

## AICGS ISSUE BRIEF

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Commerce, Climate Change, and China:  
German-American Challenges in 2009

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What are the U.S. presidential candidates' views on economic issues and how might they affect transatlantic relations in 2009?

How will U.S. policy vis-à-vis China develop under a new U.S. president and where might such policy diverge from German interests?

Will the U.S. and Europe come to an agreement on climate change in the next year?

## Introduction

In light of the recent economic downturn, the U.S. presidential candidates and the American public are focusing increasingly on economic issues in the 2008 campaign. While economic policies are often viewed through a domestic policy prism, in today's globalized and interconnected world, domestic economic decisions influence the world economy as well. Thus, economic policies are also becoming foreign policy decisions. During the Democratic primaries, for example, Senator Barack Obama sometimes argued for restricting free trade, which, if implemented, could lead to retaliation from other countries—including Europe. Climate change is also an international problem that is influenced by domestic policies. More likely, climate policy could become one of the issues on which Europe and the United States could find common ground after the U.S. election. Indeed, both parties' candidates have stated that they would implement policies to address climate change, marking a clear break from the current U.S. administration. Expectations are high in Europe—particularly in Germany—that the new U.S. administration will be willing to negotiate an international climate treaty and sign it into law. As the international community strives to reach a post-Kyoto climate policy framework, the timeline to reach such an agreement is very tight and coincides with the first year of a new U.S. administration. Therefore, European hopes might be disappointed. Free trade and policies to address climate change, however, are issues where transatlantic cooperation is crucial to achieving success. At the same time, emerging countries such as China and India play a decisive role on both policy issues and without them these problems will not be solved. Transatlantic cooperation on these issues and on relations vis-à-vis emerging markets is thus necessary.

# Trade and Globalization

In an increasingly globalized world, economic policy decisions of large countries are no longer domestic policy decisions. In the same vein, an economic or financial crisis in one country is no longer contained but has effects worldwide. Economic links between Germany and the United States are a very strong and important aspect of this partnership. While trade between Europe and the United States flows relatively freely, different regulations and standards still present barriers to economic markets.

## Germany

Germany—the export champion in Europe and the world<sup>1</sup>—relies on free trade for its economic well-being. Yet, anti-trade and anti-globalization tendencies and voices have grown stronger in Europe and in Germany and recent election successes by *Die Linke*, a collaboration between the successor party of the East German socialist party and former left-wing Social Democrats, mirror the insecurities and anxieties of the German electorate toward globalization. The public debate in Germany tends to be pessimistic on globalization and free trade, yet recent polls by The German Marshall Fund of the United States (GMF) found that most Germans support free trade, with 79 percent of Germans viewing international trade positively.<sup>2</sup> In Germany, the discussion about globalization focuses mainly on perceived losers of globalization, such as workers in industries that have been outsourced. This debate is somewhat skewed in light of the broad German social safety net. It is therefore imperative for the elite and the media to engage in a discussion of Germany's gains from globalization, which ensures Germany's ability to export, outweighing the losses in the overall economic picture. Germany has also begun to debate national security implications of globalization, especially of globalized financial markets, a debate that is echoed in the United States.

## United States

The United States is one of the strongest supporters of globalization and free trade. Economic relations are seen as a way to both increase American economic prosperity and promote democracy and prosperity around the world—and thus improve U.S. national security. At the same time, the recent economic downturn in the United States has limited the public's enthusiasm for free trade and globalization. The recent GMF survey found that “a majority of Americans believed trade negatively impacts jobs—less than half of Europeans felt the same.”<sup>3</sup> Additionally, as the crisis involving the attempted purchase by a Dubai company of American ports in 2006 has shown, Congress has begun to view foreign direct investment as a security risk, implementing policies to prevent purchases or

mergers deemed at odds with national security.

In recent years, the domestic environment in the United States has been less supportive of free trade agreements, as seen in the ongoing debates about the Colombia-United States Free Trade Agreement and the Central American Free Trade Agreement (CAFTA). In the U.S. Congress, Fast Track—a parliamentary procedure—has historically been used by the president to introduce trade agreements to Congress. The procedure was designed to give Congress ninety days for an up or down vote on the introduced trade agreement without giving the legislature the opportunity to amend the agreement. This gave the president enough leeway to negotiate international trade agreements, as it ensured that Congress would not change the agreement after it had been agreed on by the U.S. president and his international counterpart. For the first time, however, Fast Track has been undermined by partisan politics, as trade agreements now introduced under Fast Track can be delayed by Congress indefinitely. This undermines the position of the U.S. president in negotiating trade agreements as his negotiation partners can no longer be ensured of a quick Congressional decision on its implementation.

## Transatlantic Relations and Trade in 2009

Senator Obama, the presumed Democratic presidential nominee, is allegedly generally pro-trade and in favor of globalization. Yet, in the run-up to the Democratic convention, he has also criticized free-trade agreements—such as the North American Free Trade Agreement (NAFTA)—as unfair to American workers and in need of renegotiation. In a February 2008 Democratic debate, Senator Obama called NAFTA a bad trade deal<sup>4</sup> and stated in a previous debate that he would “try to amend NAFTA [to] reflect the principle that our trade should not just be good for Wall Street, but should also be good for Main Street.”<sup>5</sup> Senator Obama added in February 2008 that he would use the “hammer of a potential opt-out as leverage to ensure that [the U.S.] actually get labor and environmental standards that are enforced.”<sup>6</sup> Despite this rhetoric, Senator Obama has also argued in favor of free trade agreements, stating in February 2008 that he does not think it is realistic to repeal NAFTA, as job losses would outweigh job gains.<sup>7</sup> The general election in November 2008 will be decided in a few key states like Ohio, Pennsylvania, and Michigan, states that rely primarily on heavy industry and whose workers have been hard hit by job losses due to increasingly liberalized free trade and outsourcing. Some analysts argue that anti-trade undertones in the Democratic primaries—which are likely to be repeated in the general election campaign—were nothing but campaign rhetoric and that Senator Obama would not become an anti-trade president, should he be elected. While

it is certainly true that the American election system favors remarks geared toward the constituencies of certain key states, which then distort the overall picture, it holds equally true that campaign speeches and remarks during the debates have to be taken at face value, as they are an indicator of a candidate's outlook and the public mood. As the mood especially in the U.S. is tending toward a more pessimistic view on trade and globalization, any new U.S. president will have to address this and will—to a certain extent—be bound by it.

Senator John McCain strongly supports free trade, not the least because he views trade and national security as interconnected.<sup>8</sup> For instance, Senator McCain has stated that withdrawing from NAFTA would be met critically by Canada, potentially impacting their commitment in Afghanistan.<sup>9</sup> Senator McCain also “sees trade as especially important as a means to open ‘closed societies’ in the Middle East. ‘It’s past time for nations of the Middle East to join the global economy, and for rulers to lead increasingly restive populations in the direction of democracy and free markets.’”<sup>10</sup> Tying trade to national security is an interesting approach by Senator McCain.

This approach might turn around the growing number of

Americans who are increasingly wary of free trade. Arguing for trade and economic openness as a counterweight to international security threats could have a ‘rally around the flag’ effect in the United States, leading to more pro-trade tendencies.

Linking trade with economic development and security of the world's trouble spots would certainly be welcomed in Europe.

Germany and the EU have always emphasized economic aid to alleviate security threats. American recognition of Europeans' economic-based view could only improve transatlantic relations. A President McCain would be advised, however, not to over-emphasize the security issue, as Europeans have become weary of U.S. security measures and policies. When viewed from a strictly economic perspective, Senator McCain's position on trade is also closer to European

and German views among the elite. A President McCain, like a President Obama, might also support the Transatlantic Economic Council (TEC), an initiative launched by the German EU-presidency in 2007 to improve the transatlantic economic relationship. But the TEC's success depends on whether the U.S. Congress and the new U.S. administration become more engaged in this project which is, in turn, determined by the successfulness of the TEC. Congress and the executive branch both have a role in U.S. trade policy, and the TEC might be successful because it usually deals with small, regulatory details that can circumvent Congress' slow legislative process. Despite the argument that opening emerging markets is more important than regulatory changes, the recently implemented Open Sky agreement shows that even small regulatory changes can have a wide-ranging impact. However, the executive branch has only limited latitude; for far-reaching policy decisions Congress will still need to be involved. This will be especially crucial in 2009 if Congress is dominated by the Democratic Party, which is widely expected. Thus getting consensus between a Democratic Congress and either a Republican president or a Democratic president, which a Democratic Congress expects to follow its lead, will be important. Senator McCain is “an unabashed supporter of free trade agreements. [He stated] it would be interesting to have a free trade agreement between ourselves and the European Union,”<sup>11</sup> which would, in principle, be welcomed by Europeans. Yet, differences between the U.S. and Europe on genetically engineered food, cheese made from unpasteurized milk, and processing of poultry, as just some examples, might make the practical implementation difficult. In the larger picture, Germany and the United States are engaged in negotiations in the Doha Round and possibly further trade rounds to come. Agricultural policy has always been one of the major stumbling blocks for any past, existing, or new trade round. Europe and the United States have yet to come to an agreement on this issue and either candidate will have to address this challenge as president. It would certainly advance the negotiations if the United States and Europe could agree on a common position in these trade negotiations, especially vis-à-vis emerging markets like China and India, which are increasingly playing a larger economic role. The same holds true for international agreements on climate change.

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## Climate Change

Climate change and energy security have become some of the most important issues in the U.S. presidential campaign. With energy prices soaring and impacting everything from gasoline to food prices, U.S. households are beginning to see dramatic decreases in their real income and American voters are looking to the presidential candidates for solutions. Not only U.S. voters, but also European publics have pinned their hopes for

international policies addressing climate change on the next U.S. president.

### Germany

Germany is considered by many as the frontrunner in climate change policies and green technologies. Lacking natural

resources that could sustain its energy consumption, Germany has also become one of the leading countries in energy conservation and energy efficiency. But Germany is not free from problems. Alternative energies will not be sufficient to provide enough energy to Germany if the country continues to implement its decision to close all of its nuclear power plants. Clean coal power plants might be one option to generate energy without increasing emissions, but other analysts argue that Germany will have to revise its decision to end nuclear energy. Germany is also one of the leading voices in Europe and the world advocating for international climate agreements. The German public especially criticized the United States after its decision not to sign the Kyoto Protocol.

## United States

Under the current administration, the United States has not participated in any international environmental agreements and no federal environmental laws have been implemented. The inaction on the federal level, however, shows an incomplete picture. Dismayed by the federal stagnation, several states, notably on the U.S. east and west coasts, have introduced and implemented their own emission standards or arranged for regional cap-and-trade regimes. Concerned about facing fifty different emission and environmental standards and the resulting costs, businesses are beginning to lobby Washington to enact federally uniform standards. High gas prices have put further pressure on Congress to address energy security and climate change. The U.S. population has also begun to see climate policy as an important issue for the next president to address. A recent poll commissioned by the Presidential Climate Action Project (PCAP) indicated that “two-thirds of all U.S. adults (66%) believe it is important that the next president of the United States have a policy which addresses climate change.”<sup>12</sup>

## Transatlantic Cooperation on Climate Change in 2009

Europe—and especially Germany—have high expectations that the next U.S. president will revise the U.S. policy on climate change. Both presidential candidates consider climate change and the lowering of emissions one of their top priorities should they be elected. In a recent speech in Portland, Oregon, Senator McCain argued that alternative energies “will bring America closer to energy independence. [The U.S.] economy depends upon clean and affordable alternatives to fossil fuels, and so, in many ways does [U.S.] security.”<sup>13</sup> Senator McCain favors the free market to bring solutions—guided by a cap-and-trade system for carbon emissions. His plan aims for “at least a reduction of sixty percent below 1990 levels by the year 2050.”<sup>14</sup> Likewise, Senator Obama is also in favor of a cap-and-trade system but would like to reduce emissions by “80

percent below 1990 levels by 2050.”<sup>15</sup> The new U.S. president will also have to look for alternatives to fossil fuels. Senator McCain has argued for lifting restrictions of U.S. domestic oil drilling, which Senator Obama has rejected. Instead, Senator Obama argues for a reduction of oil consumption in the United States as well as alternative energy sources such as coal-to-liquid technology. Both presumed presidential candidates have also argued for increased nuclear power to generate energy. As Germany has implemented legislation to phase out nuclear energy, the U.S. and Germany might be heading on different paths in search for alternatives to fossil fuels.

As the presidential candidates have similar views on climate policies and emission targets, climate policy has not emerged as a contested issue between the U.S. presidential candidates. This is reflected by the PCAP poll which showed “when naming their preference for the candidate with the strongest climate change policy 19 percent believe it is Obama; 18% believe it is Clinton; 8% believe it is McCain, and 55% are uncertain.”<sup>16</sup> Additionally, climate policy is very complex and not suited to sound-bites for the media, thus being largely ignored by journalists whose questions directed to the candidates have only marginally covered climate change.

While changes in climate policies are highly likely under any new U.S. president, one cannot underestimate the role Congress will play. With the focus on economic problems, a fast passage of climate policy is not guaranteed. It is also likely that a new U.S. president will focus on domestic policies addressing climate change first. In a recent meeting at the Brookings Institution in Washington in May 2008, Senator Lamar Alexander stated, when asked about the prospects of the U.S. signing an international climate treaty in the coming year, that “the next president could sign a treaty, but first I think we have to get our house in order.” Several domestic policies should be implemented first to make it “easier for our president to consider negotiating and signing a world climate change treaty.”<sup>17</sup> Mr. David Sandalow, Senior Fellow at the Brookings Institution, agreed that “the next president of the United States should not enter into such an agreement unless [climate policy] legislation is passed. Under [the U.S.] system it’s very important that the Congress be [sic] full partners”<sup>18</sup> and already passed legislation can help with the implementation of an international agreement. Additionally, Mr. Sandalow argued, the transition period for the new administration would make it difficult, if not impossible, to draw up a framework for such a complicated and complex issue as climate policy before the

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2009 international deadline.<sup>19</sup> Furthermore, the U.S. has been out of the international negotiations for the past eight years, making the learning curve for a new administration a steep one.

Reintegrating a new U.S. administration into the international negotiations will be a challenge for both the U.S. and Europe. High expectations in Europe and around the world for a rapid change in U.S. climate policies with concrete laws and treaties being decided on by the end of 2009 will make this even harder. Europe will have to manage its expectations of the U.S. legislative process and understand that domestic laws might take precedence over a ground-breaking U.S. commitment to an international treaty. The U.S. can learn a lot from its European counterparts and especially Germany in climate policies. If the U.S. can learn from past European mistakes, for example in implementing a cap-and-trade system, and from European successes, such as feed-in legislation for renewable energy sources, U.S. policies can be implemented more quickly and efficiently. Additionally, technological changes are necessary to achieve any substantial emission reductions. German-American cooperation can be especially helpful in terms of technological cooperation and assessing strengths and weaknesses of different technologies to prevent global warming.

In the end, the U.S. and Europe will have to come to an agree-

## China

China is one of the fastest economically developing countries. This brings many opportunities but also many challenges. The West is confronted with a country which has adopted many capitalist economic methods, but which refuses to liberalize politically. Human rights abuses are rampant and neither the United States nor Germany have found a suitable way of pressing China on social change without alienating it economically. Additionally, China and other emerging markets will have to be engaged in an international solution to climate change as their emissions are increasing rapidly.

### Germany

As the controversy surrounding the recent visit of the Dalai Lama in Germany shows, Germany has an ambivalent relationship with China. With the quickly developing Chinese economy, China is, on the one hand, an interesting and lucrative partner for German business interests; German delegations visiting China always include business representatives. China is Germany's second largest export market (after the U.S.) since 2002; in 2006 German companies exported goods worth \$80 billion to China.<sup>21</sup> On the other hand, China's continued authoritarian regime, which is connected to many

ment on an international treaty. Thus, while understanding U.S. policymaking in Washington, "the EU might propose—again—a common US-European position on climate change. Without that unity we cannot expect China, India and others to come fully on board."<sup>20</sup> As the U.S. is debating its domestic legislation, an EU agreement on climate change and energy security would be an important step in addressing global warming quickly, preventing renewed debates in the EU internally. Germany, as one of the most progressive countries on this issue, should become one of the leading voices. By reminding the U.S. that climate change and energy dependence are essentially security threats—in a sense speaking their language—the U.S. will be much more receptive to European suggestions. As China's government is primarily interested in the internal stability and security of the regime, linking climate change with stability and security might also make them more receptive to sign an international climate policy framework. By linking climate policy to energy security, climate policies have a better chance of success and could become a hallmark of German-American cooperation under the new U.S. president.

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human rights abuses, prevents Germany from embracing China completely. Aside from the economic opportunities China presents, Germans and Europeans are concerned about the Chinese economy as a threat to their own well-being, a sentiment shared by Americans. The Transatlantic Trends Poll 2007, conducted by The German Marshall Fund of the United States, found that "54% of Americans and 48% of Europeans [see] China as more of an economic threat, compared to 36% of Americans and 35% of Europeans who saw China as more of an economic opportunity."<sup>22</sup> Germany sees the increased integration of China into the international system as an opportunity to cooperate further with this Asian power and to encourage China to become a responsible partner for Germany and the rest of the world.

### United States

The United States displays a similar uncertainty concerning China. But in addition to viewing it as a potential economic competitor, U.S. relations with Taiwan add a military component to Chinese-U.S. relations. The Transatlantic Trends survey found that "[m]ore Americans (50%) than Europeans (32%) viewed China as a military threat."<sup>23</sup> U.S. security guarantees

to Taiwan will ensure this military aspect of the relationship for some time to come—an aspect lacking in European-Chinese relations. In economic terms, the relationship has been skewed in past decades. By 2007, the United States trade deficit to China rose to \$250 billion. Additionally, China is the second largest holder of U.S. debt, leading to concerns of a Chinese economic hold over the U.S. economy and especially the dollar. Several recent health-related recalls involving consumer items imported from China have led the U.S. public and politicians to call for more transparency of Chinese production and safety standards. Regularly occurring reports of human rights abuses in China have also added to U.S. criticism of China. Yet, the U.S. has also sought Chinese cooperation, especially in negotiations with North Korea on its nuclear program and in pressing for tougher sanctions on Iran in the UN Security Council.

### Transatlantic Cooperation on China in 2009

The U.S. presidential candidates view China from a variety of angles that are economic, security, and climate policy related. Senators McCain and Obama have both criticized various aspects of the Chinese-U.S. relationship. Senator McCain emphasizes the military aspect of this relationship and argues that “the rise of potential strategic competitors like China and Russia mean[s] that America requires a larger and more capable military to protect our country’s vital interests and deter challenges to our security.”<sup>24</sup> However, he also states that “China and the United States are not destined to be adversaries. [Both countries] have numerous overlapping interests. U.S.-Chinese relations can benefit both countries and, in turn, the Asia-Pacific region and the world. But until China moves toward political liberalization, our relationship will be based on periodically shared interests rather than the bedrock of shared values.”<sup>25</sup> Senator McCain argues that China’s increased power “raises legitimate expectations that internationally China will behave as a responsible economic partner by developing a transparent code of conduct for its corporations, assuring the safety of its exports, adopting a market approach to currency valuation, pursuing sustainable environmental policies, and abandoning its go-it-alone approach to world energy supplies.”<sup>26</sup> Additionally, Senator McCain has proposed to exclude non-democracies from the G8, a move which analysts see directed against Russia, but which would exclude China as well.<sup>27</sup>

Senator Obama has criticized China for its one-sided economic policy and the devaluation of its currency, which keeps Chinese products artificially cheap. During the Democratic primaries, he as well as Senator Hillary Rodham Clinton—who has dropped out of the race—“have endorsed legislation that would make it easier for U.S. companies to seek higher import duties on Chinese products in compensa-

tion for its undervalued currency. They also call for greater scrutiny of sovereign-wealth funds, pools of government-controlled money that invest in companies.”<sup>28</sup> Senator Obama sees Chinese-U.S. relations pragmatically, arguing that the U.S. will “compete with China in some areas and cooperate in others.”<sup>29</sup> If past presidents are any indication, however, the question is whether the candidates will be able to follow through with their plans of confronting China. Both President Bill Clinton and President George W. Bush campaigned with tough rhetoric on China, yet once elected both promoted good Chinese-U.S. relations. However, if the American public continues to perceive China as the main culprit for job losses or dangerous products that harm U.S. consumers, a newly elected U.S. president might have to make good on campaign promises.

Germany, which sees engaging China as the best way to achieve Western goals on economic and environmental issues, would be wary of a more confrontational U.S. China policy, especially as environmental issues play a significant role in relations with China. Any international agreement on climate change will have to encompass emerging markets such as India and China in order to be successful. Additionally, European and American consumers will demand that their governments remain competitive with China and India—price increases due to environmental standards and cap-and-trade systems can only be implemented if borne by all consumers.

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Such discussions as the lifting of the arms embargo in Europe, which was vehemently opposed by the U.S., show continued need for Europe and the U.S. to align their China policies. Europe and the U.S. will be best served if they have the same agenda vis-à-vis China. Yet, a strong Taiwanese lobby in the U.S. will maintain the military aspect of the U.S.’ China policy, even as Europe and Germany continue to think of China more in economic terms. As European policy toward China is not yet uniform, Germany could play a leading role in unifying European policies.

# Conclusion

Climate change is one of the most urgent challenges faced by not only the new U.S. administration, but by Germany, Europe, the transatlantic partnership, and the world as a whole. The challenge cannot be viewed in a vacuum, but must be examined within the context of economic policies and world actors, such as China. In times of economic turmoil, both political elites and the public have a tendency to turn inward and focus on domestic policies. Many view protectionism as a solution, diminishing their willingness to participate in international agreements of any kind. Germany and the United States have too much to lose if protectionist, inward-looking mindsets prevail. Both countries depend on free trade, imports, and exports for their economic well-being. In order to strengthen economic prosperity, a transatlantic partnership on economic policy, a

discussion on globalization, and a mutual commitment to finding economically viable solutions to global problems is urgent. Only if societies are in agreement about the necessity of free trade and if the inevitable losers from globalization are adequately supported will protectionist tendencies weaken. Germany and the United States have a real chance at advancing policies against global warming if expectations for a swift policy change in the U.S. can be managed and if the U.S. is willing to learn from past European mistakes and successes. German-American cooperation is therefore of utmost importance to make any international agreement on climate change a success, as well as ensuring the necessary participation in any agreement by China and other rapidly developing countries.

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The next two years are critical for German-American relations. With the presidential election in the United States in 2008 and the German parliamentary election in 2009, the political landscapes, priorities in domestic and foreign policies, and political actors are about to change. Key issues of interest to both countries include the war on terrorism, the war in Iraq, how to deal with Iran and North Korea, the relationships with China and Russia, and environmental issues such as global warming. These issues will be examined and reevaluated by the new leaders, perhaps assigning them a different importance than they currently carry. Regardless of what the future agenda will be and on which key issues both sides will have to focus their attention and resources, it is imperative that the United States and Germany come to an understanding about these issues and their comparable or diverging interests related to them. The German-American relationship remains one of the most crucial partnerships to address the issues confronting the world—especially with Germany as one of the most important players in Europe. This AICGS project analyzes current and future issues on the German-American agenda and will make recommendations to the new American administration. This project aims not only at understanding the key issues before us, but also at examining how the German-American relationship can be used to solve these issues or where German and American interests and views might diverge and how a potential confrontation can be avoided.

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# Commerce, Climate Change, and China: German-American Challenges in 2009

*Building Knowledge, Insights, and Networks for German-American Relations.*

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