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**GERMANY
AND
THE UNITED STATES:
Considerations
For
The New Administration**

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Contents

Preface.....	v
Introduction.....	1
Issue 1: NATO Enlargement.....	3
Issue 2: European Union Enlargement.....	4
Issue 3: Germany’s Role in a European Security and Defense Policy.....	6
Issue 4: Arms Control, Proliferation and the National Missile Defense Initiative (NMD).....	8
Issue 5: Russia.....	9
Issue 6: The Balkans.....	11
Issue 7: Turkey and Central Asia.....	12
Issue 8: Environmental Issues.....	13
Issue 9: Trade and Investment.....	14
Conclusion.....	17



Preface

The American Institute for Contemporary German Studies (AICGS) presents this report on the significance and status of German-American relations as a contribution to the policy-making debate on U.S. foreign policy. This report briefly reviews the key changes that have reshaped the German-American dialogue in recent years. It points out critical areas in which the interests of the United States and the Federal Republic of Germany both converge and diverge and the need for mutual accommodation within the framework of this important partnership.

Over the past five months, three meetings were convened with leading policy officials and experts in Washington, D.C., and in Berlin. Their aim was to identify the issues that will require a close and ongoing discussion among policy experts and government officials on both sides of the Atlantic in the coming months and years. Numerous individual discussions also were conducted with a wide range of leading German and American figures in the private sector and in academe.

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Germany and the United States: Considerations for the New Administration

Introduction

As the new Bush Administration addresses its foreign policy and strategic objectives, the European-American partnership remains central to the political, economic, and strategic interests of the United States. Europe and the United States are bound together by history, by shared commitments to democracy and the rule of law, and by their unavoidable need to work in partnership to preserve and enhance global prosperity and security. Germany is a key ingredient of this transatlantic alliance, and therefore high priority attaches to the German-American relationship.

With a population of 82 million, Germany is, after Russia, Europe's largest country, and it is located in the very center of a European Union that will soon extend from Finland to Cyprus, and from Spain to Poland, the Balkans and the Baltics. Germany's vision is likely to be decisive for the future shape the new Europe will take. A great debate about the nature of the EU is underway, with two broad competing alternatives being offered by Great Britain and France. Britain favors a looser and more Atlanticist Europe, while France continues to work for a Europe that is an independent international power. Germany's voice is likely to decide which alternative view will prevail, both in terms of the institutions of the European Union and in the shape of Europe's security identity.

The Germany that the policymakers of the new Administration face is quite different from the Germany that the previous Bush Administration knew. The events of the last decade have reshaped Germany, and it is still in the process of defining itself as a unified nation and its relationship to the world around it. The framework of the American-German dialogue also has been transformed, from one of cold war dependence to a more equal partnership. The new American team will deal with a Germany that has a new generation of leaders who have less emotional ties to the U.S. and who are likely to be as realistic in their approach to Washington as Washington will be toward Berlin. While warm memories of the Berlin Airlift, American support for a divided Berlin, and the legacy of American support for German unification in the first Bush Administration remain, the Schröder generation of leaders quite naturally will determine the future of the relationship based on their assessment of German and

European interests rather than upon continued gratitude for past accomplishments.

This Administration takes office at a crucial time. Now is the opportunity to reshape a renewed American-German partnership, committed to an updated transatlantic agenda and focused on the challenges of the future. By doing so, the Bush Administration can harness the enormous energy, capacity, and good will on both sides of the Atlantic and thereby accomplish as much as or more than the U.S.-German relationship did during the cold war.

Divergent policy preferences in German-American relations are not new, but they are becoming more complicated as the lines between foreign and domestic policies continue to crumble and as domestically-driven issues such as capital punishment, child custody, and religious freedom invade the foreign policy debate. Arguments over regulating data protection and gun control are other examples of how German and American societies reflect interests that can overlap and collide as an increasingly borderless world creates more opportunities for familiarity with what we like and do not like about each other, in an ever more intimate environment.

The East-West confrontation of the cold war has been succeeded by a more diversified, multipolar environment, in which forging consensus on foreign policy goals simultaneously at the elite level and the level of the general public becomes more difficult. There are understandable German—and other European—concerns about the overwhelming power and influence accumulated by the United States. There are also understandable American concerns regarding narrow European—and German—attitudes and the reluctance to look beyond Europe's borders on important strategic issues. Differing perceptions of threats, national interests, and budget priorities render the transatlantic dialogue increasingly complicated.

The stage of German-American interactions grows more crowded with interest groups at many, sometimes conflicting, levels. As could be seen at the recent climate control conference in The Hague, German-American debates over responses to environmental policies generate new alliances across various borders. The fact that Germany has taken the United States to the International Human Rights Court over the case of two Germans executed in Arizona underlines not only a fundamental disagreement over capital punishment, but also Germany's willingness to take the U.S. to task on living up to its international treaty responsibilities. Similarly, the United States has been critical of

Germany's treatment of the followers of Scientology and its disposition of child custody cases. The legacy and lessons of the Holocaust inevitably remain a central part of the German-American dialogue, as illustrated by the difficult efforts to deal with insurance claims of survivors as well as slave labor reparations.

The ability on both sides of the Atlantic to successfully manage this new agenda depends on the centrality of a close and effective U.S.-German partnership—a partnership that can and must serve as the engine that helps drive and guide this transformation of European-American relations. This agenda consists of a diverse set of issues, from the traditional concerns critical to our national interests to concerns that have been shaped more by the dynamics of the post cold war world and the global economy. The most relevant of these issues are:

- NATO Enlargement
- European Union Enlargement
- European Security and Defense Policy (ESDP)
- Arms Control, Proliferation, and National Missile Defense
- Policies toward Russia
- Security in the Balkans
- Turkey and Central Asia
- Environmental Policies
- Trade and Investment

Issue 1 **NATO Enlargement**

One of the first decisions facing the new Administration will be how to proceed with the enlargement of NATO to a new round of members. The Alliance has pledged to decide how to implement the policy of keeping the door open to new members at its summit meeting scheduled for the autumn of 2002.

Within NATO, decisions concerning the next wave of membership will be difficult. The criteria for admission will be based on the abilities of the candidate nations to fulfill requirements that include not only commitments to democratic institutions and open economies, but also their individual contributions to NATO's collective security. In applying such criteria, the candidates currently display an uneven set of qualifications.

While Germany and the United States worked closely together on the last round of NATO enlargement, it is as yet unclear whether German interests will be as much engaged in the second. Germany's main interest in the first round was to stabilize Poland and to prevent a recurrence of past Russian-German competition over Poland as well as the remainder of central Europe. For the next round, it is less clear that Germany will support further enlargement toward the Russian border, given its proximity to Russia and its sensitivities regarding a Russian reaction, especially with regard to the Baltics. Therefore, the kind of leadership Germany provided in the first round is not as likely for the second. American leadership will be crucial in this respect, and the new Administration will have to reach a decision rather early in 2001 regarding the pace and extent of its prompting. It seems clear that the United States will move to treat enlargement as a reality, but it will soon have to begin to develop an Alliance consensus on this important issue.

Issue 2 **European Union Enlargement**

The European Union expects to conclude its own enlargement negotiations with the next set of new EU members by early 2003. This means that the decision about specific candidates for the EU will be made at about the same time that NATO will also be considering its next set of new members. These two important steps will contribute to the security and stabilization of Europe. Close consultations on both these vitally important initiatives are needed to enable the U.S. and Europe to manage this next important stage of transatlantic affairs. But there may be difficulty in reaching agreement, both on the timing and the candidates.

As was evident at the recent EU summit meeting in Nice, Germany pushed for institutional reforms to enhance the conditions for an expanded membership within the European Union. While the outcome of Nice may not have satisfied many of the member states, the issue of institutional reform was clearly addressed. Germany in the past has been the leading promoter of enlargement, and is perceived by many potential new member nations as their chief advocate within European councils. However, German ardor for this project has cooled since the Schröder government assumed power, and central Europeans now worry when the German Chancellor speaks of a long transition period for the

free movement of labor, as he did in December 2000 while on a visit to the Polish border. Fulfilling the requirements for EU membership remains a major challenge for the prospective new members, and the duration of the admissions process in each case will inevitably vary greatly.

Germany and the United States should be in close consultation concerning both NATO and EU enlargement. While the United States is not a part of the European Union, it has a large stake in the EU's decisions regarding expansion. The United States has favored EU enlargement as part of its vision of a Europe "whole and free." It not only believes that EU enlargement will help consolidate democracies in east/central Europe, but that enlargement will also relieve pressure for NATO to assume this burden. However, the United States also has an interest in an effectively functioning EU, and too rapid an enlargement, without structural reform, could undermine the internal equilibrium of the Union.

Simultaneously, American preferences for NATO candidates will affect German interests. For example, decisions regarding a possible priority for the Baltic states may generate German-American disagreements concerning the sequence of EU and NATO memberships, particularly in light of heightened Russian sensitivities to NATO expansion in that region. The ability of candidates to meet NATO membership criteria is also in question. Suggestions to postpone expansion could easily cause a backlash effect in these states, which would strengthen nationalist and anti-democratic forces. Last but not least, efforts to resolve the conflict between Turkey and Greece over Cyprus and Aegean issues remain an important part of the German-American agenda within NATO and the EU. The EU's decision to consider Cyprus ahead of Turkey for membership complicates the prospects for a settlement of the conflict and increases the likelihood that both Greece and Cyprus will block Turkey's membership. The U.S., while continuing to support EU enlargement, should also understand the limits of its influence. This is especially important with regard to Turkey's candidacy.

During the next four years, Germany and the United States will—unavoidably—act as leaders in the NATO and EU enlargement processes. In these broad areas, in which both countries have such a large stake, the two should ensure that their policies complement rather than conflict with each other. This should involve cooperation regarding both the accession of countries to the EU and NATO as well as cooperation in policies toward countries such as Ukraine that will not be invited to join either organization for the foreseeable future.

 **Issue 3** 

Germany's Role in a European Security and Defense Policy

The emergence of the European Security and Defense Policy (ESDP) poses new challenges to the U.S.-European relationship regarding the scope, capability, and organizational structure of the European 60,000-troop rapid reaction force agreed on during the EU summit in Helsinki in December 1999. The EU force is designed to be used for peacekeeping and peacemaking as well as humanitarian efforts only when NATO decides it does not want to become involved. Given the obvious deficiencies in its military capabilities, especially in lift, intelligence, and command and control, this EU force will need to have access to important NATO (i.e. U.S.) assets to accomplish its missions for at least a decade after it comes into being in 2003.

There are many contentious transatlantic issues involved in implementing such a project. One is the definition of the scope of the core mission of NATO. Another is the inability of the Europeans to achieve a serious military capability, with power projection and rapid response, unless the required financial resources are made available and committed to the effort. A third is the organizational structure and decision-making process involving the European forces as part of NATO. Effective linkages in decision-making and planning processes are a fundamental requirement for NATO's cohesion.

While there has been some advocacy for a more independent role for ESDP, Germany shares the U.S. position that ESDP must rely on NATO strategic planning capabilities. NATO rightly insists there should be no separate defense planning structure for the EU. The EU force should complement NATO, not compete with it. On this issue, the United States and Germany need to be in accord.

A determination of the appropriate role for ESDP also requires a thorough evaluation of its capabilities. A key lesson of the Balkan wars is that Europe needs to reduce the gap between U.S. and European military capabilities. However this issue is addressed, it is well to remember that the German *Bundeswehr* is one of the European Union's largest armies. It must therefore serve as the anchor of any European force and, as such, must have the necessary resources to fulfill its mission.

Germany is reorganizing its armed forces to meet the Headline Goals agreed to at the December 1999 EU summit meeting, and to fulfill the Defense Capabilities Initiative agreed to at the April 1999 NATO summit. However, there is a serious question as to whether Germany will allocate the resources necessary to acquire the capability to accomplish the job. The end of the cold war necessitated a significant shift in the mission and structure of the German *Bundeswehr*, from a heavy, land-based military force to a lighter, more flexible force capable of responding rapidly to the new security challenges of the 21st century. Last June, the German government announced the details of its reform measures, which included major procurement programs, equipment upgrades, improved educational/training programs, and government-private sector collaboration.

However, there was no corresponding commitment to increasing Germany's level of defense expenditures, which is lower as a percentage of GDP than any other NATO member save Luxembourg. Germany, whose defense budget was repeatedly trimmed throughout the 1990s, spends only 1.5 percent of its total output on defense, compared to 2.8 percent in France and Great Britain and 3.0 percent in the United States. Projections suggest that Germany's defense budget will be static over the next three years, and there is serious doubt as to whether the political will exists in Germany to propose more tax burdens to alter this situation. At a time of German belt-tightening amid the continuing demands of integrating eastern Germany, fighting stubbornly high unemployment rates, and reforming segments of its social welfare programs, an increase in military spending is unlikely.

Inevitably, American policymakers are concerned with this gap between rhetoric and capability, and between what the government says it will acquire and the cost implications of such capabilities measured in a political climate hostile to any increases in defense spending. At a time when the new U.S. Secretary of Defense, Donald H. Rumsfeld, has announced his intention to undertake a comprehensive review of U.S. military policy—including an evaluation of U.S. peacekeeping forces in Kosovo and Bosnia—the United States needs to be assured that Germany will remain a strong, reliable military partner. Germany is central to U.S. security interests in Europe. If Germany is unable to recreate a military that can shoulder its fair share of the defense and peacekeeping burdens within the Atlantic alliance, the effectiveness of U.S. security cooperation in Europe will suffer and the viability of the alliance operating effectively in coalition warfare will be questionable.

Issue 4

Arms Control, Proliferation, and the National Missile Defense Initiative (NMD)

Today, no significant issue divides Germans and Americans more than Washington's interest in building a National Missile Defense system. Americans perceive a real threat to the security of the United States. The core of the argument—and the position that must be conveyed effectively—is that some protection for U.S. territory is needed in order to prevent American self-deterrence in the potential projection of conventional military power into particular trouble spots. Europeans will have to understand that a wide bipartisan consensus exists for the concept of missile defense should it prove technologically viable, although there remain great differences over the scale, cost and purpose of NMD and the role of arms control in maintaining non-proliferation regimes.

Regarding the Germans, there is concern in Washington that they are unwilling to reorient their civilian power-Eurocentric thinking to new military threats in the world, many of which are directed specifically at America or other non-European nations such as Israel or Japan. For their part, the Germans believe that Americans are too enamored of the latest technology—about whose viability Germans remain skeptical—and too willing to undermine the carefully interwoven web of arms control agreements of the past thirty years, including the Anti-Ballistic Missile (ABM) Treaty, in order to achieve an unattainable invulnerability.

German thinking about the web of negotiations and treaties, which has evolved since the 1970s, has engendered a firm commitment to the interdependence of the arms control regimes and the need for crisis prevention strategies. German policy has been consistently skeptical about counter-proliferation efforts that emphasize the use of military force in containing proliferation. Because Germany does not have an independent national nuclear arsenal, it supports a non-proliferation regime that reduces dependence on nuclear weapons. As the nation that stood at ground zero of the cold war and survived under the NATO umbrella, Germans are dismayed at what they perceive as a surge of American unilateralism embodied in the U.S. Senate's rejection of the Comprehensive Test Ban Treaty on the one hand, and the NMD proposal on the other. Berlin is also sensitive to Russia's fears and objections to NMD, although those fears appear to be more psychological than strategic.

German and American views may clash over the setting of priorities when dealing with proliferation concerns. Estimations of the perceived threats stemming from specific “states of concern” such as Iran, Iraq, and North Korea differ, as do the strategies for dealing with them. Sensitive to the Russian reaction to NMD, many Germans see a danger of such an initiative leading to the nullification of the ABM Treaty of 1972, and dangers for the START I and II treaties. In U.S. defense debates, the predominant concern is the failure of non-proliferation regimes alone to stem the acquisition of weapons of mass destruction and ballistic delivery vehicles. In contrast, the German government views the strategic situation as relatively stable. Consequently, serious problems will arise for the transatlantic relationship should Germany believe that the U.S. approach is destabilizing. Clearly, this is an issue with great potential for a serious policy clash.

The United States must work hard to achieve a common understanding with the Germans and other European allies of international threats seen both from the European perspective and through the wider global lens of the Americans. The Clinton Administration clearly failed to consult adequately with its European allies on this issue of central importance to them. The new Administration has indicated its understanding of this problem and has stated that, while it intends to proceed with some version of NMD, it must do all it can to use the time available—before testing results finalize the project and the U.S. engages its NATO partners and Russia—to reach a clearer understanding of today’s threats from weapons of mass destruction. This can be done either through existing NATO channels or perhaps through a special U.S.-European commission that would assess the threat and discuss options for a common approach.

Issue 5 **Russia**

Germany and the United States share significant interests and the potential for joint policymaking with regard to Russia. However, there is also a danger that they might diverge over Russia and that Russian policy could promote this separation. Probably no two other countries have a greater interest in Russia’s success and stability. The United States and Germany are, respectively, the largest and second-largest investors in Russia. The two countries have the most at stake in Russian

commitment to liberal democracy, civil society, legal institutions, and free markets. Having lived under the threat of Russian nuclear weapons, Americans and Germans have a joint interest in Russia's nuclear disarmament.

However, the U.S. and Germany's interests in Russia are also differentiated. Because of its geographic proximity, Germany is more directly affected by instability in Russia. While American concerns are mostly centered on nuclear issues, Germany is more concerned about controlling crime and illegal immigration. Germany also holds over \$23 billion in old Soviet Union debts and is Russia's most important European trading partner. On the debt issue, the United States has been more willing to grant debt relief, while Germany is less forgiving.

For its part, Moscow sees Germany as the lead country in Europe, as demonstrated by the continuous high-level contacts between Berlin and Moscow, and it regards Germany as a potential ally on many European issues. Berlin is sensitive to Russia's historic encirclement fears, which Washington tends to minimize. On several key issues, such as NATO expansion and NMD, there is considerable potential for Moscow to drive a wedge between Washington and Berlin, particularly if Russia sees Germany as its primary interlocutor in Europe and attempts to stress the need for enlarged European security cooperation without American leadership.

The engagement of Russia and the central European states with NATO and other European and transatlantic institutions remains a high priority for both Germany and the United States. With common interests in Russia, the United States and Germany can and should work toward a closer joint understanding and more coordinated policies. Involving Russia in the next phase of nuclear disarmament and the control of proliferation dangers is of the highest priority.

From the American point of view, a Russia linked more and more closely to Europe is preferable both to a Russia beset with internal strife or a Russia primarily oriented toward Asia. Obviously, both the United States and Germany would prefer a Russia committed to western-style democracy. While a constructive approach to this goal employing a mix of cooperation and targeted pressure would be desirable, many obstacles lie in the way. The largest is the direction in which Putin's Russia seems headed. If the rule of law and the development of democracy remain thwarted or even reversed, then there will be few possibilities for investment or other forms of cooperation. As Russia

continues to struggle to maintain a cohesive society and polity, it risks becoming less important to both Germany and the United States. In short, damage control may become a more realistic policy goal.

Issue 6 **The Balkans**

During the 1990s, the role of Germany's *Bundeswehr* in international missions in the Balkans grew significantly. From the break-up of Yugoslavia to the war in Kosovo, Germany has evolved significantly in its understanding and performance of its role and capabilities as a national power. During the past six years, Germany engaged in full participation in an out-of-area armed peacemaking and peacekeeping mission, and a Social Democratic-Green government committed combat troops outside its own borders during the Kosovo war for the first time since World War II. Together with its European allies, Germany is shouldering a large share of the military and economic assistance burdens in the Balkans (the Europeans contribute over 63 percent of both the peacekeeping forces on the ground in Kosovo as well as 78 percent of the reconstruction and humanitarian aid) and is perceived there as the economic hope for the future.

Germany's engagement in the Balkans represented not only its commitment to the alliance and to the necessity for military intervention for humanitarian purposes. Germany also was driven by the concerns about the flow of Balkan refugees seeking shelter in the Federal Republic. Germany's traditional approach to dealing with conflict through multilateral mechanisms was represented by the development of the peace plan worked out by Foreign Minister Joschka Fischer during the war.

The new Administration should continue to support and publicly recognize the Germans and other Europeans in their long-term commitment to help stabilize the Balkans, and the United States should do this in part by affirming and maintaining its own limited military presence there. At least in the short run, an American withdrawal would undermine not only the Stability Pact but also regional stability itself, as well as future European-American cooperative efforts. It would also pose a threat to the key Administration goal of strengthening NATO.

The Balkans represents both the abject failures and the successes of transatlantic efforts to achieve peace, stability and democracy in the region. A strong German presence should be expected and recognized as a core element of the European effort, which may last for more than a decade, and will serve as an illustration of the European ability to assume a leadership role alongside the United States.

Issue 7 **Turkey and Central Asia**

Turkey is a critical pivot point in strategic, geopolitical, and structural issues related to Europe. Situated on NATO's eastern flank, it presents an unresolved confluence of the complex issues of EU expansion, cultural divides, human rights debates, and competing values of military stability and economic needs. As a member of NATO, with one of Europe's largest armies, and as a candidate for membership in the European Union, Turkey is also inextricably involved in the complexities of the East: a near-neighbor and partner of Israel, a contiguous border with Iraq, and the bridge to the Caucasus and Caspian regions, which are rich in oil but also rife with conflict.

For Germany, these issues are not only international but domestic as well: two million Turks live in Germany, by far the country's largest (and increasingly politically influential) minority. Working with Germany to enhance Turkey's domestic stability through economic aid and to encourage reforms in Ankara is a priority for the German-American agenda.

However, Turkey has been a subject of controversy in the German-American dialogue. In the past, the United States has criticized the EU for its occasionally tactless handling of the Turkish bid for EU membership. Germany has a particularly large stake in relations with Turkey, and the decision taken by the European Council in Helsinki in 1999 finally to include Turkey as a potential candidate for EU membership was strongly supported by the German government. Yet this support has not prevented Berlin from directly and candidly expressing its concerns about human rights violations in Turkey, one of the issues that must be resolved in order to fulfill the requirements of EU membership.

The new American Administration will need to continue to focus on Turkey's strategic importance in the larger region, including future

relations with the EU. As negotiations concerning the European rapid reaction force proceed over the coming years, Turkey's EU relationship will be strained unless there is a resolution of the relationship between EU members who do not belong to NATO and NATO members who do not belong to the EU. Turkey recently vetoed a proposed NATO agreement on future cooperation with the EU rapid reaction force because of its fears that non-EU NATO allies will be excluded from the outset in EU plans involving the use of NATO assets—thus Turkey's insistence that such members be involved in all phases of the ESDP planning process.

Working with Turkey on the development of economic stability and energy resources in the Caucasus and the Caspian region is another common strategic concern for Germany and the United States, particularly in light of the current oil crisis. Finally, efforts to resolve the conflict between Turkey and Greece over Cyprus and Aegean issues remain an important part of the German-American agenda within NATO and the EU.

Issue 8 **Environmental Issues**

Clashes over environmental issues such as the breakdown of climate control talks in The Hague in November 2000 provide evidence of both a substantive and a cultural disagreement between Germany and the United States. Germans have a traditionally high level of sensitivity to environmental concerns, and the presence of the Greens in the current federal government and at other levels of government throughout the country only underscores that.

During the next two years, there will be several occasions when environmental debates will continue to affect the German-American relationship. These clashes are likely to escalate with the new Bush Administration and its potential emphasis upon energy production over environmental priorities. In 2002, a global conference will be held in South Africa marking the tenth anniversary of the conference on environmental affairs in Brazil in 1992. Finding common ground on the Kyoto Protocol, which has not been submitted to the U.S. Senate for ratification, and the Bio-Safety Protocol will continue to involve tough negotiations. The run-up to this conference offers a chance to anticipate both the arguments and the alternative strategies related to these issues. The challenges ahead will be in evolving a transatlantic balance in the

relationship of economic growth, energy efficiency, and political realities. With the United States more focused on market-based approaches to environmental protection and the Germans leaning toward the regulatory approach, there will be conflicts over the monitoring and measuring of progress. Indeed, there may be conflicts over the goals themselves. The German approach to climate control emphasizes changes not only in policy but also in lifestyle, which often generates explicit criticism directed toward the United States.

Biotechnology and the labeling of biotech foods have become major issues in transatlantic relations. Americans see fewer hazards in the development of genetically engineered (GE) foods than do the Germans. Agribusiness in the United States has invested heavily in the development of genetically modified crops and in strategies to export such crops to other countries. American efforts to break through what is essentially an EU moratorium on the import of GE foods has been complicated by a recent U.S. recall of foods containing genetically modified corn. Achieving harmonization of regulatory measures that assure safety while avoiding the emergence of non-tariff trade barriers in this newly developing field will be a major challenge during the coming years.

Issue 9 **Trade and Investment**

Germany is a major economic partner for the United States and a leading force for free trade within the European Union. It is supportive of open markets and a key country to which the United States can turn for support in shaping a transatlantic and global trading and investment agenda. As a major trading state, Germany has a vigorous interest in the development of open trade and free markets throughout the world. The Federal Republic is the second-largest exporter in the world—after the U.S.—and accounts for over ten percent of world exports.

The U.S. is Germany's second largest export market, soaking up ten percent of Germany's exports. The U.S. is also the largest target for German foreign direct investment, which has doubled to over \$110 billion in the past five years. Both German and American foreign direct investment flows into each other's economies have increased substantially, with German investment proportionately much greater. Globally, American and European firms (the German firms among them) are the biggest players in the mergers and acquisitions sphere. Major

German-American examples, such as DaimlerChrysler, Deutsche Bank's acquisition of Bankers Trust, and Deutsche Telekom's purchase of VoiceStream underscore the creation of an increasing and intense economic linkage between Germany and the United States.

German-American trade is part of the enormous web of economic relations between the U.S. and the European Union. Almost half of the American foreign direct investment flows into Europe. Two-thirds of European foreign direct investment beyond the EU heads toward the U.S. The United States and the EU set the larger agenda in multilateral institutions such as the WTO, the IMF and the World Bank. Within the EU, Germany plays a key role. Germany's economic interests lie in a balance between maintaining a stable regional European market and its support for a globally competitive system. This balance provides a strong basis for German-American cooperation in building a stronger set of multilateral institutions to manage the growth of international markets.

Germany, as part of the EU, and the U.S. are both facing arguments within the World Trade Organization over a variety of issues, many of which are pending review and require regular consultation within the EU. The U.S. has used the dispute resolution mechanism of the WTO to challenge the EU on a number of fronts where public opinion and interest-group pressure produced policies that were inconsistent with the EU's obligations specified in the General Agreement on Tariffs and Trade (*e.g.*, restrictions on the import of hormone-treated beef and bananas). The policy was not just beneficial to the United States, since it made clear that the United States would use its economic muscle aggressively (but within the confines of the new WTO dispute resolution mechanism) throughout the world to press for the elimination of barriers to open trade, particularly those that have been most recently erected. The German position on these issues is not always in agreement with the position taken by the other EU member states. In fact, Germany can be a valuable American ally in dealing with some of these conflicts and supporting the European Commission in attempts to liberalize European markets. This is particularly the case in dealing with the ongoing battle over the EU Common Agricultural Policy (CAP) and the argument over the tax breaks enjoyed by American corporations on their foreign sales. Current debates are also focused on other key issues, including drug approval procedures, national security restrictions, and intellectual property.

Continuing to work with German and American business interests is also important. The views of the business communities of the United States and Germany are even closer than those of the two governments and their general publics. During the past decade, an increasing number of German business leaders, many of whom have MBAs from U.S. business schools, have adopted American practices with respect to capital flows, technological innovation, and corporate governance. The increasing linkages between stock markets reflect a convergence of German and American financial systems. The management culture in Germany is becoming more sensitive to shareholder interests and to maximizing shareholder value. The adoption of U.S.-style relations with the German and international investment community, partly a result of the internationalization of financial markets, is a striking change from previous practice.

Most German and American business leaders share views regarding politically contentious issues, such as the use of genetically modified organisms and global environmental standards. Similarly, American and German businesses share the German government's aversion to the widespread use of sanctions on commerce with potential security threats or "rogue states." Thus, it would be in the interest of the business communities of the two countries to provide each other with additional leverage, when it would be effective, to shape respective domestic economic policies. It would also be in the interest of the Bush Administration to include working with the business communities of both countries to influence economic policy in both nations. The Transatlantic Business Dialogue provides a good example for pursuing this approach.

Of course, German government and business interests do not always coincide with American policies. Although most trade currently operates without friction, the disputes that do occur can trigger adverse political reactions, protectionist sentiments, and cries for retaliation. The issues can be as singular as bananas, as consequential as Chrysler's very existence, or as bitter and long-running as aerospace subsidies. Anger enters the fray, for instance, when the United States imposes extraterritorial legislation such as the Helms-Burton Act and the Iran-Libya Sanctions Act. At the same time, Germans complain about alleged non-tariff trade barriers in the U.S. Cultural differences are also apparent in the dispute over genetically modified organisms and Internet data protection issues. The continuing expansion of competition in previously

regulated areas (telecommunications, postal services, and energy) is generating conflicts over access to markets and regulatory procedures. Such conflict can be expected to develop further, particularly as American and German companies continue to compete globally. More often, however, Germany and the U.S. are together on these issues, and it is important for the two to work together to shape a close U.S.-EU partnership. The two countries are natural partners whose economic interests are already close, and are becoming even more closely intertwined as German companies promote American practices and American companies work with German firms.

Conclusion

During the coming decade, the United States will continue to be the pre-eminent power in the world. That power will be based not only on military and economic strength and cultural influence but also on the ability to persuade foreign partners and powers of the benefits of relations, institutions, and policies that serve common goals as well as American interests. The United States finds its closest allies in Europe and, within that Europe, Germany serves as a leader in partnership both with its European neighbors and within the transatlantic alliance.

This paper has identified areas where U.S. and German interests and policies are likely to converge and where there is a danger of divergence. In the convergence category are policies on EU enlargement, ESDP and the international trading and financial regime. Those areas where important divergences could emerge include the environmental area, NATO enlargement, Russia, the Balkans and Turkey.

The prerequisites for productive German-American cooperation are firmly in place. Chancellor Schröder made that evident by stating recently that the Bush Administration has a friend and partner in Berlin on whom it can count.

Germany and the United States share an opportunity to build new institutions, shape new policies, and achieve common goals. Taking advantage of that opportunity will depend on the leadership in Berlin and in Washington, D.C. It will also depend on our mutual abilities to accommodate the changes we have discussed by recognizing and including a larger number of actors in the process of policymaking on both sides of the Atlantic. Business communities, labor, non-governmental organizations and other parties are more involved in the

relationship than ever before. The challenges we face are located at the intersection of security issues, economic developments, social movements, and enormous technological change.

Germany and the United States can already draw on a proud range of interactions developed over decades. Efforts to create these interactions have earned rich dividends. Continuing effort, vision, and commitment will garner future results equally or even more rewarding.

One positive signal the Bush Administration could soon send to Berlin would be the early designation of a new ambassador. The nomination and confirmation of an ambassador of the highest quality, with the full support of the President, would transmit a message of trust, respect, and confidence to Berlin, convey the importance of the U.S.-German relationship to the President's own foreign policy team and the American people, and accelerate the renewal of the German-American dialogue.

