THE NEW PARAMETERS OF GERMAN FOREIGN POLICY

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The New Parameters of German Foreign Policy

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Hans Kundnani is a Bosch public policy fellow at the Transatlantic Academy and a senior transatlantic fellow at the German Marshall Fund of the United States. He would like to thank Steve Szabo for inviting him to join the Transatlantic Academy, and his colleagues at the Academy for extremely stimulating discussions before and after the U.S. presidential election. Their different perspectives on Germany, and the depth of their knowledge, helped the author develop his own thinking and shaped the argument in this paper. The author would also like to thank Adam Tooze of Columbia University, who made extremely helpful comments on a previous draft, and Ted Reinert for editing the paper.

Executive Summary

The election of Donald Trump threatens to radically change the parameters of German foreign policy that go back to the foundation of the Federal Republic in 1949. Germany has benefited from a particular configuration of the liberal international order in which the United States provided security and acted as a consumer of last resort. During the last decade the United States has become gradually less willing to provide each of these two public goods and may now cease to do so altogether. Germany is thus particularly vulnerable — even compared to EU member states like France and the United Kingdom — to an abdication of U.S. "leadership." Thus, a shift in the U.S. foreign policy under President Trump could be an asymmetric shock that will disproportionately affect Germany.

The logical response to the new situation created by the election of Trump would be for Germany to take steps to reduce its vulnerability — in particular, by seeking alternatives to the U.S. security guarantee and reducing its dependence on exports for economic growth. But Germany has increasingly come to see itself as a *Friedensmacht*, or "force for peace," and as an *Exportnation*, or "export nation." In a sense, therefore, "free riding" has become central to German national identity. This makes it difficult for Germany to radically rethink its security model or its economic model. As a result, Germany will likely take a wait-and-see approach to policy for the time being, while hoping for the best.

Europe should be a way out of the dilemma Germany now faces. In particular, it could provide an alternative source of both security and of demand. This means a grand bargain between EU member states — centered on a compromise between France and Germany — is now more urgently needed than ever. But Germany remains unwilling to make concessions — especially on economic issues. In the meantime, the uncertainty about the U.S. security guarantee under Trump may transform relations between EU member states and erode the position of power in Europe that Germany has developed since the end of the Cold War and in particular since the beginning of the euro crisis.

1 Introduction

After Donald Trump was elected president of the United States on November 8, a chorus of commentators immediately jumped to the conclusion that the German Chancellor Angela Merkel was the new "leader of the free world." But comforting as it would be to believe that the long-serving chancellor of Germany could simply replace the president of the United States as the "leader the free world"[1] and thus protect the values for which it stands, it is an illusion. Merkel was right to describe such expectations as "absurd" and even "grotesque."[2] The differences between Germany and the United States as powers in international politics — particularly in terms of military power — make the comparison between the chancellor and the president flawed.[3]

In any case, talk of Merkel as the "leader of the free world" misses the way that the election of Trump threatens to radically change the parameters of German foreign policy. Most dramatically, the U.S. security guarantee on which the Federal Republic has depended since its creation in 1949 is now in question in an unprecedented way. More broadly, many fear that the liberal international order that was created by the United States after 1945, which was already under pressure, could now unravel.[4] If President Trump does seek to "end the U.S.-led liberal order and free America from its international commitments," as his rhetoric suggests, it would clearly be a disaster for all Europeans. Depending on how far Trump goes, his election could even turn out to be a more seismic event for Europe than the end of the Cold War.[5]

The shift in U.S. foreign policy under President Trump is likely to be an asymmetric shock that affects different EU member states in different ways and could affect relations between them as well as relations between them and the rest of the world.

However, this paper argues, the shift in U.S. foreign policy under President Trump is likely to be an asymmetric shock that affects different EU member states in different ways and could affect relations between them as well as relations between them and the rest of the world. In particular, Germany is uniquely vulnerable in two ways that go beyond the vulnerability of comparable member states like France and the United Kingdom. Over the last seven years since the beginning of the euro crisis, Germany has emerged as the powerful member state within the EU and many have even seen it – wrongly, I have argued – as a kind of "hegemon." But this role was contingent on a particular configuration of the liberal international order based on two aspects of U.S. hegemony from which Germany was able to benefit – or according to critics, on which it was able to "free ride."

In particular, Germany has depended on two public goods provided by the United States, which allowed it to develop into what I have

[1] See for example T. Garton Ash, "Populists are out to divide us. They must be stopped," *The Guardian*, November 11, 2016, https://www.theguardian.com/commentisfree/2016/nov/11/populists-us.

[2] A. Smale, "Angela Merkel to Seek 4th Term as Germany's Leader," *The New York Times*, November 20, 2016, http://www.nytimes.com/2016/11/21/world/europe/angela-merkel-germany.html.

[3] See H. Kundnani, "Merkel and whose army?" *Foreign Policy*, December 13, 2016, http://foreignpolicy.com/2016/12/13/merkel-and-whose-army-germany-military-nato.

[4] See for example F. Fukuyama, "America: the failed state," *Prospect*, December 13, 2016, http://www.prospectmagazine.co.uk/magazine/america-the-failed-state-donald-trump; R. Kagan, "Trump marks the end of America as the world's 'indispensable nation,'" *Financial Times*, November 19, 2016, https://www.ft.com/content/782381b6-ad91-11e6-ba7d-76378e4fef24.

[5] T. Wright, "Trump's 19th century foreign policy," *Politico Magazine*, January 20, 2016, http://www.politico.com/magazine/story/2016/01/donald-trump-foreign-policy-213546.

called a "geo-economic power."[6] First, the United States bore disproportionate costs for European security, while German defense spending remained low — even compared to that of many other EU member states. Thus Germany was accused of "free riding" in security terms — in other words, of consuming rather than providing security. Second, the United States acted as a consumer of last resort while aggregate demand in Germany remained low — again, even compared to other EU member states. Thus Germany was also accused of "free riding" in economic terms.[7] During the last decade the United States has become gradually less willing to provide each of these two public goods and may now cease to do so altogether.

If this were to happen, its effect would be to dramatically weaken Germany. The withdrawal of the U.S. security guarantee would force Germany to rethink its security policy — and perhaps even its attitude to nuclear weapons. Meanwhile a shift toward a more mercantilist approach in U.S. trade policy could undermine the basis of the success of the German economy, which has boomed on the back of demand from the United States even as demand from the eurozone "periphery" and China has slowed. In addition, the election of Trump could have consequences for the European project itself. In particular, given the historic role of the U.S. security guarantee in European integration, the new uncertainty about it could itself transform relations between EU member states in ways that would further undermine the basis of German power.

[6] See H. Kundnani, "Germany as a geo-economic power," *Washington Quarterly*, Summer 2011, pp. 34:3 pp. 31-45, https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/twq11summerkundnani.pdf.

[7] See for example P. Bofinger, "Here is one export Germany should not be making," *Financial Times*, June 6, 2016, http://www.ft.com/intl/cms/s/0/da5b543c-2bbc-11e6-bf8d-26294ad519fc.html#axzz4AxwJntef. Bofinger writes that "Germany's economy is supported by the demand management policies of countries that are heavily criticised by German academics and policymakers" and is thus "free riding on the demand policies of other countries."

2 A New Security Policy?

Criticism of Germany for "free riding" in security terms goes back a long way. In particular it has focused on its low level of defense spending, which in 2014 fell to below 1.2 percent of GDP.[8] In a speech in 2011, U.S. Defense Secretary Robert Gates said a "two-tiered alliance" was emerging that was divided between "those willing and able to pay the price and bear the burdens of alliance commitment" and "those who enjoy the benefits of NATO […] but don't want to share the risks and the costs."[9] He warned that "there will be dwindling appetite and patience in the U.S. Congress — and in the American body politic writ large — to expend increasingly precious funds on behalf of nations that are apparently unwilling to devote the necessary resources or make the necessary changes to be serious and capable partners in their own defense." President Barack Obama also said in an interview in 2016 that "free riders" "aggravated" him.[10]

However, there was also increasing appreciation in the Obama White House for the greater "responsibility" Germany seemed to be taking — particularly since the much-discussed speech given by President Joachim Gauck at the Munich Security Conference in 2014. U.S. officials welcomed Germany's commitment to lead a NATO battalion to be stationed in Eastern Europe, its unilateral decision to arm and train the Kurdish *peshmerga* fighting in Iraq, and the assistance it gave to France in Africa and the Middle East after the terrorist attacks in Paris in November 2015. The publication of a German white book on defense in July 2016 — the first in ten years — seemed to confirm that Germany was "becoming the kind of partner we always wanted," as one former Pentagon official put it.[11] Thus Germany seemed to do just enough to respond to U.S. criticism of "free riding" in security terms.

Now, however, Germany has to deal with a new president who is apparently indifferent toward the U.S. alliance system. During the election campaign he said that NATO "may be obsolete" and that he would "certainly look at" getting rid of it.[12] At other times he talked about "rethinking" the alliance and focused on reducing the financial burden to the United States, saying it was "costing us a fortune."[13] He also said that he would decide whether to come to the aid of NATO countries attacked by Russia only if they had "fulfilled their obligations to us."[14] It is this new conditionality of the U.S. security guarantee that makes

The publication of a German white book on defense in July 2016 — the first in ten years — seemed to confirm that Germany was "becoming the kind of partner we always wanted," as one former Pentagon official put it.

[8] See NATO, "Defence Expenditures of NATO Countries (2009-2016)," July 4, 2016, http://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2016_07/20160704_160704-pr2016-116.pdf.

[9] R.Gates, "The Security and Defense Agenda (Future of NATO)," U.S. Department of Defense, June 10, 2011, http://archive.defense.gov/Speeches/ Speech.aspx?SpeechID=1581.

[10] J. Goldberg, "The Obama Doctrine," *The Atlantic*, April 2016, http://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525.

[11] Interview with the author.

[12] Bloomberg, "Complete Donald Trump Interview: NATO, Nukes, Muslim World, and Clinton," March 23, 2016, http://www.bloomberg.com/politics/videos/2016-03-23/complete-trump-interview-nato-nukes-muslims-and-hillary.

[13] See for example *The New York Times*, "Transcript: Donald Trump Expounds on His Foreign Policy Views," March 25, 2016, http://www.nytimes.com/2016/03/27/us/politics/donald-trump-transcript.html; P. Rucker and R. Costa, "Trump questions need for NATO, outlines noninterventionist foreign policy," *The Washington Post*, March 21, 2016, https://www.washingtonpost.com/news/post-politics/wp/2016/03/21/donald-trump-reveals-foreign-policy-team-in-meeting-with-the-washington-post.

[14] D. Sanger and M. Haberman, "Donald Trump Sets Conditions for Defending NATO Allies Against Attack," *The New York Times*, July 20, 2016, http://www.nytimes.com/2016/07/21/us/politics/donald-trump-issues.html; *The New York Times*, "Transcript: Donald Trump on NATO, Turkey's Coup Attempt and the World," July 21, 2016, http://www.nytimes.com/2016/07/22/us/politics/donald-trump-foreign-policy-interview.html?_r=0.

Trump very different from Obama and from every presidential nominee from either of the two major parties since the founding of NATO in 1949.[15]

There has been much discussion since the election about how seriously to take the confusing and contradictory statements made by Trump during election campaign about NATO. Many dismissed it as campaign rhetoric — though he has since repeated the idea that NATO is "obsolete."[16] Others hoped — and still hope — that his instincts will be moderated either by his team, in particular Defense Secretary James Mattis, or by the bureaucracy, or by the checks and balances in the American political system. But much of this discussion misses the point, which is that for the time being there is likely to be uncertainty about U.S. commitments. Even before the election of Trump, U.S. allies were becoming increasingly nervous.[17] The uncertainty will now increase — and this will itself undermine European security. As Jan Zielonka has put it, "collective defense and deterrence can only work if they are not subject to speculation."[18]

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It is unclear how Germany will respond to this radical uncertainty about what, according to the white book, is the "anchor and main framework of action for German security and defense policy."[19] For the moment, the policy seems to be to wait and see and hope for the best. Even more attention will now focus on the commitment by NATO countries to spend 2 percent of GDP on defense — which German officials and security policy analysts have long seen as an unhelpful metric. Yet after the election Merkel reiterated Germany's commitment to a gradual increase in defense spending toward the target. "I can't promise we will get there in near future," she said.[20] According to the 2016 white book, Germany is "determined to aim to spend 2 percent of its gross domestic product on defense […] over the long term and subject to available resources."[21]

[15] See also M. Crowley, "Trump's NATO comments 'unprecedented,'" *Politico*, July 21, 2016, http://www.politico.com/story/2016/07/donald-trump-nato-reaction-225967.

[16] M. Gove and K. Diekmann, "Full transcript of interview with Donald Trump," *The Times*, January 16, 2017, http://www.thetimes.co.uk/article/full-transcript-of-interview-with-donald-trump-5d39sr09d.

[17] See in particular A.W. Mitchell and J. Grygiel, "The Vulnerability of Peripheries," *The American Interest*, March 1, 2011, http://www.the-american-interest.com/2011/03/01/the-vulnerability-of-peripheries.

[18] J. Zielonka, "Europe is no longer safe," *Die Zeit*, December 16, 2016, http://www.zeit.de/politik/ausland/2016-12/democracy-european-union-nato-brexit-donald-trump. See also J. Fischer, "Europe's New 'Indispensable Nations,'" Project Syndicate, January 5, 2017, https://www.project-syndicate.org/commentary/europe-defense-french-german-leadership-by-joschka-fischer-2017-01. Fischer writes that security guarantees "depend largely on psychology, and on a country's trustworthiness vis-à-vis friends and foes alike. When that credibility is damaged, there is a growing risk of provocation – and, with it, the threat of escalation into larger crises, or even armed conflict."

[19] Federal Government of Germany, "2016 White Paper on German Security Policy and the Future of the Bundeswehr," 2016, p. 64, http://www.gmfus.org/publications/white-paper-german-security-policy-and-future-bundeswehr.

[20] Reuters, "Merkel: Germany must boost defense spending, unlikely to meet NATO goal soon," November 23, 2016, http://www.reuters.com/article/us-germany-defence-merkel-idUSKBN13I0R3.

[21] "2016 White Paper on German Security Policy and the Future of the Bundeswehr," p. 69.

The instinct of many Germans is to also move ahead with the creation of a European "defense union" as a hedge against the U.S. security guarantee. For decades, progress in European defense integration has been slowed by political and technical obstacles — and now there is the additional complication that the United Kingdom, one of the two most important member states in terms of military capabilities, is leaving the EU. But even if member states made rapid progress in pooling sovereignty, and if all of them were to immediately spend 2 percent of GDP on defense (which, in Germany's case, would mean $30 billion of additional spending), they would still not achieve "strategic autonomy." Current plans, including the Defence Action Plan agreed in December, aim to enable Europeans to eventually lead operations like the one in Libya in 2011 without significant U.S. help.[22] But even if they were able to do so, they will continue to depend on U.S. capabilities for collective defense.

Germany is likely to seek to delay a more radical rethink of security policy for as long as possible — not least because it would inevitably involve the question of nuclear weapons.[23] Since the election of Trump, several influential figures in Germany have already reopened the question. A week after the election, Roderich Kiesewetter, a Christian Democrat member of the Bundestag, proposed a European nuclear deterrent.[24] At the end of November, Berthold Kohler, one of the publishers of the *Frankfurter Allgemeine Zeitung*, went even further and called for an independent German nuclear deterrent.[25] Others have since made similar arguments.[26] But these voices are likely to remain a tiny minority. Public opinion makes it difficult to imagine — even now — Germany seeking to develop nuclear weapons.

Germany is likely to seek to delay a more radical rethink of security policy for as long as possible — not least because it will inevitably involve the question of nuclear weapons.

[22] See A. Beesley, "EU takes step towards limited defence co-operation," *Financial Times*, November 14, 2016, https://www.ft.com/content/dbcf9240-aa8f-11e6-9cb3-bb8207902122; A. Beesley, "Brussels plans to 'turbo boost' defense spending," Financial Times, November 20, 2016, https://www.ft.com/content/d0ceecd0-b587-11e6-961e-a1acd97f622d. The Defence Action Plan includes the creation of a small permanent operational planning capability (i.e. headquarters) for non-combat missions, a Coordinated Annual Review on Defence (a kind of equivalent of the European Semester), and a European Defence Fund to increase research and development spending and coordinate defense procurement.

[23] The white book includes almost nothing on nuclear weapons except the statement that the "the Alliance maintains and develops a coordinated strategic spectrum of nuclear and conventional capabilities, including missile defense." "2016 White Paper on German Security Policy and the Future of the Bundeswehr," p. 65. On reluctance in Germany to open a discussion about nuclear weapons, see *Der Spiegel*, "Europeans Debate Nuclear Self-Defense after Trump Win," December 9, 2016, http://www.spiegel.de/international/world/europe-responds-to-trump-win-with-nuclear-deterrent-debate-a-1125186.html.

[24] See A. Shalal, "German lawmaker says Europe must consider own nuclear deterrence plan," Reuters, November 16, 2016, http://www.reuters.com/article/uk-germany-usa-nuclear-idUSKBN13B1GO. For a discussion of the German debate, see U. Kühn, "The sudden German Nuke Flirtation," Carnegie Endowment for International Peace, December 6, 2016, http://carnegieendowment.org/2016/12/06/sudden-german-nuke-flirtation-pub-66366.

[25] See B. Kohler, "Das ganz und gar Undenkbare," *Frankfurter Allgemeine Zeitung*, November 27, 2016, http://www.faz.net/aktuell/politik/wahl-in-amerika/nach-donald-trump-sieg-deutschland-muss-aussenpolitik-aendern-14547858.html. Kohler argued that Germany needed its "own nuclear deterrent" against Russia because "the French and British arsenals are too weak" and "Moscow is re-arming."

[26] See for example M. Terhalle, "Deutschland braucht Atomwaffen," *Tagesspiegel*, January 25, 2017, https://causa.tagesspiegel.de/politik/europa-und-die-weltweiten-krisen/deutschland-braucht-atomwaffen.html?r=7773544.

What makes a shift in German security policy so difficult is the way that Germany has come to define itself as a *Friedensmacht*, or "force for peace."[27] One might therefore even say that "free riding" in security terms has become a central part of Germany's sense of itself as a country. It is even conceivable that, if worst came to worst, Germany would not seek an alternative to the U.S. security guarantee and would thus leave itself radically insecure in military terms — in effect abandoning what realist international relations theorists see as the paramount objective of states. Another reason for this inertia is that a radical rethink of security policy, especially if it included the question of nuclear weapons, would also involve a fundamental recalibration of Germany's economic model — to which it is as committed as it is to the idea of being a *Friedensmacht*.

[27] On Germany as a *Friedensmacht*, see H. Kundnani, "The United States in German Foreign Policy," German Marshall Fund of the United States, April 14, 2016, p. 6, http://www.gmfus.org/publications/united-states-german-foreign-policy. It is important to distinguish the concept of a Friedensmacht from that of a Zivilmacht, or "civilian power." A *Friedensmacht* seeks above all to avoid to the use of military force; a "civilian power" seeks above all to "civilize" international relations and when necessary uses military force in a multilateral context to do so – for example to enforce the international rule of law.

3 Trump as an Economic Shock

Criticism of Germany for "free riding" in economic terms also has a long history going back to arguments about economic stimulus between President Jimmy Carter and Chancellor Helmut Schmidt in the 1970s. But during the 2000s the German economy became even more dependent on exports than it already was.[28] Since the financial crisis of 2008, Germany and the United States have found themselves on opposing sides of arguments about imbalances in the global economy.[29] U.S. criticism has focused on Germany's export dependence and low aggregate demand. In recent years, as demand for German exports from the eurozone "periphery" and from China has slowed, growth has come above all from Anglo-Saxon countries and in particular the United States itself, which in 2016 overtook France as Germany's biggest export market.[30] This has further exacerbated tensions with the United States.

During the Obama administration, U.S. officials repeatedly criticized Germany for acting as a drag on the eurozone and on the global economy and exerting deflationary pressure — alongside China, the other frequent target of its criticism.[31] In 2016, the U.S. Treasury even put Germany on a new currency "monitoring list" along with China, Japan, South Korea, and Taiwan and warned that it could face extra scrutiny and possible retaliation.[32] Although Germany's membership of the euro means it has less control over its currency than the other countries on the list, the Treasury said it was concerned about its current account surplus, which in 2016 reached 8.6 percent of GDP (compared to 2.6 percent in the case of China) and "accounted for the bulk of the euro area's surplus, and pushed the surplus of the euro zone to over 3 percent of GDP."[33]

Whether because of ideas (*Ordnungspolitik*) or interests, Germany has made even fewer concessions in response to these accusations of economic "free riding" than it has in response to accusations of "free riding" in security terms. For example, the German economics ministry responded to a U.S. Treasury report in October 2013, which said Germany's weak demand and export dependence "hampered

During the 2000s the German economy became even more dependent on exports than it already was. Since the financial crisis of 2008, Germany and the United States have found themselves on opposing sides of arguments about imbalances in the global economy.

[28] See World Bank, "Exports of goods and services (% of GDP)," http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=DE. The contribution of exports to GDP went from 30.8 percent in 2000 to 42.2 percent in 2010. It has subsequently increased further and reached 46.8 percent in 2015. See also H. Kundnani, *The Paradox of German Power* (London: Oxford University Press, 2014), p. 76.

[29] See Kundnani, *The Paradox of German Power*, p. 94.

[30] See S. Tilford, "Will the Eurozone reap what it has sown?" Centre for European Reform, September 24, 2015, https://www.cer.org.uk/publications/archive/bulletin-article/2015/will-eurozone-reap-what-it-has-sown.

[31] See for example B.S. Bernanke, "Why Germany's trade surplus is a problem," Brookings Institution, April 3, 2015, https://www.brookings.edu/blog/ben-bernanke/2015/04/03/germanys-trade-surplus-is-a-problem/.

[32] S. Donnan, "US adds China, Germany and Japan to new currency watchlist," *Financial Times*, April 29, 2016, https://www.ft.com/content/9d8533f4-0e3c-11e6-9cd4-2be898308be3. Under a law targeting currency manipulators passed in 2015, the Trade Enforcement and Trade Facilitation Act, the United States has to launch "enhanced bilateral engagement" – that is, talks – with any country that runs a bilateral trade surplus with the United States of more than $20 billion, has a current account surplus of above 3 percent of GDP, and makes persistent net foreign currency purchases equivalent to more than 2 percent of GDP. If the country in question does not take remedial action within a year, the United States can take steps including denying a country access to development loans, banning it from government procurement contracts, calling for stepped-up surveillance by the International Monetary Fund, and/or excluding it from trade negotiations. See C.F. Bergsten and J.E. Gagnon, "The New U.S. Currency Policy," Peterson Institute for International Economics, April 29, 2016, https://piie.com/blogs/realtime-economic-issues-watch/new-us-currency-policy.

[33] U.S. Department of the Treasury Office of International Affairs, "Foreign Exchange Policies of Major Trading Partners of the United States," April 29, 2016, p. 30, https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2016-4-29%20(FX%20Pol%20of%20Major%20Trade%20Partner)_final.pdf.

rebalancing," by calling it "incomprehensible." The ministry said Germany's surplus was simply "a sign of the competitiveness of the German economy and global demand for quality products from Germany."[34] Thus during the Obama administration, the United States had a somewhat compartmentalized relationship with Germany: U.S. State and Defense Department officials praised German progress on security policy while Treasury officials criticized German stonewalling on economic policy.[35]

If President Trump follows through on his campaign rhetoric on trade – and there are already some signs that he will — it would have huge negative consequences for Germany. At a minimum, Germany could come under even greater pressure to reduce its current account surplus than it was during the Obama administration.

Things are likely to be different under President Trump, who has a mercantilist view of trade that "breaks with 200 years of economic orthodoxy."[36] In particular, he seems to see trade in zero-sum rather than win-win terms. His comments on trade — a key theme of his campaign — suggest he sees a trade surplus as evidence that a country has negotiated a good "deal." Conversely, a deficit is a sign that it has been duped or even robbed — for example, he called China's unbalanced trade with the United States "the greatest theft in the history of the world."[37] (In this sense, his thinking actually aligns to some extent with many in Germany, who, although they think of themselves as ardent believers in free trade, also have a positive view of surpluses.)

If President Trump follows through on his campaign rhetoric on trade – and there are already some signs that he will — it would have huge negative consequences for Germany. At a minimum, Germany could come under even greater pressure to reduce its current account surplus than it was during the Obama administration.[38] Peter Navarro, the head of the new National Trade Council, has already said Germany was using a "grossly undervalued" euro to "exploit" other EU member states and the United States.[39] A more aggressive U.S. approach to China on currency and trade issues could also lead to a more polarized G20 (which German chairs throughout 2017), with standoffs between surplus and deficit countries that will split the West down the middle. Moreover, unlike Obama, Trump is unlikely to moderate criticism of Germany on economic issues as a quid pro quo for cooperation on other strategic issues such as Russia.

Trump has also shown already that he is willing to intervene on behalf of individual American companies, which could lead to more of the kind of disputes that have already led one

[34] I. Talley and J. Sparshott, "U.S. Blasts Germany's Economic Policies," *Wall Street Journal*, October 31, 2013, http://www.wsj.com/articles/SB10001424052702304527504579168113091545256; C. Alessi, "German Seethes at US Economic Criticism," *Der Spiegel*, October 31, 2013, http://www.spiegel.de/international/germany/germany-defends-trade-surplus-after-critical-us-treasury-report-a-931126.html.

[35] See for example Timothy Geithner's memoir, *Stress Test: Reflections on Financial Crises* (New York: Crown, 2014).

[36] B. Appelbaum, "On Trade, Donald Trump Breaks With 200 Years of Economic Orthodoxy," *The New York Times*, March 10, 2016, http://www.nytimes.com/2016/03/11/us/politics/-trade-donald-trump-breaks-200-years-economic-orthodoxy-mercantilism.html?_r=0.

[37] Ibid.

[38] See S. Denyer, "Look out China, Mexico, Japan and Germany: How trade shapes Trump's worldview," *The Washington Post*, January 25, 2017, https://www.washingtonpost.com/news/worldviews/wp/2017/01/25/trade-trumps-national-security-in-trumps-worldview-thats-really-bad-news-for-china/?utm_term=.5f089f560b2b; C. Siedenbiedel, "Nächstes Opfer Deutschland," *Frankfurter Allgemeine Zeitung*, January 8, 2017, http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/wird-deutschland-naechstes-ziel-von-donald-trump-attacke-14609309.html.

[39] See S. Donnan, "Trump's top trade adviser accuses Germany of currency exploitation," *Financial Times*, January 31, 2017, https://www.ft.com/content/57f104d2-e742-11e6-893c-082c54a7f539.

German Christian Democrat parliamentarian to speak of "economic warfare."[40] A particular vulnerability (sometimes referred to as a *Klumpenrisik*o, or "cluster risk") is the German automobile industry, which Trump attacked in a recent interview.[41] It is as yet unclear whether he will seek above all to bring manufacturing jobs back to the United States (which could be manageable if German companies were willing to relocate production there) or simply to promote U.S.-owned companies (which would be disastrous for German companies). In his recent comments, he has not clearly distinguished between these two options.[42]

The even worse scenario for Germany is an unravelling of the global trading system — the economic equivalent of the end of NATO. During the election campaign, President Trump promised to renegotiate bilateral and regional trade agreements and even U.S. membership of the World Trade Organization. Since becoming president, he has already abandoned the Trans-Pacific Partnership, the multilateral trade agreement between 12 Pacific Rim countries. A world with greater barriers to trade would be a disaster for an economy that depends on exports for nearly half of GDP. A world in which order had broken down to an even greater degree, with potential trade wars, would be even more disastrous. Hard as it is to see how Germany could find an alternative to the U.S. security guarantee, it is even harder to imagine how its export-driven economic model could survive in such a world.

Given this situation, there are — as in the case of security policy — compelling reasons for Germany to take steps to reduce its vulnerability. In this case, that would mean reducing its extreme export dependence. But, as in the case of security policy, there are powerful forces for inertia that have to do with Germany's sense of itself as a country. Just as Germany has come to see itself as a *Friedensmacht*, it has also increasingly come to see itself as an *Exportnation*.[43] In other words, economic as well as security terms, "free riding" has become central to German national identity. In both cases, this makes it difficult for Germany to take steps to reduce its vulnerability. As a result, German economic as well as security policy is likely, for the time being, to be to wait and see and hope for the best.

[40] In October 2016 Peter Ramsauer, the chairman of the Bundestag's economics committee, said the Justice Department's proposed fine of $14 billion against Deutsche Bank for selling mortgage-backed securities had "the characteristics of an economic war." He added that the United States had a "long tradition" of using every available opportunity to wage what amounted to trade war "if it benefits their own economy." The "extortionate damages claims" being made in the case of Deutsche Bank were an example of that. G. Chazan, "Germany's deputy chancellor attacks Deutsche Bank chief," *Financial Times*, October 2, 2016, https://www.ft.com/content/a93eeaca-8888-11e6-8cb7-e7ada1d123b1.

[41] See M. Gove and K. Diekmann, "Full transcript of interview with Donald Trump," *The Times*.

[42] Ibid.

[43] On "export nationalism," see Kundnani, *The Paradox of German Power*, p. 86.

4 After Semi-Hegemony?

In order to avoid disintegration, which would be particularly disastrous for Germany, a grand bargain between EU member states — centered on a compromise between France and Germany — is now more urgently needed than ever.

Europe should be a way out of the dilemma Germany now faces. In particular, it could provide an alternative source of both security and demand. However, the ability of the European Union to reach compromises that reconcile the different interests of member states has been badly undermined do so by the events of the last seven years since the beginning of the euro crisis, which have created new fault lines within it and undermined unity and a sense of solidarity. In that sense, Germany may now find itself paying the price for its failures over the last seven years — especially on economic policy. In particular, in order to prevent the emergence of a "transfer union," Germany refused to agree to a greater degree of debt mutualization in the eurozone. This in turn made it impossible to create a fiscal and political union that might have been able to respond more coherently to the difficult security questions raised by the election of Trump.

The election of Trump may well also exacerbate the already existing disintegrative tendencies within the EU.[44] Historically, the U.S. security guarantee was the precondition for European integration and in particular for the EU as a "peace project." As Josef Joffe put it in an essay published in 1984, American power "pacified" Europe — that is, "muted, if not removed, ancient conflicts and shaped the conditions for cooperation."[45] In particular, the security guarantee reassured France against the possibility of a resurgent Germany. Thus "by protecting Western Europe against others, the United States also protected the half-continent against itself."[46] The question now is whether, given that the EU has not evolved into a full political union or become independent of the United States in terms of security, the new doubt about the security guarantee could strengthen the "centrifugal forces" within the EU.

In order to avoid such disintegration, which would be particularly disastrous for Germany, a grand bargain between EU member states — centered on a compromise between France and Germany — is now more urgently needed than ever. In particular, such a grand bargain would need to link economic and security issues. Thus far German policy has long been to prevent any linkage between economic and security issues and thus to forestall a discussion about such a grand bargain. This has allowed Germany to impose its preferences on economic policy — particularly on eurozone fiscal rules — on others while benefiting from the disproportionate commitment of others, especially France, to European security. But there is little to indicate that Germany's approach will change even after the election of Trump.

A grand bargain of this kind would require Germany to make concessions that — even now — it seems to remains unwilling to make. Even in the context of the EU, Germany seems unwilling to go further in providing public goods — whether in terms of security or demand. Given its commitment to being a *Friedensmacht* — and thus to "free riding" in security terms — one solution could be a division of labor in which Germany would provide economic growth while France would

[44] For a longer version of this argument, see H. Kundnani, "President Trump, the U.S. security guarantee and European integration," The German Marshall Fund of the United States, January 17, 2017, http://www.gmfus.org/publications/president-trump-us-security-guarantee-and-future-european-integration.

[45] J. Joffe, "Europe's American Pacifier," *Foreign Policy*, No. 54 (Spring 1984), pp. 64-82, here p. 68.

[46] Joffe, pp. 68-9.

provide security.[47] But even this would require Germany to make concessions on economic issues — and in particular to see beyond its export fetish — that it is not willing to make.[48] In other words, Germany must either make concessions on economic or security policy. It can continue to "free ride" in economic or security terms — but not both.

In the meantime, however, the new situation created by the election of Trump may change relations between EU member states — with profound consequences for Germany's role in Europe. In particular, it is possible that military power could now once again become a factor in relations between EU member states in a different way than during the decades of European integration. Until now, although military capabilities allowed countries like France and the U.K. to project power beyond Europe, they did not give them power within the EU. Military capabilities could not be used as leverage in negotiations because the U.S. security guarantee meant that other EU member states did not depend on them. But the new doubt about the U.S. security guarantee created by the election of Trump could change that — and may already be doing so.[49]

The result of this change in relations between EU member states would be to dramatically weaken Germany relative to France and the United Kingdom. Germany's position of predominance in Europe developed in two phases. First, with the end of the Cold War, Germany not only increased in size and therefore in resources but also became much more secure and therefore less dependent on France and the U.K., as well as the United States. Second, the creation of the single currency and the transformation of its economy in the 2000s amplified Germany's economic power. This only became clear after the euro crisis began in 2010, which led many to see Germany as a potential or actual European "hegemon." But this position of power within Europe rested on weak foundations — as the election of Trump has now made clear.

Thus even if Trump does not go as far as many fear in rethinking the U.S. approach to alliances and trade, the uncertainty his election has created, in particular about the U.S. security guarantee, could itself have huge consequences for Germany — including for its role within Europe. Over the last seven years, we have grown used to thinking of Germany as the de facto leader of Europe — hence the exaggerated expectations that many have of Merkel since the election of Trump. But the new situation created by his election will likely shatter illusions about Germany "hegemony" in Europe and may even bring to an end Germany's position of "semi-hegemony."[50] Rather than elevating the German chancellor to the position of "leader of the free world," the election of Trump may further weaken Germany — even within Europe.

It is possible that military power could now once again become a factor in relations between EU member states in a different way than during the decades of European integration.

[47] See J. Fischer, "Europe's New "Indispensable Nations."

[48] See H. Kundnani, "Germany's Export Fetish," *Handelslatt Global*, November 4, 2014, https://global.handelsblatt.com/politics/germanys-export-fetish-53106; H. Kundnani, "Euer Exportfetisch," *Die Zeit*, November 13, 2014, http://www.zeit.de/2014/45/deutschland-export-habermas-wirtschaftsnation.

[49] See Kundnani, "President Trump, the U.S. security guarantee and European integration," The German Marshall Fund of the United States, p. 4.

[50] On German "semi-hegemony," see Kundnani, *The Paradox of German Power*, pp. 107-113.

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