

“The challenges are enormous”

Interview with Lora Anne Viola, Professor for Foreign and Security Policy in North America at the John-F.-Kennedy-Institute of Freie Universität Berlin

Even though the US elections are officially over and all ballots are counted the upcoming weeks will be exciting, as the Electoral College will come together in December and Joe Biden will be officially inaugurated in January. AmCham Germany took this opportunity to talk with Prof. Lora Viola, Professor for Foreign and Security Policy in North America at the John-F.-Kennedy-Institute of Freie Universität Berlin about the next administration, the transatlantic relationship in regards to China and Joe Biden's economic policy strategy.

How do you analyze the current trade relations between the US and Germany?

Donald Trump's presidency has marked a low-point in transatlantic relations and, according to a Pew global survey, Germany—more than any other ally—currently views the US more negatively than at any other point since the end of the Cold War. Biden has explicitly called for a renewal of transatlantic relations and has reached out to European leaders with a promise of a more reliable and predictable partnership. We can expect that the atmosphere will improve as both sides have an interest and willingness to cooperate on a range of issues. Nevertheless, the transatlantic relationship faces long-standing challenges that will not simply disappear. Trade disputes between the US and EU long pre-date Trump, although they certainly intensified under his administration.

When we're talking about trade disputes the Airbus Boeing issue comes to mind. How would you analyze this case?

The tariffs you refer to have been imposed in the context of a sixteen-year ongoing dispute between the EU/UK and US over subsidies for aircraft manufacturers Airbus and Boeing. The WTO appellate body ruled that both sides unfairly subsidized their aircraft makers and additionally authorized both sides to impose retaliatory tariffs. Having failed to reach any negotiated solution, the US imposed punitive tariffs related to the Airbus case and additionally imposed tariffs on EU steel and aluminum. The WTO authorized the EU to take countermeasures in October 2020. While new tariffs imposed in the midst of an economic recession are not in the interest of either side, this recent move by the EU increases the pressure on Biden to reconsider US tariffs and to come to a negotiated resolution on this and other trade-related issues.

The Biden administration is unlikely to return to a full-throated defense of free-trade agreements, but it will review and adjust existing tariffs. This case further indicates that a concerted effort to reform and strengthen the WTO would be in the interest of both sides, and Biden's presidency represents a good opportunity to do so.

Which role does the rising economic power China play for the next administration?

It is clear that the growing rivalry with China is the US' main foreign policy challenge. Moreover, how the US and European countries approach this rivalry will determine the future shape of transatlantic relations. There is concern in the US that European countries, such as Germany, have prioritized short-term economic interests in their dealings with China over larger geopolitical concerns, including national security. The fear is that as long as European

allies continue to evaluate China in economic terms as a lucrative business partner, they neglect the ways in which those relationships are building China's political leverage both within European countries and internationally. One example here is Italy's memorandum of understanding with China on the Belt and Road Initiative.

On which priorities will President-elect Joe Biden likely focus and how will he shape international economy?

Addressing the corona virus health crisis and the resulting economic recession will be the Biden administration's top priority. In addition to a number of public health measures, like a coordinated position on masks, Biden will also pursue a stimulus package for the US economy including an immediate Covid relief bill. Biden's "Build Back Better" plan aims to create manufacturing jobs, increase infrastructure investment, extend child care support, and promote small businesses. However, Biden will face a gridlocked Congress that is likely to impede large structural policy changes. At the moment, Republicans seem on track to maintain control of the Senate and the majority leader, Mitch McConnell, has made clear that he will attempt to obstruct proposals that come from Democrats.

Republicans are eager to avoid progressive tax reform and large-scale redistribution policies. Biden can work with the Federal Reserve and with his Treasury Department to overcome some of these political challenges by, for example, having regional Federal Reserve banks finance and administer local projects. But, overall, the challenges are enormous and even with a vaccine it will likely take years to return to pre-crisis GDP levels. As with the 2008 global financial crisis, we should expect global economic recovery to be largely driven by China. One question going forward is to what extent US and European countries are able or willing to engage in decoupling and de-globalization. Another question is what the economic consequences of a likely acceleration of digitization and automation will be in the near-term.

How might American climate policy issues develop under Joe Biden?

Biden has said that he will begin the process of rejoining the Paris Climate Agreement on his first day in office. This move would certainly send an important signal regarding the US' intention to return to climate negotiations and the administration's general support for climate policy. But this is the easy part; a breakthrough on climate policy will require much more. The Paris Agreement, although an important diplomatic step, is a relatively weak vehicle for pursuing real change on climate policy.

The majority of carbon emission reduction pledges are not enough to keep global warming below the target of 2 degrees Celsius and most states are not on track to meet even those pledges. Nevertheless, considering the size of the US economy and its status as the world's second largest emitter, an ambitious climate agenda on the part of the US would inject significant momentum into global climate negotiations. The Biden team seems more intent than any other administration to date on making environmental policy not only a priority on the domestic level, but also a cornerstone of US foreign policy.

Biden plans to convene a "climate world summit" to push world leaders towards more ambitious, binding, and enforceable commitments. He has said he is open to carbon border adjustment fees or quotas on carbon-intensive goods from countries that do not meet their climate commitments. He has proposed a climate plan to shift the US away from fossil fuels and towards clean energy that would cost more than \$2 trillion—about ten times as much as

the Obama administration spent on climate policies. The open question for Biden, though, is whether he will get enough domestic and international support to pursue this agenda. He can rely on executive orders to some extent, but where his initiatives require Congressional support, he is likely to face strong opposition.

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