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RESILIENCE LESSONS FROM COVID-19 AND ITS IMPLICATIONS FOR GERMANY

Sophia Becker, Christian Mölling and Torben Schütz

- Germany is comparatively in a good financial position to cover additional expenses to fend of the worst economic effects of Covid-19. It will likely experience a renewed debate about its defence spending next year as political parties are preparing to sharpen their profiles ahead of the 2021 federal elections.
- Germany's EU Council Presidency in the second half of 2020 will be a difficult balancing act. In security and defence, finalizing an ambitious MFF, performing a critical review of ongoing PESCO projects and starting the process of formulating the strategic compass in a time of both a volatile security environment and limited funds provide ample topics for intense negotiations amongst the EU member states.
- Covid-19 is accelerating already present developments. This is true for the rift in the transatlantic alliance as well. Germany and Europe / EU, need to find a counter-vailing strategy under exacerbating economic and political circumstances.

INTRODUCTION

The Covid-19 pandemic hit Germany as unexpected as most other countries. Despite the fact that the latest German security strategy from 2016, the so-called White Paper, identifies pandemics as one of the top nine challenges to national security, Germany was not prepared to react quickly to the delayed, but somewhat still "early", warning from China. The situation was and still is a test for societal, economic and defence resilience. Only with time will we be able to tell if and how well this test was passed.

Despite the urgency of the pandemic, the topic of defence remains front and centre in the German national debate. During the pandemic, Germany has witnessed several fundamental debates on defence related issues, such as the [Tornado replacement](#) and the [future of nuclear deterrence](#) from

German soil. This serves as an indication that other topics than Covid-19 can attract public attention this year or that the vulnerability exposed by the pandemic reminds everyone of the importance to prepare for threats with allies you can count on.

While it is too early to draw definitive conclusions about the impact of the Covid-19 pandemic on German defence policy, this paper analyses the impact the public health crisis has had thus far. First it looks at the impact of Covid-19 on German defence spending. It concludes that even though the repercussions remain limited so far, things will likely change in the future. The economic fallout of the crisis will be reflected in national budgets and the public's appetite for defence spending will wane as the Federal elections come closer in 2021. Second, a look at the transatlantic relationship reveals that Germany has seen its relationship with the United States come under significant stress in the last couple of months, exemplified by President Trump's decision to withdraw 9500 troops from German soil. Third, the Covid-19 pandemic will also shape the German EU Presidency. Despite the immediate need for European crisis management, Germany can seize the moment in order to assure that other important issues, such as the strengthening of European defence and thus the European pillar in NATO, do not fall victim to short term crisis considerations.

COVID-19 IMPACT ON GERMAN DEFENCE SPENDING

While the defence budget has seen an unparalleled growth in absolute numbers in recent years, German defence spending remained more or less flat between 2014 and 2018 – measured as percentage of GDP – [hovering between 1.18% and 1.24%](#). This is primarily due to a comparatively stable growth period for the German economy



as a whole during that timeframe. Only in 2019 did a comparatively large increase in the defence expenditure move the needle to 1.38% of Germany's GDP. More importantly, 2019 also marked the date at which Germany presented its NATO allies with a plan to reach the 2% goal – [in 2030 and not 2024](#), as originally envisioned in Wales. Reaching 1.5% in 2024 was seen as a first milestone. It is against this background of a conflicted relation between Germany and NATO's 2% spending pledge that Covid-19 hit the German economy.

So far, the effect of Covid-19 and the ensuing economic crisis on future German defence spending is unknown. The next parliamentary budgetary consultations for the federal budget of 2021 as well as the mid-term budgetary planning to 2025 are only due in October and November 2020. However, Germany will certainly get closer to NATO's 2% pledge in 2020 itself. Its defence budget (the so-called *Einzelplan 14*) for 2020 is about [45 billion EUR](#). With the additional spending that is included in NATO's accounting methodology, German defence expenditure is estimated to reach [50.4 billion EUR in 2020, which puts its defence spending as a percentage of its GDP at 1.58% for 2020](#). However, this will likely remain a "peak", which is caused by the delay between changing GDP estimates for the shrinking economy and the slower budgetary planning for defence spending. Depending on economic recovery and assuming that defence spending will not increase further, the percentage of defence spending on GDP can be expected to shrink again in the following years.

Moreover, Germany is unlikely to meet the second NATO goal of directing 20% of its defence spending to investment purposes – research & development and procurement. Even before the Covid-19 crisis, [the investive share of the defence budget was considered underfunded by observers](#). Given that other spending areas such as personnel are more difficult to cut if austerity measures were to be forced upon the budget, it is reasonable to assume that the share of investments would further shrink in the coming years.

Current estimates assume that the overall [federal tax revenues will be about 300 billion EUR lower than calculated before the crisis out to 2024](#). Even for Germany, which lowered its federal debt to about 60% of its GDP in recent years, [ongoing efforts to fend off a deeper recession will significantly raise its debt level](#). Recent estimates see an increase in the debt level of about 15% if there is no second Covid-19 wave, and an increase of nearly 25% if there is a second wave. These estimates do not include the latest economy stimulus package introduced by the government in early June. Consequently, a new debate about state spending and austerity measures might ensue, complicating retention of current defence spending levels.

Lastly, federal elections in Germany in 2021 might invigorate societal and political debate about defence spending. Even within the recent German debate about its role in NATO's nuclear sharing arrangement, [commentators argued that money for defence purposes was better spent buying ventilators](#). If this debate is a symptom rather than an outlier, then the beginning of the election campaigns in the fall of 2020 will likely see a renewed debate about defence spending as well. Some politicians, even amongst those belonging to the governing coalition, [are already laying the axe to large procurement projects](#). This even in vital capability areas like air defence and heavy transport helicopters. Moreover, as the shock of the Ukraine-crisis slowly wears off, [public support for higher defence spending shrinks in the German public](#).

IMPACT ON THE TRANSATLANTIC RELATIONSHIP

The looming cuts to the defence budget come at the time when the European security environment is getting more complicated. The last couple of weeks have shown that the transatlantic partnership in particular is under intense pressure, making potential losses in the European defence posture even more detrimental.

Like in many other areas, the Covid-19



pandemic is laying bare issues and exacerbating problems that have been brewing under the surface for a while. The transatlantic relationship is no exception. The US handling of the crisis has been distinctly inward focused. Staying true to his “America First” policy, President Trump has turned away from a global leadership role and is not shy to snub European allies in the process. The pandemic has the potential of adding financial pressure to the already strained relationship, with tightening defence budgets pushing the US to retreat further from Europe. The result is that the US is becoming somewhat of a wildcard in international affairs and Germany, along with the rest of NATO Europe, will have to be prepared.

The pandemic has hit the United States hard. Not just as a health crisis, but also in economic terms. The financial fallout of the pandemic is already enormous. This will almost certainly have an effect on US defence spending and American defence posture. The pandemic has already [led critics to ask](#) why the US is able to afford fighter jets for roughly \$90 million a piece, but doesn't have enough Personal Protective Equipment for its frontline workers or to buy ventilators for the country's Intensive Care Units (ICU). As a result, a bipartisan consensus is forming that upholds that the [country has the wrong priorities when it comes to “national security”](#). More resources need to be dedicated to global health threats rather than fighting “forever wars.” Even if the US defence spending should remain steady at 3.2% of GDP, the economic downturn could [lead to budget losses for the Pentagon between \\$350-600 million](#) over the next ten years.

Faced with the hard economic realities, the US might see itself forced to speed up the retrenchment of its global posture. The US may focus on China as the single most important threat, leaving the defence of the European continent and deterrence of Russia largely up to European allies. What this could mean for Germany and Europe was illustrated at the beginning of June when the Wall Street Journal broke the news that

Donald Trump had signed a plan to [withdraw 9500 troops from German soil](#) by September 2020. Such a withdrawal would shrink the US military presence in Germany by almost a third. While the move does not seem to have been part of a strategic plan, but rather a sullen response to Chancellor Merkel's refusal to attend the G7 meeting, the signal and result remain the same: The United States seems more willing to withdraw from its commitment to Europe's security after minor diplomatic friction.

While the rhetoric may be less confrontational, even a Democratic President will be subject to the economic pressures on US defence policy. Reports say that [DoD is already strapped for cash](#) and a reprioritization of defence spending could well become an election topic over the summer. As such, Germany and its European partners find themselves in a situation where economic pressure will make it harder to maintain and increase the progress that has been made in building up the European defence posture. At the same time, as the US is shedding its global responsibilities, a stronger, independent European defence is more necessary than ever.

IMPACT ON GERMANY'S EU PRESIDENCY

On July 1st 2020, Germany will take over the EU Council Presidency for six months. For the first time in 13 years, Germany can use the position's agenda setting powers to further develop specific policy areas according to its aims. However, pre-planning of the Presidency was thrown off the rails by Covid-19.

In reaction to the pandemic and its grave impact on Europe, [Germany declared its Presidency to be a “Corona-Presidency”](#). All original focus areas now have sections devoted to Covid-19 and how Europe can and should react to the crisis.

Thus, Germany faces a twofold challenge. First, it has to further support and in some respect lead the European response to the crisis. Second, it also has to make sure that certain topics and decisions that faded into



the background over the past months are addressed properly to ensure procedural continuation. Among the latter, the final agreement on the next Multiannual Financial Framework (2021-2027) is important to determine the funds available for European defence initiatives and the signalling to the US and non-European adversaries linked to this number. Beyond content-related challenges, [negotiations are expected to become more difficult if conducted in a digital environment. This will limit the frequency and scale of consensus-building opportunities during the presidency.](#)

Germany aims to further strengthen the Common Security and Defence Policy (CSDP) and the EU's role as an actor in international crisis management. To realize this advancement, five broad areas of security and defence shall be addressed in more detail during the presidency. First, the start of the so-called "strategic compass". This is an operationalization of the [European Union Global Strategy](#), and a process that will be finalized under the French presidency in 2022. Second, further improvement of EU-NATO cooperation. Third, the advancement of the ongoing European defence initiatives – [CARD](#), [PESCO](#) and the [European Defence Fund](#) (EDF). Fourth, the further development of [Military Planning and Conduct Capability](#) (MPCC) as a core element of the EU command structures. Lastly, and in line with the overall presidency priority of promoting digitalization, Germany aims to introduce impulses for the creation of a uniform digital and cyber competence.

Of these five foci, the strategic compass will hopefully serve as an unifying instrument for European threat perception and capability benchmark (level of ambition), as well as the further development of the defence initiatives stand out. In the latter one, the Strategic Review of ongoing PESCO projects and a decision regarding third-party participation in PESCO-projects are most important to move the instrument forward. Moreover, reviewing PESCO projects will determine their financial claims to the EDP, thus giving an indication of the appropriateness of the funds allocated to

the EDF.

Based on the [joint statement by the ministers of defence of Germany, France, Spain and Italy](#) from May 2020, at least the other large European states largely agree with this agenda. That is not to say that contentious issues do not remain. The smaller member states remain concerned with the lopsided advantages of EDF to the defence industries and thus economies of larger states (especially the [six "Letter of Intent" states](#)). These concerns also include the currently "exclusiveness" of France-German armament projects. Moreover, strengthening European command and control structures will inevitably be met with scepticisms as to how this is duplication with NATO's command and control (C2) structures and whether the strain on qualified personnel is advisable. Lastly, if PESCO projects are discontinued due to a lack of visible outcomes, this might further add to political conflicts between the member states.

CONCLUSION

Three months after the start of lockdowns in Germany, the country is easing into a semblance of normalcy. While it is far too early to accurately assess the medium- and long-term impacts of the crisis, we can draw up some hypotheses on how resilient the country's defence posture will be.

When it comes to defence budgets, we have reason to believe that things will remain quite stable in the next two years. The defence budget for 2020 is fixed and it is unlikely that we will see major cuts in the next budget cycle. The country is still trying to jumpstart the economy with stimulus packages, including on defence acquisitions. However, the picture gets blurrier in the mid-term planning if stimuli money runs dry while the economy has not properly recovered. Moreover, it is important to keep in mind that Germany is moving into an election year in 2021 and a number of fundamental defence policy debates are likely to hit the agenda. Among them is the question concerning the costly replacement



of Germany's Tornado fleet and the German role in NATO's nuclear sharing agreement. If this is a sign of things to come, debates around military spending vs investments in the health sector will likely shape future debates around Germany's defence budget.

Regarding the transatlantic relationship, Covid-19 has not fundamentally changed anything, but it has reinforced damages done to the relationship long before the pandemic hit. The strength of the transatlantic alliance is less dependent on Covid-19 than on the upcoming US-election in November. If President Trump is re-elected, the Alliance will certainly suffer. Some commentators in the US (e.g. [here](#) and [here](#)) even [fear that Trump might leave NATO](#) in a second term. In contrast, Joe Biden would certainly try to mend the relationships with European partners. Though it might take some time for Europeans to regain their trust, the positive example of the Obama Administration proves how much a President can influence relations with European allies.

An EU Presidency is always an opportunity to push a member state's European agenda. Even though the plans for the Presidency were thrown into turmoil due to the pandemic, Germany is holding on to the overall structure for the next six months at the helm of the EU Council. However, the health sector is going to take centre stage in the second half of 2020. [Germany wants to increase the resilience of the European pharmaceutical industry and reduce dependencies on international suppliers in the health sector for example.](#) In security and defence, most pre-Covid goals, especially those related to advance European cooperation, will be pursued as they are relevant for long-term capability development. They might become even more important [if less national money was to be available for defence in the coming years.](#)

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