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Transatlantic Relations in a multipolar world

*French and German perspectives on
security and trade affairs*

Lisa Brandt & Barbara Kunz

▶ **Herausgeber**
Stiftung Genshagen
Im Schloss
D-14974 Genshagen

Telefon: +49(0)3378-805931
Telefax: +49(0)3378-870013

▶ **Redaktion**
Dr. Barbara Kunz

▶ **Layout**
Tilmann Chladek

▶ **Internet**
www.stiftung-genshagen.de
institut@stiftung-genshagen.de

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Abstract

This paper analyses current key issues and future challenges in transatlantic cooperation in the fields of security policy and trade. The advent of a multipolar world and the on-going financial and economic crises reinforce the overall conclusion that there is much to gain from continued close transatlantic cooperation, not only in terms of economic benefits, but also with respect to the ability of the transatlantic security community to shape the structures and values underpinning the emerging multipolar world order. Europe and the United States are likely to remain each other's most important strategic partners in the years to come. Yet, there are in many cases significant obstacles to transatlantic cooperation. While there are good reasons to be carefully optimistic about the launch of negotiations on a comprehensive transatlantic agreement for trade and investment, the prospects of a more balanced sharing of the burden within NATO look dim. It is in the interest of both Europe and the United States to reinvigorate their partnership in the fields of security and trade in order to meet the new challenges of the 21st century. In times of ever scarcer financial resources, they will need to cooperate further in the field of security and also in trade, as to promote peace, economic growth and competitiveness. Germany and France in particular, as the two leaders of the European integration, must be proactive in assuring that Europe develops a strategic agenda in order to promote its interests as well as to maintain the pertinence of its values.



Zusammenfassung

In diesem Papier geht es um die Schlüsselfragen in zwei Bereichen, die einen zentralen Platz im transatlantischen Verhältnis einnehmen, nämlich Sicherheit und Handel. Die weiterhin enge transatlantische Zusammenarbeit ist zum Vorteil aller Beteiligten. Die sich im Entstehen befindende multipolare Weltordnung und die andauernde Wirtschafts- und Finanzkrise machen dies noch deutlicher. Diese Vorteile sind nicht nur wirtschaftlicher Natur, sie beziehen sich auch auf die Fähigkeit der transatlantischen Sicherheitsgemeinschaft, die neue, multipolare Welt mit zu gestalten. Jedoch sind die Hindernisse für eine gute transatlantische Zusammenarbeit vielfach hoch. Auch wenn es gute Gründe gibt, hinsichtlich eines Handelsabkommens vorsichtig optimistisch zu sein, sieht es für eine ausgeglichene Lastenteilung innerhalb der NATO schlecht aus. Angesichts der weiteren Relevanz enger Beziehungen über den Atlantik hinweg stellen sich somit eine Reihe von Fragen: Wie sollte ein solides transatlantisches Verhältnis in den Bereichen Sicherheit und Handel im 21. Jahrhundert aussehen? Wie viel Spielraum gibt es in Zeiten immer geringerer finanzieller Ressourcen? Und zu welchen Maßnahmen sind die europäischen Regierungen bereit? Insbesondere Deutschland und Frankreich, als Motoren der europäischen Integration und Führungsnationen bei der Lösung der Eurokrise, werden nicht umhin kommen, zu diesen Fragen Position zu beziehen.

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Introduction

Today, it no longer is particularly innovative to claim that the global system is becoming multipolar. New major players have emerged on the international scene during the past decade, ultimately challenging the transatlantic relationship as we have known it since the end of the Second World War. A visible indicator of this development is the American claim that the 21st century is “America’s Pacific Century”. As Secretary of State Hillary Clinton outlined in a *Foreign Policy* article, “[a] strategic turn to the region [the Asia-Pacific] fits logically into our overall global effort to secure and sustain America’s global leadership.”¹

These shifts in the global distribution of power are taking place against the backdrop of ever scarcer financial resources, slow growth and high unemployment in many countries. The financial crises at global, European and national levels have framed the debates in recent years – debates that have been characterized by tales of decline and lost influence. Yet despite claims to the contrary, it seems more than fair to assume that the United States will remain Europe’s most important partner in the foreseeable future. Ever since the revolutionary days, our shared democratic values, human rights and freedoms, and the rule of law have provided a stable basis for the transatlantic relationship. But nothing can be taken for granted; Eu-

rope and the United States need to reposition and adapt their relationship to a changing global context.

The unilateral predominance of the United States as it existed in the 1990s now seems to be a thing of the past. At the same time, the current state of the European Union’s Common Foreign and Security Policy, not to mention the macroeconomic challenges ahead, make it unlikely that Europe will dominate the global political scene in the near future. In a changing global context, a pragmatic approach to the possibilities and challenges of the relationship between Paris, Berlin and Washington is hence necessary. But what should a modern and dynamic transatlantic partnership look like in the 21st century?

Although Europe is preoccupied with internal economic problems, it would be a mistake to turn inwards while a new multipolar global order is taking shape. In this respect, the transatlantic relationship has an important role to play in promoting multilateral cooperation. Germany and France in particular, as the two drivers of European integration, must take position and contribute to the development of a comprehensive European global strategy on economic issues and security policy.

Despite claims to the contrary, it seems more than fair to assume that the United States will remain Europe’s most important partner in the foreseeable future.

The future of transatlantic relations raises a number of important questions. What are the German, French and possibly Franco-German ideas and expectations about the relationship with the United States? In which fields do we want to cooperate – and in which do we prefer not to cooperate? What basis is there for cooperation? And what does America expect from us?

In terms of transatlantic relations, Germany and France have so far not displayed the same willingness to lead as a tandem in the same way as they have been the anchors in the European integration process. Transatlantic cooperation has in many respects been considered a predominantly British specialty. Whereas the reasons for the lack of Franco-German cooperation with respect to the United States are manifold, it now seems evident that the two European “motors” need to discuss their relationship with Europe’s most strategic partner.

This paper seeks to analyse the transatlantic relationship and the prospects for closer cooperation in the fields of security policy, notably with respect to burden sharing within NATO, and economic relations relating to trade and investment. Security and trade are arguably two of the most pressing items currently on the transatlantic agenda, and although bilateral relations formally play a subordinate role as the European Union is expected to speak with one voice, both France and Germany will not be able to escape taking decisions with larger implications.

In two parts, we will take stock of the current situation while analyzing short- and medium-term challenges within the fields of trade and security policy. Finally, we will discuss potential solutions, before concluding with ideas for the way forward.

► *I. Burden sharing in the 21st century – ever scarcer resources and new strategic challenges?*

Much has been written about motivations behind the foundation of the Atlantic Alliance, oftentimes assuming somewhat less altruistic motives on Washington's part. No matter what has been said, the Alliance has established a security community in the euroatlantic region, allowing for peace and prosperity for over six decades.²

The United States' contribution to a peaceful and unified Europe can hardly be overestimated. With the end of the Cold War, however, and the Soviet Union's demise, the transatlantic (security) relationship also lost parts of its basis. Consequently, the 1990s saw a debate on NATO's future, where not all observers were sure that the alliance would continue to exist. "NATO's days are not numbered, but its years are" was Kenneth Waltz' much-quoted dictum, and discussions on the Atlantic Alliance's *raison d'être* were the order of the day. Early on, however, then U.S. President George Bush senior declared that "[t]he United States should remain a European power in the broadest sense – politically, militarily, and economically" and went on to declare that "as part of our global responsibilities, the foundation for America's peaceful engagement in Europe has been – and will continue to be – NATO."³ The post Cold War-era has thus seen three rounds of NATO-enlargement⁴ and three new strategic concepts, intended to make the formerly

anti-Soviet Alliance fit for the 21st century. Article 5 and collective defence remain at the core, but crisis management, out-of-area stabilisation missions, NATO's role in training and partnerships with non-members have all come to play a major role in the past decades.

The early 2000s have seen the perhaps deepest crisis in the transatlantic relationship, and notably in the relationship between France and Germany on the one hand and the U.S. on the other. Following the so-called Bush Doctrine and the aggressive foreign policy by the Bush/Cheney administration, these years were characterised by discussions on the "transatlantic divide", the debate led by Robert Kagan on "Mars vs. Venus" and the division of Europe in "old" and "new." Today, the consequences of the Iraq war seem to be overcome, not least thanks to Barack Obama succeeding to G. W. Bush and despite a number of statements by Republican presidential hopefuls that caused raised eyebrows on the European side of the Atlantic.

In recent years, however, the tone in complaints about unequal burden sharing has become increasingly alarming. Security indeed has the disadvantage of costing a lot of money, while its benefits are almost impossible to express in Dollars or Euros. And despite of the fact that the costs of insecurity are tremendously higher than those of security, the field of security policy is almost certainly the most vulnerable field to opportunity-cost arguments – "think of the number of kindergartens we could have built instead of buying fighter jets" is just one of the many arguments waged against defence expenditures. The scarcer financial resources get, the more difficult it gets to maintain – let alone increase – defence budgets. This is the overall

background of the current debate on burden sharing, Smart Defence and Pooling & Sharing. Different approaches to strategic matters and diverse threat perceptions on both sides of the Atlantic – as well as, to some extent, within Europe – further contribute to debates among allies. Quite obviously, the problem of burden sharing is moreover amplified by the economic and financial crisis. In times of scarce resources, security policy priorities are more than ever determined by financial means; actual strategic necessities might end up secondary. But what does that mean for the future of transatlantic security cooperation? Against the described background, is there a basis for a viable transatlantic bargain?

► *1. European acclaims of NATO's relevance and American dissatisfaction with burden sharing*

The utmost importance of the transatlantic link is regularly emphasised in Berlin and Paris alike (though, perhaps, slightly less emphatically in the French capital). As just one illustration, German chancellor Angela Merkel declared in front of the German Bundestag, just before leaving for Chicago to attend the 2012 NATO Summit, that “a central message of our meeting in Chicago, for me, is the affirmation of the transatlantic link between Europe and North America on the basis of common values and interests – an this in times of entirely new threats.”⁵ And right after the Summit, the Élysée's website summarises that “this summit, which has confirmed the Alliance's unity

Things are not going very well in transatlantic security cooperation.

and the Allies' solidarity, has allowed the President of the Republic to remind of France's attachment to the transatlantic link and of its engagement within NATO.”⁶ Chicago was François Hollande's first NATO Summit, and his statements illustrate that the French approach to transatlantic (security) relations has not changed considerably from one president to the other – an impression clearly confirmed by the results of Hubert Védrine's report on the consequences of France's return to Allied Command structures published in November 2012.⁷

To thus state it right at the outset, things are not going very well in transatlantic security cooperation. While the commitment to strong transatlantic ties is part of the *raison d'état* on both sides of the Atlantic, the overall impression that this commitment is more a matter of words than one of deeds is hard to invalidate. The most forceful such argument was brought forward by Secretary of Defence Robert Gates in his farewell speech on June 10, 2011 in Brussels:

In the past, I've worried openly about NATO turning into a two-tiered alliance: Between members who specialize in “soft” humanitarian, development, peacekeeping, and talking tasks, and those conducting the “hard” combat missions. Between those willing and able to pay the price and bear the burdens of alliance commitments, and those who enjoy the benefits of NATO membership – be they security guarantees or headquarters billets – , but don't want to share the risks and the costs. This is no

longer a hypothetical worry. We are there today. And it is unacceptable.

Gates' discontentment with burden sharing within the Alliance is unmistakable. And Gates is not alone, as statements by, for instance, NATO's Secretary General at the 2011 Munich Security Conference Anders Fogh Rasmussen warned that Europe may become "divided", "weaker" and "increasingly adrift from the United States."⁸

The warning lights are on, and Europeans are well advised to take them seriously. At the beginning of what has been proclaimed "America's Pacific Century" by Secretary of State Hillary Clinton, Paris and Berlin should not take Washington for granted. Euroatlantic security cannot be available for free.

► 2. Burden sharing: a stock taking

Establishing a member state's overall contribution to NATO is no easy task. The Alliance as such is not a rich organisation and its budget is relatively low, since the bulk of the costs arise in operations and missions which are to be financed by the participating member states. Taking this into account, there are essentially three ways of contributing – directly and indirectly – to NATO's budget and operation:

Table 1: Member states' contributions to NATO's budget according to the 2010–2011 Cost Share Arrangements:

United States:	21,96%
Germany:	15,3%
France:	11,72%
(UK:	11,90%)
(Poland:	2,33%)

Source: NATO (2012)

– **First of all, members contribute to NATO's common-funded budgets and**

programmes. These include the Alliance's civil and military budgets as well as the NATO Security Investment Programme (NSIP). The civil budget covers the costs for the Alliance's civil personnel and the administration at the Brussels headquarters, as well as public relations. The military budget, in turn, covers NATO's military structures and is composed of 50 individual budgets. The NSIP budget, finally, is dedicated to funding projects in member states that may serve the Alliance as such (e.g. military infrastructure in the new member states).

NATO has an annual budget of roughly two billion Euros. Once the overall need for funding is established, member states proceed to determine the contributions by each of them in so-called "Cost Share Arrangements." For the years 2010 and 2011, it was thus decided that Germany, France and the United States should contribute 15,30%, 11,72% and 21,96% respectively to this annual budget.

This comparably low annual budget is explained by the fact that "costs lie where they fall", hence excluding operational costs from the annual budget: with very few exceptions, expensive NATO-led missions and operations are not directly funded by the Alliance but by the participating member states.

– **Secondly, members generally cover all expenses caused by their participation in NATO-led missions and operations.** This includes personnel costs, transportation, equipment and many more costs associated with actual operations as compared to "normal" peace-time military expenditures. Assessing the exact cost of a military mission is extremely difficult, as for instance

the U.S. Congressional Research Service’s report on “The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11” of 2011 illustrates.⁹

Yet, it seems self-evident that the more troops a country contributes to a mission, the higher the burden. Table 2 below shows the number of troops contributed by selected NATO members in two instances of NATO missions, namely Afghanistan and Kosovo:

Table 2: Contributions to missions in Afghanistan and Kosovo

	France	Germany	United States	UK	Poland
Afghanistan (absolute numbers as of 10/8/2012)	2,418	4,737	68,000	9,500	1,800
Kosovo (absolute numbers as of 10/8/2012)	335	1,330	764	1	160

Source: NATO (2012)

One aspect of the burden sharing debate therefore pertains to the very participation in missions and operations, such as – most recently – Operation Unified Protector in Libya in 2011. Germany did not take part in this intervention.

– **Finally, and most indirectly, member states contribute to the Alliance by maintaining deployable troops and capabilities which may potentially take part in NATO-led missions and operations.** In other words, national defence policies that determine the shapes and sizes of national armies and military infrastructures are also a way to contribute – or not – to the Alliance. As mundane as the logic may seem, NATO can only resort to troops that exist and are ready for operations, which need to be maintained, trained and funded by member states. Cuts in national military budgets, reductions of the number of troops or the neglect of infrastructure and materiel are thus an indirect decrease in contributions to the Alliance. Measures taken to that effect are thus looked at with a critical eye by many, not least in light of already struggling armies and a chronic lack of deployable units.

Military expenditures are thus a third indicator to establish a member state’s contribution to the Atlantic Alliance. As the table below illustrates, France and Germany (as well as the United Kingdom and Poland, included here for the sake of comparison) are lagging behind the United States by all means, be it in absolute numbers or percentages:

Table 3: Military Expenditures in France, Germany and the United States (+ UK and Poland) in 2011

	France	Germany	United States	UK	Poland
Total defence expenditures 2011 in millions of U.S. Dollars	5,3444	4,8140	731,879	63,567	8,908
Defence expenditures 2011 as percentage of GDP	1,9	1,4	4,8	2,6	1,7
Armed forces 2011:					
military and civilian personnel as percentage of labor force /	1,0	0,5	1,4	0,8	0,8
absolute numbers (in thousands)	227	205	1,427	192	100

Source: NATO (2012)

As this table illustrates, both France and Germany fail to fulfil the notorious two-percent-objective, implying that each country should allocate at least 2% of its GDP to defence expenditures. Paris and Berlin are, as it were, in good company: the objective was only met by two European allies in 2011, namely Greece and the UK.

Given the intricacies of contributing to NATO and the difficulties to delineate the cost of its missions and operations, assessing who pays how much for the Alliance is a difficult task. A careful look is for instance in order when it comes to Research and Development spendings: traditionally included in the Pentagon budget in the U.S., R&D is mainly considered a civilian matter in Europe and does thus not appear in the above quoted figures. In addition, many would argue that defence expenditures are no sufficient indicators of means allocated for security given that they do not say anything about “soft power” means or civilian components that are part of the so-called comprehensive approach to crisis management – a field in which Europeans tend to see their major strengths.¹⁰ Yet, while it may not be possible to calculate contributions in Euros and Cents, the above numbers clearly indicate that the United States always sports the higher numbers – both absolute numbers and percentages.

► 3. “Smart defence” as a remedy?

Quite evidently, scarce financial resources are no recent phenomenon, although the situation has been aggravated by the ongoing financial economic crisis. The debate

about “burden sharing in times of crisis” is indeed much older than the current crisis and has in a way accompanied the Alliance since the outset. The developments in recent years are nevertheless perceived as unprecedented in terms of the debate’s intensiveness.

Anders Fogh Rasmussen, the Alliance’s Secretary General since 2009, and many others thus argued that the ongoing financial crisis is among the biggest challenges that NATO has ever faced. Rasmussen (and again many others) advocates Pooling and Sharing – labelled Smart Defence in current NATO speech.

Pooling and Sharing – as the terms already indicate – refers to military materiel that states either put to use for other partners (sharing) or use together (pooling). The probably most often cited example for sharing is that of air surveillance in Lithuania, Latvia and Estonia: other NATO-members take care of the task, while neither of the Baltic states has its own airforce. The European Air Transport Command, in turn, is an example of pooling. The pooling and sharing capabilities has indeed been proclaimed as the way out of this situation for many years, not only within NATO.¹¹ While there is little to say against the arguments inherent logic, the problem is this: what all respective initiatives have in common is that they have had relatively little success.

Analysts readily explain (and deplore) that the main reason lies in states’ unwillingness to give up sovereignty. Yet, it seems obvious that in times of decreasing financial means, reducing costs is the only viable solution. Still, pooling and sharing alone will hardly do the trick. Defence spending, especially on

Research&Development, but also on concrete missions and operations will continue to be relevant in the future, regardless of potential progress in Smart Defence. For that reason, states' abilities to extract resources from society – first and foremost funding – will remain crucial throughout NATO. In other words, a technical procedure such as pooling and sharing cannot replace the political will to spend money on defence.

► *4. Is there a current debate? The intellectual context and Mars vs. Venus reloaded*

Given the above, the intellectual context in which security policies – and hence decisions on burden sharing within the Atlantic Alliance – are made is extremely relevant. In an ideal strategic world, threat assessment comes first and determines the rest. In reality, however, the strategic debate in Europe – if it may at all be called a debate – suffers from being led in various corners without rarely ever being connected. In France and Germany (and certainly many other European countries), three main groups of protagonists tend to dominate the field: the so-called (and self-proclaimed) pacifists, the technocrats and a somewhat blurry group (not mutually exclusive with the other groups) that could be termed “the post-modernists.” The account below is deliberately caricatural in nature; it does, however, capture the essential features of the current security policy debate in Europe, including France and Germany.

– As far as the **pacifists** are concerned, it is obviously of foremost importance to get

one thing right: “pacifism” is not the equivalent of neglecting or even abandoning security policy. Neither is peace promoted by abolishing NATO. Discourses to that effect can generally be found at the left of the political spectrum: both the French Communist Party and the German Left Party (Die Linke) clearly position themselves against the Alliance as such. Pacifists – despite often-heard claims that they are the only truly internationalist force – tend to reason in terms of nation-states. Pacifists' influence on security policy decisions is rather limited.

– The **technocrats**, in turn, often seem obsessed with technicalities and tend to focus on capabilities. Much of the scholarly debate at policy-level is dominated by technocrats, leading to an emphasis on issues like strategic airlift or the workings of the European Defence Agency. The danger here consequently consists of losing sight of the overall strategic picture and the fact that capabilities are only a means to an end – yet what end?

Technocrats – very understandably – tend to get frustrated, since most of their ideas and suggestions have been discussed over and over, often acclaimed by policy makers – though unfortunately to no effect.

– The **post-modernists** are finally the group that is the hardest to grasp, and not necessarily distinct from technocrats. Certainly more influential in Germany than in France, their mindset has percolated through to the European level, informing much of the EU security discourse. What characterises the post-modernist is the underlying assumption that the end of History somehow is

here, making “hard” security and traditional threats more or less superfluous and an old-fashioned thing of the past. Rather, “soft power” and civilian missions are considered to be way more important and the wave of the future – a line of argument that often goes along with a redefinition of the very notion of “security.” Consequently, investing in “traditional” security policy is largely considered to be unnecessary, or even counterproductive. European post-modernists tend to be convinced multilateralists (while their isolationist counterparts are more often found in the United States).

In addition to these three groups, one may distinguish a specifically French phenomenon, namely the traditional **Gaullists** deeply suspicious of the United States. Gaullists fear Trojan horses of any kind and uphold France’s national sovereignty, hence opposing the country’s military integration.

Among these groups, the post-modernists are certainly the most influential overall. While Gaullists continue to influence the French debate, their impact on European security approaches is arguably rather limited – beyond, of course, the question of whether France opts out or in. The post-modernist discourse, however, has made it into official policies: the European Union’s Security Strategy may well be read as prime example of this kind of post-modernism. The European emphasis on so-called soft power and civilian aspects of security also supports this claim. And it is arguably this kind of thinking Rasmussen is cautioning against, asserting that Europeans fail to see the situation’s gravity:

Some here in Europe are not so worried. They maintain that Europe is consolidating its place as one of the world’s top providers of humanitarian and development aid. And they suggest a division of labour within NATO – with the United States providing hard power, while its European Allies increasingly turn to soft power assignments like training and institution-building.[...] Let me be very clear: Europe simply cannot afford to get out of the security business.¹²

As may be deduced from the Secretary General’s statements, deeply rooted transatlantic differences over strategic matters continue to set the tone. Yet, differences are not confined to the U.S.-European relationship. As a matter of fact, the European members of NATO are far from being united in their approaches to security. Strategic cultures vary tremendously in the respective capitals, not least in Berlin and Paris. The traditional opposition between Gaullist Frenchmen and Atlanticist Germans may have faded, yet differences clearly remain.

The solution to the burden sharing problem can therefore not only lie in technocratic measures such as Smart Defence, as useful as they may be. In times when every Euro counts, European nations will also be bound to rethink what security is worth to them.

► 5. *The way ahead*

As long as there is defence cooperation, it will most likely be accompanied by complaints about unequal burden sharing, free-riding and reluctant allies. Yet, Berlin and Paris are well advised to take Washington’s concerns seriously. Jeopardising the transatlantic link is simply not an option. Neither is not sharing the burden.

“Technical” solutions implying enhanced efficiency are clearly one aspect of the solution. They must, however, be complemented by efforts aimed at increasing domestic constituencies’ understanding for the necessity of leading adequate security policies. Finally, and perhaps most importantly, what an “adequate” security policy is is first and foremost determined by factors outside of NATO and its member states, in other words: by the Alliance’s strategic environment. Changes in states’ environment require changes in security policy, making the analysis and interpretation of international evolutions and threat perceptions deduced thereof a key task in designing security policies. This clearly is an area for improved cooperation, not least between France and Germany.

The fact that security policy by definition must be environment-based makes it hard to formulate concrete recommendations, and arguably harder than for other, less environment-based policy fields such as education or indeed trade (which is to be discussed in the second part of this paper). The sections below nevertheless intend to point out a number of measures that should be taken.

- *More efficient spending – Europe must get its act together when it comes to pooling and sharing*

In times that require economic austerity, increasing efficiency in light of necessary

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budget cuts obviously is the right reaction – and most likely also the only viable one if capabilities are to be preserved. Ideas to that effect have been on the agenda for a long time, with some progress made. Smart Defence (or whatever label one wants to apply) is thus indeed the way forward. Pooling and sharing efforts should be intensified. Twenty fours initiatives are currently underway, and the May 2012 Chicago summit has emphasised the need to continue multinational cooperation in a number of areas.¹³

States’ reluctance to give up sovereignty will however not go away, all laments to that effect notwithstanding – this is simply not what they have been invented for. Yet, the higher the economic pressure, the higher certainly also the willingness to rethink sovereignty. One idea worth considering may therefore be to differentiate between traditional defence tasks “at home” and projecting power abroad. While of course also the latter is an expression of sovereignty (and moreover generally framed as an act of defence), implications for “perceived” sovereignty are arguably lower. It should indeed be easier for country A’s government to explain to its domestic audience why it is chasing pirates off faraway shores with a ship operated jointly with country B, than to justify why country C is in charge of guarding A’s coast.

Limiting the search for solutions to pooling and sharing would however equal falling into the technocratic trap. Having societies – or somewhat more prosaically tax-payers – on

board and recognising the relevance of defence spending is at least equally important.

► *Raise awareness for the need of defence expenditures and ensure states' resource extraction potential*

That defence expenditures need to become more efficient is beyond doubt, as there simply is no alternative to pooling and sharing resources. Pooling and sharing alone will however not do the trick: such moves may save money, but they will not generate any. Investments will remain unavoidable, implying that resources will need to be allocated for defence – consequently lacking elsewhere, at many's most understandable despair.

In times of ever more limited budgets, states' ability of what political scientists call "resource extraction" is thus increasingly relevant: put in rather simple terms, democratic states must convince their citizens that security is matter worth spending money on, and that not spending money may have severe consequences.

At the most general level, a deepened understanding for the issues at stake may well increase the willingness to spend money on security. European policy makers – and German policy makers in particular – are not very good at explaining security policy to the public. The post-modernists' success has certainly contributed to the policy field's isolation in the evil corner: we do not want war and violence, so let us not talk about security challenges. Security policy is often either portrayed as an option to chose or to leave, or it is even considered to be the root of evil.

This is obviously the wrong approach. Separating the normative from the strategic analysis may hence be a step in the right direction. The "Mars versus Venus"-debate may have been annoying, but not totally made up out of thin air.

► *Engage in debating (grand) strategy: what objectives in what environment?*

Policy-makers define a state's objective, and, as Morton A. Kaplan wrote, strategy refers to "those long-range measures which would be appropriate to the accomplishment of that end."¹⁴ And bearing in mind this definition, one cannot but realise that the many documents published in recent years notwithstanding, neither the European Union nor indeed NATO really has a strategy in the strict meaning of the term that would inform national debates. There is, of course, a strategic debate led at expert level, even a European debate among CFSP observers. However, this debate is often focused on capabilities and technocratic in nature. The overall public is rarely involved in these issues. A debate – leading up to decisions – about strategic objectives is indeed more necessary than ever. Yet, burden sharing being an overall European problem, this debate should at least in part be led at the European level. Europe – and thereafter NATO – must come to a shared understanding on (potential) threats and strategic priorities.

The French public is arguably less reluctant to face security affairs than Germans are. The notion of national interests is less of a taboo on the Western side of the Rhine than in the East. As it were, France is on a good way, since recently elected president François Hollande launched the preparation of a new White Book on Defence (*Livre blanc de la*

défense) and has asked former minister of foreign affairs Hubert Védrine to evaluate the effects of France's return into all NATO structures.¹⁵ In Germany, defence minister Thomas de Maizière is the first to acknowledge that broader debates on security and strategic affairs are inexistent – and that this needs to change: “As far as the security policy debate is concerned, the great majority of Germans does either not feel competent enough, not informed enough – or they simply do not feel responsible, since many things appear to be too far away.”¹⁶ An important aspect in a better German debate on security would clearly be to stop hiding behind History when it comes to stating interests. Or, to put it differently, being open about German national interests is not equivalent to militaristic revisionism but rather a step towards normalisation. This is perhaps one of the key insights to be conveyed in a debate, and an insight were Germans can only benefit from debating with the French.

To stress the importance of leading these debates, one may add it is almost equally important to not merely lead them at national levels alone. France, Germany and Europe as a whole can only benefit from a real debate on European and transatlantic grand strategy, moving beyond technicalities and counterproductive “pacifism.” A step forward in this context could be to realise and old idea, namely the elaboration of a joint French-German White Book on Defence.

► *What means and when and how to use them?*

The financial crisis may well alter potential capabilities, but the strategic environment will never depend on means available in Europe. For that very reason, designing foreign and security policy based on existing means and the kind of missions Europeans would like to carry out makes little sense (unless, of course, the United States is there to back Europeans up if anything goes really wrong). Yet, exaggerating somewhat, this is the impression of a great deal of debates on “soft power” and civilian missions conveys.

When asking “what means?”, the debate on Pooling & Sharing has come full circle. Assessing what capabilities is important. Yet, as outlined above, it is threat assessment that must be at the core of any strategic debate, dealing with a number of very concrete questions: what threats are we facing? Immediately followed by: what means do we need to respond to these threats – and when and how do we use them? These issues pertain to so-called strategic cultures, a factor that varies widely among European countries, and France and Germany in particular. Cooperation between France and Germany on this issue would therefore mark a contribution to European security policy, potentially (and ideally) leading to the development of, for instance, joint rules of engagement. The Libyan crisis has clearly illustrated the urgent need for this kind of cooperation – well beyond Paris and Berlin. Both governments should let deeds follow words.¹⁷

► *II. Transatlantic trade cooperation in a changing global context: reinvigorating a winning concept*

What do Roquefort cheese and Harley Davidson motor bikes have in common? Anyone not familiar with transatlantic trade relations would probably never on earth have guessed the seemingly far-fetched common denominator of these two respectable products. They have of course both been involved in transatlantic trade disputes. In reality, despite much media attention on trade conflicts, the transatlantic economic relationship is functioning smoothly most of the time.

Europe and the United States may no longer give each other impressive presents like statues of liberty as tokens of our friendship; nevertheless, the EU and the U.S. together represent the biggest commercial relationship in the world. The transatlantic economy accounts for more than half of the world GDP in terms of value. The total commercial sales amount to almost \$5 trillion a year and 15 million jobs on both sides of the Atlantic are linked to the commercial exchanges.¹⁸

However, as global economy is changing, maintaining status quo might imply significant opportunity costs. Leaders are now engaging in further expanding the transatlantic trade and investment relationship.

The EU and the U.S. together represent the biggest commercial relationship in the world.

In light of globalisation and greater economic interdependence, the patterns of global trade are changing. The emerging economies are gaining in economic influence and international supply chains are set up as multinational firms seek to become more efficient. In relation to this, foreign direct investment has become a crucial part of firms' strategies when they enter new markets. At the same time, trade in services as well as in the information and communication technology (ICT) sector is increasing significantly.

In such an interlinked trading environment, tariffs and regulatory divergences, so-called non-tariff barriers, hamper trade and imply costs for many companies.

In order to keep pace and accommodate these on-going changes, the multilateral rules-based system embodied in the World Trade Organization needs to be updated and modernised. However, the negotiations related to the Doha Development Agenda have made a pit stop until further notice. Whereas the stalemate is due to a complex combination of reasons, it ultimately reflects the fact that the U.S. and the EU nowadays have less capacity to shape the global trade agenda in the way that they used to. Since the Second World War and up until the end of the 1990s, there was no real need for the U.S. and the EU to go bilateral. They could both pursue their trade agendas at the multilateral level and benefit from the trade liberalisation that took place within the framework of the General Agreement on Tariffs and Trade (GATT) and other multilateral agreements.

Whether defined in terms of a relative decline of power or as the rise of the rest,¹⁹ the

new context does nothing but strengthen the case for the EU and U.S. to reinforce their already strong economic relationship.

This chapter will examine the challenges and benefits of closer transatlantic cooperation in trade. It will do so while focusing on the respective economic and political interests and expectations of Germany and France in particular. Germany is the world's third largest exporter and importer of goods, second only to the U.S. and China, and France ranked as the world's 5th largest exporter and 6th largest importer in 2010. Although their national interests are formally subsumed to the EU's

► *1. The case for closer transatlantic cooperation in trade*

On 13 February 2013, U.S. President Barack Obama, European Council President Herman Van Rompuy and European Commission President José Manuel Barroso issued the following statement: "We, the Leaders of the United States and the European Union, are pleased to announce that, based on recommendations from the EU.-

Box 1. Transatlantic Trade in figures

The total value of the EU-U.S. bilateral trade in goods amounted to \$632 bn in 2011, a 63% increase from 2000 (\$387bn). Out of the top 10 export markets for U.S. services, five are in Europe.

The EU exported goods to the U.S. for a value of €260.6bn in 2011, while importing €184.2bn of goods. The EU exports of services to the U.S. amounted to €127.1bn in 2010. Imports of services from the U.S. were slightly higher; €130.5bn.

Foreign direct investment flows between the EU and the U.S. are more intense than anywhere else in the world. Inward investment flows to the EU from the U.S. amounted to €114.8bn, three times higher than total U.S. investment flows to Asia. The EU investment flows to the U.S. were of €110.7bn in 2011, i. e. eight times higher than EU investment flows to China and India put together.

Source: European Commission (2012)

common policy, it ought to be no secret that the large economies have a big say as the EU's trade policy is set.

U.S. High Level Working Group on Jobs and Growth [...] the United States and the European Union will each initiate the internal procedures necessary to launch negotiations on a Transatlantic Trade and Investment Partnership."²⁰ President Barack Obama's announcement in his State of the Union 2013 speech that the U.S. and the EU will launch talks on a comprehensive Transatlantic Trade and Investment Partnership indicates that the transatlantic economic relationship remains pivotal, despite the hype around Asia and the emerging economies. With respect

to goods, services and investment, the EU-U.S. relationship outweighs any other linkages. But if both partners do not act together now, there is a risk of stagnation and loss of dynamism as the balance of economic power in the world is shifting. Economic integration and growth is taking place elsewhere, whether the U.S. and the EU decide to participate actively or not.

The case for closer transatlantic economic integration consists of two elements. First and foremost, closer bilateral cooperation could promote jobs and growth on both sides of the Atlantic. The removal of tariffs and regulatory barriers would facilitate trade in goods, services and investment as well as open up new business opportunities. Second, seen in a wider context, transatlantic cooperation and leadership can provide an impetus that eventually could help breaking the current multilateral deadlock. It could contribute to setting the standards for future cooperation in trade and investment at a time when one of the great challenges is to address behind-the-border measures that impede trade.

The idea of closer transatlantic cooperation has gained political momentum, especially in Europe, as there is a need to promote economic growth, restore macroeconomic balances and create jobs. The High Level Working Group on Jobs and Growth (HLWG), which was set up by leaders to assess possible ways to increase cooperation and promote trade across the Atlantic, concluded in its

final report in February 2013 that “a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues, and contributes to the development of global rules, would provide the most significant mutual benefit.” The HLWG builds on previous work by the Transatlantic Economic Council (TEC), established in 2007 by an initiative from Federal Chancellor Angela Merkel and former U.S. President George W. Bush. The High Level Working Group now recommends to leaders “that each side initiate as soon as possible the formal domestic procedures necessary to launch negotiations on a comprehensive trade and investment agreement.”²¹

An ambitious trade policy initiative of this scale will need to be backed up by strong political support. High-level political leaders seem well aware of this. The European Council reiterated its support for a comprehensive trade agreement in early February 2013. Federal Chancellor Angela Merkel expressed her support of a transatlantic “free trade zone” in her opening speech already at the Global Economic Forum in Davos 2012, emphasizing that there is much untapped potential in transatlantic trade relations.²² Closer cooperation has also been endorsed publicly by the U.S. Trade Representative Ron Kirk, the EU Trade Commissioner Karel De Gucht, and the U.S. Ambassador to the EU William E. Kennard, among others. Business organisations like the Bundesverband der Deutschen Industrie e.V. (BDI), the Mouvement des Entreprises de France (MEDEF) as well as the American Chamber of Commerce to the

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European Union (AmCham) also support the initiative actively.

From a historical perspective, the two main political obstacles hindering closer cooperation have diminished in importance over the past 10–15 years.²³ First, the strict focus on multilateral negotiations and the EU's moratorium on preferential trade agreements have been abandoned in favour of preferential agreements with strategic economic partners. At this stage, it is unlikely that transatlantic bilateralism would cause any further damage to the Doha Round, which is already down for the count. Second, it was for

due to GATT Article XXIV which requires preferential trade agreements to cover “substantially all trade.” The share of agricultural products in the transatlantic trade is nowadays significantly lower than it used to be. In addition, the French agricultural sector, as well as European farmers in general, has been catching up in terms of competitiveness. It is becoming somewhat less dependent on subsidies as a result of higher world prices on food products. Nowadays, there seems to be

Box 2. France and Germany – trade with the U.S.

French exports to the U.S. amounted to €23.4bn in 2011, dominated by the aeronautic sector including engines and aircrafts (around 20% of total exports to the U.S.), transport equipment and beverages. The other way around, around 6% of total French imports come from the U.S. (€28.4bn in 2011), with the U.S. ranking as the 6th biggest exporter to France. The French imports from the U.S. consist primarily of pharmaceutical products (11% of total imports), aeronautics (25%), informatics and electronic products, and petrol.

Germany exported goods to the U.S. to a value of €73.7bn in 2011 (7% of total German exports). German imports from the U.S. were significantly lower, €48.3bn (5% of total imports). Almost 75% of all exports from Germany to the U.S. consist of machinery, chemicals and transportation equipment. Germany is the most important European partner for the U.S., accounting for almost 25% of all the trade in goods between the EU and the U.S. and 17% of the trade in services.

Sources: Direction Générale du Trésor et de la Politique Économique (2011); Banque de France (2012); U. S. Diplomatic Mission to Germany (2009); Statistisches Bundesamt Deutschland (2012); Karel De Gucht (2012).

a long time considered unfeasible to include agricultural products in an EU-U.S. agreement as farmers on both sides feared being deprived of tariff protection and subsidies. At the same time, exclusion was impossible

a clear interest from the agricultural industry, especially on the American side, to be included in a possible transatlantic agreement. Notwithstanding these developments, the agricultural industries on both sides of the Atlantic will probably need to be prepared to make compromises if an agreement is to be reached.

► 2. *Bilateral transatlantic trade from the German and French perspectives*

The main part of both German and French trade is with other countries within the European Union. Outside of the EU, the U.S. is their main trading partner, receiving a bit more than 5% of their total exports of goods. Historically, whereas France for a long time held the U.S. at an arms-length distance, Germany developed special

A particular feature of transatlantic market are the great complementarities between the American and European economies. This is illustrated by the intense intra-industry and intra-firm trade. In 2009, 55.9% of total imports of goods to the U.S. from France were intra-firm trade, and 27.7% of total U.S. exports to France. As for Germany,

Box 3. Trade in inputs across the Atlantic

The World Input Output Database shows that the U.S. chemical industry uses intermediate products produced in France to a value of \$1,271 million and \$2,995 million from Germany. The U.S. metal industry uses imported basic and fabricated metals of \$340 million from France and of \$1,515 million from Germany. Moreover, the U.S. transportation industry uses intermediary transport equipment imported from France to a value of \$1,503 million and of \$3,020 million from Germany.

In the other direction, the French chemical industry uses inputs of chemicals and chemical products from the U.S. to a value of \$1,313 million, and the transport industry uses inputs of transportation equipment worth \$3,639 million. As for the German industry, the intermediate use of exports from the U.S. amounts to \$2,201 million in the field of electrical and optical equipment, \$1,812 million of chemicals and chemical products, and transport equipment worth \$1,220 million.

Source: World Input-Output Database - Inter-country Input-Output Table for 2009, www.wiod.org

ties with the United States since the end of the Second World War though the Marshall aid. The French anxiety about the *défi américain* seems to be water under the bridge now, however. The United States is and will remain an important partner in trade for the foreseeable future.

64.5% of the export to the U.S. and 29.6% of the import of goods from the U.S. were intra-firm trade.²⁴ These trade patterns suggest that tariffs and restrictions are rather a nuisance than a help for many transatlantic companies. Lower tariffs and barriers could in other words reduce trade costs for both French and German firms, while improving efficiency and competitiveness.

In the services trade with the United States, France had an overall trade surplus of €24,225 millions in 2011.²⁵ France is traditionally strong in the tourism sector, but also when it comes to new patents and trademarks as one of three EU-countries (together with

Sweden and the UK) with trade surpluses in “royalties and licence fees” relating to when copyrighted material and trademarks are used abroad.²⁶ Germany’s negative balance for trade in services with the U.S. is particularly evident in the tourism sector. It has a surplus in trade within knowledge-intensive services however, +0.7% of GDP, thanks to the IT and engineering sectors and R&D.²⁷

A challenge for both Germany and France is to strengthen their comparative advantages in services by promoting the sector further.²⁸ Opening up the service sectors will however be challenging. Many industries have vested interest and might be keen to preserve the current structures. Nevertheless, closer integration with the United States could potentially contribute to boosting the competitiveness of the service sectors further by opening up for new business opportunities while, at the same time, exposing the sector to competition. Integrating the transatlantic services market will be difficult due to the differences in the existing regulations. Restrictions include everything from non-recognition of diplomas to restrictions on airport-services and finance and insurance services. There is also an inherent federal-state or Community-member state problem in services negotiations in the sense that political competencies are not entirely centralised to the federal U.S. government or to the EU-level in the field of services. Even the Single European market for services remains incomplete, indicating the even greater challenge of opening up trade in services with external trading partners.

Moreover, foreign direct investment is a main driver of the transatlantic economic relationship. The U.S. is a major investor in Europe, with particularly strong ties to Germany. American foreign direct investment in Germany amounted to \$105.8bn in 2010, equivalent to about half of the total German direct investment in the U.S. that year (\$212.9bn). As for France, there is much potential to boost the investment links. The U.S. foreign direct investment in France amounted to around \$92.8 billions in 2010, while France invested \$184.8bn in the U.S.²⁹

In terms of investment policy, bilateral investment agreements are currently in force between the U.S. and individual European states, reflecting the fact that investment became an exclusive community competence only with the entry into force of the Lisbon Treaty. A transatlantic agreement on investment could improve regulatory certainty, and also open up for further investment in areas where restrictions remain, such as utilities, transportation, and maritime and aviation services.

Overall, in goods, services and investment, studies point at large potential for welfare gains from further transatlantic economic integration. Although the exact figures are difficult to estimate, the intense intra-firm and intra-industry trade indicate that trade costs could be reduced by tariff elimination, even though average tariffs are generally low (in the range of 4–5%). A recent ECIPE-study shows that the immediate static gains of eliminating all tariffs between the EU and the U.S. could imply a GDP increase with 0.01% for the EU and 0.15% for the U.S. Even more importantly, the long-term dy-

dynamic gains resulting from improved productivity and competitiveness are estimated to be equivalent of 0.32–0.47% of GDP for the EU (\$46–69bn) and 0.99–1.33% for the U.S. (\$135–181bn).³⁰

Besides tariffs, companies on both sides of the Atlantic repeatedly express concerns and frustration over non-tariffs barriers such as regulatory divergences and insist that these should be addressed. Differences in standards and regulations is costly and particularly disheartening for small and medium-sized enterprises. A recent study sponsored by the European Commission estimates that reducing NTBs would have a significant impact on the European GDP. In an ambitious scenario, where 50% of all the non-tariff measures between the EU and the U.S. are removed, the EU GDP could be up to 0.7% higher in 2018 compared to a scenario where nothing is changed. This would imply annual gains of €122bn. The U.S. GDP could be 0.3% higher in 2018, implying potential annual gains of €41bn.³¹

As regards the future outlook for external trade, Germany and France face many common challenges. They both have to adapt to the difficult economic situation in Europe, as well as to the strong competition from the emerging economies. Their immediate and medium-term challenges look quite different, however.

The German economy has performed well in recent years thanks to a strong export-led growth, whereas the French economy has been losing out on competitiveness. This is

illustrated by the fact that France has struggled with a negative trade balance since 2004. France's trade deficit is actually one of the largest ones in the Euro zone, reaching -€73.5bn or -4.5% of total GDP in 2011. Higher costs for imports of energy and primary resources is the culprit, but imports of labour-intensive and capital-intensive manufactured products have also increased, whereas french exports have remained constant over the last decade. Germany also has a trade deficit in primary resources (-4.3% of GDP in 2011), but its total trade balance for goods is positive and has increased steadily since the beginning of the 2000s, reaching around 5.1% of GDP in 2011. The foundation of the German trade surplus is the strong knowledge-intensive and capital-intensive manufacturing industries, which on an aggregate level offsets the expensive imports of energy and primary resources.³²

The strongest export sectors of both the German and French manufacturing industries are knowledge-intensive goods. German exports of motor vehicles and machinery represent around 17.4% and 15.3% respectively of its total exports, thanks to internationally competitive companies like Volkswagen, Mercedes, BMW, Bosch, Continental and ZF Friedrichshafen. Other knowledge-intensive sectors also perform well, notably the chemical industry (9.5% of total exports), pharmaceuticals, electrical equipment as well as the ICT sector. As a result, the share of the total workforce employed in the knowledge-intensive and capital-intensive manufacturing (17%) in Germany was bigger than the average share of the workforce employed in these sectors in mature economies in 2007 (11%).³³

As for France, knowledge-intensive goods represent almost 50% of total French exports, which is more than the average compared to other mature economies. The trade surplus for such goods amounts to around \$9bn, or 0.3% of GDP, notably thanks to exports of transport equipment by companies like Renault and PSA Peugeot Citroën as well as exports of pharmaceuticals and chemical products. France does however import more electronics and machinery equipment than it exports. Moreover, there is an on-going shift in the composition of the workforce, which has prompted political debates and concerns about deindustrialisation. Akin to trends in other developed countries, the manufacturing sector in France decreased from 15% of total employment in 2000 to 13% in 2007, implying a loss of 400,000 jobs. Although this coincides with the negative trade balance, the change is arguably not directly caused by imports. It is rather related to falling demand, notably in Europe, as well as to the fact that the productivity of the French economy has not increased sufficiently as to offset high labour costs. The loss of employment in manufacturing is somewhat compensated for by an increase in labour-intensive and knowledge-intensive services between 2000–2007, and also in health, education and public services.³⁴

For Germany, the main potential risk is linked to the economy's reliance on exports of manufactures as well as the significant imports of energy. Should the euro-area crisis deteriorate and oil prices go up, this might have negative impacts on the German economy. To their advantage, German firms have

managed to integrate into the global economy better than many of their European counterparts, both by diversifying their exports and by reaping the benefits of European integration as well as globalisation. Intra-industry trade and cross-border specialisation are particularly intense in the automotive industry, where production is outsourced notably to the Czech Republic, Slovakia and to Hungary. Moreover, and perhaps in contrast to France, Germany's many competitive small- and medium-sized companies contribute significantly to the economic dynamism. So does the industries's capacity of incremental innovation, in other words the integration of new high-tech solutions into traditional transport equipment, machinery and engineering. The challenge for Germany domestically is to assure that all the Länder get on board. Also, there is potential to attract more foreign direct investment as well as to boost the service sector. IMF recommends in a recent report that Germany continues with structural reforms in order to increase competition in the services sector and thereby raise productivity. It is also pointed out that higher wages could eventually increase the domestic demand, thereby reducing the economy's exposure to external factor in the case of declining global demand.³⁵

The main immediate challenge for France is to strengthen the competitiveness of its economy, as recognised by the recent Gallois report. France has been called a "time-bomb at the heart of Europe" by *The Economist* weekly newspaper, a rather unflattering epithet that alludes to the lack of competitiveness and the current account deficit. Perhaps most striking element at this moment is the lack of structural reform despite the need for it. Whereas other European countries have

been forced to reform their economies following the euro crisis, France does not appear to be instituting any major reforms although it is in effect living beyond its means. For the years to come, it will be crucial for France to increase productivity and encourage new small- and medium-sized companies. At the moment, France is competing in the same medium and high-tech segment of knowledge-intensive goods as the emerging economies without being ranked as an innovation leader, like Germany. Integrating the French industry into global supply chains is likely to be politically challenging given the scepticism among the public towards reforms in general, and more flexible business conditions in particular, including off-shoring of industrial manufacturing. Finally, like in Germany, there is great potential to promote the services sector further, for instance the already strong banking sector.³⁶

In sum, given the great complementarities between the American, German and French economies, deepening the transatlantic relationship could create further business opportunities and thereby promote jobs and growth. In comparison to trade with emerging economies, there are no real concerns about so-called unfair competition from the United States. All this is reflected in the fact that there is no major organised opposition in Europe against a transatlantic agreement so far. On the contrary, many German and French industries are interested in greater export opportunities, such as automobiles, pharmaceuticals, chemicals, electronics and machinery. Whereas Germany seems to have no major sensitive sectors, expect for

some service sectors, France is by tradition more sceptical about free trade. But even the French textile and clothing industries, notably the luxury brands, which have notoriously been blocking the removal of tariffs, now have strong export interests. This indicates that the situation has changed over the last decade. Of course, negotiators will inevitably run into big challenges as issues such as genetically modified products, hormones and other sanitary and phytosanitary questions need to be settled. Not to mention the challenge of getting national- or state-level regulatory agencies to cooperate closer and eventually recognise each other's standards. Again, political will is the key to success.

► 3. *Transatlantic leadership at the global level*

Beyond the bilateral relationship, transatlantic economic integration can have a large impact as a push-factor that may break the Doha deadlock and bring countries back to the multilateral negotiation table. By exercising joint leadership, the United States and the EU can promote rules and standards that could lay the foundation for a modern open trading system. Now is the time to be proactive. If the EU and the U.S. stay inactive, there is a great likelihood that the rules and ways of doing things established elsewhere will come to shape the future global trading environment.

Moreover, Europe and the United States could join their forces together when dealing with third countries. Both when negotiating trade agreements with strategic partners, and also when initiating law suits in the WTO Dispute Settlement Body in situations where

other countries allegedly do not comply with their WTO commitments. The ultimate objective would be to safeguard the principles of the multilateral rules-based system in an efficient and coherent way.

► 4. *The way forward*

As the United States and the European Union are preparing to launch negotiations on a trade and investment partnership agreement, the focus is on a comprehensive, realistic and ambitious deal that can have a real impact on jobs, growth and competitiveness.

Great challenges lie ahead. This is not the first time that a bilateral transatlantic initiative is started. The Transatlantic Business Dialogue (1995), the Transatlantic Agenda (1995), the New Transatlantic Marketplace (1998), and the Transatlantic Economic Council, TEC (2007), all set out as ambitious projects but were watered down. Stuck for a while in technical discussions, TEC nevertheless got off the ground and recent achievements for instance include the U.S.-EU agreement on mutual recognition of authorised economic operators, principles for investment and for ICT services, and agreement on e-health and a strategy for enforcement of intellectual property rights.

The context is different now compared to earlier, because of the many reasons that have

been mentioned above. In view of “progressively moving to a more integrated transatlantic marketplace” the U.S.-EU High Level Working Group calls in its February report for “creative, flexible, and open-minded” solutions to achieve the ambitious goals set out. It recognises that an agreement would need to cover tariffs, services, investment, procurement as well as regulatory issues and non-tariff barriers, while also addressing intellectual property rights, environment and labour aspects, competition policy, state-owned enterprises, trade-related labour and environment aspects, small- and medium-sized enterprises, supply chains and access to raw materials.³⁷

Nobody is under the illusion that the negotiations will be easy. Quite the contrary, with complicated regulatory divergences, political will and strong backing from business organisations and stakeholders will be crucial. Let us look more closely into some of the issues that a comprehensive transatlantic partnership agreement will have to address.

► *Tariffs*

Elimination of tariffs on all industrial goods, but with transition periods for sensitive goods is the objective. Average tariff levels are low, but a number of peak tariffs remain. The most challenging field is agriculture, where a substantial and progressive reduction would be the most realistic scenario.

► *Non-tariff barriers*

Addressing non-tariff barriers is repeatedly underlined as the most important element of a transatlantic agreement, but also the most

The focus is on a comprehensive, realistic, and ambitious deal that can have a real impact on jobs, growth, and competitiveness.

challenging. Stake-holders insist on closer cooperation and alignment of existing regulations, but particularly emphasise the need for continuous work and cooperation in order to avoid future regulatory divergences. In this respect, key areas include automobiles (especially e-vehicles), machinery, electronics, electro-technical products, chemicals, nanotechnology and regulations related to cloud computing. The report of the High Level Working Group recommends that the agreement “be designed to evolve over time [...] while establishing mechanisms that enable a further deepening of economic integration, particularly with respect to the promotion of more compatible approaches to current and future regulation and standard-setting and other means of reducing non-tariff barriers to trade.”³⁸

► *Services and Investment*

Services could not possibly be excluded from a comprehensive transatlantic agreement, given their importance in today’s sophisticated economies. Stakeholders call for the removal of barriers, for instance in the fields of health care, transportation, financial services, capital markets, ICT including telecommunication, but also in the aviation market and with respect to the movement of workers, processing of data and other cross-border data issues. Many challenges lie ahead as these and other service sectors are currently extensively protected by regulatory restrictions. The HLWG report modestly recommended binding “the highest level of liberalisation that each side has achieved in trade agreements to date, while seeking to achieve new market access.”³⁹

There is also support among stakeholders for more open investment policies. In this respect, the EU is facing a double challenge of not only putting its own investment policy in order, but also acting in unison when dealing with its trading partners.

► *Public procurement*

The objective of extending the openness of foreign public procurement markets at all levels of government is a part of the final report of the HLWG. Fuelled by the European Commission’s recent proposal of reciprocal openness in international public procurement markets, fair competition and reciprocity are keywords for some European business organisations. On the U.S. side, only 37 states participate in the WTO Government Procurement Agreement, suggesting that negotiations will be complicated, not to mention the “buy American” act issued in the wake of the economic crisis.

► *Intellectual Property Rights*

Industries on both sides of the Atlantic are supporting enhanced transatlantic cooperation with respect to the protection and enforcement of patents, trademarks and copyrights both at the bilateral level but also internationally. There are great differences in the IPR systems in the U.S. and Europe. Enforcement of IPR protection abroad is nevertheless a common concern for many companies, who support reinforced efforts to fight counterfeits and trademark infringement, especially online and in sectors like medicines, chemicals, audio-visual products, automobiles and electronics.

► *Cooperation with third countries*

Business associations encourage the EU and U.S. to reinforce their cooperation in trade discussions with third countries, both bilaterally and multilaterally. Transatlantic leadership could play an important role in updating the standards and principles governing international trade and investment. Ultimately, it could lead the way back to multilateral discussions and strengthen the rules-based system embodied in the WTO.

Finally, regarding the time frame for a transatlantic agreement, policy-makers neither seem to be interested in an early harvest of low-hanging fruits, nor are they keen to embark on a project that resembles the Doha Round. The agenda must thus be realistic and doable within a reasonable period of time. Both sides will need to be prepared to give and take, in the spirit of compromise. The ultimate approval will need to come from the U.S. Congress, the 27 European member states in the Council of Ministers, as well as the European Parliament.

► *Conclusion*

During the years to come, Europe and the United States are faced with daunting challenges; not only to promote growth and jobs in their own crisis-hit economies, but also to safeguard peace, security and prosperity in the advent of a multipolar world.

The financial and economic crisis has but reinforced the case for continued and deepened transatlantic cooperation. Based on their shared fundamental values of democracy, human rights, rule of law and fundamental rights and freedoms, the EU and the U.S. have an important role to play together as to influence the foundations of the new multipolar world order that is about to emerge. The benefits of closer ties between the U.S. and the EU would not only be of economic nature, but pertain also to the transatlantic security community's ability to promote peace, democracy and prosperity, as well as, naturally, its own security. Now is not the time to get caught up in inward-looking policies, Europe and the United States need to have a clear strategy and be proactive global leaders.

This being said, achieving closer transatlantic cooperation is not an easy task. Significant obstacles need to be surmounted. In this respect, serious commitment and political will be required.

As leading members of the European Union, France and Germany have a special responsibility to work toward beneficial cooperation with the United States. Actually putting this into practice may be of varying difficulty in different policy fields.

As far as trade is concerned, a comprehensive transatlantic agreement with a clear vision for future continuous cooperation can make a real difference, but only by reaching beyond the framework of a traditional free trade agreement. The wish-list from businesses is relatively precise; companies on both sides of the Atlantic would like to see a comprehensive and ambitious agreement that facilitates trade by eliminating tariffs and regulatory barriers. It also needs to address areas such as services, investment, public procurement and intellectual property rights. In addition to generating growth and jobs, a transatlantic agreement could provide the impetus needed to break the current deadlock that paralyses multilateral trade negotiations, and thereby promote multilateral cooperation.

In the field of security cooperation, prospects seem slightly dimmer. Burden sharing disputes are likely to remain on the agenda. While the financial crisis clearly constrains all interested parties' room for manoeuvre, it is not clear whether Europeans really have understood the seriousness of the situation. One step in the right direction would consist in intensified efforts of pooling and sharing, but Europe's disparate strategic cultures in conjuncture with a sometimes very pronounced reluctance to deal with strategic issues remains the central issue.

Very importantly, therefore, Europeans, and certainly the French and especially the Germans, must stop shying away from difficult questions pertaining to the use of their armed forces and the instances in which to recur to violence. Refusing to see security ne-

cessities is not an act of pacifism, but simply shortsighted and irresponsible. This does obviously not mean that Europeans should follow the United States in all cases. Rather, Europeans will increasingly face the need to develop a grand strategy if they are to be a player in the emerging multipolar world. France and Germany have a special role to play in this process.

In all debates on transatlantic relations, one thing must however not be forgotten: the United States and Europe will continue to be each other's most important partners on many issues in the future. Close transatlantic ties will therefore continue to be an invaluable asset for all parts involved.

▶ *Notes*

- ▶¹ Hillary Clinton (2011) “America’s Pacific Century”, *Foreign Policy*, November.
- ▶² The notion of “Security Community” was coined by Karl Deutsch in 1957, who defined it as a group of people (or states) who “have come to agreement on at least this one point: that common social problems must and can be resolved by processes of ‘peaceful change.’” See Karl W. Deutsch (1957) *Political community and the North Atlantic area; international organization in the light of historical experience*. Princeton: Princeton University Press.
- ▶³ The White House, Office of the Press Secretary (1990) “NATO and the U.S: commitment to Europe”, address by President Bush at the Oklahoma State University Commencement, Stillwater, Oklahoma, 4 May.
- ▶⁴ For an account of NATO enlargement’s history, see Ronald D. Asmus (2002) *Opening NATO’s Door. How the Alliance Remade Itself For A New Era*. New York: Columbia University Press.
- ▶⁵ Regierungserklärung der Bundeskanzlerin Merkel am 10.05.2012: „Eine zentrale Botschaft unseres Treffens in Chicago ist für mich die Bekräftigung der transatlantischen Verbindung zwischen Europa und Nordamerika auf der Grundlage gemeinsamer Werte und Interessen – und das in Zeiten völlig neuer Bedrohungen.“ (translation by the author) http://www.nato.diplo.de/Vertretung/nato/de/06/Erklaer_Verteidigungs_Aussenminister/BKin-RegErkl_C3_A4r-Btag-10052012-Seite.html (07/12/2012).
- ▶⁶ See “Le sommet de l’OTAN de Chicago” at the French government’s website 23/05/2012: “Ce sommet, qui a confirmé l’unité de l’Alliance et la solidarité des alliés, a permis au Président de la République de rappeler l’attachement de la France au lien transatlantique et son engagement au sein de l’OTAN” (translation by the author), <http://www.gouvernement.fr/gouvernement/le-sommet-de-l-otan-de-chicago> (07/23/2012).
- ▶⁷ Hubert Védrine (2012) *Rapport pour le Président de la République Française sur les conséquences du retour de la France dans le commandement intégré de l’OTAN, sur l’avenir de la relation transatlantique et les perspectives de l’Europe de la Défense*, Paris, 14 November. The report essentially stresses the Alliance’s relevance, notably its nuclear aspects and Article V, and calls for a stronger European – and French – presence.
- ▶⁸ Anders Fogh Rasmussen (2011) “Building security in an age of austerity”, keynote speech at the 2011 Munich Security Conference, February 4, 2011, http://www.nato.int/cps/en/natolive/opinions_70400.htm.
- ▶⁹ Congressional Research Service / Amy Belasco (2011) *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, Report RL33110, March 29.
- ▶¹⁰ On the comprehensive approach to crisis management, see Cornelius Adebahr (2011) “The Comprehensive Approach to Crisis Management in a Concerted Weimar Effort”, Genshagener Papier Nr. 6, March 2011.
- ▶¹¹ For an overview on Pooling and Sharing with the EU and NATO (as well as on their limitations and shortcomings), see for instance Christian Mölling (2012) “Pooling und Sharing in EU und NATO”, SWP Aktuell 25, Mai 2012.
- ▶¹² Anders Fogh Rasmussen (2011) “Building security in an age of austerity”, keynote speech at the 2011 Munich Security Conference (note 8).
- ▶¹³ See NATO’s Media Backgrounder on “Multinational Projects”, October 2012, available at www.nato.int.
- ▶¹⁴ Morton A. Kaplan, “An Introduction to the Strategy of Statecraft” *World Politics*, no. 4 (July 1952), p. 553.
- ▶¹⁵ See Nathalie Guibert (2012) “François Hollande lance la réflexion sur la nouvelle stratégie de défense française”, *Le Monde*, 13 July. See also Hubert Védrine (2012) *Rapport pour le Président de la République Française sur les conséquences du retour de la France dans le commandement intégré de l’OTAN, sur l’avenir de la relation transatlantique et les perspectives de l’Europe de la Défense*, Paris, 14 November.
- ▶¹⁶ See e.g. his speech at the “Sicherheit gemeinsam gestalten”- conference in Berlin on September 5, 2012, available at www.bmvg.de: *Für die sicherheitspolitische Debatte fühlt sich die große Mehrheit der Deutschen [...] entweder nicht sachkundig genug, nicht ausreichend informiert – oder auch einfach nicht zuständig, auch weil vieles weit weg zu sein scheint.*

- ▶¹⁷ See for instance “Deutsch-Französische Erklärung: Für eine stärkere europäische Sicherheit und Verteidigung”, Paris, 6 February 2012, signed by both countries’ foreign and defence ministers.
- ▶¹⁸ Daniel S. Hamilton and Joseph P. Quinlan (2012) *The Transatlantic Economy 2012. Annual Survey of Jobs, Trade and Investment between the United States and Europe*, Center for Transatlantic Relations Johns Hopkins University and Paul H. Nitze School of Advanced International Studies, Washington, DC.
- ▶¹⁹ Cf. Fareed Zakaria (2008) *The post-American World*, New York, London: W. W. Norton & Company.
- ▶²⁰ European Commission, “Statement from United States President Barack Obama, European Council President Herman van Rompuy and European Commission President José Manuel Barroso”, Memo/13/94, Brussels/Washington, 13 February 2013, available at http://europa.eu/rapid/press-release_MEMO-13-94_en.htm.
- ▶²¹ Final Report, High Level Working Group on Jobs and Growth, 2/112013.
- ▶²² “Ich glaube, auch im transatlantischen Bereich haben wir noch sehr viele Möglichkeiten, z.B. eine Freihandelszone zu schaffen, die wir heute noch nicht haben. Die EU und die USA sind heute die jeweils wichtigsten Wirtschaftspartner füreinander [...] Aber das Potenzial unserer Zusammenarbeit ist längst nicht ausgeschöpft. Wir haben vielfältige Hürden, insbesondere im nichttarifären Bereich – Dienstleistungen, Investitionen, technische Standards, öffentliches Auftragswesen und vieles mehr. Ich freue mich, dass von europäischer und amerikanischer Seite jetzt eine Bereitschaft besteht, hier weiterzuarbeiten. Das dauert sicherlich auch eine bestimmte Zeit.” Bundeskanzlerin Angela Merkel, World Economic Forum (01/25/2012).
- ▶²³ Cf. Transatlantic Task Force on Trade and Investment (2012) “A New Era for Transatlantic Trade Leadership”, Joint initiative by the German Marshall Fund of the United States and ECIPE.
- ▶²⁴ Organization for Economic Cooperation and Development (2011) “Intra-firm trade: Patterns, determinants and policy implications”, OECD Trade Policy Working Paper No. 114 by Rainer Lanz and Sébastien Miroudot.
- ▶²⁵ Banque de France (2012) *Rapport Annuel 2011. La Balance des paiements et la position extérieure de la France*, available at: http://www.banque-france.fr/fileadmin/user_upload/banque_de_france/Economie_et_Statistiques/BDP-rapport-annuel-2011.pdf.
- ▶²⁶ Daniel Hamilton and Joseph Quinlan (2008) *Globalization & Europe: Prospering in the New Whirling Order. France and Globalization*. Center for Transatlantic Relations; The Paul H. Nitze School of Advanced International Studies.
- ▶²⁷ Michael Dauderstädt (2012) “Domestic Laggard and Export Miracle”, Friedrich Ebert Stiftung, International Policy Analysis; McKinsey Global Institute (2012).
- ▶²⁸ Hamilton and Quinlan (2008).
- ▶²⁹ Daniel Hamilton and Joseph Quinlan. (2012) *The Transatlantic Economy 2012. Annual Survey of Jobs, Trade and Investment between the United States and Europe*.
- ▶³⁰ Matthias Bauer and Fredrik Erixon (2010) “A Transatlantic Zero-Agreement: Estimating the Gains from Transatlantic Free Trade in Goods”, ECIPE Occasional Paper No.4/2010.
- ▶³¹ ECORYS (2009) “Non-Tariff Measures in EU-US Trade and Investment – An Economic Analysis”, Reference: OJ 2007/S 180-219493, Final Report.
- ▶³² McKinsey Global Institute (2012) *Trading myths: Addressing misconceptions about trade, jobs, and competitiveness*.
- ▶³³ McKinsey Global Institute (2012); Statistisches Bundesamt (2012) “Facts & Figures - Germany’s most important trading partners”, available at: www.destatis.de.
- ▶³⁴ McKinsey Global Institute (2012): note 32.
- ▶³⁵ IMF (2012) “Germany 2012 Article IV Consultation”, IMF Country Report No. 12/161; Michael Dauderstädt (2012) “Domestic Laggard and Export Miracle”; Daniel Hamilton and Joseph Quinlan (2008) *Globalization & Europe: Prospering in the New Whirling Order. Germany and Globalization*.
- ▶³⁶ IMF (2013) “France: Selected Issues”, IMF Country Report No. 13/3; *The Economist* (2012-11-17) “The time-bomb at the heart of Europe”; Daniel Hamilton and Joseph Quinlan (2008) *Globalization & Europe: Prospering in the New Whirling Order. Germany and Globalization*; Hamilton and Quinlan (2008): note 26.
- ▶³⁷ Final Report, High Level Working Group on Jobs and Growth, February 11, 2013.
- ▶³⁸ Ibid.
- ▶³⁹ Ibid.

► *About the Authors*

Lisa Brandt is a Trade Policy Analyst at the European Centre for International Political Economy (ECIPE) in Brussels. Her research focuses on EU's trade relations with strategic economic partners and on industrial policy.

Lisa Brandt ist Analystin für Handelspolitik am European Centre for International Political Economy (ECIPE) in Brüssel. Sie forscht zu Fragen der EU-Handelsbeziehungen mit strategischen Wirtschaftspartnern und der Industriepolitik.

Dr. Barbara Kunz is project leader with Stiftung Genshagen and specializes in European foreign and security policy and transatlantic relations.

Dr. Barbara Kunz ist Projektleiterin bei der Stiftung Genshagen und arbeitet zur Europäischen Außen- und Sicherheitspolitik sowie zu Transatlantischen Beziehungen.

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