**Constructive Transatlantic Trade Relations in Times of Economic Populism –**

**From Industrial Policies to Bilateral Investments (August 2018)**

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U.S-Germany economic relations are at crossroads. Bilateral trade and investment flows have been rising for years and global supply chains are interconnected and global, but internal and external economic and political forces trigger economic nationalism and transatlantic tensions. As both countries negotiate their political and economic arrangements, understanding the unique characters of these economies, their challenges and opportunities, is critical for more constructive commercial relations. Moreover, U.S. and Germany have in fact a lot in common, and the focus should be on joint interests instead of the never-ending differences. This report summarizes the research and meetings in Germany surrounding these issues. The author is very grateful for this wonderful educational and leadership opportunity.

**Future of Work & Tech – From Local to Global**

A subject that is important to both nations and shapes the transatlantic and internal debates is the ‘future of work’ and how technology shapes the workforce and job replacement. It is hard to underestimate its importance. It was one of the main drivers behind the recent U.S. elections and the making of Donald Trump. It changes the agenda of German labor unions. The issue also has personnel ramifications. The new Chairman of the German Industries Association comes from the digital world as the group understands the importance of digital transformation to German companies and their employees. Several German governmental agencies have new positions that reflect the structural changes in the German workforce and work environment. The Ministry of Social and Economic Affairs has a new State Secretary for the ‘future of work’. The Chamber of Commerce and German think tanks have various projects that deal with the impact of digital transformation and automation on German workers.

There is a real difference between the U.S. approach and the German approach on these issues. This difference shapes the way U.S. and German trade negotiators analyze critical issues, such as global competitiveness and capital/trade flows. In fact, often the German policies on bilateral trade and investment and the ‘future of work’ are designed as a reaction to recent developments in the U.S. market (and other Western economies as well).

In the U.S. the debate on automation and jobs lead to a discussion on which and how jobs will disappear, which industries will be created, and how to support the high number of employees leaving the job market. Moreover, the debate amplifies the tension between the two U.S. economies, the one that is digital and machine-learning oriented and the other one that represents the ‘old economy’. The ‘future of work’ in the U.S. is part of the rising gap in education and financial strength between the two Americas.

The German view is absolutely different. The main perception among policy makers and corporate executives is that such technology will not change jobs but change and eliminate professions. Germany is not concerned too much about the impact of this new trend on markets since there is a big investment in Germany in ‘retooling’ and training workers to adapt their careers to the new changing work environment. Since the German economy focuses on manufacturing, there is no fear of collapse of a ‘service-type economy’, which tends to be in Germany ‘over-regulated’ and protected. While the large labor unions do research the future of corporations-employees relations in this new economy, most of them believe that the ‘German worker’ is here to stay and the German economy is well-positioned to continue its strong engineering base and its ability to retrain workers. These are mainly political forces in the far-right and far-left who dispute it.

This different German view leads corporations and labor leaders to come up with new ideas and methodologies with respect to the role of the worker in the future German corporation. One creative example is the inclusion of computers and tech devices as ‘employees’ in ‘collective bargaining’ arrangements between German corporations and employees. Another idea is to sign ‘collective agreements’ now, considering that the market will look very differently a few years from now. In that way the employees secure their positions and benefits, while giving up some of their control due to the job replacement in the foreseeable future.

The different takes on the impact of technology on jobs today and in the future lead to various dysfunctionalities in trade and investment agreements and negotiations. While the U.S administration looks at bilateral and multilateral agreements as the framework to protect workers and compensate for the changing global economic environment, the Germans understand the limits of such arrangements and focus on ‘market access’ elements. In fact, while it was the U.S. and President Trump who eventually stopped the negotiations on U.S.-EU trade agreement (TTIP), the Germans themselves were very skeptical through the negotiations process and it was very challenging for German politicians to receive public support. Most Germans in polls felt that the current trade map works well, including protection of German workers, and there is no need to ‘rock the boat’ with ‘experimental’ trade agreements. Their reaction was also an anti-American act. German industries, on the other hand, had a different view, and German executives were well aware of the need to maintain the competitiveness of Germany’s global export economy. They supported ‘TTIP light’, including exceptions for the car industry, which is strategically very important. There is a need to bridge the gap between the American and German views in order to have constructive trade and investment negotiations in the future.

**It’s all about the Cars**

One of the most important components of the German political economy is the German car industry and its role in the world. The German car industry comes up in every conversation, it still represents the finest part of the German industrial know-how, and it plays a huge political role in elections and public debates. While in the U.S. the image of the car industry’s worker has declined, associated with socio-economic struggle in recent years, German auto workers are well-paid and well-off economically. The car industry and its lobby are significantly shaping Germany’s internal and external economic policies, and it is hard to make a decision without taking them into account.

Regardless of what will eventually happen with Trump’s ‘trade wars’ with Europe and China, the reality is that since Germany’s external economic policies on trade and bilateral investments are shaped in Brussels through the European Commission – the German car industry protects its own and Germany’s interest through discussions with other European nations and multilateral institutions. Yet, most countries in the EU do not have a leading global car industry like Germany, which means that Germany needs to find other avenues to express its concerns. From ‘track II’ diplomacy to proposals for a Side Agreement on automotive (along other trade agreements) – German car companies are trying to use creative legal tools to make sure that U.S. protectionist measures will not have a lasting impact on the competitiveness of the German car industry. Some of these proposed measures already change German behavior since the uncertainty itself shapes corporate decision-making process and prevents investments and economic activity. Diemler, for example, warns in its financial statements about the U.S. protectionist measures and their impact. While already-announced U.S. tariffs on Chinese goods provide German products the opportunity to increase market share, this positive momentum in Germany is being offset by the rising U.S.-EU/Germany uncertainty, even if the U.S. administration put some measures on hold.

The German car industry also keeps its edge by working with global economic forces regardless of the state of U.S.-Germany trade relations. German car companies invest more in the U.S. market so they can sell to U.S. consumers directly and so they can export globally with less protectionist measures. The German car industry is more ‘globalized’ than its peers, with a more global supply chain management. German companies are using the U.S. market as a platform for trade in car components and assembly, while at the same time bringing the unique and sophisticated German car manufacturing know-how to U.S. plants. BMW, which manufacturers its X series in the U.S., exported its working style and procedures to its U.S. operations, providing higher wages to local employees. These kinds of stories do not get much publicity in the U.S. media and there is a strong need to bring them closer to the U.S. public that eventually supports trade and investment measures, internally and externally.

Commentators often compare the French and the U.S. car industries, referring to the fact that both are pushing local industrial manufacturing that makes the industry less competitive. Germans perceive the export car manufacturing to East Europe, U.S. and China as a positive move that kept the German car industry competitive.

The digitalization of the German economy, including AI and machine learning methods, has a long-term impact on the German car industry as well. Auto executives describe the transition of their industry from selling ‘cars’ to selling ‘mobility’ solutions. This is a great opportunity for many U.S. tech companies to work with the leading German car companies on this transition.

**Trade and Investment Policies**

In general, Germans’ support for trade agreements, or lack thereof, is impacted by the conservative German approach to external economic policies and the idea that Germany is Europe’s largest economy because of its manufacturing base regardless of its trade partners. The reality is opposite; unlike the U.S. consumption class, the German economy depends on foreign trade and German exports are significant part of the German GDP. As more and more nations are using trade agreements to improve their export strategies and find new trade partners (such as South Asian nations via the revised TTP trade agreement), Germany should continue to explore, with the U.S. and other nations, how future trade agreements can strengthen both economies. Very few success stories end up in the German media and Germans are not regularly exposed to the complexities of German bilateral and regional trade and investment agreements. This is not only the responsibility of the German and foreign media in Germany; there is a need for the German government to communicate better to the public and make foreign trade an important part of the elections process.

The CETA trade agreement between the EU and Canada could serve as a case in point. The German pubic became aware of the agreement because its dispute settlement mechanism had become a precedent for future trade agreements. Germany-Canada economic relations are sometimes more multilateral positive than bilateral since Germany is using the Canadian platform to advance a multilateral agenda.

One reason for the decline of foreign trade and trade agreements in German media is the rising importance of foreign investment, inbound and outbound, for German companies in Germany and abroad. German corporations are gradually more dependent on the manufacturing and distribution of products in foreign markets directly by German subsidiaries. German investors and companies in many markets are the leading foreign direct investment entities (or FDI), and as a result Germany is very sensitive to the importance and protection of foreign investors in Germany. The decline of trade and the rise of foreign investment explains Germany’ approach to the recent ‘trade wars’ in Europe and China. For the German government keeping FDI reciprocity and ensuring German success in foreign markets are critical components of German external economic policies.

**U.S.-China-Germany**

Consequently, another important area that shapes Germany’s foreign trade and investment policy vis-à-vis the U.S. is Germany-China/U.S.-China trade and investment relations. There is no doubt that China plays a huge role in the German economy. While Chinese investments in Germany in relative terms are still small, Germany is one of the largest foreign investors in China and since Germany is an export economy it is an important player in the supply chain in China of many German and other global companies. The growing Germany-China economic relations have institutional elements as well. The German Industries Association (or BDI in Germany) opened an office in Beijing, one of its few foreign offices, to speak in ‘one voice’ to the Chinese political and economic leadership. BDI is being perceived as more independent than other private institutions. From keeping markets open to preventing IP transfer and economic espionage – German companies are trying to speak in ‘one voice’ to secure their interests. Several requirements from joint-venture with local partners to new Chinese cyber security law force the German industries to lobby better and ask for ad-hoc exceptions when needed and possible. And, like many American advocates, they claim that China does not play by the WTO rules that govern its economic activities.

American companies and German companies share many of the same concerns and interests these days when it comes to foreign economic policy: they want to compete freely in China and global markets, to be able to relocate operations and workers, to be able to transfer capital, to secure their innovation and competitive advantage, and to avoid any issues related to privacy and transparency. Yet, there is a significant difference between how the American government and the German government handle this tension. The U.S. government is currently very vocal, trying to use strong legal and economic measures to pressure the Chinese regime. The U.S. government feels that soft diplomacy and in-person conversations will not be fruitful. The German government, on the other hand, believes in engagement and ongoing discussions with the Chinese government. The Germans do not threaten the Chinese regime in public extensively. While the challenges are the same, the German government thinks that long term communication could lead to the desirable results.

Different strategies can play out in the context of trade and investment negotiations as well. The U.S. government is pushing for reciprocity in foreign economic relations, while the Germans want to make sure that the Chinese government invests in Germany freely and can allow German companies to produce in and sell from China.

Another example where the U.S. and Germany have a similar policy but with different interpretation is the intersection between economic activity and national security. The U.S. administration has been very concerned about the rising Chinese investments in American strategic assets and sensitive technologies. Indeed, the U.S. is the world’s leading FDI target and FDI has been playing an important role in the growth story of the U.S. economy, including by Chinese investors. Yet, certain investments have raised concerns about local and national security and theft of sensitive technologies that can damage U.S leading tech and defense edge. The U.S. has adopted a special law that established the CFIUS regime, which screens proposed foreign investments. This law was amended a decade ago following attempts by Gulf states to purchase U.S. ports. Yet, the recent Chinese takeovers boom and the Trump administration’s more general take on China have led to various proposals, across the political spectrum, to amend the CFIUS regime to be more effective considering the new Chinese FDI challenge. Many potential Chinese acquisitions have been pulled back and others were rejected by the CFIUS process or the U.S. President himself, especially in the semiconductors space. The support is non-partisan and a revised law would probably be adopted soon. Such law would probably require the screening of minority investments, not only a majority stake, if they are in sensitive technologies or they are part of ‘Made in China 2025’s industries, since the Chinese regime supports these target industries by subsidies and support for Chinese FDI abroad.

Similarly, Germany has been concerned about the rising Chinese investments in leading German industries. While the German economy is not heavily dependent on Silicon Valley-type technologies, German industries hold a unique leading position in several global industries, from cars to petrochemicals, as a result of their know-how and R&D. Germany does not want to push a campaign against Chinese FDI too strongly since they want to keep China open for German FDI, which has been successful, and also since some other FDI in Germany is very positive for Germany (such as Scandinavian). German FDI flows in China are much higher than Chinese FDI flows in Germany. In general, it seems that Chinese FDI and its potential impact on Germany do not occupy German media the same way that Chinese takeovers dominate U.S. financial media. But, things may change and the recent coverage of the German government’s approval of Chinese Midea’s takeover of Germany’s robotics maker Kuka despite ‘national interests’ concerns might change the trend.

Nevertheless, since the Chinese FDI is becoming a European concern, there is an EU attempt to regulate FDI and national security on EU level. While investment, unlike trade, is a national policy in Europe and Germany can adopt investment/defense rules without European intervention, the new European approach would make it easier for the Germans to deal with the German-Chinese tension, and also standardize many different investment rules across the continent that makes it hard for Chinese investors to penetrate and also makes the EU less competitive for FDI. The new European rules will not be as broad as the new proposed American legislation, yet it will keep European interests in local and global markets. Since the EU must agree on these issues by consensus, China often leads to disagreements within the economic block by building a pro-Chinese group in the EU, especially among Eastern and Southern European countries with close economic ties to China.

In addition, German improved its investment screenings mechanism almost a decade ago and tightened it further last year following the recent wave of Chinese FDI in Germany; however, the market saw the formal application of the new regulatory regime starting only in 2018.

This topic is becoming very important as de-regulation makes the U.S. more competitive than the EU. Screening of FDI makes potential investments slow and costly. Public investors do not want to invest in companies that confront serious uncertainties. Thus, narrowing the gap between the U.S. and Germany when it comes to trade, investment and national security – should be a priority for both nations and an asset for their transatlantic relations.

**Rising Costs – From Talent to Energy**

Talent management and energy costs are an integral part of the discussion on growth and transatlantic relations. It is impossible to understand the German industrial ecosystem and its impact on German commerce without exploring Germany’s education system. The vocational education, an important part of Germany’s education system that both public and private sectors are very proud of, is still playing an important role in Germany’s success story in building great industrial companies. From the car industry to chemicals, companies hire vocational graduates and provide them with well-paid jobs, career stability, and future growth. But, since the workforce has changed dramatically in recent years, this system does not have the same clout as it used to have. If in the past German CEOs could come from the vocational training path, now it is less common. Yet, the U.S. economy could do more to integrate such training into its workforce. Despite the slight decline of the vocational training, it still has a very strong brand in Germany that stands for quality in certain industries.

Since often U.S. executives claim that companies do not necessary have the funding to train people basic training, one avenue to explore is the role of American private funds and venture capital funds in funding such programs in order to feed their portfolio companies with the required talent, especially in important emerging areas such as cybersecurity and biotech.

German executives express their concern about the rising costs of energy as well in local and global markets. It does not dominate the U.S.-EU/Germany trade debate since renewable energy in Germany has a bigger market share, while in the U.S. the market is still strongly driven by conventional resources.

**The SMEs and the Larger Economy**

One of the most important parts of the German economy is the Small and Mid-Size Companies (SMEs), usually privately/family owned, which provide a significant number of jobs for the German market. Hostile takeovers and foreign ownership are rare as these SMEs have a very long view on markets. Because of their historical role in the growth of the German market post-WWII, they are part of the conversation regularly in politics and media. Yet, several influential German leaders question their significance and importance to Germany in today’s changing economy. On the other side, the SMEs often feel that they are being used as a political token to receive political support in strategically important voting areas, while the government is doing very little to improve their corporate life. Since most of these companies are not listed, one area where the government can play a role is tax policy. One of the arguments behind the U.S. tax reform in America this past year is that lower corporate tax rate could help many American companies retain their employees and foster economic growth. Yet, when Germans are asked about a potential tax reform in Germany ‘U.S. style’, they express a strong rejection. Under the current political and economic environment in Germany, it is hard to imagine a swift tax reform that would change the German SMEs model, as we know it. On the other hand, many German global companies do benefit from the tax reform, and de-regulation more generally, in the U.S. market via their U.S. subsidiaries. It is important to note, though, that as employees in the U.S. have different labor rights, global German companies confront issues like labor arbitrage.

The SMEs are a strong economic segment of both the German socio-economic landscape and the U.S. economy. Yet, the business executives who take part in policy discussions with the legislative and executives branches in both places mainly come from large corporations. Current debates on trade measures, investment restrictions, tariffs, the future unions – are all dominated by large corporations. Needless to say, these large companies generate a high percentage of jobs and use the political capital they have. Also, the revolving doors between the public and private sectors in the U.S. and Germany give the largest companies a unique leverage. Yet, the importance of the SMEs in the current economic and political debate requires additional platforms for national and bi-national dialogue on trade policy, bilateral cross-border investments, and the future of jobs in the global economy. It seems that such platforms do not exist enough and there is a need to create them (whether industry-based, regional-based, or others). One of the reasons there is limited coordination between German and U.S. companies on these issues is that German companies and political parties tend to work with other similar political parties across the European continent. These movements and political parties either do not exist in the U.S. or have a different form and shape. New platforms should address this challenge.

**Academia, Human Capital and Innovation – A Rising Gap?**

German universities are not traditionally part of the top ranked academic institutions in global rankings. It may be surprising to followers of German productivity and innovation that in the last 2018 World Economic Forum’s global report, there’s no German university included in the top 50. Yet, well known institutions, such as Georg-August-Universitat Gottingen, are well-ranked and attract international students. Most importantly, German policies today manage to build local and regional eco-systems around Germany that connect academics, entrepreneurs and sources of financing in order to create a long-term sustainable system of innovation and jobs creation. Polls indicate that members of US-Germany Chamber of Commerce perceive many German governmental policies as ‘innovation killers’, which means that the German government does not do enough on this front.

Berlin is the obvious example. International talent moves to Berlin, connecting institutions like ESMT, with the emerging local tech community. The strong talent market already impacts costs of labor and living, and many policy makers and business executives express their concern about the long-term sustainable nature of this new eco-system. The real estate market in Berlin, for example, rose dramatically in the last decade. While it is not extreme as in San Francisco, young technologists shared the view that since Berlin historically attracted talent because of its energy, diversity and cheap housing, that may change considering recent economic forces.

The pace of innovation and jobs creation in Germany, especially in the tech sector, is much slower than in the U.S. One of the constrains discussed was the flexibility of the job market and the hours worked per week. Past reforms during recession times have created more flexible work arrangements. While young workers are looking to work more than one job, especially if they are involved in several start-ups, the government makes them sign that they will not work more than 50 hours per week. That would be a constrain in comparison to the U.S. market, but the German government does not enforce it strictly.

One area that the U.S. and Germany can work on together in this context is a better connection between centers of tech leadership and industry. The U.S. market has created it multiple times: Silicon Valley and California’s universities, Wall Street and financial research in New York-based institutions, and Boston’s excellent academic centers and New England’s biotech industry. In Germany often the 2 are separate, which creates several logistical and innovation challenges. The German Fintech is a case in point. While Berlin is becoming a center for fintech and crypto, Frankfurt is still Germany’s financial center and there is a need to bring these 2 communities together. While German banks have traditionally lobbied for more banking regulation that make it hard for Fintech companies to penetrate, recently more and more local and regional banks integrate emerging Fintech solutions. Some banks and insurance companies in Germany have their own tech investment arm, such as Allianz X for the insurance company Allianz. Both for banking and insurance, German conglomerates’ fears were premature, and the disruptive aspect of the new technologies in Germany has been relatively modest. Foreign U.S. companies that invest in Germany, whether it is on the research side or operational subsidiary, Germany can make it attractive for U.S. companies to connect German research with manufacturing companies in Germany and the U.S.

**Venture and Funding**

In general, the funding for venture and innovation is different in the U.S. and Germany. Venture Capital funding is very limited in Germany in comparison to the U.S. The funding in America comes from various sources, from private funds to institutional investors to asset managers and family offices. In Germany there is a mismatch between the level of tech innovation and the required funding. There is an attempt to change this reality through new governmental initiatives or regulatory frameworks that support bilateral venture funds. Institutional investors, such as pension funds, should be part of the debate on institutional investing in German innovation. Without adequate funding, the gap between America and Germany on these issues will keep widening. While some factors cannot be changed overnight, such as conservative and risk-averse German society and the success of the attractiveness of large successful engineering companies in Germany, still Germany can do more to make the financial and tech environment more appealing. The new political coalition in Germany included tech initiative in its agenda, but it is too early to judge its execution and effectiveness.

There are other factors that influence negatively the German venture industry, such as limited pool of talent, customer service culture that is different from the American one, and challenging tax environment. While culture is harder to change overtime, the German government can focus on other elements.

Connecting the financial sector to bilateral trade, it is important to note that U.S. negotiators emphasize digital payments more due to the exponential rise of e-commerce and digital payments in America. Germany by and large is a ‘cash economy’ with limited credit cards usage and the rise of e-commerce is still modest (mostly German version of American sites), keeping traditional retail companies strong. Future trade and investment negotiations should reflect these cultural differences

**Digital Infrastructure**

One of the reasons for the growing gap between U.S. and German innovation and start-up technology is the digital infrastructure crisis in Germany. From government officials to corporate executives and think tank leaders – all Germans express the feeling that Germany could do better when it comes to its digital infrastructure. Residential and commercial markets experience very slow internet, and in general the level of connectivity in Germany is low. Start-up founders and German residents alike feel that this system limits the integration of technologies into German corporate life and the growth of new tech ventures. As a result, many German start-ups once they grow they move to other markets, mainly the U.S. Future agreements on digital trade and FDI should reflect this reality. The blockchain industry, for example, shows that great German technologies so far did not match commercial needs properly.

The German government was aware of the challenge for many years. The digital infrastructure was created almost 30 years ago by DT, and many of the original cables are still used by German internet users, which is a real challenge in a world that is moving to 5G networks. The German government has initiated a plan to improve Germany’s digital infrastructure but based on recent review the system is still lagging many Western economies. The German government and DT’s interests are often aligned despite the calls for more long-term competitive independent players. Interestingly enough, foreign investors who are part of the new German start-up ecosystem do not feel it as much as locals do, since they see German leading R&D centers as a platform to launch projects and corporations that would eventually grow outside Germany. Yet, as the German tech industry growing, this digital challenge may have a bigger impact on the industry. On the policy side, in addition to improving German digital infrastructure, Germany should adopt policies that create bigger global tech corporations. SAP is one of the few names that come up in conversations and most of the public companies listed in Germany are traditional industrial corporations that have been around for generations.

**The Two Economies & Generations**

Looking at the main 2 working groups in Germany today, Millennials and the ‘Middle Class’, both groups follow patterns similar to the U.S. social and labor structure. However, there are significant differences that play out in internal and external economic policies. From the role of labor unions in the ‘new economy’ to retention statistics and policies – Germany functions very differently and various efforts by the U.S. administration to limit the power of unions in America and courts’ decisions that allow workers the flexibility to change jobs often without legal exposure are perceived by German workers and the media as a war on German values and market forces. Indeed, young Germans are less interested in joining traditional labor unions that represent ‘old professions’ and the ‘old economy’. Yet, both the unions and young employees are working closely to adapt existing unions to the new reality without giving up on the importance of labor protection and ‘labor ethics’. The numbers of labor unions’ members did not drop dramatically in Germany in recent years. In addition, the German labor market continues to be attractive to young employees, and many young graduates are interested in working for older, more established companies, such as BMW and Siemens. German workers, including young ones, do not believe that changing jobs every 6 months will help them develop the career they need and want. The legal system reflects these differences.

Since labor unions represent a high percentage of the workforce in Germany (unlike the U.S. that is in decline), the public debate in Germany on tensions in the labor market differs than in the U.S. While traditional FTAs and Collective Agreements focus on manufacturing, the rise of the service economy in Germany (even if smaller than in the U.S.) and the disbelief of young Germans in collective bargaining triggered concepts like ‘individualization of labor law’ or ‘universal basic income’, which even some union leaders reject. Unions must come up with creative proposals to stay relevant and attractive. Retooling Hamburg’s port workers or transforming train workers to IT administration are just a few recent examples.

**Together and Alone?**

In essence, many German economic policies today are reactionary to Trump’s view of U.S.-Germany economic relations. German policy makers and corporate leaders push ‘open markets’ agenda and ‘freedom of contract’, a field that has been dominated by the American thinkers. U.S. and German leaders change their traditional roles on the immigration debate as well. The newest EU-Japan Free Trade Agreement signed July 2018 is a legal example that reflects that as well. Yet, there’s more than meets the eye.

The U.S. and Germany often share similar economic challenges, but with different approach. The need to respond to the ‘victims’ of globalization is universal. Germany is using the ‘Social Market Economy’ in media debates and policy making, while in America ‘social’ has become associated with the extreme left of the democratic party. Any bilateral economic dialogue needs to take these differences into account. On the international level, Germany believes that more can be achieved by agreements and consensus. The EU and the U.S., for example, are revising their foreign investment rules, but the process is not coordinated, and the standards are not equal. Similarly, the countries are both worried about Russian energy aggression, but the U.S. is more driven by geo-strategic factors (including sanctions on companies working with Russian interests) while Germany is seeking energy security in Europe. Some argue that Germany does not read accurately the state of U.S.-Russia relations. On a more European level, the U.S. and EU have different approaches with respect to big data, AI, and data privacy; in the U.S. all is permitted unless restrained while in the EU all is restricted unless permitted.

In order to find co-existence and agreement, the process is almost as important as the substance. U.S. and Germany should focus on capacity building and institutional support where they share similar values and policy goals. Among the recent proposals and initiatives that came up in various meetings and conversation: supporting the WTO and its reform in times of a legitimacy crisis, co-operation within the WTO with respect to China and filing joint-complaints in the WTO, and building multilateral forums (such as the U.S.-EU-Japan). Clearly, the U.S. will still be able to pursue other economic measures not covered by the WTO system. In addition, the agriculture sector is very small in both economies with a declining labor force, but strong political support should bring the communities together on both sides of the Atlantic as traditionally their interests are not well covered in German FTAs.

Easier said than done. The cultural differences and the different social-economic context make it harder for national politicians on both sides to deliver quick results. The fact that both economies are currently strong with low unemployment forces the U.S. and Germany to push national agendas, or, as some political commentators call it “going it alone” approach. The German and American federal system provides states the opportunity to sign agreements between states directly, while bilateral/multilateral agreements stall. California’s Governor has initiated several such dialogues.

Individual politicians also succeed where the political system as a hole fails. In a very fragmented political system on both sides of the Atlantic, individual politicians, for example, showed leadership on regulation of financial services. In general, the financial services industry does not play a significant role in the U.S.-European trade crisis since banking and insurance are still quite ‘localized’ and trade in financial services is limited.

Finally, the German tendency to be ‘more American than the Americans’ on some issues has not been effective. From industrial policies to trade and investment negotiations, Germans function better when they focus on their ‘German DNA’, including B2B instead of B2C (as American tech tends to focus more on customer service while German’s on precision), robotics and engineering.

**Where are we Heading and Global Trends**

Germany often finds itself behind the curve and behind global trends. In some cases, it is driven by hard facts and negative demographics; as German population gets older, the ‘digital war’ is less relevant for the future of the German worker, and young Germans/Millennials do not vote/influence. In some other cases, Germans ignore global trends as they feel detached from this changing reality. That would require a long-term strategic response. For example, since the G-20 global agenda of 2010, no much has happened on issues like global imbalances, Germany’s high saving levels, pressure on low wages, and poor infrastructure. In general, Germans are not interested much in external economic policies, and their politicians focus on internal subjects, such as investment, local taxes, data protection and privacy, and digital infrastructure. This project and the various related meetings and discussions by themselves contribute to a better understanding of the issues and a more productive transatlantic dialogue.