AICGS Program Areas—Foreign & Domestic Policy; Business & Economics; and Society, Culture & Politics—the participants formulated a set of recommendations that were presented in a variety of venues and through innovative means. The essays presented in this Policy Report summarize the outcome of a year-long engagement with current critical transatlantic issues, which included the future of trade agreements, the role of civil society in conflict resolution, and the rise of populism as a threat to European cohesion.

The project intends to highlight the perspectives of the next generation of transatlanticists and to broaden the public debate about important issues. Digital media form a crucial element of the project. With frequent blogs, virtual meetings, tweets, and videos, AICGS is targeting new and established generations in order to draw them into the fold of the transatlantic circle. The project ultimately hopes to contribute to maintaining and expanding the transatlantic bond between the United States and Germany in a complicated world. AICGS is grateful to the first year’s participants for their enthusiasm and engagement as well as their innovative and creative contributions which have made this project such a success. For more information about the program, please visit the AICGS website at <http://www.aicgs.org/german-american-dialogue-next-generation/>.

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Director of Programs and Grants  
AICGS

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# THE FUTURE OF TRANSATLANTICISM THROUGH A U.S.-GERMAN LENS

RACHEL RIZZO

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For decades, the United States and Germany have shared a strong relationship based on mutual trust, cooperation, and commitment to common values. Since the end of the Cold War, the two nations have faced numerous hardships side by side, and have emerged stronger and with a better mutual understanding. Since reunification, Germany's progress over the last twenty-five years (and especially over the last decade) has led to significant benefits in the German-American alliance. It has emerged as a key player in Europe and "turned a past blighted by war and dominance into a present marked by peace and cooperation."<sup>1</sup> From its tireless efforts to try to broker peace in Ukraine, to its role in saving the euro zone from the brink of disintegration, to leading Europe's response to a migration crisis of historic proportions, Germany under Chancellor Angela Merkel has shown incomparable leadership in the face of adversity.

By no means have the U.S. and Germany had a perfect relationship throughout the years, but today, public attitudes demonstrate a relationship on the mend, as both U.S. and German citizens largely view each other in high regard.<sup>2</sup> However, with the surprising ascension of Donald Trump to the U.S. presidency in November, we must now wait and see how public attitudes may shift during his administration. Already, Chancellor Merkel is delicately balancing between working with President Trump while simultaneously avoiding the appearance of being overly supportive of him and his policies given the upcoming German election in September 2017.

Amid the numerous crises facing Europe, it will be critical for the U.S. president to rely on Germany as one of the strongest European voices and the two sides must ensure disagreements and different approaches to foreign policy do not hinder future

bilateral cooperation. From Washington's view, Germany will play an indispensable role in numerous areas of foreign, defense, and trade policy. To be sure, Germany is one of the most powerful players on the world stage with the largest economy in Europe (gross domestic product of over \$3.3 trillion<sup>3</sup>), and, more importantly, it has already made great strides to dispel of its reluctance to pursue a more active foreign policy role. The bilateral relationship between the United States and Germany will benefit from Germany staying this course, which will in turn create a bulwark against forces trying to tear the transatlantic relationship apart.

Over the last year, the Foreign and Domestic Policy group of AICGS' "German-American Dialogue of the Next Generation: Global Responsibility, Joint Engagement" program has worked to develop recommendations on strengthening the transatlantic relationship through the lens of German-American relations. These recommendations fall into seven categories: NATO, Russia, Brexit, crisis management and the Middle East, cybersecurity, counterterrorism, and trade. This essay will, from primarily a U.S. point of view, explain the policy recommendations in detail to help steer the future of the transatlantic relationship in a way that benefits both sides of the Atlantic.

## NATO

Perhaps the most pressing issue for the transatlantic relationship is a revanchist Russia and the future of the NATO alliance and, more broadly, the related implications for European defense policy. These issues are also among the most important facets of the bilateral relationship between Germany and the United States. The American public has grown skeptical of the outsized role America plays in European

defense, and political leaders within the U.S. are calling for European allies to do more in this arena. Germany's current leadership seems to understand this shift in attitudes among the American people. It is answering calls from many international leaders imploring Germany to increase its defense spending by planning to invest roughly \$8.9 billion over the coming years, with the goal of increasing its defense spending to over \$39 billion per year by 2019.<sup>4</sup> Germany should also encourage others within the alliance to increase their own contributions to Europe's common defense.

It is easy to forget, however, that over the last few years, alliance members have worked hard to reverse years of defense spending declines. While only five members of the NATO alliance meet the 2 percent of GDP on defense spending goal (the U.S., UK, Estonia, Greece, and Poland), the truth is that trend-line is reversing. Lithuania, Latvia, and Estonia intend to triple annual spending to \$670 million on arms and military equipment by 2018—in direct response to increased Russian aggression and its illegal annexation of Crimea.<sup>5</sup> Romania, Portugal, and the Czech Republic have all made significant increases to their budgets over the last few years. Furthermore, recently elected French president Emmanuel Macron has promised that he will increase France's defense spending to 2 percent from its current levels of 1.8 percent.

While Trump's complaints that Europeans are not meeting defense-spending targets surely resonate, he must make a concerted effort to publicly recognize the significant strides that Europeans have made. In this case, positive reinforcement can be as effective as his bombastic rhetoric about NATO free riding. Simply put, Trump must make it clear that, while it is important that Europe pay its share of defense spending, the United States will never abandon its treaty commitments. In terms of the future of European security, he must underscore that this is especially true of our commitments to NATO.

While there is no doubt that Donald Trump made disparaging remarks about Europe during his campaign, stating that he does not believe that the European Union matters much to the United States and calling NATO obsolete,<sup>6</sup> it is encouraging that

he has walked back on these statements since taking office.<sup>7</sup> Indeed, Europe and the United States are two of each other's closest allies and largest trading partners—we are connected through Western values and institutions as well as economic interests. As such, the United States must do its part to ensure this relationship continues.

## Russia

More than 100 days into the newly minted U.S. administration, a coherent Russia strategy has yet to be solidified, even in the midst of an official investigation into Russian meddling in the U.S. election. Today, relations between Russia and the West have escalated to the point of danger, which is neither beneficial nor safe for anyone. Leaders in both the United States and Europe would agree that de-escalating tensions between the two sides would be the best way forward for everyone—the challenge is creating a climate in which long-term de-escalation is possible. Putin has proven time and time again to be cunning and untrustworthy; one must simply point to Russian involvement in the Syrian conflict, its disinformation campaign and support for far-right parties throughout Europe, and its brazen grab of Ukrainian territory in 2014, to prove this point.

In terms of potential U.S. policy, President Trump's rhetoric thus far has been more "pro-Russia" than the Obama administration, which has made transatlantacists in both the United States and Europe concerned about what that might mean for U.S.-European relations. By now, it's clear that one of Trump's long-term goals is improving relations with Russia, but no one is quite sure how he intends to achieve that goal, especially in light of increasing tensions after the U.S. cruise missile strike on Bashar al-Assad's airbase in Syria. Two things are certain: to pursue better relations with Russia at the expense of our European allies would be a mistake, as would rolling back sanctions without Russia fulfilling any of its Minsk commitments demanded by many in the U.S. Congress and Europe.<sup>8</sup> Indeed, President Trump would benefit by publicly outlining his strategy toward Russia that includes concrete steps on how he intends to improve U.S.-Russian relations, and he must explain how his administration will respond to Russia's continuously destabilizing actions in the Middle East,

Europe, and the United States. Finally, a successful strategy should contain policy solutions to deter further Russian interference in Western elections.

### Brexit

The United Kingdom's Brexit vote on June 23, 2016, sent shock waves across the European political landscape. However, Brexit was not the only pressure point on the European Union in 2016. Indeed, it was a difficult year for the cohesion of the EU in general: disintegration from within, nationalist forces gaining ground, mass migration from the Middle East, and perhaps above all, its most important ally challenging the very notion of European integration and cohesion. In the weeks and months following the Brexit vote, a gloomy outlook befell Europe, and, with few exceptions, the main sentiment in European transatlantic circles seemed to be one of concern and confusion. Although the initial shock has worn off and Prime Minister Theresa May has officially invoked Article 50 (withdrawing the UK from the EU), the hard work begins now. It will not be an easy road.

However, according to some, the Brexit vote, combined with the unexpected November 8 election of Euro-skeptic Donald Trump, seems to have had somewhat of a catalyzing effect on European cohesion. The European Council on Foreign Relations recently conducted research among more than 100 officials and experts in universities and think tanks across EU capitals. They discovered that in many capitals these events created a "protective reflex" of their union.<sup>9</sup> Results showed that the overall commitment to EU membership remains strong, and in some member states, has even intensified.<sup>10</sup> However, creeping authoritarianism in Poland and Hungary, as well as the mainstreaming of nationalist candidates in key European states such as the Netherlands and France, suggest that the EU might not be immune from disintegration. The recipe for success discussed across the EU may, in fact, be the old concept of "different speeds" for different EU member states.

That numerous member states are now considering a "flexible union" is not a sign that the EU is on the edge of further disintegration. Instead, it could be an opportunity to make meaningful reforms to how the EU governs. But what does this mean for the future

of transatlantic relations? Above all, there is a need for realism on both sides of the Atlantic. The EU has already started to think of itself as a twenty-seven-nation organization, highlighted in the latest White Paper of the European Commission on scenarios for 2025.<sup>11</sup> This means that the UK and EU should begin scouting areas of cooperation as though the UK has already left, and the United States must do the same.

For the United States, this approach means recognizing the European Union as a single trade entity, and waiting for the UK and EU to finish their "divorce" agreement before discussing preconditions for U.S./UK and U.S./EU trade agreements. It will also be important for core countries interested in strengthening European cooperation to stay rigorously on message with their counterparts in the U.S. and to present a united front toward the UK. This means it will be just as important for the United States to keep open diplomatic channels, but avoid the temptation of involving itself too heavily and depending on the outcome of the negotiations.

### Crisis Management and the Middle East

Shifting south, the U.S. and Europe continue to grapple with challenges throughout the Middle East and North Africa (MENA) region. The conflict in Syria has no end in sight, and in fact, will most likely worsen. The international community is debating how to balance between assisting local forces in the fight against the Islamic State (IS) and avoiding prolonged entanglement in another drawn out overseas war. On top of all these issues, Libya is now effectively a failed state from which the Islamic State recruits and runs operations.<sup>12</sup> Because of protracted instability throughout the MENA region, Europe now faces a migration and refugee crisis of historic proportion. Thus far, Germany has borne the brunt of this crisis. As of 2016, more than 1.1 million migrants have crossed its borders, primarily from Syria, and it has seen 442,000 first-time asylum seekers.<sup>13</sup> The question becomes, how do Europe and the United States move forward together to effectively counter this threat and help stabilize the region?

Continuous conflicts on Europe's periphery make it clear that isolationism is not an option for either the United States or Europe. Donald Trump's pledge to

forcefully eradicate “Radical Islamic Terrorism” implies an ongoing and long-term U.S. commitment to the region—but the scope of its engagement appears to consist mostly of hard power, and the United States’ first-ever bombing of the Assad regime in early April demonstrates a potential shift in U.S. policy, yet it is too early to determine if this represents significant long-term deviation. If the U.S. focus is purely hard power based, economic stagnation, demographic pressures, and a region-wide lack of good governance will likely continue for the foreseeable future. Therefore, the new administration must avoid the temptation to “go it alone,” and should spend the next few months determining its long-term political goals for the region in cooperation with Europe. At the same time, Germany in particular must start making strides to dispel its reluctance to pursue a more active foreign policy role in the Middle East. Germany’s leaders should understand that they must play a role in resolving instability on Europe’s periphery. Specifically, there are steps Germany can take abroad to stem the flow of migration to Europe such as increasing humanitarian aid contributions to the Middle East and better policing the EU’s external borders. The U.S.-German bilateral relationship will benefit from Germany continuing on this path and taking ownership of foreign policy and defense at a time when Europe is aching for strong leadership.

At the Hannover Messe Fairgrounds in April 2016, former president Barack Obama highlighted that the U.S. needs more support from Germany in contributing trainers to help build up local forces in Iraq, and more commitment of economic assistance to Iraq so the coalition’s limited gains can be solidified.<sup>14</sup> The new administration must continue this policy, and outwardly support and encourage increased European efforts throughout the Middle East. John McCain recently tried to reassure Washington’s allies who are concerned that the United States is “laying down the mantle of global leadership.”<sup>15</sup> Coordination and common understanding between the EU and the U.S. is vital. Pitting regional forces like Iran, Turkey, and Saudi Arabia against each other, combined with political discourse that weakens solidarity in non-Muslim societies toward both the United States and Europe, are only two of many highly concerning developments that undermine Western interests in the Middle East.

## Cybersecurity

In the United States, cybersecurity has been at the forefront of political discourse, particularly in light of revelations that the Russian government likely illegally hacked the U.S. election with the goal of undermining confidence in democratic processes. Cyber-attacks by criminal hacking groups or supported by foreign governments are not only hurting European and U.S. institutions, but they pose threats to national security on both sides of the Atlantic, and could do long-term damage to the foundations of Western institutions.

To help counter this, the U.S. and EU should establish a permanent network of experts to pool information in order to enhance defensive capabilities and mitigate problems of attribution. Creating a permanent network of experts from both sides of the Atlantic could pool timely and precise information to improve defensive capabilities and mitigate one of the key problems in the cyber realm: attributing the origin of attacks. The group should consist of professionals from the U.S. Congress and the German Bundestag, the military/intelligence community, relevant corporations and the private sector, academia, and nonprofit/think tank analysts. This group should meet on a regular basis and make an effort to stay in constant contact and share intelligence during acute or urgent developments. The group could also assist in identifying mutual challenges regarding both the economic as well as the security dimension of cyber-attacks; it can share and pool expertise on legislative action with respect to protecting critical infrastructure. Perhaps above all, however, it will be important to work hand in hand with the private sector, especially with organizations that have a robust cyber operation like Amazon, Google, or Facebook.

The EU and the United States should together create incentives to strengthen a productive partnership rather than shy away from it. The group would also support, strengthen, and improve transatlantic intelligence cooperation, expand the bilateral conversation despite differing approaches to national security, and establish best practice measures regarding counter-terrorism, cyber defense, and online organized crime.

There is no doubt that differing approaches to privacy have muddied the relationship between the United

States and the EU at times, but it is in everyone's interests to try to work past this. It is important, therefore, for the U.S. and EU to not only maintain, but deepen dialogue about privacy and data protection concerns, and consider reforming the contested EU-U.S. privacy shield, which "protects the fundamental rights of anyone in the EU whose personal data is transferred to the United States."<sup>16</sup> As the EU-U.S. Privacy Shield is likely to be overruled sometime in the not too distant future, a timely replacement of this framework will be crucial to prevent negative effects on the global markets. The United States already created the U.S. Cyber Command in 2009, and the country benefits from nearly a decade of focused experience in military-led cyber warfare.<sup>17</sup> Germany's Ministry of Defense has only recently started to build its own command and to identify specific needs and structures.<sup>18</sup> Establishing cooperation between the U.S. Cyber Command and the emerging Bundeswehr Cyber and Information Space Command will not only benefit the U.S.-German bilateral relationship, but the U.S.-European relationship more broadly. Cyber challenges are a global threat and can only be mitigated by strong alliances.

### Counterterrorism

Counterterrorism is an issue that has plagued both the United States and Europe, especially over the past decade. The increased focus on eradicating terrorism has also led to increased anti-Western sentiment throughout the MENA region and has created a climate in which radicalism thrives. Germany and the United States share common interests and common ground in the realm of terrorism: both are looking to capture terrorists and prevent the next attack and have worked well together over the years to pursue these goals. This is not to say the counterterrorism cooperation relationship between the two has been perfect. In 2013, the National Security Administration (NSA) spying revelations put immense strain on the U.S.-German relationship, specifically as a result of the discovery that the NSA spied on Chancellor Merkel herself. This issue churned up deep-rooted differences in how each country views privacy laws and civil liberties, as well as what constitutes a strong ally. But despite this, Germany and the United States have tremendous interest in maintaining a productive counterterrorism

relationship. German access to NSA data remains invaluable—especially if the trend of ISIL-sponsored plots in Germany and Europe continue. The United States must therefore ensure that it continues to increase information sharing with Germany and its European allies.

Unfortunately, in the United States, not much is known about President Trump's approach to counterterrorism other than his goal of keeping terrorists out of the United States to begin with. Strict border security initiatives have become an integral element of the strategy so far, including a controversial "travel ban" from seven Muslim majority countries in the Middle East (including Iraq, Syria, Afghanistan, Somalia, Sudan, Iran, and Yemen), even though there have been no terrorist attacks in the U.S. caused by individuals from any of these countries.

It seems as of now, so-called "soft" measures designed to assist those radicalized individuals (phone hotlines, workshops, vocational training, targeted interventions, or counseling and exit programs) that feature prominently in Germany and other Western democracies, have taken a back seat to harder security measures in the United States. Trump also announced that the domestic "Countering Violent Extremism" program would be changed to focus solely on "Countering Islamic Extremism."<sup>19</sup> This move not only undermines previous strategies centered on engaging Muslim communities (through roundtables, communication networks, workshops, and other events designed to address community grievances and educate about government policies and civil rights), but also threatens to stigmatize Muslim Americans whose assistance is crucial for preventing radicalization and terrorism. Policymakers, politicians, and academics in the United States must continue to focus on developing relations with the Muslim world, both at home and abroad. This includes building trust and respect between law enforcement and local Muslim communities, as well as offering deradicalization assistance in congressional home districts.

### Trade

Since his election in November 2016, Donald Trump has begun the monumental task of reshaping U.S.

trade policy from its late twentieth century emphasis on liberalization to a focus on protectionism. In response, the European Union has recognized that the success of its own trade agenda could shape the future of trade and investment within the Western and developed world. However, the EU must now begin the difficult process of balancing U.S. goals with those of its own, making the coming decade critical for cooperation and the future of the U.S.-German and U.S.-EU trade relations.

Trump has made correcting the U.S. trade deficit a key political goal. However, Europe, much like Canada, has a different trade and investment relationship with the United States than lower-wage countries like Mexico and China, and the United States should thus approach its trade deficit with the EU with different policy prescriptions. The U.S. trade and services deficit relative to the EU (\$91 billion in 2014) is much more balanced relative to China (\$336 billion in 2015), but is, nonetheless, larger overall than the U.S. trade and services deficit with Mexico (\$49 billion in 2015).<sup>20</sup>

In April 2017, President Trump threatened to withdraw from NAFTA, prompting calls between Trump and Canadian prime minister Justin Trudeau and Mexican president Enrique Peña Nieto. In the wake of those calls, the White House released a statement saying, “President Trump agreed not to terminate NAFTA at this time and the leaders agreed to proceed swiftly [...] to enable the renegotiation of the NAFTA deal to the benefit of all three countries.”<sup>21</sup> Should the renegotiation successfully take place, it will likely be the defining piece of President Trump’s trade legacy. But because of this, it would be difficult to simultaneously alter other existing trade and investment deals without first understanding the future of NAFTA. European business leaders are understandably nervous that NAFTA could already reshape their trade relationship with the United States, and dual talks on both NAFTA and existing U.S.-EU trade and investment rules could delay and complicate their decisions to put further investments in the United States.

The Trump administration has made clear that it wants to deal bilaterally on trade issues, with White House National Trade Council Director Peter Navarro saying

recently that the U.S. wants to engage Germany bilaterally outside of the EU on trade.<sup>22</sup> Trump’s skepticism toward the EU, however, may actually stem from the fact that it is forcing the United States to negotiate with the entire bloc rather than through bilateral FTAs; the European Union has exclusive authority over trade negotiations, making it diplomatically impossible for Germany to negotiate changes on behalf of the European Union. The United States knows the issue is politically delicate due to Germany’s large trade and services surplus in the European Union, as well, but ultimately the United States should recognize that the EU is the institution that it must work with to address trade and investment issues in the bloc.

## Conclusion

In the midst of issues ranging from counterterrorism to trade, to the Middle East to Russia, what is clear is that this is a trying time for the transatlantic relationship. The European continent’s economic volatility coupled with growing external threats have proven difficult to handle, and the uncertainty surrounding the United States’ role in the world under the new administration has exacerbated these issues. Through strength and leadership, both Germany and the United States have the opportunity to seize on this time of uncertainty and work together to strengthen and preserve the transatlantic relationship. This means Germany must pursue a more active foreign policy by taking an increased leadership role within the NATO alliance, contributing to the counter-ISIL coalition, and maintaining a strong stance against Russian aggression. For the United States, it means maintaining its role as a global leader by not sacrificing too much diplomatic energy on European defense spending, and not allowing the relationship with Europe to falter in favor of other global relationships. It is also clear that the future of the transatlantic relationship will depend heavily on the strength of bilateral U.S.-German relations. This will secure common transatlantic goals and values and ensure the future success of the European project.

## Notes

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- <sup>3</sup> "Germany | Data," The World Bank, <http://data.worldbank.org/country/germany?view=chart>.
- <sup>4</sup> "Germany's von der Leyen calls for more NATO defense spending," *Deutsche Welle*, 30 June 2015, <http://www.dw.com/en/germanys-von-der-leyen-calls-for-more-nato-defense-spending/a-18551385>.
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# STABILITY WITHOUT STANDSTILL: HOW TO NAVIGATE TRANSATLANTIC SECURITY ON A ROAD UNTRAVELED

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In the past years, the transatlantic community has experienced a dramatic shift from the Peace Dividend that dominated the first two post-Cold War decades to an era of increasing uncertainty. Concerns range from the current state of the international order and the relations between those mandated by the UN Charter to safeguard it, to a wide set of non-state and transnational security challenges. In addition, the outcome of the 2016 Brexit referendum and U.S. elections accelerated populist trends, suggesting that the transatlantic partnership and respective institutions can no longer be taken for granted as bridges over such troubled waters. Quite the contrary, instead of remaining solid as a rock, U.S.-EU relations appear in deep trouble themselves, with its liberal-democratic political basis under attack from centrifugal forces and external rivals. Most worrisome, real alternatives to cooperation are scarce. The following essay examines intra-alliance and external hurdles for the transatlantic tandem on what surely is a road untraveled and provides an initial set of recommendations and suggestions for further policy debates.

## Eroding Trust in the Indispensable Partnership

Between early November 2016 and February 2017, the image of the United States as a trustworthy partner in the German public eye collapsed from nearly 60 percent to 22 percent—only 1 percent more than Russia.<sup>1</sup> These numbers illustrate major concerns held by the wider public about President Donald Trump's future commitment to the transatlantic partnership, in political, security, and economic terms, at a time when the sheer number of simultaneous crises calls for more instead of less engagement.

While President Trump's "flip-flopping" on whether NATO was obsolete in the past year is ascribed to his personal lack of understanding of the alliance's mandate and purpose, adjusting U.S. policy to material intra-alliance imbalances had been a core component of his campaign foreign policy platform. For instance, after German chancellor Angela Merkel's visit to Washington in March 2017, Trump tweeted that "Germany owes [...] vast sums of money to NATO & the United States." While this is certainly a new kind of rhetoric, European allies were well aware that there has been a broad consensus in the U.S. foreign policy elite—in and outside the government—for the last few years that a larger tangible commitment on their side is necessary. As proof, consider that officials of the previous administration, such as Secretary of Defense Robert Gates, who asserted in a speech at NATO on June 10, 2011, that NATO had become a "two-tiered alliance," expressed their frustration with a Europe that was acting as a free rider in security politics.<sup>2</sup> When asked in 2016 about his personal balance sheet of U.S. cooperation with partners overseas, Trump's predecessor Barack Obama made clear that the 2011 Libya intervention revealed a key flaw in current patterns of transatlantic security cooperation. In crisis situations "over the last several decades," he pointed to "people pushing us to act but then showing an unwillingness to put any skin in the game"—a complaint clearly directed toward Europe. In the specific case of 2011, Obama admitted self-critically that he had "more faith in the Europeans, given Libya's proximity, being invested in the follow-up."<sup>3</sup> On the one hand, the Obama administration attempted to challenge this lack of investment by actively pushing for a formalization of the anticipated increase in European alliance commitment after the beginning of the Ukraine crisis. Most prominently, this was the case at the 2014 NATO

summit in Wales, when member states formally pledged to increase national defense spending to 2 percent of their GDP. On the other, Obama's approach to the Syrian crisis; the withdrawal from Iraq; and his general reluctance to commit robust resources to mitigate a deteriorating security situation in Northern Africa, Southwest Asia, and the Arab Peninsula made it apparent to local partners that, in order to achieve their own security and stability goals, they would have to put more "skin in the game." This was especially the case for those European states that were most affected by transnational challenges like the refugee crisis in 2015 and the threat of jihadist terrorism.

The European Union's, as well as individual member states', eagerness to adjust to dramatic changes in their immediate security environment was reflected in a number of discussions and documents published throughout the last few years. Many of them implicitly addressed Obama's perceived unwillingness to engage militarily (and to a certain extent also diplomatically) in areas where American national security was not directly at stake. In the summer of 2016 alone, such deliberations ranged from the EU's "Global Strategy for the European Union's Foreign and Security Policy" and parallel discussions about the establishment of a European Army to the "White Paper on German Security Policy and the Future of the Bundeswehr." The latter one resulted from months of public deliberations on Berlin's future role in European and international security. The terror attacks in Paris and Brussels, the collapse of the Dublin II agreement under the burden of the refugee crisis, and the outcome of the Brexit referendum in June 2016 gave additional momentum to European attempts to define their security interests against the background of inherently European challenges. Nevertheless, the United States remained the fixed star of these discussions. On the one hand, this is because even an enhanced political will to share the military burden in crisis management and counterterrorism efforts cannot make up for the lack of military capabilities and in this specific context, political experience. This becomes apparent when, for instance, assessing the European contribution to air force and training missions in the Global Coalition against the self-proclaimed "Islamic State" Organization (ISIL). On the other hand, while the U.S. administration

demanded more tangible commitments from the European partners to alliance security, there was little readiness to address at the same time a growing and dangerous trend of divergence with regard to security interests and preferences on both sides of the Atlantic.

In order to address joint challenges effectively and in a cooperative manner, even longstanding partners need consensus on their respective interests. What is the specific challenge that, for example, Russia poses to European stability? How does this affect U.S. security preferences in a global context? In a consecutive step, it needs to be understood on both sides of the Atlantic that bi- as well as multilateral coordination and clear divisions of labor might initially decrease autonomy benefits of unilateral action. In the mid and long term, however, they bring additional resources along, as well as positive synergies and long-term security gains for all stakeholders. After the election of Donald Trump, however, who had called NATO obsolete and Article 5 into question if allies wouldn't fulfill their financial obligations, discussions over burden sharing instead of common interests gained additional ferocity. With Trump's exceptionally strong focus on hard security capabilities and disregard for instruments of conflict mediation and long-term stabilization through development, some European leaders could aim for a new bargain.

In his speech at the 53<sup>rd</sup> Munich Security Conference in February 2017, German foreign minister Sigmar Gabriel criticized European politicians for their containment reflexes when dealing with the challenges of the southern periphery. First, there is a strong moral obligation to act stemming from no less than eleven high-intensity conflicts in Afghanistan, Egypt, Iraq, Libya, Syria, Turkey, and Yemen. Second, state collapse and mass displacement are only two of the colossal transnational consequences of these wars that have a direct effect on the EU. Trump publicly announced a Jacksonian revolt in foreign policy during his January 20, 2017, inaugural address that emphasized "America First," continued the trend under Obama to refrain from seeking "to impose our way of life on anyone," and claimed that the U.S. had "spent trillions of dollars overseas" while its own infrastructure has fallen into despair.<sup>4</sup> European leaders, however, have no choice other than to actively

address the challenges in the Middle East and North Africa. For them, isolation is not a credible option.

Trump's pledge to forcefully eradicate "radical Islamic terrorism" implies an ongoing U.S. commitment to the region—but the scope of this engagement appears to be mostly militarily, and could include pragmatic deals with authoritarian leaders that sideline civil societies. During the campaign and after becoming president, he advocated the creation of safe zones in Syria where thousands of internally displaced persons could, as Trump said during a 2015 rally in Knoxville, Tennessee, "have whatever it is so people can live, and they'll be happier."<sup>5</sup> Yet, such measures seem unlikely to address the general causes of conflict in the region: economic stagnation, demographic pressures, and an endemic lack of good governance. Although John McCain, chairman of the Senate Armed Services Committee, tried to reassure Washington's allies at the Munich conference that the U.S. wouldn't lay down the "mantle of global leadership," few expect Obama's often-criticized Middle East policy of ad hoc containment, military counter-terrorism strategies, and short-term, limited stabilization efforts to change under Trump. Beyond the people in the region finding themselves between the rock of repressive regimes and the hard place of state collapse, it is the Europeans that will bear the brunt of these crises and need to reorient their own commitments accordingly.

A "Marshall Plan for the Middle East" is one of the many strategies Germany and other Europeans could pursue to generate long-term stability, growth, and integration in the region. It will be a nonstarter, however, if not founded on an economic base that encourages trade instead of foreign aid, political conditionality that goes beyond border security, and readmitting rejected asylum seekers. In addition, a sense of commonality among regional states, on the one hand, and between European and regional societies, on the other, is needed. In all three aspects, coordination and a common understanding between the EU and the U.S. are vital. Pitting regional forces like Iran, Turkey, and Saudi Arabia against each other and a political discourse that weakens solidarity in non-Muslim societies toward the region are only two of many highly concerning developments that undermine vital European interests in the South. Gabriel

stressed the need for a more comprehensive approach to the region, arguing that crisis prevention and mediation, reconstruction, and economic cooperation and development can contribute to peace and stability "to a much larger extent than any form of military spending." In addition, Minister of Defense Ursula von der Leyen, Chancellor Merkel, and former Federal President Joachim Gauck, who came out in support of a 3 percent goal (which would include development assistance and other non-military stabilization measures), stressed the idea of a meaningful stabilization. Such comprehensive strategies appear to be both tailor-made to European long-term interests in the region and sellable to an electorate overwhelmingly against increased military spending.

#### Brexit & Turkey: The EU Needs More, Not Less, U.S. Involvement In Its Neighborhood

In early 2017, the European project faces at least two fundamental internal challenges. First, the reality of Brexit and authoritarian, anti-European trends in several member states, most prominently Hungary and Poland, has made effective cooperation more difficult. Hence, Europe failed to formulate a joint response to the refugee crisis and the challenge by Russia. Second, the mixed balance sheet of EU attempts to transform key neighbors into stable democracies through the process of enlargement, combined with the obvious lack of alternative strategies, dealt another blow to the utility of formalized regional integration for U.S. interests in Europe.

Great Britain's decision to leave the EU on June 23, 2016, confronted the Union's institutions and advocates of integration with their worst nightmare: formal disintegration. And yet, after the initial shock one could observe a remarkable "closing the ranks" momentum among most of the remaining EU-27, at more than just the political level. More than 20,000 people in over forty European cities went to the streets in Spring 2017 to support the pro-European citizen initiative "Pulse of Europe." This was accelerated, however, by growing concerns that the traditionally strong U.S. commitment to European integration would not be upheld by Obama's successor. In contrast to Obama, Trump openly supported the "Leave" campaign, whose leader and former UK Independence Party (UKIP) head Nigel

Farrage became the first British politician to meet the president-elect in November 2016. Trump also indicated in January that others might leave as well in order to maintain or even take back their identity. This in turn drew the ire of Commission president Jean Claude Juncker who threatened to “promote the independence of Ohio and the exit of Texas,” if Trump, who according to him “does not understand anything about Europe,”<sup>6</sup> wouldn’t cede his support for secessionist movements in the EU. And yet, spillover effects can only hardly be contained: Hungary’s prime minister Viktor Orbán not only explicitly welcomed the so-called “Muslim ban,” an executive order Trump signed in late January to temporarily prohibit citizens of seven Muslim-majority countries from entering the United States. He also praised Trump’s presidency as a long-awaited “end of multilateralism.”<sup>7</sup> Emboldened by Trump’s tough stance on Syrian refugees, Hungary announced plans to automatically detain asylum seekers, thereby openly defying EU immigration directives. In times when the Union struggles to maintain an image of cohesion to such an extent that some could even see the EU at risk of internal collapse, Juncker’s confrontational reaction to Trump’s at best lack of interest in the survival of the EU is comprehensible. It is yet unlikely to increase the U.S. administration’s genuine commitment to the future of the European Union. The EU would be well advised to include the U.S. administration proactively in the Brexit negotiations, especially in the fields of crisis management, defense, and intelligence, where Washington has a strong interest in enhanced cooperation among European states and could even take on a mediating position.

Transatlantic relations also influence how the EU can shape political dynamics in its own neighborhood. In March, the U.S. Senate ratified Montenegro’s accession into NATO, underlining its commitment to the alliance’s open door policy and resolve, especially in times of increased rivalry with Russia over influence in Southeast Europe. At the same time, European leaders recently commended Podgorica for the substantial reform efforts and results achieved since the beginning of formal talks in 2006. In the EU Commission’s 2016 assessment of the accession process, it had identified Montenegro as having the highest level of preparation for membership among all negotiating states. NATO and EU integration poli-

cies in the Western Balkans appear to be harmonious—at least for now. At the same time, the outlook for smooth cooperation between Washington and Brussels vis-à-vis another EU candidate, Turkey, is rather grim. This holds even more potential for conflict within the transatlantic partnership. A member of the alliance since 1952, Turkey plays a vital role for NATO, European, and U.S. security as a hub for operations and communication lines into the Levant and Southwest Asia. It is also key for maintaining a credible deterrence vis-à-vis Russia and Iran. Since 2011 and the outbreak of the Syrian Civil War, but most importantly since the military and terrorist offensive of ISIL in 2014, Turkey has gained tremendous strategic importance. This includes efforts of the global military and political coalition the United States formed in September 2014, ranging from airstrikes against ISIL positions and monitoring foreign terrorist fighter travel to humanitarian support for Syrians displaced by the fighting and harsh conditions in rebel-held areas. Despite, or even because of, Turkey’s crucial position, Ankara’s initially lukewarm commitment to the fight against ISIL became a source of tension between Turkey and its NATO allies once Washington made this a number one priority in Syria and Iraq in the second half of 2014. Moreover, the Obama administration, as well as the EU, voiced increasing criticism of authoritarian trends in Turkey’s domestic politics after the 2013 Gezi Park protests, which soured relations further. However, the dramatic increase of security challenges stemming from the unresolved Syrian Civil War, such as the refugee crisis and the surge in jihadist violence, weakened external support for democratic forces inside Turkey in a trade-off against transactional intergovernmental cooperation initiatives such as the EU-Turkey readmission agreement.

Yet, given the significant drop in refugee arrivals, liberal forces in Europe under siege by right-wing parties, and the speed of Turkey’s transformation into a nearly unchecked presidential system, the incongruity between Turkey’s domestic politics and the ongoing EU accession process has become a major source of contestation. On the other side of the Atlantic, transactional trends were rather reinforced since the 2016 election, given Trump’s explicit focus on the fight against ISIL and the planned offensive on the group’s Syrian capital Raqqa, which is expected

to rely heavily on Kurdish forces Turkey sees as hostile. In the course of the April 2017 referendum on the introduction of the executive presidential system, the current lack of EU-U.S. coordination reached a new level. The day after the referendum, most European leaders sided with the Organization for Security and Cooperation in Europe (OSCE), which had criticized heavily biased media coverage and limitations on fundamental freedoms, creating a framework inadequate for the holding of a genuinely democratic process. Trump instead personally congratulated Turkish president Recep Tayyip Erdogan on his highly-contested victory. Many observers agree that Turkey's chances of joining the EU as the result of a successful democratic transition have reached a historic low. While transactional policies appear to be most promising to reach short-term goals, an alternative strategy to stabilize Turkey in the long-term has not been developed yet on either side of the Atlantic. Hence, while acknowledging the criticality of Turkey to their common and individual security goals, both the EU and the U.S. are well advised to search for better-coordinated and more consistent policies vis-à-vis Ankara.

#### Russia, Counter-ISIL, and Cyber Threats: Maintaining Joint Strategies and Benefitting from Best Practices

The—to say the least—problematic relations with Russia are likely to remain on the agenda of the transatlantic relationship. In office since January 20, the Trump administration has yet to put forward a strategy of how to achieve the improvement in relations with Russia that the president promised during his campaign, while at the same time addressing Russia's ongoing destabilization in several crisis theaters in its southern and western neighborhoods. Investigations into outright Russian interference in the 2016 elections in favor of the Trump campaign appear to impede any formulation of a coherent strategy toward Moscow. Several European allies, who face additional pressure from Russia with key elections coming up *inter alia* in Germany, fear outright U.S. abandonment in their efforts to pressure Russia into fulfilling its Minsk commitments toward Ukraine through sanctions. To maintain coercive policies in this case requires allies on both sides of the Atlantic to confirm or jointly redefine their strategic

interests. Anticipating the disastrous political consequences a U.S.-initiated collapse of the sanction regime prior to a fulfillment of the Minsk agreements would have, Europeans need to convince Washington that maintaining both sanctions and alliance coherence is of vital interest for the U.S. Rolling back on these sanctions unilaterally, be it as a sign of political accommodation or—as many understood the question Secretary of State Rex Tillerson posed at a G7 foreign ministers meeting in Italy in April, “why should U.S. taxpayers be interested in Ukraine?”—of outright disinterest, would put Washington’s commitment to the principle of border security in question.<sup>8</sup> It would also stand in stark contrast to decades-long U.S. efforts to turn Europe—including its periphery—into a “zone of peace, trade, and commerce,” catering to U.S. economic and security interests. Although recent conflicts over Syria appear to have decreased the likelihood of a rapprochement at any costs, a coherent and coordinated strategy on how to deal with a Russia destabilizing its European neighborhood needs to accompany every policy initiative.

While the clarification of the U.S. administration’s Russia policy appears to be a ways off, counterterrorism in general and the fight against ISIL in particular has been a clear national security priority of the Trump administration. Given the dramatic increase of jihadist terrorist attacks in Europe since 2014 and the subsequently growing commitment of European allies to engage militarily in the fight against ISIL in Syria and Iraq, there is a growing potential for policy convergence beyond current and past cooperation, e.g., in Afghanistan. Recent steps like the appointment of German diplomat Arndt Freytag von Loringhoven as NATO’s first Assistant Secretary General for Intelligence and Security have been acknowledged in Washington as heading in the right direction. However, whether he will be able to successfully merge NATO’s civilian and military intelligence strands ultimately depends on the members’ commitment to enhanced and integrated intelligence sharing within EU structures. While bilateral sharing procedures remain key for the prevention of attacks in the short term and Brexit might complicate matters additionally, the U.S. has an interest in the enhancement of both EU integration in this field as well as improved cooperation with key third countries like

Turkey, Tunisia, and the United Kingdom.

### Moving Beyond Intergovernmental Relations as a Way Forward?

The rather awkward first personal encounter between Merkel and Trump in March 2017, as well as the outright hostility of members of the U.S. administration toward the European Union, has made it clear to many observers that much more time could be required to restore the sense of partnership needed for a functioning work relationship.

During their joint press conference, Trump joked that they had at least one thing in common: being spied on by Barack Obama. And indeed, the National Security Agency (NSA) affair in 2013 compromised longstanding cooperation with the agency's European partners in the field of homeland security and massively disrupted German belief in the U.S. as a respectful and trustworthy partner in the eyes of the public. While there is a strong conviction on the governmental level and among a wide number of experts that enhanced cooperation in counterterrorism and cybersecurity affairs continues to be necessary and of mutual benefit, the success of implementing those policies will also depend on allies' ability to mitigate the freedom versus security dilemma. Given the overwhelmingly negative perception of the outcome of the 2016 election in the German public, and the increasingly assertive role of John McCain and other prominent members of the U.S. Congress as security policy interlocutors between Washington and Europe, some observers suggest to at least temporarily use existing ties on the parliamentarian and sub-state level as communication and deliberation channels, generating bottom-up pressures for cooperation and consensus.

In the case of cybersecurity, permanently established working groups could help to coordinate the various and at times incompatible interests of parliaments and civil society, security forces, and intelligence agencies, as well as the private sector and industry in this field. Think tankers could inform these debates, help stakeholders to identify and communicate their interests, and moderate potential conflicts. And still, a "one-size-fits-all" approach would surely not do justice to the highly complex and multilayered issue:

Securing the protection of critical infrastructure requires highly specific and technical cooperation among few and pressure for cooperation is high. Moreover, most observers agree that recent European efforts to enhance their military cyber capabilities through establishing formal cyber command structures are not only welcomed by their U.S. counterparts but will be strongly relying on best practice exchanges across the Atlantic. However, unaddressed privacy/data concerns can, especially after in the "Post-Snowden era," quickly escalate and have the potential to reduce leeway for policymaking significantly. Hence, while already contested practices like the EU-U.S. privacy shield need to be reformulated and replaced, maintaining the Bundestag's and civil society organizations' thorough inquiry into NSA activities in Germany and the role of national services is key to restoring public trust in these institutions and mobilizing societal support for much needed cooperation.

Informing and engaging the public is also important with regard to crisis management, especially amid a growing trend of ad-hoc, transactional, intergovernmental, and narrowly-focused engagements like the EU-Turkey refugee deal or the deliberate waiving of a vetting of local allies in return for support in military counterterrorism operations in Syria and Iraq. These measures threaten to undermine the sense of commonality and solidarity needed to generate sustainable support—on all sides of the equation.

Hence, when defining common interests and goals in the periphery, formulating policy responses and patterns of cooperation, and, most vitally, generating public discourse and legitimacy for the latter, parliaments play a crucial role. Unfortunately, a nearly bipartisan initiative to enhance the oversight and evaluation activity of the Bundestag on all military engagements—including a growing number of training missions in the Middle East—was recently stalled and the parliament barely devotes a similar level of attention to exactly those non-military stabilization measures that were emphasized by the government at the Munich Security Conference. Especially as addressing the challenges stemming from the Middle East includes complex and cooperative policies with a wide range of partners, risks of mission creep and opacity loom large. Hence, parliamentary control and

debate are vital for proactively communicating measures of foreign and security policy, which enhances the credibility and sustainability of commitments abroad.

For more than three decades, members of Congress and the Bundestag have regularly come together in bilateral study groups or multilateral formats like the NATO parliamentary assembly, thereby providing a key channel of communication between both countries. Besides enhanced information sharing, focus groups or even joint sessions of the House and Senate Committees on Foreign Affairs and the Bundestag's Foreign Relations Committee (*Auswärtiger Ausschuss*) on the developments in the Middle East could help to generate a better and, most importantly, common understanding of the challenges stemming from the region and the appropriate means to address them in a multilateral, comprehensive, and coordinated way.

Finally, moving beyond intergovernmental practices could also be helpful for other policy issues where initiatives on the state level appear to have already slowed down. One of these issues could definitely be the need to address global climate change, which candidate Trump had at one time even dismissed as a conspiracy. Several months into the Trump presidency, the administration continues to send mixed messages on the issue, including on the survival of the COP21 agreement and the general interest to regulate *inter alia* emission of fossil fuel production. Twinning programs, for instance on cap and trade systems, on the sub-state level could not only help to preserve the momentum of previous initiatives and serve as laboratories for best practices, but are expected to generate bottom-up pressures and initiatives that could affect also national policies, especially as public concern over climate change has steadily risen over the last few years among the U.S. electorate.

Especially in times of post-truth politics and fake news it is vital to acknowledge that in order to formulate and implement cooperative policies, the often-cited base of common values is more than a "nice to have." Mass protests against the Transatlantic Trade and Investment Partnership (TTIP) in Germany or intense public controversies over privacy/data protec-

tion and intelligence-sharing after the revelations of former NSA employee Edward Snowden in 2013 underlined the difficulties for governments to mobilize domestic support for international cooperation in areas dominated by a zero-sum thinking and popular distrust. Hence, European leaders have to take the high interest of the Trump administration in matters of burden sharing into account and demonstrate their willingness to implement the 2014 Wales pledge.

Yet, they should also underline the importance of the European pillar of transatlantic security that makes U.S. alliance commitment a valuable investment rather than a waste of resources. Both would serve the European case in discussions on "fairness" and "relevance" and could also prevent what Gates, Tillerson, and many others have hinted at: a growing indifference in the U.S. electorate toward far away countries and subsequent difficulties for any U.S. government to mobilize domestic support for policies directed at the protection of partners overseas. In a similar vein, European leaders should refrain from giving in to pressures of the election cycle, but engage in honest and sincere discussions with their own societies about security interests, priorities, and respective investments. New initiatives like a meaningful stabilization à la Europe could be a first step in the direction of enhanced European agency in the transatlantic alliance. However, to make sure that this will not be understood as another smoke screen to dodge international responsibility and to prevent being pitted against each other, European allies, and especially Germany, have to first put their money, military, and diplomatic (wo-)manpower where their mouths are and work toward a more coherent security outlook, enhanced policy coordination, and functioning institutions. Thereby, Europe can enhance and diversify both communication channels and levels of entry in the U.S. policymaking discourse and generate bottom-up pressures for maintaining or even improving cooperation on intergovernmental levels. While the transatlantic tandem should certainly prepare for a bumpy ride, such measures could serve as training wheels that help moderate the political debate and prevent those differences that have caused the current puncture from turning into a full breakdown.

## Notes

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# POLICY RECOMMENDATIONS FOR STRENGTHENING TRANSATLANTIC TRADE IN CHALLENGING TIMES

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## The Issue

Global free trade, a central element of the liberal international order that has brought prosperity and security to the West for the last seventy years, is under threat. Calls for protectionism are on the rise—not just in the U.S., but also in Europe.

Though many countries have shaped the current world order, the U.S. has been at the forefront of efforts to establish the global trade architecture in the post-World War II period. The U.S. has played a key role in establishing the General Agreement on Tariffs and Trade (GATT) and subsequently the World Trade Organization (WTO). As progress to liberalize trade multilaterally has stalled, the U.S. has turned to negotiating bilateral and regional free trade agreements around the world, such as the North American Free Trade Agreement (NAFTA). The U.S. currently has fourteen free trade agreements with twenty countries.<sup>1</sup>

However, under the presidency of Donald Trump, the U.S. will pursue a more protectionist trade policy agenda. The president and his key cabinet members and advisors see trade as a zero-sum game in which trade deficits have allowed foreign countries to steal U.S. manufacturing jobs. On the campaign trail, Donald Trump promised to renegotiate or withdraw the U.S. from NAFTA, impose tariffs of up to 35 and 45 percent on imports from Mexico and China, respectively, and crack down on unfair trade practices. He even threatened to pull the U.S. out of the WTO.

The Trump administration's trade policy so far seems less radical than the campaign rhetoric suggested. While President Trump has delivered on the promise to withdraw the U.S. from the Trans-Pacific

Partnership—an agreement with eleven countries along the Pacific Rim that was reached and signed by President Barack Obama—on many other fronts he has taken a more moderate path. China has not been labeled a currency manipulator—neither on day one of Trump's presidency nor later. So far, no new across-the-board tariffs have been introduced, and the proposals for renegotiating NAFTA seek mostly modest changes.<sup>2</sup> The risks of an outright trade war—especially between the U.S. and China—seem to be receding.

Nonetheless, the key guiding principles outlined in the President's 2017 Trade Policy Agenda—in particular the focus on reducing the U.S. trade deficit—suggest that U.S. trade policy will take a more protectionist turn under President Trump compared to recent administrations.<sup>3</sup> In addition, the G20 communiqué after the March 2017 meeting of finance ministers and central bank governors as well as the recent International Monetary Fund (IMF) spring meeting statement removed previous language to "resist all forms of protectionism" at the insistence of the U.S. This is a sign that the Trump administration's stance is taking a toll on the global trade debate.

The future for negotiations of the Transatlantic Trade and Investment Partnership (TTIP) between the U.S. and EU is uncertain in the face of both the Trump presidency and growing trade skepticism in Europe. Since Trump's presidential win, talks concerning the Trade in Services Agreement (TiSA), which would include the U.S. and EU alongside twenty-one other WTO members, are also on hold. If any new trade agreements move forward under Trump's presidency, they would most likely be on a bilateral basis, such as a UK-U.S. free trade deal.

For Germany as an export powerhouse that depends on open markets, a more protectionist U.S. would have significant adverse consequences. New trade barriers in the U.S.—the number one destination for German exports in 2016<sup>4</sup>—would be a serious threat to the German economy and have the potential to sour relations between Washington and Berlin. More broadly, a rise in protectionist measures around the globe would also hamper demand for German products and impede German economic growth.

Germany is under scrutiny from the Trump administration. In 2016, the U.S. ran a merchandise trade deficit of \$65 billion with Germany.<sup>5</sup> This ranks Germany as the third largest contributor (after China and Japan) to the overall U.S. trade deficit. Peter Navarro, the Director of the White House National Trade Council, recently renamed Office of Trade and Manufacturing Policy (OTMP), has argued that the U.S.' trade deficit with Germany is “one of the most difficult” issues for the U.S. to address in bilateral discussions.<sup>6</sup> He also claimed that Germany is exploiting a “grossly undervalued” euro to gain an export advantage.<sup>7</sup> As president-elect, Trump warned that the U.S. would impose a tariff of 35 percent on cars that German carmaker BMW plans to produce at a new facility in Mexico and export to the U.S.<sup>8</sup>

Germany is also facing its own backlash against trade. Support for TTIP is low—even though Germany’s economy would benefit from better access to the U.S. market. At the end of 2016, slightly more than half of all Germans (52 percent) were against the planned free trade agreement between the U.S. and EU, while only 32 percent supported TTIP. In contrast, EU-wide, 53 percent of citizens on average viewed TTIP favorably and only 34 percent negatively.<sup>9</sup>

At the helm of this year’s G20 presidency and host of the G20 leaders’ summit on July 7-8, 2017, in Hamburg, Germany has a chance to help move the trade debate forward. In its “Priorities of the 2017 G20 Summit,” Germany announced that it would launch a discussion on the opportunities and risks of globalization.<sup>10</sup> Under German leadership, the G20 will also address the impact of digital technology on trade.

Trade is an important driving force for economic growth in both Germany and the U.S.—contributing to 86 percent and 28 percent of GDP, respectively.<sup>11</sup> Transatlantic trade and investment ties are strong, with the U.S. and the EU having the largest economic relationship in the world.

The growing trade skepticism on both sides of the Atlantic and increase in protectionism around the world necessitates action. To this end, the Business & Economics Group of AICGS’ project “A German-American Dialogue of the Next Generation” suggests the following policy proposals.

### Policy Recommendations

#### PROPOSALS FOR THE GERMAN / EU SIDE

##### **Bust Trade Myths**

Reducing the U.S. trade deficit is a key aim for the Trump administration. However, trade deficits are not bad *per se*. While they can have a detrimental impact on a country’s economic outlook, trade deficits are also linked to higher levels of foreign direct investment—which is widely recognized as beneficial for the U.S. economy. Protectionists who harp on the trade deficit see exports as good and imports as bad. However, imports are a way to source goods and services of a greater variety, better quality, and at a lower price. With Germany being one of the countries at the focus of the Trump administration’s concerns about trade deficits, Germany should take steps to dispel the myth that “exports are good, imports are bad.” Instead, the narrative should be changed to “exports are good, imports are good.”

A second myth is that by closing the U.S. trade deficit, jobs that were lost could be brought back. While import competition has led to job dislocation for individuals in adversely affected U.S. industries and regions, the impact of technological progress on the labor market is much larger. For example, a study by Ball State University finds that almost 88 percent of job losses in manufacturing can be attributed to productivity growth and automation.<sup>12</sup> Better communicating these underlying forces and their impact on jobs would promote the understanding that protectionism cannot be an adequate solution to deal

with technological change and will not bring back U.S. manufacturing jobs. Instead, protectionism puts current and future U.S. jobs at risk.

Finally, the myth that bilateral trade deals will serve the U.S. better than regional or multilateral deals must be dispelled. The perception is that the U.S. could better leverage its economic muscle in bilateral talks compared to a trade deal with multiple partners, where each party would make demands on the U.S. and take away from its negotiation power. However, trade negotiations nowadays are less about tariffs and market access, and increasingly about standards. Thus, trade agreements that establish rules among a group of countries can help to set the rules of the road. The more countries sign on to those rules, the better.

#### **Highlight Benefits of Trade in New Ways**

Trade is essential for economic growth, jobs, and prosperity on both sides of the Atlantic. But simply rehashing the old arguments in support of free trade is not enough. Instead of focusing on the aggregate (and often abstract) benefits of trade, policymakers and the business community should provide specific examples of how trade benefits individual citizens. In addition, supporters of free trade should increase efforts to illustrate how an ordinary product is made along the global value chain, so that citizens get a better understanding of how much trade impacts their daily lives.

In trying to communicate the benefits of trade to the current U.S. administration, German policymakers and industry should highlight how transatlantic trade and investment strengthens the U.S. economy. For instance, almost 700,000 U.S. workers are employed by German companies.<sup>13</sup>

To promote the merits of an open and rules-based international economic order, the German side should also stress that a predictable and stable trading system is in the interest of the U.S., which is the world's largest importing country and second largest exporting country.<sup>14</sup>

In those areas of the international trade arena where the U.S. recedes, the EU—with leadership from

Germany—should consider stepping in to make the case for the rules-based international order and champion globalization. In addition, as EU Trade Commissioner Cecilia Malmström has already highlighted, the EU should speed up negotiations with those countries in the Asia-Pacific region that the U.S. is walking out on by having withdrawn from TPP.<sup>15</sup>

#### **Address Valid Concerns**

To engage in constructive debate with the new U.S. administration, German policymakers need to strike a careful balance between defending their positions and listening to valid concerns. This will be particularly important concerning the issue of Germany's large trade surplus with the U.S. On the one hand, Germany should continue to stress that its trade surplus with the U.S. is a sign of economic success and that American firms and consumers want to buy German products. Germany should also continue to explain its trade surplus is not the result of a deliberate currency manipulation because the independent European Central Bank (ECB) conducts monetary policy.

On the other hand, and despite some of the flaws in the Trump administration's trade logic, German policymakers should take legitimate criticism seriously. The concerns regarding Germany's structural trade deficit have not only been raised by Trump and his team, but have been voiced for years by the IMF and many G20 countries as well as within the EU itself. Germany's trade surplus currently represents 7.6 percent of the country's GDP.<sup>16</sup> German policymakers should acknowledge that this macroeconomic imbalance is exacerbated by a weak euro. Though Germany has little control over the value of the euro, the country should take other steps to reduce its surplus. Germany should further increase its domestic demand and investment. Ultimately, it is in Germany's own interest to invest more at home, for example, in public infrastructure, education, and research and development. These measures would support Germany's long-term economic growth and competitiveness while at the same time help to reduce the structural trade surplus.

## **Foster Engagement with the U.S. at Various Levels**

Though President Trump and his team have voiced their preference for dealing with individual EU member states on a bilateral basis instead of engaging with the EU as a single actor, German and other EU leaders should reiterate that individual EU member states cannot negotiate bilaterally with the U.S. as trade policy falls under the exclusive competency of the EU. Chancellor Merkel's repeated explanations to President Trump and his key advisors that trade negotiations are bilateral between the U.S. and EU—and not between Washington and EU member states' capitals—seem to have raised awareness in the new administration.<sup>17</sup>

German and European leaders should not fall victim to a doom-and-gloom mood, but actively engage with Trump's trade advisors. There are pro-free trade and moderate voices among the group of Trump advisers. For instance, Europeans will likely find receptive ears among Mike Pence (Vice President), Rex Tillerson (Secretary of State), and Gary Cohn (Director of the White House National Economic Council).

No doubt, trade discussions at the governmental level will be difficult across the Atlantic. Thus, maintaining and fostering multiple channels of communication is more important than ever before. States and cities play a significant role in promoting transatlantic trade and investment ties. For instance, Germany is a significant export market for California, South Carolina, and Texas.<sup>18</sup> There is also a robust transatlantic network for dialogue among the business community, legislators, think tanks, and civil society. These initiatives should be strengthened.

## **PROPOSALS FOR THE U.S. SIDE**

### **Better Help Losers of Trade**

While the benefits of trade are diffuse, the costs are concentrated in specific industries and regions. The U.S. has a federal program to help those hurt by trade. However, so-called Trade Adjustment Assistance has strict eligibility criteria and thus only provides benefits to a limited number of laid-off workers. It is often considered to be both costly and

ineffective.<sup>19</sup> In developing new strategies for coping with labor market dislocation caused by trade, a more holistic approach should be taken. A comprehensive adjustment program could include an upgrade to Trade Adjustment Assistance, expansion of the earned income tax credit for low-income workers, wage insurance, and relocation assistance to geographic areas with jobs.<sup>20</sup> It would best be embedded in a pro-active labor market strategy that promotes skills training and life-long learning. In this regard, Germany's apprenticeship system (vocational training) could serve as a model for the U.S.

### **Don't Turn Back on International Institutions Dealing with Trade**

Though Trump indicated on the campaign trail that he would be willing to pull the U.S. out of the WTO, the U.S. should stay in the global organization that regulates international trade and now spans 164 member states. The WTO is an important mechanism to support the Trump administration in its goal to tackle unfair trade practices. In order to fight dumped and subsidized imports from China, for example, the U.S. can turn to the WTO's dispute resolution procedures. Thus, membership in the WTO helps the U.S. in leveling the playing field.

In the fight against currency manipulation, which can provide an unfair trade advantage, the U.S. should turn to international institutions instead of solely relying on unilateral actions. The IMF can (and will) play a critical role in monitoring its member states' exchange rates and identifying needed policy adjustments. The IMF also provides a forum for the U.S. to urge other countries to abide by their exchange rate commitments. As the recent IMF spring meeting communiqué shows, members reaffirmed their commitment to refrain from competitive devaluations and to not target exchange rates for competitive purposes.<sup>21</sup>

The U.S. should also use the IMF and international fora like the G20 to address excessive global imbalances—including Germany's structural trade surplus. The issue has been on the agenda of international summits for years, but reducing global imbalances remains a pressing task. Convincing Germany to reduce its structural trade surplus by increasing

domestic demand and investment will be a tall order, but progress is more promising if consensus is sought at an international level rather than through bilateral discussions. International fora not only foster debate, but provide a platform to convince other countries to actually change their views and policies. For instance, during the 2008 financial crisis, the U.S. successfully used the G20 summit to persuade other countries to roll out fiscal stimulus packages. This year, the German G20 presidency presents an opportunity for the U.S. to again focus on reducing global imbalances.

#### PROPOSALS FOR BOTH SIDES

##### **Chart a Path Forward on TTIP**

In the words of EU Trade Commissioner Cecilia Malmström, the election of Donald Trump has put TTIP negotiations “in the freezer.”<sup>22</sup> However, there is some hope that talks might be revived soon. For starters, Trump did not mention TTIP on the campaign trail and the President’s 2017 Trade Policy Agenda states that the Trump administration is “currently evaluating the status of these negotiations.”<sup>23</sup> In the wake of Chancellor Merkel’s visit with President Trump, the new U.S. administration is reportedly warming to the idea of a U.S.-EU trade deal, which could be prioritized over negotiations for a post-Brexit trade agreement between Washington and London.<sup>24</sup>

A new and forward-looking trade agenda on both sides of the Atlantic should take the intense debate over TTIP into consideration and respond to legitimate concerns. Trade agreements are no longer mostly about reducing tariffs, but about removing behind-the-border measures concerning domestic rules and regulations. Thus, recent trade negotiations have come under much greater scrutiny from the public, civil society, businesses, and parliaments. Government leaders and other stakeholders must do a better job addressing the public’s concerns about the protection of consumer, labor, and environmental standards—addressing valid concerns while putting fear mongering to rest. Transparency has become a hot-button issue in trade negotiations such as TTIP. The European Commission has taken recent steps to make trade negotiations more transparent. As outlined in the Commission’s new trade and invest-

ment strategy called Trade for All—and following the TTIP example—the negotiation mandate, textual proposals, and regular briefing documents should be published after each negotiation round.<sup>25</sup> There should also be an objective discussion about the need to include investor-state dispute settlement (ISDS) in a trade agreement between the U.S. and EU.

In order to move TTIP forward, policymakers on both sides of the Atlantic should be willing to abandon negotiations on the most controversial aspects of the deal that emerged as sticking points during the fifteen rounds of talks. While still aiming for a comprehensive and ambitious agreement, focus should be on those areas where progress can be mutually beneficial—for instance, concerning regulatory cooperation and helping small and medium-sized enterprises (SMEs). To re-launch TTIP, policymakers should also consider rebranding it under a different name.

##### **Identify New Areas for Transatlantic Cooperation on Trade**

Even while TTIP is on hold, the transatlantic trade agenda can be advanced and U.S.-EU cooperation strengthened. Some of the positive dynamics in the discussions concerning regulatory cooperation in specific sectors can be maintained outside of the TTIP negotiations. For instance, at the beginning of March 2017, regulators in the U.S. and EU agreed to update the agreement on mutual recognition of inspections of medicine manufacturers.<sup>26</sup>

New areas for transatlantic cooperation on trade should be identified. Services, the digital economy, and the energy sector should become priorities for renewed transatlantic economic cooperation. In order to set the stage for initiatives in these areas, the Transatlantic Economic Council (TEC) should be re-launched. Set up in 2007, the TEC is the “primary plenary forum for economic dialogue between the U.S. and the European Union.”<sup>27</sup> Though the TEC continued to work at the level of senior officials during the TTIP negotiations, it should be resurrected at the political level.<sup>28</sup>

Policymakers in the U.S. and EU should also increase joint transatlantic efforts regarding the enforcement

of Intellectual Property Rights (IPRs) in other countries and cooperate to fight unfair trade practices at the global level. For example, in order to address overcapacity in the Chinese steel sector that hurts American and European firms in the industry, the U.S. and EU should collaborate. The EU is currently in the process of reforming its trade defense instruments in an effort to better respond to dumped or subsidized imports. With the Trump administration very eager to tackle unfair trade practices, the U.S. and EU could leverage their resources and more effectively level the competitive environment for their businesses.

## Conclusions

International trade is central to economic growth, jobs, and prosperity. In the face of rising anti-trade sentiment on both sides of the Atlantic, the EU—with leadership from Germany—and the U.S. need to develop a new trade framework.

While it is important to bust trade myths and make the case for trade in new ways, it is also crucial to address valid concerns and shortcomings of the current trade regime. In particular, this involves developing new strategies to better address the adverse consequences of trade.

It is in the self-interest of the U.S. to not turn its back on international institutions dealing with trade. At a time when transatlantic engagement on trade between governments faces challenges, maintaining and fostering the transatlantic network along multiple communication channels is critical. Both sides of the Atlantic should also consider a path forward on TTIP and, especially while negotiations are on hold, identify new areas for transatlantic cooperation on trade.

Germany's G20 presidency offers an opportunity to advance these proposals. The recommendations to the transatlantic partners listed above can help to build a new consensus on trade, while tackling much needed reform of the international trading system.

## Notes

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<sup>1</sup> Office of the United States Trade Representative, "Free Trade Agreements," accessed 29 April 2017, <https://ustr.gov/trade-agreements/free-trade-agreements>.

<sup>2</sup> Bob Davis and William Mauldin, "Trump Administration Signals It Would Seek Mostly Modest Changes to Nafta," *The Wall Street Journal*, 30 March 2017, <https://www.wsj.com/articles/trump-administration-signals-it-would-seek-mostly-modest-changes-to-nafta-1490842268>.

<sup>3</sup> Office of the United States Trade Representative, "2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program," March 2017, <https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/AnnualReport2017.pdf>.

<sup>4</sup> Statistisches Bundesamt, "Rangfolge der Handelspartner im Außenhandel - neu: mit Umsatz und Saldo," 12 April 2017, <https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Aussenhandel/Tabellen/RangfolgeHandelspartner.pdf>.

<sup>5</sup> United States Census Bureau, "Top Trading Partners – December 2016 – Year-to-Date Deficits," 7 February 2017, <https://www.census.gov/foreign-trade/statistics/highlights/top/top1612yr.html#def>.

<sup>6</sup> David Lawder, "Trump adviser Navarro: U.S. Germany should discuss trade outside EU," *Reuters*, 6 March 2017, <http://uk.reuters.com/article/U.S.-usa-trump-trade-navarro-idUKKBN16D1KK>.

<sup>7</sup> Shawn Donnan, "Trump's top trade adviser accuses Germany of currency exploitation," *Financial Times*, 31 January 2017, <https://www.ft.com/content/57f104d2-e742-11e6-893c-082c54a7f539>.

<sup>8</sup> Emma Thomasson and Toby Davis, "Germany, U.S. risk worsening trade ties: business chamber," *Reuters*, 17 March 2017, <http://www.reuters.com/article/U.S.-usa-trump-germany-business-idUSKBN16OOLY>.

<sup>9</sup> European Commission, "Public Opinion on a free trade and investment agreement between the EU and the USA," Eurobarometer Interactive, accessed 29 April 2017, <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/getChart/chartType/lineChart//themeKy/29/groupKy/179/countries/EU/savFiles/702,698,805,646,838/periodStart/112014/periodEnd/112016>.

<sup>10</sup> G20 Germany, "Priorities of the 2017 G20 Summit," 1 December 2016, [https://www.g20.org/Content/DE/\\_Anlagen/G7\\_G20/2016-g20-praesidentschaftspapier-en.pdf?\\_\\_blob=publicationFile&v=1](https://www.g20.org/Content/DE/_Anlagen/G7_G20/2016-g20-praesidentschaftspapier-en.pdf?__blob=publicationFile&v=1).

<sup>11</sup> The World Bank, "Trade (% of GDP)," Database, accessed 29 April 2017, <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>.

<sup>12</sup> Michael J. Hicks and Srikant Devaraj, "The Myth and the Reality of Manufacturing in America," Publication by Ball State University, June 2015, <http://conexus.cberdata.org/files/MfgReality.pdf>.

<sup>13</sup> Bundesverband der Deutschen Industrie, "Intensive cooperation required in the face of transatlantic uncertainty," 21 February 2017, <http://english.bdi.eu/article/news/intensive-cooperation-required-in-the-face-of-transatlantic-uncertainty>.

<sup>14</sup> The World Bank, "Merchandise imports (current US\$)," Database, Accessed 29 April 2017, <http://data.worldbank.org/indicator/TM.VAL.MRCH.CD.WT>; The World Bank, "Exports of goods and services (current US\$)," Database, accessed 29 April 2017, <http://data.worldbank.org/indicator/NE.EXP.GNFS.CD>.

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<sup>16</sup> The World Bank, "External balance on goods and services (% of GDP)," Database, accessed 29 April 2017, <http://data.worldbank.org/indicator/NE.RSB.GNFS.ZS?page=1>.

<sup>17</sup> James Dean, Bruno Waterfield, and Oliver Wright, "Trump puts EU ahead of Britain in trade queue," *The Times*, 22 April 2017,

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<sup>18</sup> Representative of German Industry and Trade, "German Business Matters – A State-by-State Analysis of Imports, Exports, and Jobs," March 2017, [http://www.rgit-usa.com/fileadmin/ahk\\_rgitus/a/GBM/GBM\\_2017/GBM\\_2017.pdf](http://www.rgit-usa.com/fileadmin/ahk_rgitus/a/GBM/GBM_2017/GBM_2017.pdf).

<sup>19</sup> Ronald D'Amico and Peter Z. Schochet, *The Evaluation of the Trade Adjustment Assistance Program: A Synthesis of Major Findings* (Oakland, CA: Social Policy Research Associates and Princeton, NJ: Mathematica Policy Research, December 2012), <https://www.mathematica-mpr.com/download-media?MediaItemID={DE128B8A-0456-41C0-96B0-ACB6D7752D1D}>.

<sup>20</sup> Edward Alden and Robert E. Litan, "A Winning Trade Policy for the United States," Discussion Paper, Council of Foreign Relations, September 2016, [http://i.cfr.org/content/publications/attachments/Discussion\\_Paper\\_Alden\\_Litan\\_Trade\\_Policy\\_OR.pdf](http://i.cfr.org/content/publications/attachments/Discussion_Paper_Alden_Litan_Trade_Policy_OR.pdf).

<sup>21</sup> International Monetary Fund, "Communiqué of the Thirty-Fifth Meeting of the IMFC," 22 April 2017, <https://www.imf.org/en/News/Articles/2017/04/22/sm2017-communique-of-the-thirty-fifth-meeting-of-the-imfc>.

<sup>22</sup> European Commission, "The future of EU trade policy," Speech by EU Trade Commissioner Cecilia Malmström, 24 January 2017, [http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc\\_155261.pdf](http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155261.pdf).

<sup>23</sup> Office of the United States Trade Representative, "2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program," March 2017, <https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/AnnualReport2017.pdf>.

<sup>24</sup> James Dean, Bruno Waterfield, and Oliver Wright, "Trump puts EU ahead of Britain in trade queue," *The Times*, 22 April 2017, <https://www.thetimes.co.uk/article/trump-puts-eu-ahead-of-britain-in-trade-queue-l7t8zwn7k>.

<sup>25</sup> European Commission, "Trade for All – New EU Trade and Investment Strategy," October 2015, [http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/index\\_en.htm](http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/index_en.htm).

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<sup>27</sup> U.S. Department of State, "About the Transatlantic Economic Council," accessed 29 April 2017, <https://www.state.gov/p/eur/rte/tec/c33255.htm>.

<sup>28</sup> European Commission, "Transatlantic Trade & Investment Partnership Advisory Group," Meeting Report, 9 March 2017, [http://trade.ec.europa.eu/doclib/docs/2017/april/tradoc\\_155484.pdf](http://trade.ec.europa.eu/doclib/docs/2017/april/tradoc_155484.pdf).



# POLICYMAKING IN UNCERTAIN TIMES: ON THE MERITS OF TRANSATLANTIC FINANCIAL AND ECONOMIC COOPERATION

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Severe challenges confront international financial and economic cooperation in the transatlantic arena. The United Kingdom's withdrawal from the European Single Market, increasingly probable but in form still uncertain, will fundamentally realign the political and economic constellation between the United States, the United Kingdom, and continental Europe. The Transatlantic Trade and Investment Partnership (TTIP), a U.S.-EU mega-trade agreement under negotiation since 2013, faces substantial political and social opposition on both sides of the Atlantic. Moreover, the rhetoric on trade in the wake of the U.S. presidential election resembles the discourse in the interwar period, when the Smoot-Hawley tariff act of 1930 isolated the United States from world markets and helped precipitate the ensuing breakdown of the international economic order.

Such challenges notwithstanding, this essay argues forcefully in favor of transatlantic market integration and cooperation on common rules and frameworks. Economic and political developments spurred by international integration have made societies on both sides of the Atlantic richer, safer, and healthier.<sup>1</sup> While market integration accelerated, however, some of the required rules and frameworks fell short—as painfully revealed by the global financial crisis of 2007-2009. Thus, to reap the benefits of international market integration while mitigating societal repercussions, policymakers need to devise domestic programs to soften the impact of economic globalization. At the international level, all stakeholders (including government officials) need to maintain and strengthen understanding and trust in the merits of an international rules-based system.

This article is based on the discussions and work of the Business & Economics group of AICGS' project

"A German-American Dialogue of the Next Generation." The analysis advances three central recommendations: first, cooperation on financial and economic frameworks is in the core interest of the United States and the European Union and its members. Second, the United States and the European Union and its members should make better use of existing international institutions. Third, the United States and the European Union and its members should identify new areas for transatlantic cooperation.

The first two sections of the article provide accounts of multilateral cooperation during and in the aftermath of the global financial and economic crisis of 2007-2009. Learning from the past is crucial for considering future approaches. Examples will be drawn not only from publicly visible engagements of political leaders, but also from interaction between working-level staffers. Acting behind the scenes, it is these officials who are fine-tuning the gears of the international economic system. The third section presents and reviews the three recommendations, before the article concludes.

## International Cooperation during the Crisis

The public response to the global financial crisis of 2007-2009 entailed a multilateral dimension right from the start. As the precursors of the crisis began to surface in the summer of 2007, David McCormick, Under Secretary for International Affairs, and Robert Steel, Under Secretary for Domestic Finance at the U.S. Treasury, called for an international response to curtail market volatility. In a September 2007 article in the *Financial Times*, they announced the decision of G7 finance ministers to mandate the Financial Stability Forum (FSF) with an assessment of the

turmoil.<sup>2</sup> The FSF, a multilateral financial body based in Basel, Switzerland, comprising senior finance and regulatory officials from the world's leading economies, was tasked with addressing the eruptions in markets and developing a set of policy recommendations. The report was published in April 2008, prescribing sixty-seven policy recommendations for strengthening market stability and mitigating economic fallout.<sup>3</sup> The report provided the essential roadmap for the public response to come. While the direct influence of the FSF's work is hard to pinpoint, bits and pieces of its recommendations are recognizable in most post-crisis financial regulatory actions.

Similarly, when the bankruptcy of the investment bank Lehman Brothers in September 2008 brought global finance to the brink of collapse, U.S. authorities decided that domestic countermeasures must be accompanied by joint engagements of the world's largest economies.<sup>4</sup> In November 2008, the Bush administration convened the first Group of Twenty (G20) summit of Heads of State and Government in Washington, DC. The summit's declaration displayed an unequivocal commitment to internationally coordinated responses, extensive fiscal stimuli, and a pledge to maintain open trade and investment regimes.<sup>5</sup> Once more, the individual effect of the G20's actions is hard to isolate, but observers largely agree that the determined resolve by the world's largest economies prevented the Great Recession from turning into another Great Depression.

The realm of international monetary relations experienced another, less visible, exemplary process of international cooperation in times of crisis. Over the course of the year 2008, the financial crisis materialized in markets around the world as a crisis of liquidity. In deteriorating markets and under uncertain conditions, trust in market actors' credibility and solvency was evaporating. In the U.S., the Federal Reserve counteracted the ensuing shortage of liquidity with broad support for struggling financial entities via its discount window and a range of liquidity facilities. In foreign markets, however, dwindling dollar reserves confronted public authorities with considerably larger challenges. In an unprecedented move, the Federal Reserve established bilateral dollar swap lines with fourteen central banks around the world.<sup>6</sup> Exchanging currency for prespecified time periods, these lifelines

between central banks prevented a further escalation of the crisis on a global scale.

Yet the global financial crisis also set the stage for considerable failures in cross-border cooperation; notably, the demise of Lehman Brothers. In March 2008, U.S. authorities averted the crash of the investment bank Bear Stearns by funding its takeover by the much larger bank JP Morgan Chase. A few months later, when a similar deal was on the table for struggling Lehman Brothers, the British bank Barclays expressed interest, as did Bank of America. But lacking information and trust on both sides, British authorities prohibited Barclays' involvement, reportedly puzzled by the notice that Bank of America would acquire investment bank Merrill Lynch instead.<sup>7</sup> A few days later, U.S. officials, stripped of alternatives, let the fatal failure of Lehman Brothers run its course.<sup>8</sup>

The crisis record in Europe has a similar story to offer. Fortis Group, a Belgian-Dutch bank consortium with a commanding presence in the Belgian, Dutch, and Luxembourg markets, faced worsening market conditions in the summer of 2008. The regulatory authorities of the involved economies engaged in emergency measures to contain the fallout. What began as a collaborative response by Belgian, Dutch, and Luxembourg authorities, ended in unilateral regulatory actions in the attempt to safeguard national interests.<sup>9</sup> As in the Lehman case, the costs of failed cooperation outgrew by far any potential benefits individual authorities may have hoped to reap.

In sum, multilateral crisis management during the global financial crisis evinced commendable examples of mutual trust and engagement on one hand. On the other, misunderstandings, failed communication, and discord over joint burden sharing paved the way for an unparalleled global economic contraction.

### International Cooperation after the Crisis

Besides common emergency crisis management, authorities of the world's largest markets equally joined forces to reform the international system of financial and economic cooperation. One of the more significant results of the crisis was the elevation of the G20 leaders' summit as a new focal point for international financial and economic governance.<sup>10</sup>

However, the G20's success was not determined from the outset. It was only at the third G20 summit in September 2009 in Pittsburgh that the leaders consolidated the format and decided to continue to meet on an annual basis for the future to come.<sup>11</sup> Thus, what had emerged as an ad-hoc grouping for the immediate crisis response proved its value over time and was accepted as a regular meeting point for the world's most powerful leaders.

Moreover, the focus on the G20 summits at Heads of State and Government level clouds the multi-layered structure of the undertaking. The G20 finance ministers and central bank governors, at the second level, meet three to four times per year. Two of the meetings take place in the margins of the spring and annual meetings of the International Monetary Fund (IMF) and the World Bank in Washington, DC. The G20 deputy finance ministers and deputy central bank governors, at the third level, meet in advance of their superiors to preview and prepare policy agendas and potential agreements. Additionally, other "20" formations have emerged, such as the groups of Business-20, Labor-20, or Think-20. Together, the global financial crisis precipitated the establishment of a variety of cooperative arrangements based on the G20 template.

Other collaborative interaction occurred in the realm of international financial regulatory reforms. The second summit of the G20 leaders in April 2009 in London declared a range of reform goals and institutional innovations. Among those, the creation of the Financial Stability Board (FSB) featured prominently. The FSB, a successor to the Financial Stability Forum, convenes central bankers, financial regulators, and finance ministry officials of the twenty-five largest and financially most advanced market economies. Tasked with coordinating and overseeing the international regulatory response, the FSB assumed a central role in reforming the international financial system. The FSB's half-time chairs—Mario Draghi (2009-2011) and Mark Carney (2011-today)—and the FSB secretariat engaged in laudable efforts to advance the international reform agenda. This is indeed remarkable in view of the FSB's limited resources. The secretariat is housed in the tower of the Bank for International Settlements (BIS) in Basel, Switzerland, and of the secretariat's mere thirty full-time staff about half are

seconded by member jurisdictions.

The FSB reports regularly to G20 meetings, provides policy analysis and monitoring assessments, and receives updated mandates to address arising policy issues. Collaborating with fellow international institutions such as the Basel Committee for Banking Supervision (BCBS) or the International Monetary Fund, the FSB channels technical expertise and resources toward identifying market vulnerabilities and instigating reforms of the international regulatory framework. The FSB agenda over the past years covered a vast range of regulatory issues—at least two dozen distinct initiatives appear on the record. Notable advances have been made, for instance, regarding the Basel III accord on strengthened capital and liquidity standards for international banks developed at the Basel Committee.<sup>12</sup> The FSB itself proved crucial in enabling reform in the regulation of systemically important financial institutions, establishing the Key Attributes for Effective Resolution Regimes, and designing the multi-purpose total loss-absorbing capacity (TLAC) requirement.<sup>13</sup>

At the same time, other regulatory goals as mandated by G20 summits were less successful. The convergence of international accounting standards, for instance, persistently fails at seemingly irreconcilable differences between the International Financial Reporting Standards (IFRS) and the United States Generally Accepted Accounting Principles (GAAP). Challenges arise regarding the implementation of internationally agreed principles. Agreements over international regulation often entail generous phase-in periods: the Basel III standards, agreed in 2010, must only be fully implemented by 2019. The FSB's total loss-absorbing capacity requirement, agreed in 2015, will fully apply in advanced markets by 2022, in emerging markets by 2028. Even these phase-in periods may not guarantee compliance by member jurisdictions, as some are conceived as non-binding compromises in order to reach an agreement at all. Notably, the Capital Requirements Directive IV, implementing the Basel III accord in the European Union, has been deemed materially non-compliant by the Basel Committee itself.<sup>14</sup>

On top of that, current negotiations in Basel over introducing regulatory floors for banks' risk-weighting

of assets have stalled due to divergent interests among member jurisdictions.<sup>15</sup> Moreover, researchers of the International Monetary Fund demonstrated that in as late as 2011 risk-weights of European banks applied to merely 35 percent of total assets, while averages of American counterparts stood at 57 percent of total assets<sup>16</sup> (while a group of academics forcefully argued risk-weights should apply to 100 percent of total assets anyway<sup>17</sup>). This, of course, undermines the purpose of internationally-agreed standards to create level playing fields of financial regulation and to increase the stability of the international financial system.

Such divergence in regulatory frameworks among jurisdictions also raises the question over the general reconcilability of domestic financial market structures with globalized finance. The global financial crises vividly revealed the need for international regulatory cooperation as well as common standards for maintaining the stability of the financial system. If, however, domestic regulatory and legal frameworks prove indeed too divergent for common strengthened regulation across jurisdictions, broader questions over the feasibility of a borderless global financial integration arise. This should not, however, lead legislators and regulators to scale down international engagement, but rather to assess and reassert the actual benefits as well as the costs of cross-border interdependence.

To be clear, multiple points of interaction do not necessarily foster convergence of preferences in the international economy, finance, and other areas of mutual interest. Yet continuous and regular interactions between senior officials, and equally, if not more important, between working-level staffers, provide the grounds for information exchange, mutual understanding, and trustful collaboration. As the Business & Economics group's recommendations outlined in the next section will show, the general benefits of cross-border integration in finance and trade are staggering. Without acknowledging the concomitant costs, however, international financial and economic cooperation will continue to be called into question.

## Recommendations for Future Transatlantic Cooperation

The Business & Economics group proposes a set of recommendations for fostering the transatlantic relationship between the United States and the European Union and its members. These policy recommendations are embedded in a broader framework, which is incorporated in the unequivocal support for an international rules-based system. This does not imply a prescription for every single political or economic engagement. It rather aims to codify a set of common understandings and “rules of the game” in cross-border interaction.

### **Recommendation 1: Cooperation on Financial and Economic Frameworks is in the Core Interest of the United States and the European Union and Its Members**

The global financial crisis of 2007-2009 ended a decade-long phase of steady market expansion, economic growth, and low inflation across the advanced economies, dubbed the Great Moderation. During the same period, emerging markets in general and East Asian economies in particular achieved staggering growth rates and increasingly approached advanced country status. Recent research cautions, however, that while the economic pie was growing, the distribution of that pie grew increasingly unequally within societies of advanced markets<sup>18</sup>—the gist of one strand of explanations for the current backlash toward globalization and international integration. Indisputably a cause for great concern, overall benefits to markets, politics, and societies during the Great Moderation were nonetheless expanding vastly in the advanced economies and beyond.<sup>19</sup>

In the same vein, agreement on international standards is in the material interest of the world’s economies in general, and of transatlantic jurisdictions in particular. First, the alignment of rules and standards across jurisdictions expands markets and amplifies business opportunities for all economies involved. Reaping the benefits of increased integration has been the prime driver of economic globalization over the past decades. Second, the cross-border expansion of markets requires the alignment of stability-enhancing frameworks and policies at the

international level: in the form of intergovernmental interaction for setting out broad common goals and purposes; at the level of central banks, providing the backbone for international financial market activity; and among market authorities and regulatory agencies, agreeing on common minimum standards for preventing competitive deregulation between jurisdictions. The institutions of the international regulatory architecture offer the needed venues and fora for financial and economic cooperation.

**Recommendation 2: The United States and the European Union and Its Members Should Make Better Use of Existing International Institutions**

It is one of the interesting side notes of the global financial crisis that the response by international policymakers resulted in surprisingly little new institutional innovation. The G20, which was elevated to become the world's central echelon of power of financial and economic governance, had been created in the wake of the Asian financial crisis in 1999 at finance minister and central bank governor level. The same is true for the Financial Stability Board, whose predecessor, the Financial Stability Forum, had been equally created in 1999. Other international standard-setters central to the regulatory response are even older: the Basel Committee for Banking Supervision was established in 1974 and the origins of the International Organization of Securities Commissions can be traced back to the year 1973. The single-most important change to the international regulatory architecture, therefore, was the expansion of membership of these bodies. Since 2009, all encompass at least the G20 membership, which includes most advanced economies and a range of emerging markets. In sum, the crisis revealed that the international institutional environment deemed necessary for a collective response of leading economies had already been established. Policymakers solely had and have to ensure the institutions' continued use and engagement.

Today, the G20 serves as premier forum for international economic governance. During the height of the global economic contraction of 2008 and 2009, the G20 provided the necessary scope and weight for coordinating the fiscal stimulus packages and regulatory reform proposals among the world's largest

economies. With the passage of time, memories of the crisis are fading and more regionally-oriented venues gain in attractiveness to state leaders. The importance of narrower groups such as the G7 or the BRICS forum notwithstanding, the G20 should nonetheless retain its central position in international economic governance. Even though growth rates of cross-border trade and finance have flattened since the crisis, volumes of data and information exchange across the world skyrocketed. The G20 proved its value as a flexible intergovernmental forum, capable of adjusting its focus to newly arising issues on the international agenda.

International organizations such as the Bank for International Settlements (BIS), the International Monetary Fund (IMF), and the World Trade Organization (WTO) should be reappraised and their crucial function in the world economy acknowledged. For instance, the BIS, in existence since 1930, provides vital expertise and data on global financial markets while offering a meeting place for central bankers of sixty economies. Remaining in the background most of the time, the BIS' role in fostering interaction and mutual understanding among central bankers enables relationships critical for coordinated responses to rapid cross-border crises. The IMF has admittedly displayed an ambiguous record in crisis management, and questions of governance reform and distribution of member voting shares remain subject to dispute.<sup>20</sup> But the IMF's singular role in facilitating international cooperation in economic and monetary affairs, the well-trained staff of over 2,000, and its experience in dealing with crises for decades make the IMF an indispensable pillar of the international economy. The WTO has faced even more criticism over the years, up to a veritable sidelining in view of the rise of regional trade agreements. However, proponents of "free trade" should walk the talk and renew efforts to forging trade agreements at a truly multilateral scale.<sup>21</sup>

The FSB's role in supervision and regulation of the global financial system should be maintained and strengthened. The FSB oversaw a large range of regulatory initiatives after the crisis, and successfully managed to coordinate policy interaction for advancing regulatory reform among a multitude of actors and interests. While the majority of reform

initiatives have ended with the adoption of regulatory policies by now, the FSB retains a central role in international financial regulation. The FSB Standing Committee on Standards Implementation monitors, in joint engagement with the IMF and other standard-setters, the implementation of adopted regulation in member jurisdictions. The FSB Standing Committee on Assessment of Vulnerabilities regularly scans the global economy and reviews market developments in order to identify emerging and accumulating systemic risks. At the same time, the FSB has widened its purview to include areas such as financial instability arising from climate change. With the extent and speed of future developments unknown, it is sensible that international concern moves toward addressing market uncertainty arising in the medium to long term.

### **Recommendation 3: The United States and the European Union and Its Members Should Identify New Areas for Transatlantic Cooperation**

Rapidly evolving international markets generate new and complex policy problems on a regular basis. This is why international bodies are required to spot such developments and alert political authorities about possible ramifications. On one hand, assessment should clarify possible risks to systemic stability. On the other hand, newly emerging market developments may provide opportunities for enhanced cross-border cooperation, mitigating costs while fostering public welfare.

In the realm of global finance, the oversight and regulation of so-called shadow banking persistently escapes traditional regulatory frameworks. Shadow banking, or rather market-based finance, encompasses a wide range of financial market entities and activities outside the regulated banking sector. Of prime concern to financial stability authorities are those entities that engage in the traditional bank activity of maturity transformation while not being subject to prudential regulation. At the same time, market-based finance offers additional opportunities for retail investment, funding for small and medium-sized enterprises, and asset management. The FSB leads the global initiative to identify and frame market-based finance,<sup>22</sup> but renewed efforts with strengthened political support would help establish internationally agreed rules for the making and regu-

lation of market-based finance.

An adjacent area is the merger of finance with digital technology, subsumed under the term financial technology or Fintech. With the digital economy expanding speedily, entirely new business models emerge. Apart from the buzzwords of peer-to-peer lending or block chain technology, financial and monetary relations are facing prospects of profound transformation. Across retail and wholesale banking, insurance, as well as asset management, the financial landscape will change dramatically.<sup>23</sup> As always, such technological disruption promises more efficient services and cost-cutting, while equally challenging traditional supervisory and regulatory frameworks. Thus, transatlantic and/or international initiatives need to form central hubs for accumulating business best practices, monitoring risk emergence, and devising instruments for safeguarding systemic stability.

Finally, a recently concluded FSB initiative deserves renewed attention. The Global Legal Entity Identifier System (GLEIS) was created to address the lack of unique entity identification in world markets.<sup>24</sup> Unlike trade, where the bar code identifies goods regarding producer, trader, and seller worldwide, finance was marked by a range of competing but limited systems. The Legal Entity Identifier (LEI) is a twenty-digit alphanumeric code, uniquely identifying financial market actors across the world by official name, address of headquarters, and date of the first LEI assignment. Market actors acquire LEIs from select data organizations by paying a small subscription fee. The first LEIs were issued in mid-2012, and by late May 2017 over 500,000 LEIs have been issued worldwide.<sup>25</sup> Yet the distribution of LEIs needs to increase manifold to unleash the true potential of the system. Experts assume that only at a coverage of over two million LEIs the benefits of the system will begin to fully materialize: these include vastly reduced operation costs for finance, the mitigation of financial crime and tax evasion due to increased transparency, and massive benefits for financial stability in terms of systemic risk assessment, by enabling the establishment of real-time global risk maps. Therefore, authorities of transatlantic jurisdictions should mandate the broad usage of LEIs by law for increasing the coverage of the system.

## Conclusion

Transatlantic economic relations have entered uncharted territory. The repercussions of the global financial crisis, Brexit, and a rethinking of international trade policy all come together in challenging the traditions and conventions of transatlantic cooperation. Yet as history evolves, circumstances change. Therefore, current developments may appear threatening and status quo-overturning. At the same time, they can and should be interpreted as impetus for reconsidering the benefits of international cooperation and give way to novel opportunities.

It is in this spirit that the Business & Economics group of the AICGS-project “A German-American Dialogue of the Next Generation” addressed the present policy challenges in international financial and economic cooperation.<sup>26</sup> Unequivocally, the group concurred over the substantial benefits of an international rules-based system. Only by agreeing on a set of rules of the game, enabling trust and confidence, can the transatlantic relationship flourish and provide the grounds for mutually beneficial exchange and cooperation. This essay presented three recommendations for the United States and the European Union and its members:

1. highlighting the benefits of transatlantic cooperation,
2. stressing the use of international institutions, and
3. encouraging the identification of new areas for expanding and deepening transatlantic cooperation.

Opportunities are the flipside of challenges. Policymakers on both sides of the Atlantic should make the best of current developments by strengthening the foundations of transatlantic cooperation and the rules-based international system.

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# CIVIL SOCIETY IN A TIME OF UNCERTAINTY

ANNE KANTEL AND ERIC LANGENBACHER

## Introduction: A Time of Uncertainty in the U.S.-German Bilateral Relationship

With the transition from the Obama to the Trump administration in the United States, coupled with the populist eruption in many European countries, and instability in many adjacent regions, it is an unsettled time for the German-American and the more general transatlantic relationships. This applies to all facets of the relationship—business, defense, politics, as well as to culture and civil society, the latter of which is the focus of this contribution.

To say that the current U.S.-German relationship is uncertain is an understatement. Many have spoken about the rise of German power over the last decade—reluctant hegemon,<sup>1</sup> master of the euro zone, indispensable nation, etc. President Obama was cold at first, but then he and Chancellor Angela Merkel forged a surprisingly close bond, exemplified by his last foreign visit to Germany in November 2016. This is not to say that there were no tensions or disagreements. Indeed, Obama administration officials did criticize Germany, requesting more defense spending, less austerity in the euro zone, or a lower trade surplus. On the other side of the Atlantic, Merkel was not happy to find out that her phone was surveilled perhaps as early as 2002 (but even unhappier when Trump mentioned this at their first joint news conference). Germany would not directly support its allies' intervention in Libya in 2011. Nevertheless, the German-American bilateral relationship between President Obama and Chancellor Merkel became the crux of the transatlantic relationship.

And now? In the run-up to the presidential election in November 2016 and in the first months of his tenure, Donald Trump appeared tepid, perhaps even

antagonistic toward Germany. Both he and his chief strategist Stephen Bannon have been vocally critical of Angela Merkel's 2015 refugee policy, Germany's inadequate financial contributions to NATO, the "better" trade deals the Germans negotiated (although the EU is responsible), and that the value of the euro is artificially low to benefit German exports. In comparison to some members of the German cabinet, Merkel's response to Trump's criticisms has been significantly more restrained albeit critical, which has brought her some acclaim in the media as the "Liberal West's Last Defender."<sup>2</sup> In her remarkable statement congratulating Donald Trump on his victory, she offered the U.S. close cooperation under certain conditions, namely based on historically shared values of "democracy, freedom, the respect for the law and the dignity of human beings, independent of their origin, skin color, religion, gender, sexual orientation or political position."<sup>3</sup> Moreover, she strongly criticized President Trump's first travel ban in January 2017. Their first meeting on March 17 was awkward—as many have stated. Certainly, there appeared to be little rapport, particularly viewed in contrast to Trump's meetings with Justin Trudeau, Shinzo Abe, Xi Jinping, or Theresa May. President Trump stated afterward that the meeting was great, but then singled Germany out via Twitter for "owing" money to NATO.

But, weeks later Trump raved about the "incredible chemistry" he had with Merkel.<sup>4</sup> Moreover, he reversed himself on NATO—it is "no longer obsolete"—crediting himself with getting member states to pay more and to fight terrorism. In late April, his daughter Ivanka attended a women's summit in Berlin to generally positive reviews. Perhaps these policy positions will be permanent. By Trump's 100-day mark, many were talking about his "normalization."

Nevertheless, the situation could change abruptly. For example, despite the cordial rhetoric toward Canada, Trump started another dispute about softwood lumber imports and was reportedly on the cusp of “cancelling” NAFTA until he decided not to.

Therefore, it is difficult to derive strong implications for the future of the U.S.-German relationship from these few interactions between the two countries’ leaders or by divining a message from an interview or tweet. While Trump’s signals to Germany as one of the U.S.’ most important European partners have often been negative, actual changes in policy are yet to be seen. Nevertheless, Trump’s promise to implement significant changes to U.S. trade regulations—particularly his announcement to impose a tax of 35 percent on vehicle imports—may have important implications for Germany’s automobile industry.<sup>5</sup> The Trump administration has already placed anti-dumping tariffs on certain steel imports from Germany and elsewhere. In this light, the new administration’s emphasis on bilateral instead of regional trade deals—and the likely death of the Transatlantic Trade and Investment Partnership (TTIP)—is directly at odds with Germany’s multilateral and, by law, EU-focused approach to trade negotiations.

Another potential point of contention between the two countries arises in the area of foreign and defense policy. While Vice President Mike Pence emphasized the U.S.’ “unwavering” commitment to the transatlantic alliance, particularly in light of growing NATO-Russia tensions over the ongoing Ukraine conflict, at the Munich Security Conference, Trump continues to criticize Germany for “owing” NATO and the U.S. money for defense<sup>6</sup>—even after he stated that NATO is no longer obsolete. Despite a sharpening of rhetoric from the U.S. side especially after Syrian president Bashar al-Assad’s horrific chemical attack on his own people, investigations of alleged ties to Russia of members of Donald Trump’s presidential campaign do little to clear up the confusion about the new administration’s stand on the U.S. foreign policy direction on Russia.

On the other side of the Atlantic, Chancellor Merkel has taken a strong stance against Russia, calling for extending economic sanctions due to a lack of progress in Ukraine’s ceasefire deals.<sup>7</sup> Yet, Merkel is

entering a year of political campaigning with federal parliamentary elections to take place on September 24, 2017. In fact, this might be her most challenging election campaign yet with a popular SPD chancellor candidate, Martin Schulz, and a degree of exhaustion among voters after twelve years of Merkel at the helm. It remains to be seen how she will respond to internal pressure concerning her refugee policy and its consequences, as well as uncertainty regarding the future of the European Union. And this is not even to mention a new crisis that might arise, such as another wave of refugees entering Europe. In any case, a change of German leadership might once again reshuffle the deck impacting German-U.S. relations.

In short, current bilateral German-U.S. relations can be characterized as taking place in a time of marked uncertainty. While it seems likely that the bilateral German-U.S. relationship will be significantly at odds in regard to trade issues, the future of foreign policy cooperation vis-à-vis ongoing conflicts in the Middle East, Ukraine, and Russia remains ambiguous. Given Trump’s conflicting claims about NATO, security cooperation also remains a question mark.

Even though the educated elites on both sides of the Atlantic are focused (rightfully enough) on President Donald Trump, the current state of the German-U.S. relationship also needs to be contextualized. We should remember that there have been other periods of time with deep tensions in the German-American and transatlantic relationships: “1968,” Vietnam, the NATO double-track decision, the Iraq War, just to mention a few. More generally, U.S. policymakers have been pestering Western European allies literally for decades to spend more on defense/contribute more to NATO. Differences have also been endemic regarding how to deal with the USSR/Russia. Also in terms of specific partners—Konrad Adenauer and John F. Kennedy; Helmut Schmidt and Jimmy Carter, Gerhard Schröder and George W. Bush were all said not to get along. The rhetoric might be different with Trump, but the tensions—personal and policy-based—are similar to these previous episodes. The media may be over-exaggerating the current tensions.

Moreover, the German-American relationship is much more than government-to-government interactions. Over the decades this relationship has become

dense, deeply institutionalized, and multifaceted. It is political, economic, cultural, military; governmental, non-governmental, nonprofit, private sector, and person-to-person. Academic, cultural, or study exchanges, such as those sponsored by Fulbright and the DAAD between the countries are numerous. Corporations of all varieties have invested in the other country. Commerce and tourism are vigorous. This is to say that a dense civil society in both countries and between them has developed over the decades.

This essay seeks to bring to the fore the role of civil society for past, current, and future bilateral relations and transnational cooperation with German and U.S. involvement. The concept of civil society has always been fraught with ambiguity. In this essay, we understand civil society as voluntary social interactions that take place outside the realm of individuals' immediate private life. We use a broad definition of civil society that includes all non-individual and non-governmental actors such as non-governmental organizations (NGOs), business associations, and religious organizations. As part of civil society, these actors have the power to influence individual behavior and social institutions by promoting collective and partisan interests.

In particular, we discuss functions of civil society within the broader context of its contribution to processes of reconciliation. What is or could be the role of civil society in the promotion of future bilateral and transnational German-U.S. relations? What can civil society contribute in terms of activities, initiatives, and processes that are concerned with facilitating the restoration of fractured relationships both within and between the U.S. and Germany. Reconciliation work seeks to initiate socio-economic and political institutional change "aimed at changing people's perception of themselves and former enemies such that new constructive relationships might be created."<sup>8</sup> While current German-U.S. relations are thankfully a far cry from the enmity of old, we argue that civil society can play a significant role in addressing increasingly tense relations between the two countries and in helping to bridge the divide between exceedingly opposite poles within the domestic societal and political sphere of both countries.

It is precisely the role of civil society actors in initiatives and processes of reconciliation that the Society, Culture & Politics group has been discussing over the past year under the aegis of the American Institute for Contemporary German Studies. The goal of this essay is to put forward a number of policy recommendations regarding the positive role civil society could play in fostering future amicable German-U.S. relations both bilaterally and internationally. More specifically, the following report outlines a variety of mechanisms—such as people-to-people exchanges, education, media efforts, soft power, and public diplomacy efforts—in order to promote bilateral as well international cooperation efforts with German and U.S. involvement in a time of uncertainty. During our discussions, we focused explicitly on the relationship between these two countries rather than EU-U.S. relations. However, this is not to say that we assume the EU to not play an important role in the future, particularly when it comes to issues around trade and security. Yet, a consensus of scholars and pundits agrees that the EU is currently in a rather deep funk and that there has been a resurgence of "intergovernmentalism" and even bilateralism. Most think that influence lies in Berlin and not Brussels (or Paris) currently.

### Understanding Civil Society and Reconciliation

Civil society can be defined as the organizational realm of social life encompassing private voluntary organizations—or more simply associational life. These associations are not of the state or government and also not of the purely private realm, the family. Almost immediately, some indeterminacy arises. Most authors include groups like choral societies, bowling leagues, new social movements (peace or ecological groups), PTAs, and professional associations. There is disagreement as to whether the market or free enterprise is a part; or religion/religious organizations. If the market is excluded, what about derived associations like unions or business associations? If religions are excluded, what about religiously-affiliated charities, sports leagues, etc.? And what about government funding of such groups? Do they lose their independence and hence civil societal status under these circumstances? For our purposes, we will go with a more capacious understanding.

Moreover, many (if not most) independent civil societal groups receive state aid or government grants, without losing their status as private voluntary associations.

Confusion also arises from two distinct usages of the "civil society argument."<sup>9</sup> One conception is that civil society is a social-structural arena of action—indepen-dent and autonomous from the state, allowing citizens to resist state or regime encroachments on their liberties. This defensive function or conception arose in various regional contexts, such as the communist bloc in the 1970s or throughout the West in the 1970s and 1980s. Another usage emphasizes that civil society socializes citizens and fosters pro-democratic values such as civility, social capital, and (interpersonal) trust. This perspective accepts the validity of the first structural conception, but highlights the positive values that result from interactions in such associations. Democratic norms, values, or "mores" create social capital that results in various kinds of trust. Trust is the value par excellence that makes democracy work,<sup>10</sup> as well as the economy.

Wolfgang Merkel provides more detail by specifying several functions that civil society can play:

1. Protection from Arbitrary State Rule: The Lockean Function;
2. The Balance between State Authority and Civil Society: The Montesquieuan Function;
3. The School of Democracy: The Tocquevillian Function;
4. The Public Sphere: The Habermasian Function.

He writes:

"The four aspects of civil society named above protect the individual from the arbitrary use of state power (Locke), support the rule of law and the balance of powers (Montesquieu), educate citizens and recruit political elites (Tocqueville), and institutionalize the public sphere as a medium of democratic self-reflection (Habermas). If civil society fulfills these functions, it generates and enables checks of power, responsibility, societal inclusion, tolerance, fairness,

trust, cooperation, and often also the efficient implementation of accepted political programs. Civil society thereby not only enhances the democratization, pacification and self-organization of society, but also controls, democratizes and provides support for the state, making it more democratic and effective."<sup>11</sup>

Other authors have looked at different types of civil societal groups. Putnam looks at "bonding" types that emphasize the interests of members—particular and narrow.<sup>12</sup> By contrast, "bridging" groups are multi-partisan, cross-cleavage, and aimed at the more general public good. This latter type, or simply innocuous groups like bird watching societies, are considered the positive ones that create social capital, yet these group have withered in recent decades. Earlier, Putnam pointed out organizations based on vertical bonds of hierarchical authority and power (patron-client ties, Catholic Church) and ones based on horizontal ties of equality (most secular organizations) with only the latter creating social capital and trust.

Thus, research shows that civil society is not always an unqualified good, fostering trust. For instance, actual social involvement is essential, so the kind of dues-based, mediatized, and virtual organizations typical today do not suffice to produce social capital. As with other spheres of human life, power and resources matter. Some groups (privileged classes) are better financed than others, so pluralism with competing and balancing organizations is inoperative. The rich have always been better represented and more powerful than the poor.

Moreover, unbridled civil society may exacerbate underlying tensions and cleavages in a political system—by empowering fissiparous interests, held in check in less permissive environments. Given zero-sum and path-dependent political conflict, mutually irreconcilable conflict is common (for example, abortion). Mark Warren notes "the more trust the better" does not hold true.<sup>13</sup> Democracies need a measure of distrust, of skepticism, a critical stance toward the government. As Foley and Edwards point out, there is no reason *a priori* why associations should be pro-democratic—KKK, irredentist groups, and nationalist leagues are all classical civil societal groups. Finally, a dense civil society can act as multiplier or facilitator

for various non-democratic political ideologies or regimes—Weimar Germany,<sup>14</sup> Emilia Romagna in Italy, or Egypt in the last years of Mubarak.

This more balanced view of civil society is essential to understand the current political environment on both sides of the Atlantic. Recent years have seen a mobilization of millions of citizens and a re-invigoration of civil society. In Germany, for instance, hundreds of thousands of average Germans came together to help the million plus refugees who entered the country in 2015 and 2016. Many new groups are dedicated to integrating the newcomers into German society. On the other hand, other organizations like Dresden's Pegida and its offshoots in other cities across the country have mobilized anti-immigrant and anti-Muslim sentiment in millions of Germans. One manifestation was the founding and strengthening of the Alternative for Germany (AfD) political party that now sits in numerous state legislatures and is polling around 10 percent nationally in advance of the 2017 Bundestag election.

Likewise in the United States, the recent decade has witnessed a renaissance of civil society groupings, starting with the Tea Party and Occupy Wall Street and more recently encompassing the mobilization behind Donald Trump's candidacy, as well as the anti-Trump mobilization after the election and well into his first term in office. Both the German and American cases show that civil society cuts both ways—it can foster understanding, social capital, and trust, or it can destabilize and polarize societies. The key is to facilitate the more positive groups and effects and avoid the more deleterious.

A few words about reconciliation as it relates to civil society are pertinent here. Johan Galtung memorably and pithily noted that “reconciliation=closure + healing.”<sup>15</sup> According to Trudy Govier, reconciliation “means building relationships that make cooperation and coexistence possible and providing for some degree of social trust.”<sup>16</sup> Meanwhile, Louis Kriesberg writes:

“The term reconciliation generally refers to the process of developing a mutual conciliatory accommodation between enemies or formerly antagonistic groups. It often refers to the process of moving

toward a relatively cooperative and amicable relationship, typically established after a rupture in relations involving extreme injury to one or more sides in the relationship.”<sup>17</sup>

Even more detail is provided by Herbert Kelman, who notes that “reconciliation presupposes conflict resolution” but also goes beyond that “in representing a change in each party’s identity.”<sup>18</sup> Identity change involves mutual acknowledgement of the other’s nationhood and humanity; development of a common moral basis for peace; confrontation with history; acknowledgement of responsibility; and the establishment of patterns and institutional mechanisms of cooperation.<sup>19</sup> Authors disagree on whether reconciliation is a process, an end state, or both.

In our understanding, reconciliation is both the process and goal, which also connotes the establishment of a degree of peace, stability, or at the least, mechanisms to resolve conflict before it escalates or to heal from a disagreement before it gets out of control. Civil society is the means to achieve and to sustain these processes and goals. Such associations are precisely the spaces where the “work” of reconciliation takes place. Moreover, the results of interactions within and between such organizations are the social capital and trust that are at the core of reconciliation. But, we also recognize that there is a dark side to civil society and that actors committed to reconciliation must find ways to foster the good types and avoid the bad effects.

### Underlying Assumptions for Policy Recommendations

In light of the over-arching uncertainty in the current U.S.-German relationship, we thought it was essential to lay out some assumptions before determining policy recommendations. Obviously, if the premises of the assumptions prove to be incorrect, we would adjust our recommendations.

Regarding the U.S., there will be ongoing threats to funding for international activities, including the work of civil society organizations. In March 2017, Donald Trump released his preliminary budget proposal for 2018 detailing changes his administration desires to make to federal government spending. The proposal

includes significant budget cuts for the Department of State (-29 percent) and the Department of Education (-14 percent) as well as the elimination of future federal support for the National Endowment for the Arts, the National Endowment for the Humanities, and the Corporation for Public Broadcasting.<sup>20</sup> This development has important implications for German-U.S. cooperation in regard to financial support for bilateral and international civil society efforts in areas of intercultural exchanges, art and education programs, and public media initiatives.

The current illiberal wave in the U.S. and Europe, including right-wing populism and castigation of the media, will continue. Even if the wave has crested, a sizeable portion of the population will be beholden to such ideas for the foreseeable future. Divides in societies between perceived winners and losers of capitalism will likely sharpen. Due to the increasing “fake news”—or maybe rather “separate news”—phenomenon, we will continue to experience negative stereotypes and misunderstandings between these two parts of the population in both the U.S. and Germany.

The refugee crisis in Germany will continue to polarize society. The influx of refugees from North Africa and the Middle East has created political, economic, and social challenges within the European Union. Particularly, the securitization of the refugee challenge in Europe opens up space for right-wing and nationalistic viewpoints to dominate the public policy discourse and contributes to the polarization society on both sides of the Atlantic. Donald Trump repeatedly instrumentalized Merkel’s open-door refugee policy during his presidential campaign in 2016 to mobilize voters at the politically right margins by implying that the influx of refugees in Germany resulted in a drastic increase in crime. Similarly, the Alternative for Germany (AfD) party in Germany campaigns on a platform against immigration, specifically against refugees from predominantly Islamic states. In France, Marine Le Pen’s National Front recently won 21 percent of voters’ approval in the first round of the French presidential elections based on a campaign promising immigration restrictions and anti-globalization policies.

There will be uncertainty in German-American relations emanating from U.S. criticism of Angela Merkel’s

policies—in regard to the German export surplus and disagreement about Germany’s NATO defense spending—and from contradictory U.S. foreign policy statements originating from different sources within the administration. Nonetheless, this essay assumes an overall cordial or stable level of German-U.S. relations in the upcoming years.

The transatlantic relationship is undergoing a fundamental shift as the notion of the West and its values is being challenged from within and from without. The idea of the West as a community of values and interests is increasingly in question—not only illustrated by the election of the new U.S. president but also by Brexit and disintegration forces on the European continent. The Munich Security Conference in February 2017, one of the most important conferences for the transatlantic relationship, has revealed a fundamental sense of uncertainty regarding the future path for cooperation. While previously, Russia was often singled out as the main force undermining the unity of the Western construct; it seems that it is now the West itself that is putting into question its institutions and structures. Foreign policy visions, based on a liberal international institutional order that emerged after World War II to structure relations between major powers, give way to increasingly nationalistic forces and perspectives promoting tactical bargaining over long-term strategies and value-driven policies.<sup>21</sup>

International conflicts—for example in Ukraine, Israel-Palestine, Afghanistan, and Syria—will continue. However, the U.S. position on these conflicts remains—as of now—uncertain. Particularly the new administration’s relationship with Russia has important implications for several of these conflicts. For example, on one hand, Donald Trump’s repeatedly declared admiration for Vladimir Putin and rumors to scrap sanctions against Russia scare Kiev. Both Angela Merkel and Martin Schulz, the Social Democratic Party’s candidate for chancellor, have warned against lifting Russia’s sanctions.<sup>22</sup> On the other hand, Donald Trump’s militarized response in April 2017 to Assad’s alleged use of chemical weapons puts U.S. foreign policy at odds with Russia’s approach in Syria. The U.S. mixed signals vis-a-vis its policy toward Russia contributes to the perceived feelings of uncertainty among America’s

important European allies, which could have negative consequences for future U.S.-German efforts to address ongoing international conflicts.<sup>23</sup> Another key country is Turkey, especially after the April 2017 referendum that granted more powers to the increasingly dominant president, Recep Tayyip Erdogan. Trump made a congratulatory phone call, creating even more uncertainty regarding the West's response to developments in that crucial country.

The Trump administration will use more hard power, such as military intervention, than soft power, such as diplomacy. Trump's federal budget proposal for 2018 suggests a \$54 billion increase in defense spending, while reducing the budget for the Department of State by almost \$11 billion.<sup>24</sup> The president justified the first direct U.S. missile strike against a Syrian air base as a response to the alleged use of chemical weapons by Bashar al-Assad's regime and in "vital national security interests" of the U.S.<sup>25</sup> Similarly, the Trump administration seems to take a tough military position in its ISIL approach in Afghanistan and its North Korea policy.

The U.S. focus internationally will be on making a deal. Trump markets himself as a successful businessman, an outsider to Washington politics. During his bid for the presidency, he continuously based his qualifications for the White House on his ability to make deals. From his inauguration in January to April 19, 2017, he signed a total of sixty-six executive orders, which illustrate his need to show action and results. The same desire to show results by making deals can be expected for his foreign policy approach.<sup>26</sup>

President Trump's criticism of international trade treaties does not stand alone in a vacuum. Global anti-trade sentiments have been on the rise over the past two decades and will continue to persist. In spring 2015, thousands protested in the streets of Germany to prevent the proposed Transatlantic Trade and Investment Partnership (TTIP). The Alternative for Germany (AfD) campaigns on an explicitly anti-euro and anti-trade campaign catering to a growing part of society that feels left behind by decades of neoliberal economic policies. During the U.S. presidential campaign voters on the political left were as opposed to NAFTA, the Trans-Pacific Partnership

(TPP), and TTIP as Trump supporters on the political right. As long as the gap between winners and losers of global capitalism continues to widen, global anti-trade sentiments will persist and influence voters' decision-making processes.

Germany will remain globally engaged, combining the pursuit of both values and interests, and using a combination of soft and hard power. Liberal-minded civil society in Germany has an important role in making sure the mainstream German political parties and norms do not leave the domestic and international stage empty to be filled by extreme right-wing nationalism. Nevertheless, it is unclear how much capacity Germany has not just to engage more to fill a probable void with the withdrawal of U.S. actors, but also to even sustain the level of engagement it currently has. A new, inexperienced leader, as well as a potential economic downturn, are just two of the variables that could affect German capacity in the medium term.

## Policy Recommendations

The following policy recommendations are based on the previously outlined assumptions and are divided into two sections, namely bilateral relations and international cooperation. Although all such distinctions are a tad arbitrary, we thought it was useful to differentiate between relations specifically between the U.S. and Germany, and the behavior of these actors in a more general international space.

### BILATERAL RELATIONS

#### **1. Increase German funding for bilateral exchanges**

Germans should step up and support/finance aspects of the bilateral relationship more than before. Joint exchanges, for instance, might need to be financed predominantly by the Germans if announced U.S. budget cuts come to pass. Germans might also step in to finance struggling civil societal or nonprofit organizations in the U.S.

## **2. Better coordination of existing German-American organizations**

A large number of civil-society organizations—such as the Atlantik Brücke, the German-American Chamber of Commerce, the German Marshall Fund of the U.S., or the DAAD—already foster and develop the German-American relationship. It would seem unnecessary to create more such organizations. Instead, it would be more beneficial to bring existing organizations together in some new way. In this sense a German-American forum that networks existing institutions into some new assembly would be a way forward. These could be organizations working on domestic integration: i.e., the integration of immigrants into the U.S. and Germany. In the U.S., a large amount of this work is done by civil society. Sharing best practices and creating a more positive dialogue within both countries and between the countries would be the goals of such a forum.

## **3. A new, bilateral media platform for young people**

Regarding the media, the German Bundestag and American Congress should provide funding for a large-scale bilateral interactive media platform with the mission to share stories featuring everyday life in both Germany and the United States. The new media platform includes different broadcast formats such as a radio network, podcasts, a website, and videos, and features stories about politics, civil society, and economics from both countries. The stories should be seen as an opportunity for young people to tell their everyday life stories and their point of view. The aim of this policy recommendation is to provide a platform that helps people understand each other's differences, but also recognize shared values and grievances. It draws on similar programs already available, such as ARTE TV (a bilateral cooperation between Germany and France) but broadens its scope by going beyond the medium of television and by targeting a younger and more diverse audience.

## **4. A bilateral forum for media networking and exchanges**

Germany and the U.S. should convene a conference and establish platforms for U.S., European, and even

Russian media representatives to exchange lessons learned, e.g., on the question of how to cover a hostile president.

## **5. Bilateral research partnerships between academics to understand the reasons for and meanings of “fake news,” in conjunction with discussions about managing digital space**

There is much promise in fostering bilateral research partnerships between academics from the U.S. and Germany that seek to understand the reasons for and meanings of “fake news” to contribute to a better understanding of the “other” and help bridge the increasing divide between the liberal-progressive and the nationalist-conservative camps in both countries.

## **6. Bringing together German and American civil rights organizations**

Regarding civil rights, Germany and the U.S. should establish and intensify contacts between U.S., European, and Russian civil rights organizations. For instance, a better cooperation between the ACLU and European organizations could have helped to clarify the status of dual-citizenship holders during the travel ban. Also, how are Russian NGOs coping with repression and funding restrictions?

## **7. Exchange lessons to strengthen civic education (*politische Bildung*)**

With respect to education, Germany and the U.S. should exchange lessons learned, in particular from Germany, on civil education and “political education”—“*Politische Bildung*.” The U.S. should establish a similar institution to the Federal Agency for Civic Education (*Bundeszentrale für politische Bildung*). We also need to reflect upon civic education in both Germany and the United States in order to raise again the awareness of each person’s role as a citizen in a democratic society. How much and in what ways is civic education and democracy-building included in programs of German-American encounters, professional exchanges on education, youth exchanges, volunteer services? How can we intensify the civic education component in the training of professionals working in this field of German-American cooperation?

## **8. Private sector initiatives to further worker and training exchanges**

Concerning business, German and American companies could work together to host exchanges of various lengths for German and American workers within multinational companies; to have trade organizations such as the U.S. Chamber of Commerce and the Association of German Chambers of Commerce and Industry (*Deutscher Industrie- und Handelskammertag*) coordinate workers' transatlantic exchanges that bring American and German workers together in factories, classrooms, and trainings on industries that rely on trade; and engage in transatlantic ad campaigns on products' cost and origins, demonstrating how certain everyday items have landed in consumers' hands at a low price due to trade.

## INTERNATIONAL COOPERATION

### **1. Increase German Soft Power**

Germany has long been praised for its foreign policy approach of using soft power to influence other actors on the international stage over the past few decades. While there is some controversy about the salience of German soft power in current global affairs in the literature, we suggest that—due to the increase of anti-American sentiments in many parts of the world following the Iraq War in 2003 and Trump's electoral victory in 2016—Germany's ability to affect others by its ability to "entice and attract" based on its resources of culture, political values, and institutions requires the central European country to take on a more leading role in today's global affairs.<sup>27</sup>

Germany should step into the probable void left by the decline of American influence in the Middle East and redouble their soft power techniques to balance the likely harder responses from the U.S. side in the future.

Actors of civil society, such as companies, universities, churches, and non-governmental organizations, play a crucial role in a state's ability to project soft power by providing platforms for intercultural and intersocietal communication and exchanges of

values. This essay recommends that the German government should focus in particular on building and strengthening ties to civil societal groups in countries where crises are occurring or are likely to occur, such as in Syria, Iraq, Afghanistan, Ukraine, South Sudan, Yemen, and others.<sup>28</sup>

Of course, maintaining a strong reputation domestically is also important to remain a beacon of western values and imperative for maintaining a strong image as influential soft power internationally. In this light, Germany also needs to protect and foster its values within its borders by more vigorously engaging with and countering views threatening democratic norms and opinions brought forth by domestic actors such as the Pegidas and the Alternative for Germany Party.

### **2. Joint fostering of civil society in Afghanistan**

The ongoing conflict in Afghanistan continues to pose a serious threat to international peace and security. While President Trump's foreign policy on Afghanistan remains unclear, the conflict also stands for fifteen years of cooperation between the U.S. and Germany in their attempts to address the conflict. Both countries have lost soldiers and spent massive amounts of money on renewing Afghanistan's future. Likewise, however, in both countries the appetite for the conflict and for Afghanistan has dwindled.<sup>29</sup> But, as we see in Europe today, Afghanistan is still a country that has a knock-on effect in terms of migration. Moreover, with actors such as the Taliban and ISIS once again gaining ground in the region, it remains in the interests of both countries to continue to work together to stabilize Afghanistan.

Recent developments indicate that the U.S. might prefer a militarized strategy to battle ISIS on Afghan territory. General John Nicholson, the U.S. Commander in Afghanistan, recently requested "a few thousand more troops" in Afghanistan.<sup>30</sup> On April 13, the U.S. military dropped one of its largest bombs (GBU-43/B Massive Ordnance Air Blast bomb) on ISIS targets in that country, very clearly in a show of force. Germany's approach, on the other hand, points toward supporting the war-torn state through economic development and state-building programs. The federal government reaffirmed its support of this strategy at the Afghanistan Conference in Brussels

in 2016, identifying several priority areas, such as building and training an Afghan police force, stabilizing the country's north, capacity building in the administrative and judicial sectors, promoting human rights, and supporting the development of higher education and future election processes.<sup>31</sup>

Due to their shared interest in stability and peace in the region, there is substantial potential for future German-U.S. cooperation in addressing the challenges in Afghanistan today. The two allies should work closely together in both military and development policies and both areas have to be treated as mutually dependent if lasting success is to prevail. Civil societal actors can play an important role in regard to supporting governmental development politics as change must not be imposed on the people but should also come from below.<sup>32</sup> German and U.S. civil society organizations working in Afghanistan can provide important resources to facilitate change by offering platforms for the exchange and dissemination of expertise and technical knowledge and by serving as points of access for local participation in political, economic, and cultural processes of state-building.

### **3. Joint support to foster cross-border civil society and reconciliation in the Middle East**

The ongoing Israeli-Palestinian conflict will continue to influence any kind of future U.S.-German relations. Trump's unwavering support for Israel during his campaign resulted in high hopes in the Middle Eastern state for new and "reset" U.S.-Israeli relations, particularly in regard to the Obama administration's foreign policy positions toward Iran and Israel's settlement policy.<sup>33</sup> At a meeting between President Trump and Prime Minister Benjamin Netanyahu in February 2017, the two leaders denounced the Iran Nuclear Deal and put into question a two-state solution.<sup>34</sup> Yet, as of today, it remains unclear what the new U.S. administration's strategy to address the ongoing conflict will look like in practice. On the other side of the Atlantic, Chancellor Merkel's administration has repeatedly voiced its support for a two-state solution, while urging the Israeli government to cease building new settlements.<sup>35</sup>

It is time that Germany takes on a stronger leadership role and mediates within an Israel-Palestine dialogue about alternatives to a two-state solution while trying to continue within the multilateral/UN framework of international law that strongly condemns the construction of Israeli settlements. However, political efforts need to be supported by civil society actors promoting intercultural exchanges, education and art programs, human rights and conflict resolution initiatives, and scholarly cooperation between Israel and Palestine as well as citizens from other Arab states. Young people should be the focus of such programs. In the Middle East, German civil society actors are often perceived as more neutral than their American counterparts. A bilateral German-American civil society partnership under visible German leadership might therefore be positively received by actors on the ground in Israel, Palestine, and other Arab states in the region and would contribute more successfully to a peaceful solution of the long and ongoing conflict.

### **4. German-U.S. public diplomacy effort on trade and corporate social responsibility with local civil society actors**

One of the main issue areas of potential conflict and/or cooperation within German-U.S. relations in the upcoming years is the area of trade relations. According to the U.S. Department of State, the United States became Germany's fourth largest supplier of goods in 2015 and the U.S. became Germany's leading export market.<sup>36</sup> The same year, Germany exported goods worth more than \$125 billion to the United States and U.S. exports to Germany totaled \$50 billion. Similar numbers pertained for 2016.<sup>37</sup> At the same time, Germany and the U.S. are both members in important economic international organizations, such as the G20, the G7, the Organization for Economic Cooperation and Development, the International Monetary Fund, the World Bank, and the World Trade Organization that are constituted based on a commitment to an open and expanding world economy. However, U.S. commitment to these principles has been put into question with President Trump promising to implement significant changes to U.S. tariff and import regulations favoring protectionist policies over open-trade relations.<sup>38</sup>

As part of the global civil society, German and U.S. business associations should issue a joint declaration promoting the value of open and increased trade, while also promoting dialogue between social justice issues and economic development. This should be part of a larger civil-society-led public diplomacy effort in both countries promoting a dialogue on the advantages and disadvantages of open trade. Particularly German and American companies doing business in post-conflict societies should increasingly focus on issues of corporate social responsibility. While the promotion of open trade policies is favorable over nationalistic and protectionist approaches, the welfare of the part of the global population who feel left behind as a result of two decades of an unquestioned neoliberal policy agenda deserves more attention. German and U.S. business associations should focus on the engagement with local civil society groups within and outside of Germany and the U.S. by emphasizing the importance of social and transitional justice, peace, and reconciliation in the area of international trade relations.

## Conclusion

The German-American relationship is one of the most important components of the larger transatlantic relationship. Indeed, over the last decade it has probably been the most important component. The EU has been struggling since the onset of the euro crisis, if not since the failure of the proposed constitution in 2005. France has been in a funk over this period of time and Britain has a self-inflicted wound (Brexit) that will likely weaken it in the medium and long term.

The much-vaunted rise of German power is in part cyclical and relative because of the weakness of other actors and the long tenure of its remarkable leader, Merkel. But, it is also the result of many difficult reforms (Hartz IV, Agenda 2010), sacrifices, and, above all, the complete remaking of German (political) culture and reorientation of the state since the nadir of 1945. Germany has eschewed nationalism and embraced a reflexive multilateralism, including “self-binding” through giving up and pooling sovereignty in the process of European integration. Its identity is as a strong, consensus-oriented democracy and trading state. Investments in soft power resources at home and abroad and a constant emphasis on

working through the past and pursuing reconciliation have been constitutive. For many of these reasons, Germany has consistently been ranked among the most respected countries worldwide.<sup>39</sup>

Taking a long view, this utter transformation is remarkable. Certainly, no one predicted this course in 1945. And U.S. policy toward the postwar Federal Republic—Marshall Plan, support for NATO membership—was instrumental in this process of reconciliation and reintegration. Later, U.S. governmental support for reunification was essential. Germans have long been thankful for such support and indeed, anti-American sentiment is usually much lower than in other European countries. The amount of commerce and the number of citizens travelling to the other country is unprecedented.

It is thus unfortunate that with the Trump administration so much uncertainty and so many tensions have emerged. But, it is also vital to emphasize how exceptional this state of affairs is. Moreover, this might be temporary. The Trump administration has been relatively silent toward Germany as of late and Trump himself is now emphasizing the “incredible chemistry” he has with Merkel. In addition, some of the more ethno-nationalist voices in Trump’s orbit, namely Stephen Bannon, appear to be losing influence and more moderate voices such as his daughter Ivanka, son-in-law Jared Kushner, and the Republican establishment appear to be gaining power. Merkel’s patient “wait-and-see” approach, coupled with her not-so-subtle emphasis on commercial ties (note the number of German CEOs she brought with her to the White House) may already be paying off.

If this is indeed the case, it would attest to the deep network of ties that undergird the German-American relationship. Decades of civil societal activities have created mutual understanding, reconciliation, and a degree of trust—as well as mechanisms to resolve disagreements—that have been active in moving past the current tensions.

But in this uncertain time, new or exacerbated tensions could erupt at any moment. Given the number of policy changes and reversals on Trump’s part, the situation could be very different next month. If tensions persist or re-emerge, civil society will be

as important as ever. Furthermore, even if official policy stays neutral or positive, the underlying forces that have empowered anti-globalists and nationalists in the U.S. and Europe cannot be ignored and their potential to erode trust is still acute. Actors on both sides of the Atlantic will have to address the structural causes of such sentiments sooner as opposed to later.

This is why our group has advocated for a two-pronged approach. On the one hand, we believe strongly in the dense network of associations and ties that currently exist and recommend that they continue to be supported and maintained. On the other hand, we also argue for new thinking, for new ideas, and for the next generation of efforts to address the challenges of the present and future. Finally, as we have repeatedly acknowledged, civil society is not an unqualified good—there is a dark side to many organizations. As a consequence, those committed to bilateral reconciliation must always identify, confront, and hopefully counteract those groups that are endeavoring to sow doubt, discord, and tension.

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