Newpolitik

German Policy. Translated.

BertelsmannFoundation

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The Bertelsmann Foundation is an independent, nonpartisan and nonprofit think tank in Washington with a trans-Atlantic perspective on global challenges. We engage policymakers and thought leaders through innovative projects, research and debate to shape practical recommendations and policy solutions for pressing political, economic and social issues.

Introduction

Germany has long had a powerful voice in the European Union because of its deep commitment to European integration, its size and, more recently, its economic clout. The Federal Republic's influence has always been balanced by the strength of other European nations, namely the United Kingdom and France. In recent years, however, other EU member states have criticized Germany for exerting too much power. Chancellor Angela Merkel's decision to welcome over one million refugees strained Germany's relationships with its neighbors and also polarized domestic public opinion. Right-wing movements gained momentum and internal party divisions created a complicated political landscape for leaders to navigate.

With a British exit from the EU on the horizon, it seems likely that Germany will end up in an even more precarious position in years to come—compelled to lead an increasingly fragmented union and take on more power than many in Europe would prefer. Even many Germans feel uncomfortable in this role, especially when it comes to security policy. Germany now stands at a crossroads as it attempts to address both European and global challenges, while balancing domestic and international expectations for its leadership.

Policymakers in Washington and across the European Union need to better understand the rationale behind Berlin's policy decisions as Germany assumes the mantle of global leadership. Newpolitik is a guidebook for anyone seeking insight on Germany's important and changing role in the European Union and the world. The chapters in this compendium explore not only the decisions being made in Germany, but also how and why those decisions are made.

Each author offers expertise on a specific element of German policy, from economics to relations with China. The authors provide in-depth analysis of the current landscape and answer three central questions for each policy issue:

- How is policy made in Berlin?
- How is Germany carving out its place in Europe and the world?
- What role will Germany play in the future on this topic?

Germany has evolved significantly in recent years, and its allies and competitors alike must work to understand this evolution as it takes on a greater role on the global stage. We hope that this guide helps stakeholders in Washington, Brussels and around the world to more effectively work with the Federal Republic and its leaders as Germany embarks on a new era of greater global responsibility and engagement.

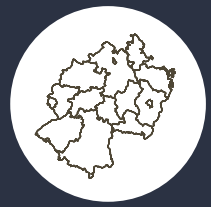
How Does the German Government Work?

Voters
Elect representatives

Elect

State Parliaments
Legislative bodies for each of Germany's 16 states

Forms



State Governments
A cabinet of state ministers and minister president for each of the 16 states

Elect

Bundestag
Federal Parliament – main legislative body

Sends Delegates

Send Delegates

Send Delegates

Elects

Federal Assembly
Convenes delegates from state and federal parliaments to elect president

Elects

President
Official head of state

Proposes

Appoints

Bundesrat
Federal Council – voice of the states in Berlin

Elects

Elects Judges

Bundestag Elects Judges

Chancellor
Effective leader of state - sets policy guidelines

Proposes

Federal Government
Cabinet – including federal ministers and chancellor

Federal Constitutional Court
Highest court

How are Laws Created in Germany?

Federal Government

Bundesrat
Federal Council
(representing states)

Bundestag
Federal Parliament

Proposes Law

Bundesrat

Has the opportunity to state opinion (statement) on the proposed law

Statement

Bundestag

Discusses and changes bill, then votes on it

Accepts

Rejects

No law

Bundesrat

Rejects

Accepts

Law is signed and issued

Call for mediation

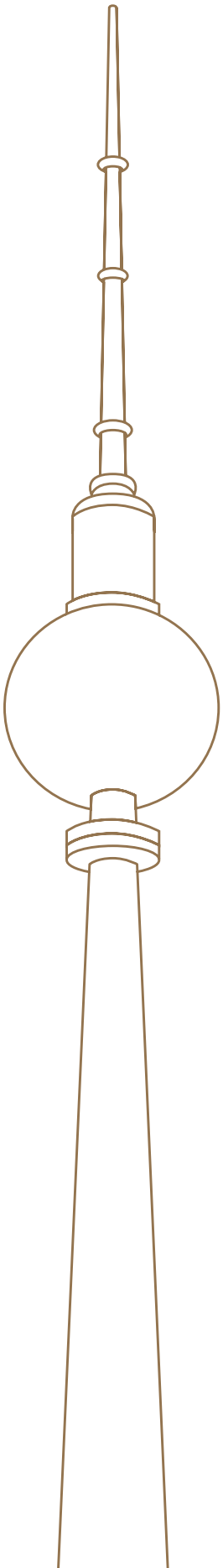
No compromise reached

Mediation Council

Compromise reached and bill is sent back to Bundestag to reconsider

The Federal Government, Bundesrat and Bundestag can all propose laws, although the majority come from the Federal Government

16 representatives from the Bundestag and 16 from the Bundesrat work together to find a compromise



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Europe's Reluctant Leader

Isabell Hoffmann

An Evolving Union

When U.S. President Barack Obama visited Europe early in 2016, he voiced concern about two central issues: recent political and economic strife in Europe and Germany's duty to take on a more active leadership role in these turbulent times. The political landscape in and around Europe has changed significantly over the past decade, leading to a realignment in the balance of power between the European institutions and the member states on the one hand, and among the individual member states on the other. In the process, Germany has become the central player in the European Union, even more so with the British vote in June 2016 to leave the EU. This evolving role comes with the potential for conflicts, misunderstandings and mishaps. Germany is now at a crossroads as it navigates its newfound position as a leader in Europe.

Hostages to History

Although Germany's role in World War II is widely seen as the defining moment of German and European history, the complications of its position in Europe predate that conflict by centuries. In the 16th century, Germany—or, more accurately, the collection of small German-speaking states in central Europe—attracted the attention of its neighbors because of its central geographical position, economic strength and high population density. Historian Brendan Simms has described "the paradox of German power and powerlessness in Europe." Germany, according to Simms, was seen as "too important to be left solely to the Germans."[1] Thus, Europeans occupied themselves for centuries with the question of "how to order the European centre in such a way that it was robust enough to master domestic and external challenges without at the same time developing hegemonic tendencies." German strength was not the only threat in this context; a weak Germany would translate quickly into instability for the continent. So European states shared an interest in keeping Germany a stable, but not overpowering, center for Europe.

In the first half of the 20th century, two world wars added another layer of complexity to the "German question." Germany's unbridled aggression and perpetration of genocide left deep scars across Europe and the world. Furthermore, it created an identity crisis at home as Germans slowly came to terms with the atrocities that their country had committed. Not only did its neighbors fear a strong Germany, but Germany itself had lost its appetite for power and feared its own strength.

As a result of this shift, Germany's foreign policy changed tack. Political scientist Hans Kundnani explains that Germany shifted its focus to "international integration in multilateralist institutions—in particular NATO and what became the European Union."[2] The Federal Republic prioritized setting international norms over pursuing its own interests abroad.

Leadership versus Responsibility

In large part because of this long history, Germany has not actively sought out its new leadership role and indeed has been reluctant to accept it. Germany's responsibility for the future of the European Union is often talked about on official occasions and at public gatherings, but political prudence and the general code of conduct preclude overt discussions of Germany's interests or power. Expressions such as

"hegemon" or "leading power" are studiously rejected, despite any friendly adjective one might be tempted to attach to them. However, in private conversations one notices that the new state of affairs is starting to change the way that Germans think about their role in the European Union and the world. Political elites in Berlin may be wary of certain labels, but in the rest of Europe people are less reserved when it comes to talking about Germany's leadership role. Often Germany's neighbors are critical of the Federal Republic and its strategy for taking on new responsibilities.

Germany's evolution can best be explained as having three distinct phases: first, a phase of "reluctant leadership" between 2009 and 2013, followed by "confident leadership" between 2014 and 2015, and finally "lonely leadership" from 2015 to the present. Each of these phases began with an external shock and emerged as Germany developed its response.

When the Global Economy Gives You Lemons…

The global financial crisis set in motion dramatic changes in Europe. It began with the collapse of the American real estate market, and continued with convulsions of the banking system in the United States and around the world.

This crisis in the private sector soon created serious problems for public budgets. The strain was more than some EU member states could take, which could have led to their collapse and insolvency if the eurozone states had not acted together. They implemented a rescue policy against an extremely complex economic, political and legal backdrop.

There was no clear consensus in Europe about the root causes of or solution to the crisis. Furthermore, existing European treaties ruled out mutual financial assistance. The so-called "no-bailout clause" was considered one of the central pillars of the eurozone. Indeed, it was deemed to be one of the basic conditions under which the federal government was able to agree to the creation of a common currency. However, in the face of crisis, the German government was expected to throw this basic rule overboard in order to save the eurozone.

The government of Chancellor Angela Merkel deliberated for nearly a year before it committed itself wholeheartedly to saving the euro. At the time, many thought that this commitment was too little, too late, a criticism that has often been applied to German politics ever since. However, many other countries were also waiting to see what would happen and tried to stabilize the situation with a series of modest policy interventions. Germany's economic and financial clout meant that it had to give its approval to any step forward, and many felt that its early ambivalence was counterproductive.

However, when the federal government finally and reluctantly reached its decision on how to resolve the crisis, there was an immediate outcry. Germany's strategy centered on legal and systemic approaches to crisis management, which proponents of an economics-based solution considered to be flawed. Those advocates believed, instead, that crises should be addressed by stimulating the economies of the affected states, which would require significant financial resources. However, the German government believed that such a strategy would not address the root of the problem. It argued that the fundamental problem was wanton deficit spending by governments. If this was not resolved, no sum of money would lead to any appreciable improvement over the status quo.

Germany's Role in the Greek Bailout

In 2010, Germany led the way in establishing a bailout program, which provided Greece with a 110 billion euro loan on the condition that it implement certain austerity measures. As a result of continuing economic shakiness, Germany, along with the majority of other EU countries, passed two subsequent bailout packages. Not only has Germany politically led the bailout effort to aid Greece, it is also the largest creditor, contributing 57.23 billion euros in the form of loans.

Despite opposition from some quarters, Germany was not alone in its approach to crisis resolution. For example, the Netherlands, Finland and Austria agreed with the German strategy that emphasized cutting costs and reforming state structures. These states saw little need for financial stimulus to foster economic growth, particularly when compared with the deficit spending defended by many economists. Some critics argue that such a stimulus translates to "buying your way out of the crisis." Those countries that did not share the German austerity approach, especially France and Italy, were only gradually able to influence the course of events. Germany's dominant role has led to a great deal of frustration and strife in Europe.

Taming the Russian Bear

On the heels of the euro crisis, another external shock drew attention away from the financial meltdown. The Ukrainian crisis began in 2013 with then-President Viktor Yanukovych suddenly refusing to sign a trade agreement between the European Union and a politically divided Ukraine. In Kiev, this led to protesters occupying the capital city's central Maidan Square. Protests intensified and sometimes led to bloodshed and death. Ukraine slid into a conflict between those advocating pro-Western policies and those favoring closer ties with Russia.

From the beginning, the Russian government played an active role in the escalation. This involvement began with Russian opposition to the EU-Ukraine trade agreement, and culminated with the annexation of Crimea and the military destabilization of eastern Ukraine. Years of European-Ukrainian and Russo-European rapprochement went up in smoke. Europe reeled from the violence as it grappled with the appropriate response to counter Russian President Vladimir Putin's threats and aggression. Above all, the situation revived fears of a revanchist Russia among the EU's eastern member states.

Germany's Response to the Ukraine Crisis

From the beginning, the German government has condemned Russia's actions in Ukraine. While Merkel has remained in contact with Putin, attempting to convince him to leave Ukraine, she has also driven EU economic sanctions, which were first imposed in 2014. Further, Germany initiated talks between Ukraine and Russia in 2014, which culminated in the Geneva deal. Germany also played a key role in the Minsk Agreements in 2014 and 2015.

In recent years, Germans sought to forge closer economic ties with Russia. They quickly found themselves at the forefront of a crisis management effort as the Russo-European relationship deteriorated. For the political class in Berlin, this crisis was also a kind of internal stress test. Many in both the public and private sectors had worked for years to establish good relations with Russia's political and business communities, but they were forced to accept that these improved relations might not be permanent. They had not anticipated Putin's aggression, and they were powerless to stop him. However, it was precisely the combination of European policy know-how and competence in the area of the Eastern Partnership that enabled Berlin to manage this crisis effectively. In the face of Russian aggression, Germany entered a phase of confident leadership in the European Union.

Two elements of the European response to Russian aggression were of central importance: the joint presence of Germany and France at all negotiations and the decision to counter Russian military might with the power of the European internal market. In order for the approach to work, all of the 28 member states of the European Union had to be persuaded to adopt the sanctions strategy. Although some found the commitment difficult, all 28 states ultimately agreed to the sanctions. Russian aggression continues to be a largely abstract problem for some southern member states, especially those with weak economies. These states argue that they should not have to accept the losses from the battered Russian market. Rome has been particularly critical of the sanctions policy. Italy experienced losses in the agricultural exports sector as a result of the sanctions, which have been felt deeply given the current struggles of the Italian economy. Nevertheless, the European Union as a whole remains committed to its policy on Russia, and the EU has maintained unity despite internal disagreements and ongoing attempts by Moscow to create discord among the European member countries.

A Crisis of Conscience and Capacity

However, widespread support for Germany over its handling of the Ukraine crisis was short-lived. The German government experienced its loneliest moments when Europe faced its next shock. Refugees, and migrants more generally, are not a new phenomenon in Europe. For years, Italy has been the front line of these migration flows, receiving thousands of refugees per year from Africa and the Middle East.

Germany's Response to the Refugee Crisis

The German government has led the way during the refugee crisis by adopting and maintaining an open-door policy. While this has proved publicly unpopular, Chancellor Merkel has remained steadfast in her commitment, allowing more than 1 million refugees into the country. In order to handle the influx, the German government has worked toward speeding up the refugee approval and rejection process, as well as increasing overall immigration capacity. Merkel also spearheaded the EU deal with Turkey in March 2016.

However, as discussed in the migration chapter of *Newpolitik*, the flow of refugees reached an unprecedented level in 2015. After an intermediate stop in Turkey, hundreds of thousands of people seeking refuge made their way via Greece to other destinations in Europe. Most hoped to reach Sweden, Denmark, Germany or Austria. As some states turned their backs, closing their borders and failing to provide basic necessities to the refugees, Merkel reacted swiftly and decided to keep Germany's borders open. For Syrian refugees, Germany also suspended the Dublin Regulation, which stipulates that asylum claims must be processed in the first EU state in which

a person enters. With its open borders and relatively welcoming policy, the Federal Republic may have raised the hopes of many other desperate people who fled from Afghanistan, Iraq and Syria. Other migrants joined the refugees, some from the Balkans and others from Africa and parts of the Middle East, seeking to escape bleak economic and political prospects in their home countries.

Some states with large inflows of refugees, like Germany, quickly reached their systemic and logistical capacity. German policymakers and officials faced a situation for which they were simply not prepared. More than 1 million people arrived within a year, and administrative processes were too slow to adjust to the increased migration flows.

While Merkel has called for a common European solution, many EU member states did not want to take on any of the shared responsibility. Some states were still recovering from the economic crisis. Some were up against strong right-wing populist parties. Others preferred to set their own refugee policies. These reactions were also due in part to resentment that had accumulated during the euro crisis, when Germany had taken on a similarly prominent (albeit reluctant) leadership role.

Due to pushback from some EU member states, the German government failed in its first attempt to find a common European solution to the refugee crisis. This was not a failure of the European institutions—that is, the European Commission and the European Parliament—but rather due to opposition from individual member states, which clearly rejected Germany's primary goal of sharing the burden. Few member states wanted to accept distributional quotas for refugees.

Berlin then attempted to forge a coalition of the most affected countries, including both destination and transit countries. However, in the meantime the political pressure had reached a point where many countries began to develop an "every man for himself" attitude, closing borders and imposing harsh new asylum policies. The Schengen Area, one of the pillars of the European Union, was in danger of collapsing, much like the eurozone a few years earlier. It was at this same point that political pressure in Germany increased as Merkel decided, in a moment of high political drama, to act in accordance with humanitarian policy and keep Germany's borders open.

The popularity of the chancellor, who for many years had seemed unassailable, began to wane, even within her own party. The Christian Social Union (CSU), the sister party of Merkel's Christian Democratic Union (CDU), repeatedly attacked her and her migration policy. European neighbors also criticized Merkel's approach. Hungarian Prime Minister Viktor Orbán has accused her of "moral imperialism."[3] Many have argued that her welcoming approach exacerbated the situation by encouraging more refugees, as well as economic migrants, to come to Europe.

The popularity of the chancellor, who for many years had seemed unassailable, began to wane

Because other EU states were opposed to burden-sharing within the European Union, the federal government turned its attention to slowing migration flows along the Aegean route between Turkey and Greece. Although the plan that finally emerged was framed as European and given the go-ahead by the EU, it was a fundamentally German project, formulated in the Office of the Federal Chancellor and negotiated by Merkel herself. The deal rests on two pillars. The first is an international agreement with Turkey, promising far-reaching financial assistance to support the millions of refugees living in that country. The agreement also enshrines the so-called "one-in, one-out" principle, meaning that people who enter Greece without a visa will be sent back to Turkey, and that for every returnee, one refugee in Turkey will be permitted to enter the EU legally. The second pillar involves far-reaching improvements on an intra-European level, beginning within the Schengen zone, in migration and asylum policy and the internal security architecture. The EU still has a long way to go, but the first effects of these measures are already visible. In the months following the agreement, the number of new arrivals declined rapidly from the same period in 2015, thus averting the collapse of the Schengen Area for the time being.

The Merkel government managed to do what few observers would have thought possible a few months earlier: develop and pursue an effective pan-European path to solving the refugee crisis. Although Germany has achieved results, this was the federal government's loneliest hour in its history as a member of the European Union. It faced displeasure, mistrust and fear from across Europe. Some corners even felt quiet satisfaction about the difficulties faced by oversized Germany, a country that in other recent crises had been so impressively self-confident. Berlin quickly became the "lonely leader."

Striking a Strategic Balance

Berlin will continue to play a central role in European politics, and this role will become even more pronounced with Britain's exit from the EU. Although the United Kingdom has played little or no part in the management of various European crises in recent years, its exit will disturb the current balance of power in the EU. This inevitable increase in German visibility is frightening to Berlin, perhaps rightly so given Europe's longstanding discomfort with "the German question."

The European Union is a legal community based on finely balanced common institutions. In one of these institutions, namely the European Council, the representatives of the member states—at least in theory—make decisions on the basis of equality. The qualifier is necessary: Although (or perhaps precisely because) member states have a right to veto on many issues, over the years a system of consensus, compromise and inclusion has developed. This gives all the members the opportunity to see themselves as part of a common process, even if a few member states have more influence than others in de facto terms. For many years, Germany was considered a master of navigating this system, creating balance and reconciliation through restraint. With regard to both the process and the results, Germany has been most successful when it has combined its own strengths with an inward-looking approach to integration with the EU. Berlin should continue to follow this path in the years ahead.

Germany should share credit for its successes, especially with the European institutions

German political elites are acutely aware of the power they wield. They have tested their strength in the face of German, European and global challenges and discovered that they are capable of effecting real change. However, leaders must not abandon their traditional approach entirely. Power and the ability to compromise should be combined, which means going back to a stronger and more systematic approach to building coalitions.

The Franco-German partnership is a classic example of such an alliance. For many years, it might have been best described by the saying, "The reports of my death have been greatly exaggerated." The periodic cries of doom and destruction and the valedictory utterances are an enduring part of this friendship. And so are the regular attempts by both countries to find other friendships, options and room to maneuver. But none has hitherto proved to be as stable, reliable and fruitful as the Franco-German friendship. It will also be indispensable in order to hold the European Union together through the British exit and beyond, and to ensure long-term stability and peace.

However, a strong partnership with France will not be sufficient. There are many other members of the European Union that also share interests with the Federal Republic. Almut Möller and Joseph Janning of the European Council on Foreign Relations named a few of these partners, including the Netherlands, Scandinavian states, the Benelux countries and Austria, in their paper entitled "Leading from the center: Germany's new role in Europe."[4] Enlisting these countries' support in a more resolute and systematic manner—and at earlier stages—to develop solutions will yield positive results for Germany. A number of other EU member states are now trying to improve their bilateral relations with Berlin, and Germany should try to foster these relationships as well.

Germany has a good chance of improving its reputation in Europe and relationships with its neighbors. According to a 2015 Bertelsmann Stiftung Eupinions survey, 55 percent of Europeans found German leadership to be "good," while 45 percent found it to be "bad."[5] These numbers suggest that Germany still stands at a crossroads in Europe, and also that it has a chance to improve its relationships with its neighbors.

Finally, Berlin should resist the temptation to accept praise for what it has achieved. If its leadership style is integrational and invisible, it will become far more effective on the European level. Germany should share credit for its successes, especially with the European institutions. In recent years, Berlin has repeatedly criticized the European Commission. However, in the context of the German "invisibility strategy," it would be prudent to treat European institutions with more respect.

The concept of an integrational leadership style was outlined by German Defense Minister Ursula von der Leyen in a speech given to the Munich Security Conference in 2015. She described this approach as "leading from the center," and emphasized the significance of a common European approach of inclusion, cooperation and burden-sharing. At the same time, she rejected the idea of a leadership style based on the American type of situation-dependent coalition building. This analysis can also be applied beyond security policy to European policymaking in its entirety.

However, this is no easy task. External shocks can impact the EU suddenly and unexpectedly. The nature and the structure of the crises vary significantly—just like the instruments needed to resolve them. The internal political structure of the Federal Republic is parliamentary and federal, and does not have a strong executive bias. The German federal government requires robust internal support in order to be effective.

In keeping with its new role, it must now try to achieve a greater degree of European coordination. It does not have a great deal of time, and resources are limited. This is a test of Germany's willingness to embrace and evolve into its new role.

Furthermore, Germany's EU policy is part of a larger picture, and Germany also faces growing demands in foreign and security affairs. For many years, Germany's international partners have urged it to play a greater role on the global stage. German policymakers must balance their allies' expectations with the views of the electorate, which generally disapproves of military engagement. This criticism will not disappear overnight. However, as Daniel Keohane observed, leading figures, including the federal president, the foreign minister and the minister of defense, have been trying to prepare the general public for the challenges that lie ahead.[6] These efforts may slowly change public perception at home about Germany's prominent position in the world.

Henry Kissinger once argued that Germany was "too big for Europe, but too small for the world."[7] In the end, Berlin has no choice if it wants to solve this dilemma. It must now try to use its strengths to support the European Union in order to enable Europe to effectively address European and global challenges.

ABOUT THE AUTHOR

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Germany's Response to the Refugee Situation: Remarkable Leadership or Fait Accompli?

Matthias M. Mayer

Introduction

With the Islamic State group terrorizing large parts of Iraq and Syria, the Syrian civil war raging with no end in sight, and the situation for refugees deteriorating in Jordan and Lebanon, more and more people in the Middle East have decided to flee to the European Union in an attempt to claim asylum. The arrival of asylum seekers has tested member states' ability to respond to crises with a united front, a test that they have failed. As a result of the EU's inability to collectively address the new arrivals, states started unilaterally closing their borders. Even Sweden, which had initially taken in more refugees per capita than any other state, introduced restrictions to its asylum policy and sealed its frontiers. Eventually, Germany was the only state left in the 28-member bloc that kept its borders open. German Chancellor Angela Merkel and her government had maintained this position despite fierce criticism from EU neighbors, German politicians and the German people. Why has Germany bucked the European trend, maintaining its open borders and welcoming approach toward refugees?

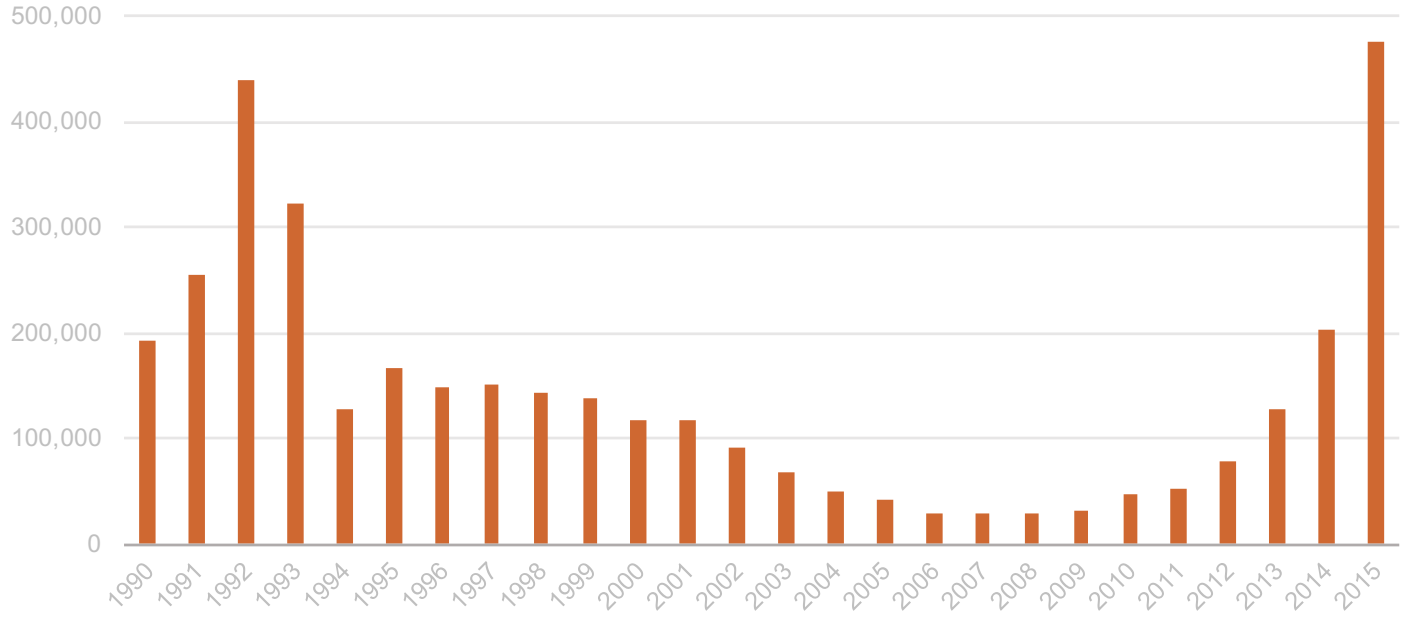
Migration in Postwar Germany

The right to asylum was first guaranteed by Germany's Basic Law in 1948 as a direct reaction to the Holocaust. The law reflects the responsibility that the country continues to shoulder for its past. The right to asylum was defined broadly and without restriction: Never should people fleeing persecution or death be denied protection. Since the introduction of the Basic Law, Germany has prided itself on being a safe haven for those in need.

Shortly after the end of World War II, an export-driven boom caused the German economy to expand significantly, creating a large blue-collar labor shortage. Bilateral labor recruitment agreements were established with Italy, Spain, Greece, Turkey, Morocco, Portugal, Tunisia and Yugoslavia in the 1950s and 1960s. Migration was ostensibly temporary, and there were no policies in place to help guest workers integrate. The state offered no comprehensive language courses, made it difficult for immigrants to naturalize and gave no discernable political signals that the immigrants would be welcome on a permanent basis. After the oil crisis hit in 1973, the infamous *Anwerbestop* ("recruitment stop") ended the guest worker programs, but migration flows to Germany continued as migrants sought to join relatives who were already there. Against the backdrop of slowing economic growth, the foreign population struggled to integrate into the education system and labor market.

In the early 1990s, when the war in former Yugoslavia forced a record number of people to flee the Balkans and claim asylum in other European countries, German asylum policy faced its first litmus test. The wave of asylum seekers from the war-torn region engendered social tensions and xenophobia in Germany. In response to this backlash, the German government implemented the so-called asylum compromise, which came into force in March 1993. Its objective was to minimize the risk of the German asylum laws being abused, as well as to reduce the number of asylum seekers entering the country.[1] As a result, the number of people seeking asylum in Germany dropped drastically between 1993 and

Figure 1: Asylum Claims in Germany (initial and subsequent applications)



Source: Bundesamt für Migration und Flüchtlinge (2015a, 2016a)

1994, as Figure 1 shows, before rebounding again almost two decades later.

Although the number of refugees and migrants entering the country increased, German policymakers did not adequately address issues facing the growing foreign-born population until the early 2000s. At that time, there was a growing feeling that Germany would need to correct the integration mistakes of the past and become more welcoming to new migrants. This idea gained momentum in light of sectoral and regional labor shortages and the graying of the German population. In 2005, the government passed the Residence Act, which provided structural integration measures such as language courses and new channels for migration based on demands of the labor market. These regulations have been liberalized on several occasions. Today, the paradigm shift from the guest-worker era is complete, and Germany is now one of the most open nations to migration among OECD countries. It is also beginning to incorporate diversity into its national identity: Around 20 percent of the German population has a migration background, meaning that either they or their parents were born abroad.

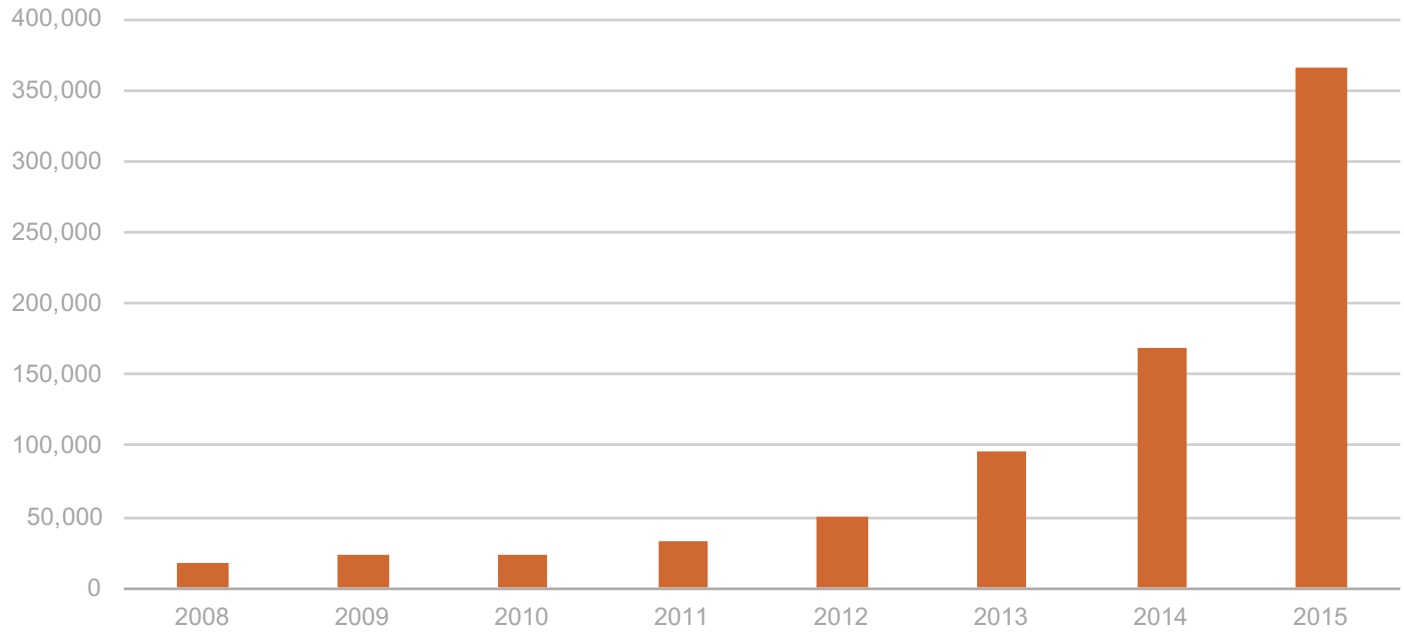
Despite this progress, labor market outcomes for foreign-born residents tend to be worse than those for the German-born population. In 2015, 58.5 percent of Germans between the ages of 15 and 65 were employed and contributed to the social welfare system, compared with just 44 percent of foreign-born residents.[2] Stark differences with regard to migration also exist between the former East and West Germany. In eastern Germany less than 5 percent of the population has a so-called migration background, while in former West Germany the figure is 23 percent.[3]

Asylum Claims in the 21st Century

Between 2000 and 2005, fewer than 100,000 asylum applications were filed per year, and between 2005 and 2010 that figure fell to less than 50,000. However, with violent upheavals in the Middle East, the number of people claiming asylum in Germany started to rise again in 2011, reaching more than 200,000 in 2014.

In 2015, nearly 1.1 million asylum seekers entered Germany, but only 476,649 were able to file for asylum. Those who register face long waiting times to file their official asylum claims, largely due to the fact that German authorities have been overwhelmed by the high number of applicants. The Federal Office for Migration and Refugees (BAMF) did not have the administrative capacity to process such a deluge of applications, and there is currently a large and growing backlog. As early as 2014, the system showed signs of strain, as the number of registered asylum seekers exceeded the number of filed asylum claims by almost 20 percent. The number of

Figure 2: Pending Asylum Claims in Germany (initial and subsequent applications)



Source: Bundesamt für Migration und Flüchtlinge (2015b, 2016a)

pending asylum applications rose significantly over the past two years, as shown in Figure 2.

Germany has taken in far more asylum seekers than its European neighbors, and that gap is widening, with the United Kingdom, France and Italy only taking in a small proportion of the total number seeking asylum in Europe.

Who is Seeking Refuge?

Although the single largest factor driving asylum seekers to flee to Europe has been the Syrian civil war, the refugees arriving in Germany come from various countries of origin, and with different motivations for leaving their home countries in search of protection. Table 1 provides an overview of the nationalities of those who have filed the largest number of asylum claims and their respective protection rates.

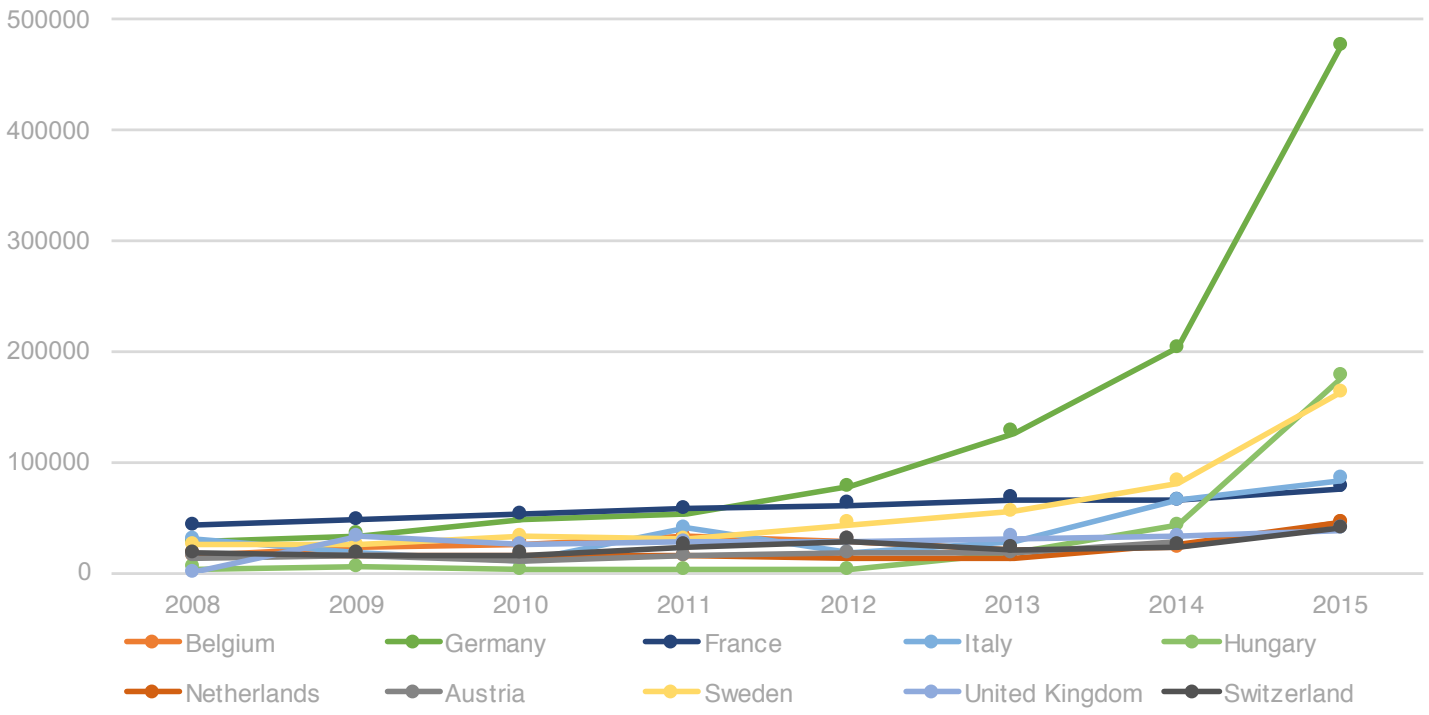
The acceptance rate for asylum seekers varies greatly depending on the political and security situation on the ground in each of their countries of origin. Those fleeing conflict from places such as Syria (162,510 asylum claims in 2015) and Iraq (31,379 in 2015) are most likely to be granted asylum. Their recognition rates in 2015 were 96 percent for Syrians and 88.6 percent for Iraqis. Stateless people, such as Kurds and Palestinians from Syria, fleeing the Syrian civil war and terror of the Islamic State group, also maintain the high protection rate of 80.2 percent.[4]

Acceptance rates are high (92.1 percent in 2015) for those escaping Eritrea, where rampant human rights violations, including torture and executions, have forced many people to flee.

Germany has taken in far more asylum seekers than its European neighbors, and that gap is widening

Afghanistan continues to suffer as the Taliban and other political groups wage war there, and Pakistan struggles amid domestic political conflicts and human rights violations, but asylum seekers from those countries have seen much lower acceptance rates. In 2015, the protection rate for Afghan nationals was 47.6 percent, and for Pakistanis it was only 9.8 percent. The acceptance rate is so low because German

Figure 3: Asylum Claims in Europe, Ten Countries with Largest Intake (2008-2015) (initial and subsequent applications)



Source: Author's calculation based on Statistisches Bundesamt 2015b

officials believe that those asylum applicants could find protection in safer regions of their own countries.

Those who hope to escape economic hardship in places such as the Western Balkans, as well as some North African countries, typically do not meet the criteria for asylum and are unlikely to be offered protection in Germany.

Major Inflow of Refugees in Mid-2015

Chronic underfunding of organizations such as the UN World Food Programme led to reduced food allowances for refugees in Jordan and Lebanon in early 2015. The monthly food allowance in Lebanon was $13.50 per person in 2015, compared to $27 in 2014.[5] The deteriorating circumstances drove many refugees to seek better living conditions elsewhere.

In mid-June 2015, the government of Macedonia allowed passage through the country on to northern Europe, a path that had previously been closed. This opened a Balkan route, which allowed refugees to avoid the more dangerous and expensive journey from Libya to Italy and instead cross a much shorter sea route from Turkey to Greece. According to the Washington Post, the price for passage dropped from $5,000-$6,000 to $2,000-$3,000.[6]

Asylum claims are normally subject to the Dublin Regulation, which stipulates that the first EU member state that an asylum seeker enters, and the one in which they have been fingerprinted, is responsible for handling the claim. Other member states are expected to return asylum seekers back to the EU point of entry. However, Germany suspended the Dublin Regulation for Syrian refugees, which allowed officials to process asylum claims regardless of whether the applicant had entered the EU through another member state.

By late summer, the number of refugees fleeing to Central and Western Europe had increased significantly. The situation in Hungary escalated, as thousands of refugees left camps in a dangerous attempt to reach Austria by foot on public roads. On the night of September 4, Germany and Austria decided to open their borders for these refugees in order to avoid a humanitarian disaster.

The Washington Post reported that Merkel's public pledge that Germany would offer temporary residence to refugees

Table 1: Top 10 Countries of Origin of Asylum Seekers (2015)

	asylum applications total	percentage of all applications	first-time asylum applications	percentage first-time asylum applications per country	total protection rate (percentage)
Syria	162,510	34.1%	158,657	**97.6%**	96.0%
Albania	54,762	11.5%	53,805	**98.3%**	0.2%
Kosovo	37,095	7.8%	33,427	**90.1%**	0.4%
Afghanistan	31,902	6.7%	31,382	**98.4%**	47.6%
Iraq	31,379	6.6%	29,784	**94.9%**	88.6%
Serbia	**26,945**	**5.7%**	**16,700**	**62.0%**	**0.1%**
Unknown	**12,166**	**2.6%**	**11,721**	**96.3%**	**80.2%**
Eritrea	**10,990**	**2.3%**	**10,876**	**99.0%**	**92.1%**
Macedonia	**14,131**	**3.0%**	**9,083**	**64.3%**	**0.5%**
Pakistan	**8,472**	**1.8%**	**8,199**	**96.8%**	**9.8%**
Total top ten	**390,352**	**81.9%**	**363,634**	**93.2%**	**54.9%**
All countries	**476,649**	**100.0%**	**441,899**	**92.7%**	**49.8%**

Source: Bundesamt für Migration und Flüchtlinge (2016a)

arriving in her country, together with television footage of cheering Germans welcoming new arrivals, encouraged more refugees from the Middle East to make their way to Germany via the Balkan route.[7]

Merkel's pronouncement has remained the cornerstone of Germany's refugee policy—despite mounting resistance within Germany, even from within her own party, and from many other European governments. Her famous "We can do it!" (*"Wir schaffen das!"*) has become the credo of the German government's open and humanitarian stance on the European refugee crisis of 2015-2016. Although Germany remains open to those in need of protection and the requisite programs that facilitate integration, certain aspects of German asylum legislation have been made more restrictive in recent months. The aim of these changes has been to dissuade people from countries with low protection rates—those highly unlikely to have their claims granted—from making the journey in the first place, and at the same time to streamline the asylum process for those who are likely to be granted protection. Recently implemented measures include simplifying the process by which rejected asylum seekers are deported, suspending family reunification for those with subsidiary protection (meaning that the person does not qualify for refugee status, but it would be unsafe for them to return to their home country) and expanding the list of safe countries of origin.

Why Did Germany Keep its Borders Open?

As its neighbors began closing their borders to refugees, Germany confounded observers both at home and abroad by

resolutely holding onto its open-door policy. Much has been conjectured about why Germany took the path that it did, but the key factors below explain what shaped the Federal Republic's refugee policy:

1. Willkommenskultur

A survey commissioned by the Bertelsmann Stiftung found that Germans are increasingly more comfortable with the notion that Germany is becoming a country of immigrants, particularly in former West Germany.[8] Although some right-wing movements, such as the Alternative for Germany (AfD), have gained momentum, the numbers show that a large majority of Germans believe their country should be open to seekers of refuge. Even in July 2015, when the inflow of asylum seekers had already increased considerably, 93 percent supported welcoming people who sought to escape war or civil conflict. Eighty percent expressed the view that Germany should accept people seeking refuge from political or religious persecution.[9]

Germans are increasingly more comfortable with the notion that Germany is becoming a country of immigrants

A more recent study confirms these findings: The average level of support for granting asylum to a person who is persecuted on political grounds is 94 percent.[10]

This openness is also reflected in the public response to the refugee crisis. Many Germans have committed themselves to civil society initiatives that aid refugees arriving in the country, especially when German authorities were stretched to their limits. Civic activities include the provision of basic needs, such as accommodation, information, transportation and clothing.[11]

2. Merkel's Personal Project

Merkel is clearly the face of Germany's refugee policy. Before the summer of 2015, Merkel's style of politics was characterized by pragmatism and incremental steps, rather than following a sweeping political vision. Now, in a departure from her usual style, Merkel has made Germany's open asylum policy her personal political project—despite strong resistance from many quarters.

Although observers can only speculate, many cite two encounters in particular as critical to shaping Merkel's stance on refugees. In July 2015, Reem Sahwil, a 13-year-old Palestinian refugee, confronted the chancellor during a discussion with students in the northeastern city of Rostock. Sahwil spoke articulately in German about her desire to stay in the country and receive an education, but expressed anxiety that the uncertain status of her asylum claim left her future in doubt. Merkel stiffly explained that it was impossible for Germany to accept all refugees. The girl broke down in tears, the chancellor patted her on her shoulder in an awkward attempt at a comforting gesture, and a video of the interaction went viral.

In late August, Merkel visited a refugee shelter in the town of Heidenau, in the eastern state of Saxony. Outside the shelter, a furious crowd of German residents assembled, shouting insults at Merkel—a level of public confrontation she had not previously experienced in her tenure as chancellor.[12]

Soon after these events, at her annual summer press conference in Berlin, Merkel changed her tone. She clearly articulated that Germany was strong enough to help all of those in need. This was the first time she uttered the "We can do it!" slogan. Merkel made a decision that Germany would honor its historical commitment to protect refugees. She had found her political project, her vision, and was ready to fight for it. Many commentators have linked this course to her personal biography, the daughter of a socialist pastor who grew up in East Germany behind a large fence.[13] Some have even argued that she seemed more passionate and at ease with herself than ever.[14]

3. Too Late to Turn Back?

Even before Merkel took her stand, Germany's openness had provided safety for many refugees. Nonetheless, some critical reflection is appropriate, as there were warning signs that the relatively small number of asylum seekers entering Germany between 2003 and 2012 would soon snowball. At the time, policymakers were too distracted by the Russian military intervention in Ukraine and the Greek financial crisis to react to the growing stream of refugees arriving in Europe.

First, the Dublin Regulation, discussed earlier, shifted the burden of processing arrivals to southern "frontier countries" such as Italy and Greece. These over-burdened states, it became clear in the months and years before the refugee crisis exploded, were struggling to accommodate a growing number of asylum seekers. Their northern EU partners did not provide enough support,[15] and no decisive European action was taken to resolve the problem.

30 to 40 percent of refugees have work experience that is potentially relevant to the German labor market

A second warning sign was the ever-increasing number of asylum seekers arriving in Germany from outside the EU, as shown in Figure 1. BAMF was finding it difficult to cope even before the summer of 2015. In March 2015, the executive director of the EU border agency Frontex, Fabrice Leggeri, estimated that there were between 500,000 and 1,000,000 migrants in Libya ready to leave for Europe.[16] According to the German newspaper, Die Welt, German diplomats in Pristina, Kosovo informed the Federal Foreign Office that increasing numbers from Kosovo were migrating to Germany via Serbia—approximately 800 to 1,000 per day, but the actual numbers may have been higher.[17] Still, neither the EU nor Germany itself took action.

Thus, there were harbingers of a growing flow of refugees to Germany, and more broadly the EU, long before summer 2015. No significant measures were taken by policymakers, such as increasing BAMF's capacity to process asylum claims. The failure to act earlier despite these warning signs left the German government with only two choices in August 2015: keep the borders open for people fleeing to Germany, or risk a humanitarian catastrophe.

4. Demographic Boon?

Some international media reports have suggested that Germany's unfavorable demographics and existing labor shortages in certain sectors and regions played a role in its welcoming policy toward refugees from the Middle East.[18,19] It is true that Germany's population is shrinking and aging. If labor force participation rates were to remain constant, without immigrants, the number of people of working age would decrease 36 percent, from approximately 45 million today to less than 29 million in 2050.[20]

The solid labor market and low unemployment of 2015 certainly helped bolster the German position toward refugees despite the lack of support from other European countries. However, the rationale behind Germany's policy was a humanitarian calculation rather than an economic one. Few refugees speak German or, for that matter, English, and many lack the professional qualifications needed to enter Germany's labor market. The market is notoriously difficult for foreigners to enter because qualifications from abroad are often not accepted, and even blue-collar professions may require years of training. Existing literature suggests that only around 20 percent of refugees in Germany hold a vocational qualification or university education, while 30 to 40 percent (at best) have work experience that is potentially relevant to the German labor market.[21] Integrating most refugees into the regular labor market would require significant investment from both the government and private sector. Furthermore, it is unclear how many refugees will remain in Germany on a long-term basis, as some may return to their home countries if the situation there improves. Thus, Merkel's decision to support refugees was made without any attempt to address labor shortages or offset demographic shifts.

Key Challenges and Potential Solutions

Now that Germany has allowed more than 1 million asylum seekers through its borders, it must find a way to effectively and efficiently respond to the challenges that follow. Although these challenges range in scale and time frame, it is critical that Germany address them so as to ensure the well-being of the refugees, domestic security and broader global stability.

1. Germany Needs an Effective and Flexible Asylum System

German authorities on various levels were unprepared for the large number of refugees that arrived in 2015, leading to major delays in the asylum process. The country lacked a common database of registered asylum seekers that could be accessed by relevant authorities. As a result, some people were registered multiple times, while others may have moved to another country or even returned to their country of origin without documentation. Thus, the government does not have a complete list of asylum seekers in the country, which is problematic from a security perspective. BAMF is implementing new information technology, but it was not expected to be fully operational before summer or autumn 2016.

Another administrative issue is that refugees often have to wait weeks or even months after being registered before they can actually file their asylum claim. This backlog continues to grow: By late February 2016, the number of pending cases was approximately 393,000—more than double the figure from the previous year.[22] Beyond the challenges of registering asylum seekers, many municipalities struggle to provide appropriate housing for them; asylum seekers are put in makeshift dormitories in exhibition halls or gymnasiums.

Germany needs to increase its capacity to process asylum claims efficiently, provide adequate housing, better integrate those with protection status into society, and keep careful track of the identities of asylum seekers in the country. It is

important that German authorities demonstrate their ability to act. This will require a massive effort now because opportunities to improve capacity in recent years were missed.

It is equally important to keep the asylum system flexible so it can cope with fluctuating demand. The number of refugees could drop again, meaning resources would need to be reallocated. In this regard, it would be worthwhile to discuss the role of the EU. For example, a European asylum agency that provides extra support to national agencies in particular times of need is an option.

More broadly, migration policy needs to be based on a forward-looking and coherent strategy. It cannot consist of short-term and reactive crisis management. Migration flows need to be monitored, and large spikes need to be forecasted as far ahead as possible.

Finally, an effective and fair asylum policy should be insulated from populist debates, but at the same time not left for elites to shape on their own.[23] This is a delicate task, and to strike the right balance, a strong civil society and transparent and logical policymaking are needed.

2. Workforce Integration

Integrating refugees in the labor market is a central task, both so that refugees have control over their own lives and so they can contribute to the economy and society. Germany needs a comprehensive process to achieve this, one that complements a strengthened asylum process with language training, establishment and certification of informal and non-formal competencies, professional orientation, placement in apprenticeships, and further education. Counseling and mentoring programs must supplement these initiatives.

To make such a process available to refugees all over Germany, significant investments are necessary. The German Institute for Economic Research (DIW) predicts that the macroeconomic effects of the current refugee migration will yield a net positive after three years at best and 10 years at worst. Consequently, investments that increase and accelerate labor market integration would be economically beneficial.

3. The EU Needs a Sustainable and Humane Asylum System

In 2015, EU member states received in total approximately 1.3 million asylum claims.[24] Fairly distributed, this is a manageable figure. However, Germany, Hungary and Sweden alone received 62 percent of claims, and their share of the actual inflow of asylum seekers is even higher.

For a bloc of 28 wealthy countries, 1.3 million asylum claims does not inherently amount to a crisis. However, since only a few countries have accommodated asylum seekers, the situation is difficult to manage in a way that is both effective and fair to the refugees and host countries. It is challenging to imagine a sustainable solution for the current refugee crisis that does not involve the EU member states coming together to more fairly share the burden.

The obvious result of their failure to do so has been that Germany has had to process a large proportion of asylum claims. Some elsewhere in Europe felt that Germany's open-door policy induced more refugees to migrate—mostly on the Balkan route—which, in turn, put strain on transit countries between the Middle East and Germany (such as Austria, Hungary, Slovenia and Croatia).

Without a concerted European solution, chaotic migrant flows and human rights violations will follow

Even if those countries chose not to accept refugees, asylum seekers bound for Germany had to pass through them. The observable results were closed borders and humanitarian nightmares. After the Balkan countries shut their borders in March 2016, tens of thousands of refugees bound for Germany were trapped in Greece. When one route closed, refugees found a new way. In this case, refugees started to make their way through Macedonia, where the government tried to detain them.

In an attempt to curb irregular migration from Turkey to Europe, the EU and Turkey negotiated an agreement stipulating that, as of March 20, 2016, all irregular migrants crossing from Turkey to the Greek islands (EU territory) would be returned to Turkey. For every Syrian returned to Turkey, another Syrian would be resettled in the EU, distributed among EU member states. However, the agreement is not a sustainable solution to manage refugee flows. First, the resettlement process is too slow. As of mid-June 2016, only 511 Syrian refugees were resettled under this agreement.[25] Thus, the pact does not offer a significant legal route for refugees to enter the EU, but rather functions as a cork to stop the refugee influx. Second, there have been allegations of human rights violations of refugees in Turkey. Finally, the agreement rests on shaky political grounds. Under the agreement, the EU is supposed to both provide Turkey with significant financial assistance and lift visa requirements for Turkish

citizens. Given the current unstable political climate within Turkey including a failed coup in July 2016, the EU might decide against lifting the visa requirements. If this were to happen, Turkey might abandon the agreement.

Without a sustainable and concerted European solution, chaotic migrant flows and human rights violations will follow. The borderless Europe that has been achieved with the Schengen Agreement is at risk. The best of all options would be to establish an EU system that enables states to accept refugees directly from refugee camps in crisis countries or their neighboring states.[26] This would address the trafficking system and discourage refugees from making dangerous sea journeys. Such a system should be based on a specific distribution mechanism. One potential option is a system that takes into account economic strength, size of the population, size of the country's land area and unemployment in the receiving country.[27] Unfortunately only a few countries, including Germany and Sweden, currently have the political will to put such a system in place.

4. Tackling Root Causes: Sustainable Foreign, Economic and Trade Policy

A sustainable solution to the large asylum inflows to the EU must address the root causes of forced migration. This is an extremely challenging task and might require EU member states to make concessions. Tackling the root causes includes ending the conflict in Syria and putting a stop to the terror of the Islamic State group. In addition, it involves sustainable development assistance for the refugees' home countries. This could mean reducing subsidies for agricultural production in Europe or improving the prospects for businesses in developing countries. The latter could be achieved through simplifying remittance transfers and targeted investments by the diaspora community.

Asylum policy can no longer be reduced to dealing with the people who arrive at our doorstep. Rather, it must acknowledge the connectedness of the world and the fact that people emigrate out of desperation. It is time that the EU, the United States and the world's other developed economies tackle the root causes of migration flows. If they do not, the number of migrants to Europe is bound to increase further.

A Final Word

Policymakers around the world should be watching the decisions made in Brussels, Berlin and Ankara closely. The response of Europe and its neighbors is setting new precedents and standards for the handling of large movements of displaced people. Decisions made this year will have a major impact on the way in which such issues are handled globally in the future.

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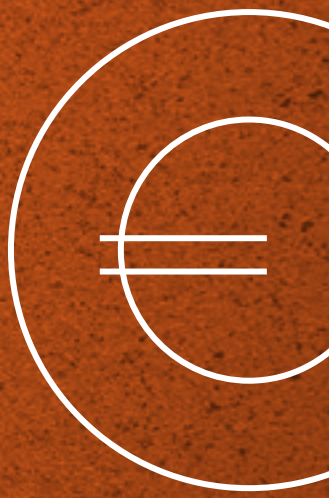
Preserving an Old Model in a New World: German Economic Policy

Thieß Petersen and Andreas Esche



Introduction

To describe the German economic and social system in a few words, only one term truly captures its essence: "social market economy." This means a system characterized by a combination of economic dynamism and social justice. The social market economy is based on the freedom of markets and private property, as well as competition among providers of goods and services, all of which are essential to facilitating considerable economic momentum and great material prosperity. The tax and benefit system is set up to distribute economic prosperity among all citizens in the most equitable way possible. Although some question how effective the German economy is at providing social justice, few have questioned the country's economic performance overall in recent years, particularly when compared to its neighbors. However, in the future, this model may be in danger.

A Look Back: From the "Sick Man of Europe" to "Economic Superstar"

In the early 2000s, Germany was still regarded as the "sick man of Europe,"[1] with a stagnant and at times shrinking economy, a decline in competitiveness, current account deficits and an increase in unemployment. At the time, the social market economy was thought to be approaching extinction, but today the German economic and social system is considered a model for other nations.

Gross domestic product (GDP) is a key indicator of an economy's performance, defined as the total value of goods and services produced by the people of a nation during one year. Economists are well aware that GDP is by no means a complete or ideal indicator for measuring human well-being. However, a high GDP is the basis for providing the material necessities to a nation's people and, in this sense, it contributes to maintaining nonmaterial living conditions, such as the environment and local amenities.

GDP per capita, rather than the total GDP for an economy, is typically used to draw international comparisons. Based on this indicator, Germany indisputably ranks among the wealthiest nations in the world. According to an International Monetary Fund (IMF) index that ranks 189 countries by their GDP per capita (measured in U.S. dollars), Germany is 19th with a projected per capita GDP of approximately $41,300. This puts the country ahead of France (about $37,700) and most European Union (EU) countries, as well as Japan (about $32,500). The per capita GDP gap between Germany and emerging markets such as Brazil ($8,800) and China ($8,300) is even larger.[2]

Germany's economic strength is also reflected in the country's unemployment rate: In February and March 2005, about 5.3 million people were registered as unemployed, with the unemployment rate reaching 11.2 percent (according to the unemployment definition of Eurostat, the statistical office of the European Union). In the following years, the annual unemployment rate was reduced to 7.1 percent in autumn 2008. Following the global financial crisis of 2008, a short-lived increase in unemployment was noticeable. But even in summer 2009, when the unemployment rate reached an intermediate high of 7.9 percent, Germany was still well below its

Table 1: Key Macroeconomic Indicators of the German Economy (2000-2015)

	2000	2005	2010	2015
Nominal GDP (in billion euros)	2,116.5	2,300.9	2,580.1	3,026.6
Number of people employed (in millions)	39.8	39.3	41.0	43.0
Unemployment rate (in percent)	8.0	11.0	7.0	4.7
Current account balance (in percent of GDP)	- 1.7	+ 4.6	+ 5.6	+ 8.5
Public debt (in percent of GDP)	58.9	66.9	81.0	71.4

Source: Statistisches Bundesamt 2016b and IMF 2015

2005 level. Ever since, the number of people out of work has fallen steadily, with an average of 1.95 million unemployed in 2015 (under 5 percent), the first time since German reunification that fewer than 2 million people were unemployed.[3]

Therefore, Germany has one of the lowest unemployment rates in the EU. While some EU states affected by crises, such as Spain and Greece, have struggled with unemployment rates of about 21 percent and 25 percent respectively, the overall average of all 28 EU member states was just above 9 percent in 2015.[4]

The low unemployment rate in Germany is due mainly to the economy's international competitiveness, with large and increasing current account surpluses that the country has maintained since the early 2000s. The main driver of this trend is an export surplus. Put simply, if a country exports more goods and services than it imports, there is a current account surplus. Since 2001, when the current account surplus was last negative, there has been a steady increase, and in 2015 Germany had a surplus of more than 8 percent of its GDP. Even in the crisis-stricken years after the global financial crisis, a time characterized by a severe decline in cross-border trade, Germany's current account surplus was at 6 percent of its GDP. In euro terms, in 2015 the surplus reached a new high of about 237 billion euros.[5] In contrast, between 2001 and 2015, the United States registered current account deficits that ranged from 3 to 6 percent of its GDP. In crisis-ridden states in the south of Europe, deficits accounted for 10 to 15 percent of GDP.[6]

Germany's economic growth of the last 15 years is illustrated by the indicators listed in Table 1. Both the export surpluses and low unemployment rate, even in the years of crisis, are signs of Germany's strong economic performance. As a result of these developments, perceptions of the German economic and social system have shifted dramatically over the last decade. In just a few years, the "sick man of Europe" has become what many perceive to be an "economic superstar."[7]

How Can this Economic Transformation Be Explained?

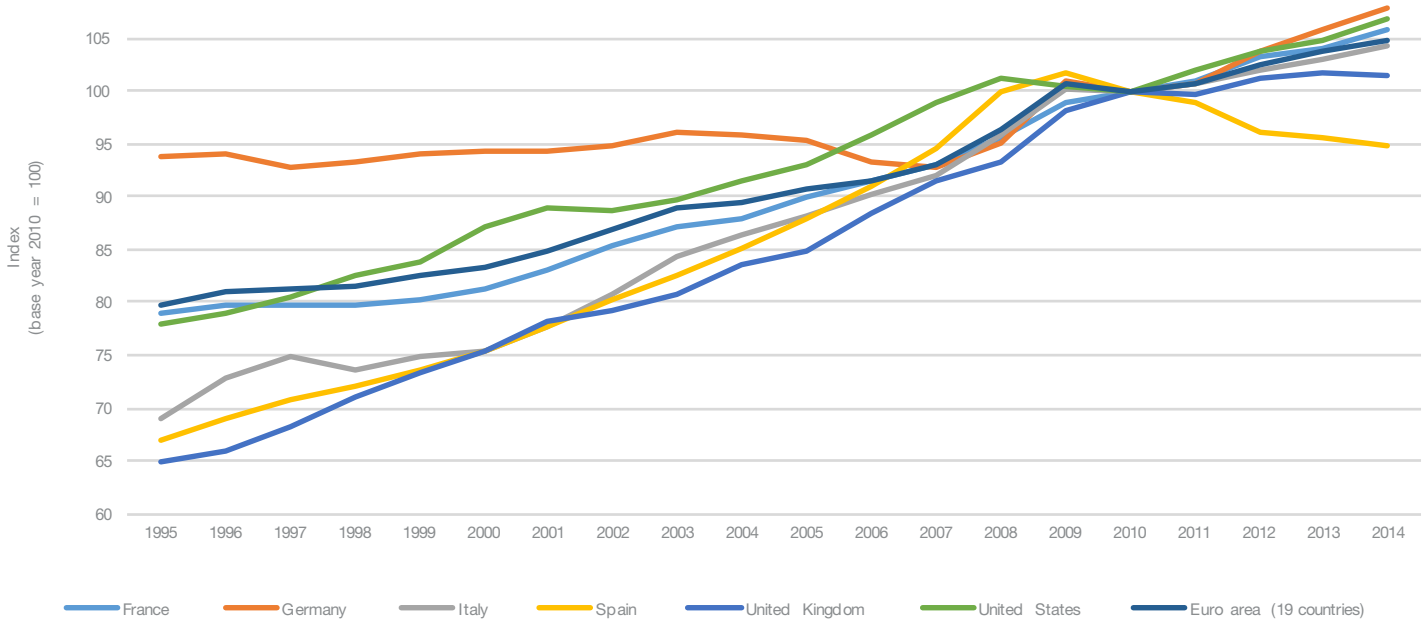
German economic growth has been predominantly export-oriented, and there are two main factors driving the country's international competitiveness and export surpluses: relatively low labor costs and the advantages of the European Monetary Union.

The unit labor costs of an economy are calculated as the ratio of total labor costs to the amount of goods and services produced (that is, GDP). They represent the average labor costs in a country per product unit produced.[8] Unit labor costs did not rise much in Germany between 1995 and 2009, but most other developed countries saw a 30 to 40 percent increase in unit labor costs in the same period (see Figure 1).

Why were increases in German unit labor costs so modest? The answer is a combination of technological progress that boosted labor productivity and labor unions' conservative wage policy. Low wage increases lead to small price increases, which in turn strengthen the international competitiveness of German products and help stimulate exports.

Usually, export surpluses lead to higher demand for the exporting country's currency, as importers must make payments in the currency of the exporting country. A high demand for a currency increases the currency's value. This revaluation causes prices to rise in the rest of the world for products from the exporting country, which in turn leads to a reduction in demand. At the same time, prices for products from other

Figure 1: Development of Unit Labor Costs in Selected OECD Countries (1995-2014), expressed as an index (base year 2010=100)



Source: OECD Statistics, accessed January 28, 2016

countries decrease in the exporting country. Thus the current account surplus is regulated by shrinking exports and increasing imports. However, with the introduction of the euro, this balancing mechanism does not apply. Germany's export strength is no longer reduced by the revaluation of its own currency.

A country with an export surplus produces more goods than it needs domestically. A current account surplus has a positive effect on the labor market because the country requires more manpower to create the additional goods than it would if it only produced goods to satisfy its own domestic demands. An export surplus thus leads to a decrease in unemployment, which improves the state of the public coffers, thanks to reduced public expenditure on supporting unemployed residents and an expanded tax base.

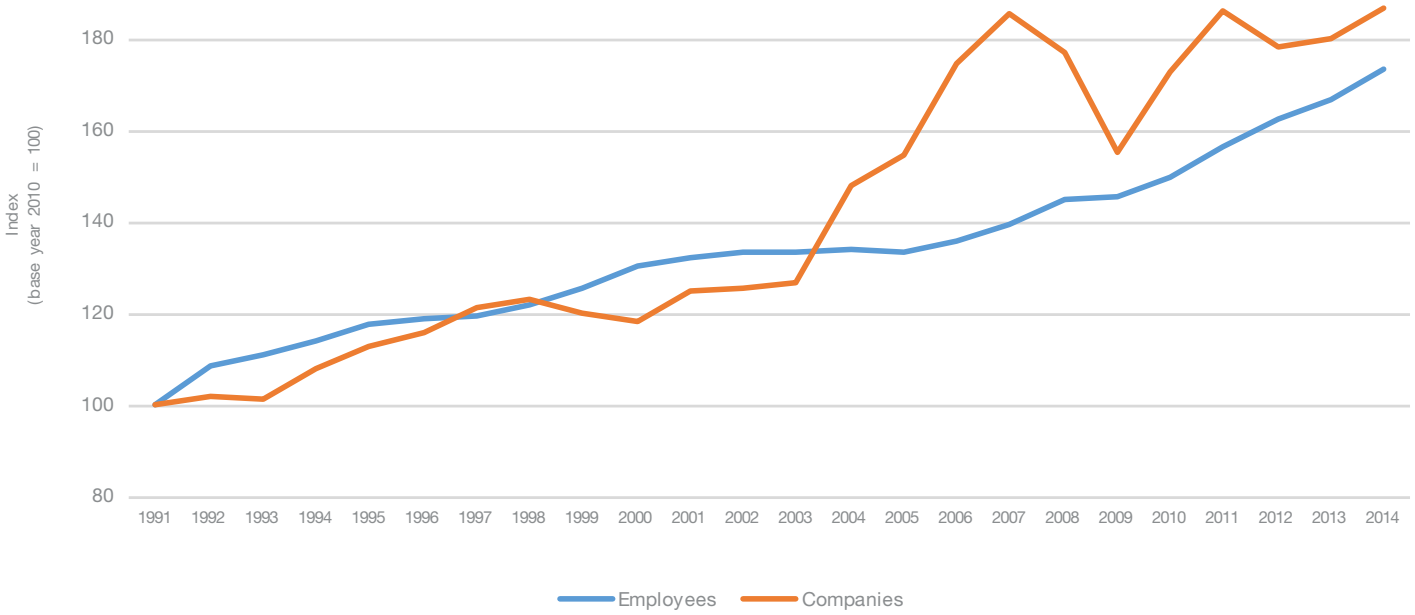
Thus Germany's booming exports have a positive effect on the national economy. The high level of employment in Germany is due to its exports—but some might argue that the country exports something else: its unemployment. Because of this and other adverse effects of a consistently high current account surplus, the European Commission criticized said surpluses in March 2014 and asked the German government to take measures to contain this development.[9] The European Commission is not the only source of criticism; critical voices from within Germany have increasingly denounced the nation's economic development during recent years because of the accompanying negative consequences for its neighbors.

Income Inequality

One major consequence of current economic development is rising income inequality. Globalization and digitalization in recent decades have led to a steadily increasing international division of labor. The significant growth of the working-age population in emerging markets has increased their international competitiveness in labor-intensive industries. In this global context, a well-developed industrialized country, such as Germany, can only sustain its competitiveness if productivity is increased through technological progress and greater investments. However, labor will become less important to GDP as a consequence of this investment and a greater use of technology.

As a country's production processes become increasingly capital-intensive, serious effects on income distribution are to be expected. Both the demand for capital and price for capital increase. At the same time, both wages and the demand for labor decrease. Low-skilled workers are the main, but by no means the only, group affected by this development. This change in income distribution is shown in Figure 2. Between 1991 and 2003, corporate and investment income grew at about the same rate as the income of individuals.

Figure 2: Development of Employee Income and Corporate and Investment Income in Germany (1991-2014), expressed as an index (base year 1991=100)



Source: Author's calculation based on Statistisches Bundesamt 2015b

Since then, however, the gap between the two types of income has widened.

In summary, the fruits of economic growth in Germany during the previous two decades have not been distributed equitably. Germany is not alone in experiencing growing inequality. Based on an analysis from 1985 to 2005, the OECD concluded that a continuous increase in income inequality throughout its member countries dates back to the mid-1980s or even the mid-1970s.[10] An update to that study, covering the period from 1985 to 2010, confirmed this development for most OECD countries.[11] In this context, Germany performed relatively well in terms of the gap between rich and poor. However, despite the low unemployment rate and economic growth, inequality is still increasing. Germans' tolerance of this trend can be expected to fade in the near future.

Germany now faces a major challenge for the social market economy as it works to shape the economic and social system in a way that will allow the nation to grow without undermining social cohesion. Only if this challenge is tackled successfully will the social market economy be able to deliver its most important promise: combining economic strength with social justice. At the moment, the issue is hotly debated and draws significant public and political attention.

In addition to inequality, however, Germany faces a number of other challenges with regard to its economic future that demonstrate a great need for economic and social systems to adapt. These issues, discussed in more detail below, have not yet attracted as much attention in the public debate.

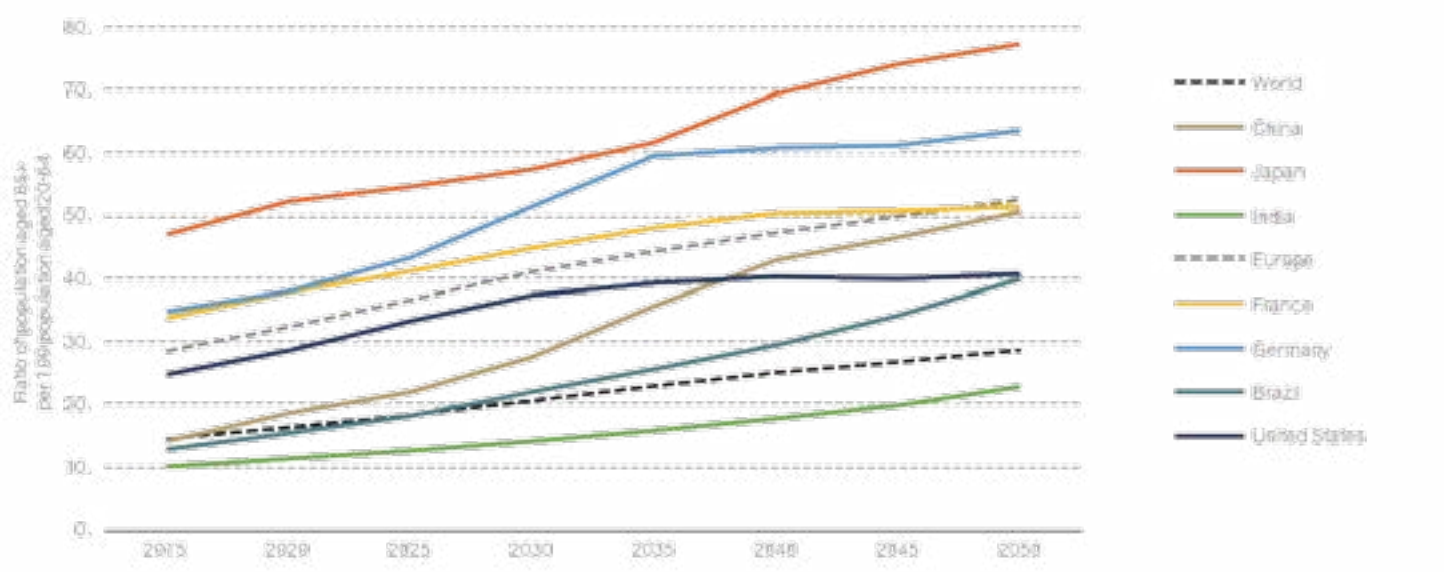
Looking Ahead: The Need for Adaptation in the Social Market Economy

Due to the economic upturn seen in recent years, economic development in Germany is currently more stable than it has been in a long time. At the same time, the country faces a number of serious challenges. Five central issues that could have a lasting effect on future economic developments in Germany are discussed below:

1. Aging Society

In the coming decades, Germany's total population is set to decrease. Depending on how many people immigrate, it will fall from 81.5 million to between 72 and 76 million by 2050.[12] As the population declines, it will also, on average, get older. Currently, 21 percent of the German population is at least 65 years of age, making Germany's population one of the world's oldest, ranking third behind Japan and Monaco. The proportion of over-65s is significantly lower in the United States, at 15 percent.[13] By 2050, the proportion of people in this age group in Germany will rise to between 30 and 32 percent.[15] The German population is aging quickly in relative global terms, as clearly shown in Figure 3.

Figure 3: Development of the Old-Age Dependency Ratio (ratio of population aged 65+ per 100 population aged 20-64) (2015-2050)



Source: United Nations Population Division 2015, accessed January 28, 2016

Even the current influx of refugees will be unable to reverse this trend; at best, it will only be slowed down. The aging of society will have far-reaching implications for economic development in Germany.

The consequences of societal aging are already becoming apparent in Germany's social security system. Since the 1880s, Germany has had a pay-as-you-go system in which pension contributions are used immediately to pay pension recipients. Due to the demographic changes discussed earlier, the ratio of people of retirement age to people of working age will almost double by 2050. In order to maintain the current system, either contribution rates will have to increase or pensions will need to be cut significantly. From a socio-political perspective, cutting pension benefits would be difficult to implement, and a major increase in contribution rates would have a negative impact on international competitiveness. Thus, Germany must find new ways of financing the social security system without undermining social cohesion or damaging the country's competitiveness. It is not enough, however, to modify the pay-as-you-go system. In the long term, there is likely no alternative but to switch to a tax-funded system that is based on national income, instead of solely tying it to labor.

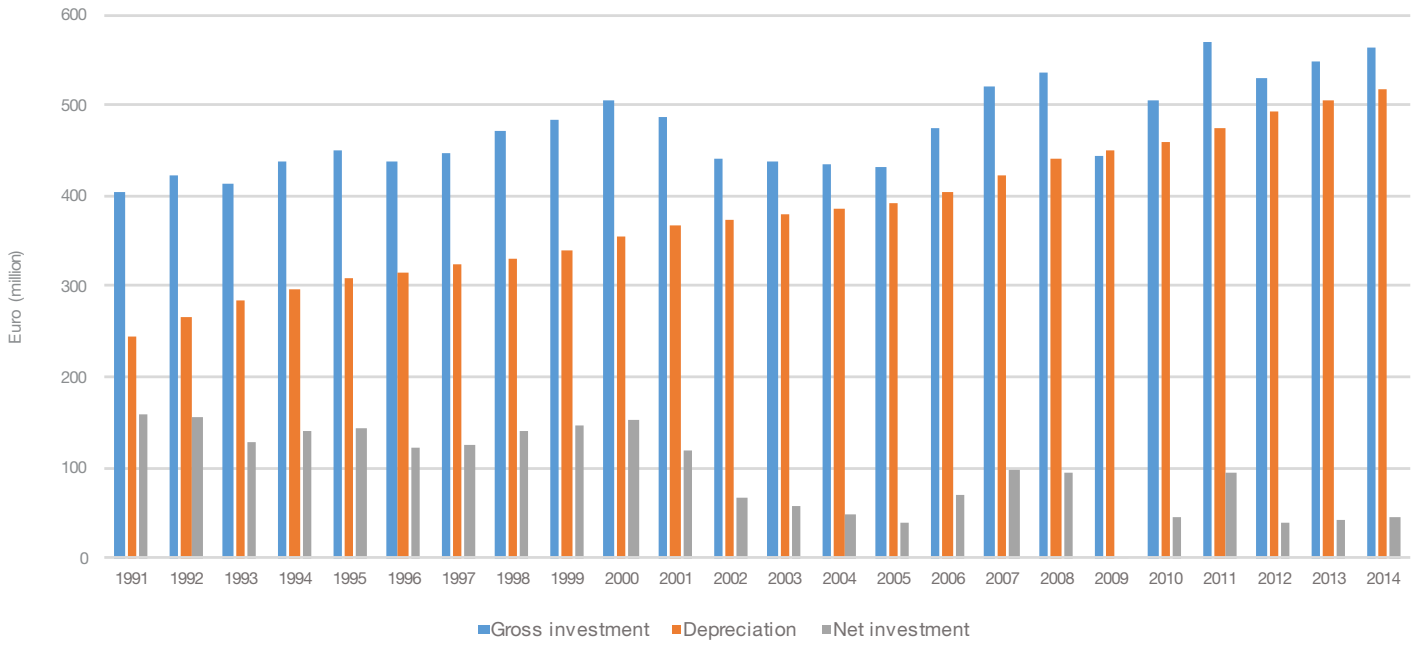
Societal aging also presents a great financial burden on the public budget. In a graying society, the shrinking number of taxpayers and contributors will collide with a growing demand for state benefits (including healthcare services and pensions). However, if an increasing share of state revenue is used for transfers, the government's capacity to act in the areas of education, research and development would be limited. R&D expenditure is currently less than 0.1 percent of German GDP. This share is three times larger in the United States (about 0.3 percent of GDP) and four times larger in South Korea (about 0.4 percent of GDP).[16] Internationally, Germany will lose ground to young and dynamic economies if R&D expenditure continues to shrink as a result of demographic shifts.

Finally, there is reason to fear that the current shortage of skilled labor will worsen in the future. At the moment, jobs in the scientific and healthcare sectors are most affected by the shortage. However, if there are fewer people of working age, it is to be expected that the problem will extend to other sectors as well, which would hurt Germany's international competitiveness and slow economic growth.

2. Declining Investments

For some time, investment has been a weak point in Germany's economic development. Net investment, meaning the difference between annual gross investment and annual depreciation, is critical to increasing production capacity. In the early 1990s, nominal net investment in Germany was about 160 billion euros a year. However, between 2012 and 2014 net investment decreased to roughly 40 billion euros (see Figure 4). As sustainable growth relies on sufficient net investment, economic growth in Germany is set to decline

Figure 4: Development of Gross Investment, Depreciation and Net Investment in Germany (1991-2014), all nominal (in euro million)



Source: United Nations Population Division 2015, accessed January 28, 2016

in the long term. Viewed this way, it seems that Germany is increasingly living on its capital.

In the public sector, this lack of investment is most apparent in run-down infrastructure. Financing necessary investment is proving to be problematic, given that in 2016 the German government introduced a debt brake, a constitutional amendment that only allows for annual net borrowing of up to 0.35 percent of GDP.[17]

3. Export Dependence

Because of the strong export orientation of Germany's economy, its development is particularly dependent on global economic trends. A booming global economy will benefit German growth and employment. Yet the high dependence on exports has its drawbacks too; an exceptionally strong downturn in the global economy would lead to below-average slumps in production. This became particularly clear in 2008, when the global economy crashed. According to the IMF, that year Germany and Japan, two export-oriented economies, registered decreases in GDP of 5.6 percent and 5.5 percent, respectively, whereas in the United States, real GDP fell by just 2.8 percent. If the global economy were to grow more slowly in the future (for example, if China ceased to be the main economic driving force), the subsequent low export demand would have a massive impact on the macroeconomic development of Germany.

Thus, building up domestic demand should be one of Germany's key objectives in order to reduce its dependence on overseas demand. However, this would mean making major changes to the status quo, which would face political resistance. The following strategies may offer a first step in the right direction:

- **Stimulating the highly regulated German service sector.** Removing existing barriers would allow for more investment and an increase in productivity. This should go hand in hand with increasing salaries and wages and strengthening domestic consumer demand. The necessary deregulation of professional services (like those provided by lawyers, architects and notaries) with regard to advertising, pricing and professional fees, however, would cause unwelcome heightened competitive pressure on these occupations.
- **Increasing German imports.** Customs duties and non-tariff barriers are traditional instruments for controlling imports. However, as a member of the European Union, Germany's scope for action in this area is limited. One option would be to phase out subsidies in the agricultural sector. These subsidies distort competition, with

foreign providers of agricultural goods bearing the greatest burden. For German farmers, however, eliminating such subsidies would make them far less competitive. Previous attempts to reduce such state assistance have failed because farmers opposed them. This position is unlikely to change.

- **Increasing charges for the use of natural resources and for CO2 emissions in order to internalize the associated negative externalities.** The resulting increase in prices would lead to a reduction in German exports and a growth in imports. In addition, it might provide an incentive for companies in Germany to produce in a more environmentally friendly and resource-efficient way. While the country would need to restructure its domestic economy and make significant investments in technology, these investments could foster domestic demand and thus successfully compensate for the fall in export demand. However, in the short term it seems likely that worsening price competitiveness would weaken economic growth and ultimately lead to an increase in unemployment.

4. Trouble in the EU

As the German economy is closely integrated in European value chains, its economic success depends heavily on stability within Europe and a functioning European single market. In various ways, the establishment of a common market has promoted economic growth in the countries involved and has led to increased growth and employment in Germany.[18] The euro, too, has had a positive effect on German economic development.[19]

However, these economic advantages may well disappear amid a series of developments that could result in the collapse of the eurozone and the common market. One of the developments that stands out in this context is the unresolved debt crisis in Greece. It is still uncertain whether the third rescue package negotiated for Greece in 2015 will sustain that country's public finances and economy. Doubts about Greece's ability to fulfil the financial reforms required for the bailout would negatively affect both investment sentiment on the part of companies and consumer sentiment in Europe. The ensuing slowdown in economic development in Europe would be particularly tough on export-oriented Germany.

An additional concern is the fallout from "Brexit," the United Kingdom's withdrawal from the European Union. The British exit presents serious economic disadvantages for the entire European Union: a decrease in economic growth, growing unemployment and dwindling international price competitiveness.[20]

Building up domestic demand should be one of Germany's key objectives in order to reduce its dependence on overseas demand

Although the risks of Brexit should be taken seriously, the cohesion of the European Union is currently most threatened by member state governments' isolationist tendencies stemming from the refugee crisis. With regard to integration in the European Union, an increasing number of national initiatives and the closing of borders would be a giant step backwards. The economic advantages that went hand in hand with increasing internal market integration would be a thing of the past. The result would be an economic downturn across Europe, again with a major impact on the export-oriented German economy.

5. Refugee Movement

At present, the major challenge facing the German economic and social system is undoubtedly the refugee movement and the resulting implications for public finances, the labor market and social cohesion.

As discussed in the chapter on migration, the influx of refugees has been particularly large in Germany. In the short term, such an influx increases consumer demand and thereby stimulates the economy. In the medium term, however, a large share of this consumer spending is financed by public transfer payments. As a result of the aforementioned debt brake, these expenses will need to be covered by cuts in expenditure and/or tax increases, both of which would cause demand to drop and opposition among taxpayers to rise. Thus it is fair to question whether the German government will change current fiscal strategies, especially with parliamentary elections approaching in the fall of 2017.

In addition, the integration of refugees into the labor market will take time. Studies show that employment rates among refugees only reach the level of other migrant groups after 10 to 15 years. Unemployment among refugees may be significantly higher than the German average, making transfer payments a necessity.[21]

In the end, uncertainty about future refugee migration to Germany and the integration of refugees into society and

the labor market will foster uncertainty among German companies and employees alike. Both of these issues have the potential to adversely affect consumer and investment behavior and thereby stifle economic growth.

Thus, the rapid and successful integration of refugees into the German labor force and society is key to achieving economic success and social cohesion. This will be a significant challenge for the entire educational system. However, expenditure on the integration of those who have sought refuge in Germany is a sound investment in the future. In the long term, the migration of younger people will help to offset the aging of the population.

The Future of the Social Market Economy: Seeking Strategies for Inclusive Growth

The central tenet of the social market economy is "prosperity for everyone."[22] Although "prosperity" has been attained in Germany over the past two decades, its distribution among the population has become increasingly inequitable. In the long term, the era of growth may come to an end; in fact, there are several reasons to expect consistently low growth or no growth at all.[23] First, the decrease in population will also lead to a decrease in the number of consumers and thus demand for goods. This will cause a decline in the GDP. Second, as income inequality increases, demand for goods will decrease. High-income households possessing an increasing share of wealth in Germany are more likely to save their wealth than spend it, resulting in a decrease in demand for goods. Finally, the German government's lack of investment in infrastructure is detrimental to productivity and will have long-term negative effects on the economy.

As a result of these trends, tendencies toward secular stagnation—meaning negligible or no economic growth in a market economy—are already discernible in Germany. Until now, high and increasing export surpluses have compensated for the lack of domestic consumer and investment demand. However, if the number one export nation struggles with low levels of economic dynamism in emerging countries, an economic downturn is inevitable. Thus far, periods of extensive stagnation have not presented a real problem for Germany. This is why, politically speaking, the country is not prepared for a phase of secular stagnation.

Thus, the biggest challenge of the social market economy is boosting dwindling growth, but without a race to the bottom with respect to wages and social security standards, which would contradict the core promise of the social market economy. Germans' doubts about the current economic and social system are already growing: according to a poll from March 2015, 89 percent of Germans like the general idea behind the social market economy. However, only 46 percent believe that their country's economy is still functioning on the principles of the social market economy.[24]

Only 46 percent of Germans believe that their country's economy is still functioning on the principles of the social market economy

These doubts as to whether the promises of the social market economy can be kept have provoked a crisis of confidence in Germany. This lack of trust is further intensified by the level of global instability present at the moment: the state of economic development in China, the dispute between Russia and Ukraine, the Syrian conflict, political unrest in North Africa and the Middle East, the global terrorist threat and the ongoing standoff between North and South Korea. These and other uncertainties can easily lead to societal fears that would make the political implementation of necessary reforms more difficult, if not impossible. Good governance that seeks to reestablish lost trust is key to successfully adapting the social market economy to changing global circumstances.

The Global Effect of German Economic Development

Germany's economic stability has global implications. First of all, it is one of the United States' most important trading partners. In 2014, the United States exported about $50 billion in goods to Germany, making Germany the sixth largest importer of U.S. goods, behind Canada, Mexico, Japan, China and the United Kingdom.[25] Thus, a stable and growing German economy is a significant source of additional income for U.S. exporting companies.

More critically, Germany is Europe's largest economy. This status means any economic developments in Germany have a major impact on all of Europe. Many German exports are manufactured with material inputs that were imported from abroad. According to the most recent data from the OECD, in 2009 a quarter of all German exports consisted of such inputs. In vehicle construction, the share amounted to as much as 35 percent.[26] Geographical proximity increases trade with inputs, making Germany's European neighbors the main beneficiaries of this trade as they gain a growing value-added share

in German exports.[27] In 2012, for example, German industrial demand for inputs created a total of about 3.5 million jobs in the European Union.[28]

A downturn in the German economy would have a negative effect on the economic development of the entire European Union. The ensuing consequences for U.S. exporters would be more severe than those of an isolated economic crash in Germany, as the United States exported goods worth more than $275 billion into the European Union in 2014. A sluggish economy in Europe would not only hit U.S. exporters, but the entire U.S. economy as well. However, this would not be solely because of a drop in exports to Europe, but also the impact a struggling economy would have on the value of the euro. Weak economic development usually leads to a devaluation of the ailing economy's currency. A devaluation of the euro can be equated with a revaluation of the U.S. dollar. The competitiveness of U.S. companies would hence decrease, not only in Europe but also in third markets in Asia and South America.

Thus, Germany's economic success is critical for the European Union, United States and beyond. Although it appears that Germany has gone from being the "sick man of Europe" to an "economic superstar," without the necessary investment, that track record of success may not be as sustainable as it currently appears. An economic downturn could have deep consequences beyond Frankfurt and Berlin. Therefore, policymakers around the world should be paying close attention to the more nuanced economic challenges that face the Federal Republic.

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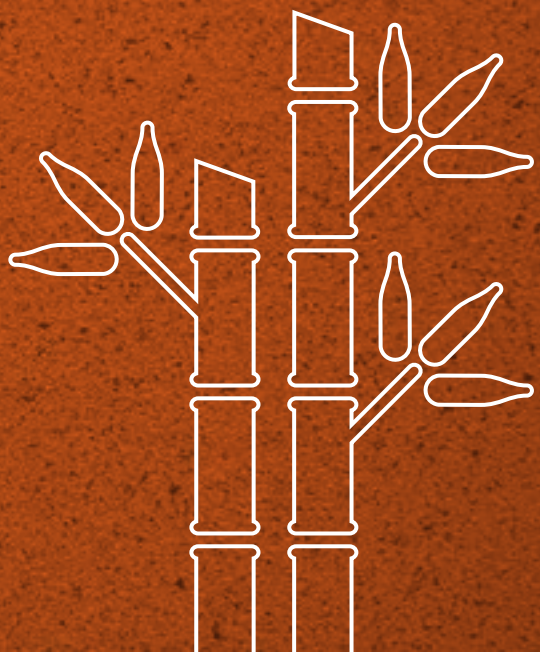
The End of Panda Politics

Bernhard Bartsch



The End of Panda Politics

Somewhere in the bamboo forests of China's Sichuan Province, two pandas are being readied for their journey to Germany. The animals are to accompany Chinese President Xi Jinping when he visits Berlin next year, and will serve as goodwill ambassadors in the city's zoo. Everyone loves pandas: They are cute, vulnerable, peaceful and vegan. Policymakers in Beijing would like nothing more than for the world to feel for China at large the kind of sympathy it affords the country's national animal. "Panda diplomacy" has therefore long been a part of the country's soft-power portfolio.

Not only are the creatures themselves highly symbolic, but so are the arduous negotiations that have preceded their dispatch. Germany's first pandas were simply a state gift, given to then-Chancellor Helmut Schmidt in 1980. Their successors, however, have required many years of detailed discussion at the highest levels in order to address the many political conditions, the legal framework and the considerable sums of money involved. (This time the pandas are not a gift from China, but are being loaned to Germany as part of a specially organized bilateral research project.)

The pandas are the warm and fuzzy part of German-Chinese relations. In other areas, the contact has become less pleasant, a development that Germany's politicians and business community observe with growing unease. For many years the relationship was reciprocal: Germany's innovative power and China's modernization complemented each other perfectly. Now, however, there is a greater awareness of the economic and political competition between the two nations—and of the conflicts that could result.

Diplomacy and well-functioning business partnerships demand that discord be avoided if at all possible—and for good reason. Yet when they are able to speak freely, Germany's managers and politicians are now asking how much longer they can count on German-Chinese relations to remain harmonious and how Germany should position itself vis-à-vis China in the future. Until now, the instruments available to serve Germany's considerable interests have been weak at best.

Special Relationship with Cracks

Germany still enjoys a special relationship with China, each country playing a key role for the other politically and economically. No other European nation has more extensive ties to China. The two countries jointly organize more than 50 programs and events for promoting dialogue, including prominent government consultations. As part of the consultations, German Chancellor Angela Merkel traveled to Beijing in June, accompanied by six cabinet members and five state secretaries. In addition, Germany is the only country with which China regularly holds cabinet meetings at the highest level of government.

Economically, the two countries are the most important trading partner each has on the other's continent. Exports to the People's Republic account for approximately 2 percent of Germany's gross domestic product. For many German corporations and midsized technology firms, China is a

German-Chinese Dialogue Mechanisms

List of Abbreviations

Germany:
AA – Federal Foreign Office
BAKS – Federal Academy for Security Policy
BGR – Federal Institute for Geosciences and Natural Resources
BMAS – Federal Ministry of Labor and Social Affairs
BMBF – Federal Ministry of Education and Research
BMUB – Federal Ministry of Environment, Nature Conservation, Building and Nuclear Safety
BMEL – Federal Ministry of Food and Agriculture
BMFSFJ – Federal Ministry of Family Affairs, Senior Citizens, Women and Youth
BMG – Federal Ministry of Health
BMI – Federal Ministry of the Interior
BMJV – Federal Ministry of Justice and Consumer Protection
BMVg – Federal Ministry of Defense
BMVI – Federal Ministry of Transport and Digital Infrastructure
BMWi – Federal Ministry of Economic Affairs and Energy
BSH – Federal Maritime and Hydrographic Agency
BfN – Federal Agency for Nature Conservation
DAAD – German Academic Exchange Service
GfZ – Federal Agency for Nature Conservation
DFG – German Research Association
DPMA – German Patent and Trade Mark Office
PTB – National Metrology Institute of Germany
SPD – Social Democratic Party of Germany

China:
ACYF – All-China Youth Federation
AQSIQ – General Administration of Quality Supervision, Inspection and Quarantine

Policy & Administration

2011
Government consultations
between line ministers, presided over by the two heads of government

1984
Party dialogue
SPD / *CPC*

N. N.
Dialogue on foreign and security policy
BMVg / *MOD*

2000
Dialogue on fighting crime (vice-minister level)
BMI / *MPS*

1990
Exchange on building a constitutional system in the field of civil service and administration law
BMI / *MoHRSS*

2003
Consultations on fighting terrorism

2000
Dialogue on rule-of-law
BMJV / *LAO*

2003
Human rights dialogue

2016
Consultations on cyber-technology

2005
Exchange between legislative bodies
German Bundestag / *NPC*

2005
Seminar on security policy with high-level officials
BMVg; BAKS / *MOD*

N. N.
Consultations on consular affairs

2006
Youth policy dialogue
BMFSFJ / *ACYF*

2009
Symposium für Sports Science
BMI / *General Administration of Sport of China*

2014
Advertising and information platform for tourism

1982
City partnerships
Federal states / Provinces

2004
Exchange in the fields of employment policy and legislation
BMAS / *MoHRSS*

1980
Dialogue on health care
BMG / *MoH*

2011
Forum for Representatives of Media, Trade Associations and Government Authorities
AA

2011
Media Ambassador China-Germany (exchange program for journalists)
Robert Bosch / *Global Times*

2012
Zukunftsbrücke: Chinese-German Young Professional Campus
Mercator Stiftung; BMW Stiftung / *CASS; ACYF*

2012
Alliance for Vocational Education and Training
BMBF / *MoE*

2005
Dialogue on civil society
N. N.

N. N.
Cultural Network
Robert Bosch Stiftung / *Goethe Institut*

2012
Model partnerships in higher education
BMBF / *MoE*

Culture & Society

1998
College of Higher Education (CDHK)
DAAD / *Tongji Universität*

2008
Schools: Partners for the Future (PASCH)
AA

2012
Institute for Advanced Study
BMBF / *MoE*

CASS – Chinese Academy of Social Sciences
CPC – Communist Party of China
CRAES – Chinese Research Academy of Environmental Sciences
CSB – Chinese Seismic Bureau
LAO – Legislative Affairs Office of the State Council, P. R. China
MEP – Ministry of Environmental Protection
MIIT – Ministry of Industry and Information Technology
MOA – Ministry of Agriculture
MOD – Ministry of National Defence
MoE – Ministry of Education
MoF – Ministry of Finance
MOFCOM – Ministry of Commerce
MoH – Ministry of Health
MoHRSS – Ministry of Human Resources and Social Security
MoHURD – Ministry of Housing and Urban-Rural Development
MoST – Ministry of Science and Technology
MoT – Ministry of Transport
MPS – Ministry of Public Security
NDRC – National Development and Reform Commission
NEA – National Energy Administration
NIM – China International Institute of Metrology
NPC – National People's Congress
NSFC – National Natural Science Foundation of China
PBOC – People's Bank of China (Zentralank)
SAC – Standardization Administration
SIPO – State Intellectual Property Office of China
SOA – State Oceanic Administration

make-or-break market. More than 5,000 German companies are currently active in China, and more than 1,000 Chinese companies operate in Germany. For many years, Chinese have been the largest cohort of foreign students enrolled at Germany's institutions of higher education (currently some 23,000) and are thereby establishing a growing network of connections on both the personal and societal levels.

China is defending its interests with growing constancy and insistence. Beijing has a right to do exactly that, but it is forcing Berlin to reconsider its own interests and how it will pursue them.

The political, economic and social ties now are so close that it is hard to imagine a fundamental upheaval in the countries' relations because of a single conflict. Yet the more the relationship develops, the more complex it becomes. China is hardly a panda strolling peacefully across the global stage. The country is defending its interests with growing constancy and insistence. Beijing has a right to do exactly that, but it is forcing Berlin to reconsider its own interests and how it will pursue them.

Three current issues illustrate the cracks that threaten to undermine the harmony that has previously been the hallmark of German-Chinese relations.

1. Kuka

This summer the name Kuka became synonymous with the question of how welcome Chinese investment is in Germany. The robot manufacturer Kuka is considered a key player in Industry 4.0, Germany's strategic initiative to combine manufacturing and high-tech. Seeking to acquire the company, the China-based Midea Group made Kuka's shareholders an attractive offer, stoking fears that the Chinese could gain access to Germany's core know-how—and not just at Kuka, but also at firms such as Daimler and Siemens that use Kuka robots in their production lines.

The German government went to work behind the scenes to assemble a consortium of German players that could make a counteroffer and ensure Kuka remained in German hands. Rumors spread that Berlin might hinder a foreign takeover by dragging out the approval process for years. Critics accused the government—in particular Economics Minister Sigmar Gabriel—of protectionist behavior, thereby chipping away at the cornerstone of Germany's economic policy, namely support for free markets. Can Germany adhere to this principle when dealing with a major economic power that uses protectionist barriers to shield many of its own economic sectors?

Gabriel's efforts prompted considerable displeasure in Beijing and ultimately failed at home because of the disinterest exhibited by German industry and the country's shareholding laws. The steps Midea will take as majority owner remain to be seen. Yet as China aggressively expands into world markets, there will be an ongoing discussion about the difference between engaging in protectionism and ensuring business locations remain viable, a discussion that will undoubtedly feature—contentiously—in German-Chinese relations.

2. Market Economy Status

Similar concerns underlie the debate about whether China should be granted market economy status (MES), something Beijing demands the EU do by December 2016. China justifies the move based on the country's 2001 accession agreement to the World Trade Organization (WTO). If MES is awarded, it would be more difficult for European companies to defend themselves against Chinese price dumping. The decision to grant MES will be made at the EU level; Germany, however, has a strong voice in the matter.

Policymakers in both Berlin and Brussels are frustrated that their various options are unsatisfactory. On a substantive level, a broad consensus exists that China does not meet the requirements for MES. Businesses complain about conspicuous asymmetries in the competitive conditions that foreign firms face in China and that Chinese companies find in Europe—for example, in terms of rule of law, the awarding of contracts for public projects and openness toward investment.

At the same time, Germany and other EU members must concede that, from a legal perspective, China has a number of solid arguments on its side. Conversely, China's chances of winning are generally perceived as slim were it to contest its case at the WTO. If they want to avoid a trade war with China, the Europeans will, for the most part, have to accommodate China's request—and begin looking for new trade-protection mechanisms that do not violate WTO regulations.

3. South China Sea

Although China insists on adherence to international law when it comes to being granted market economy status, it is more than willing to dismiss international jurisprudence when

the issue is sovereign rights in the South China Sea. In July, the Permanent Court of Arbitration in The Hague rejected most of China's claim to territory near the Philippines and Vietnam. Although China has signed the UN Convention on the Law of the Sea, it refuses to accept the ruling. As a result, the conflict with its neighbors and with the United States, which maintains a military presence in the Pacific, threatens to escalate.

Although Germany's policymakers and business community are happy not to be directly involved in the dispute, Berlin is forced to watch from the sidelines as a conflict brews in East Asia, a conflict that has the potential to destabilize one of the globe's most important economic regions. China's outright rejection of the ruling in The Hague also demonstrates how difficult it is to include the country in international governance mechanisms—something Germany has a fundamental interest in doing.

Scenarios for China's Development

The current debate goes beyond demonstrating where the potential for tension exists in German-Chinese relations. At least as important as individual examples of discord is the general uncertainty surrounding the direction China's development will take. For a long time—too long, from today's perspective—Germany's political and business leaders acted on the assumption that the Chinese system would converge with the Western model over the medium term. The trend toward a less regulated economy, stronger rule of law, an ongoing opening to the rest of the world and, to some extent, a weakening of political control seemed irreversible. Such assumptions were what allowed Europeans to assert that China could be recognized as having a market economy within 15 years. They presumed it would happen as a matter of course.

Now, however, in the Xi era, that certainty has largely dissipated. China finds itself in a phase of structural upheaval instead. The degree to which China does or does not succeed in transforming itself will also impact its relationship with Germany.

In order to better understand long-term strategies for dealing with China, the Bertelsmann Stiftung and the Fraunhofer Institute for Systems and Innovation Research identified several scenarios of how things in China could develop through 2030.[1] From the German perspective, three scenarios are equally troubling:

- In the **Status Quo scenario**, China's political and economic system remains largely stable. Accordingly, China would continue to be a difficult but relatively reliable partner for German companies and policymakers.
- In the **Chinese Dream scenario**, China's government successfully implements its ambitious economic reforms. This would make the country more of an economic competitor for Germany, but also a continued growth market and stable political partner.
- In the **Great Wall scenario**, several of the current problems escalate, causing China to become isolated, similar to what has happened with Vladimir Putin's Russia. German-Chinese relations would suffer, as would the German business community.

What all the scenarios have in common is that dealing with China will become more of a challenge. Another commonality, however, is that Germany can benefit from all of the potential developments if its business and political leaders respond appropriately and soon. Although it is not possible to formulate a concise strategy for dealing with China, several opportunities exist that will play a crucial role in determining how German-Chinese relations evolve.

Focus Areas for Germany's China Policy

1. International Governance

Regardless of how China develops, Germany has an interest in including the People's Republic to a greater degree in international governance mechanisms so that Beijing can take on more responsibility addressing global issues—for example, in the G20, diplomatic coalitions formed to overcome current crises or at the UN. China has publicly expressed the desire to become a leading world power, yet it remains unclear to what extent it can take on this role within existing structures or wants to make use of its own parallel institutions.

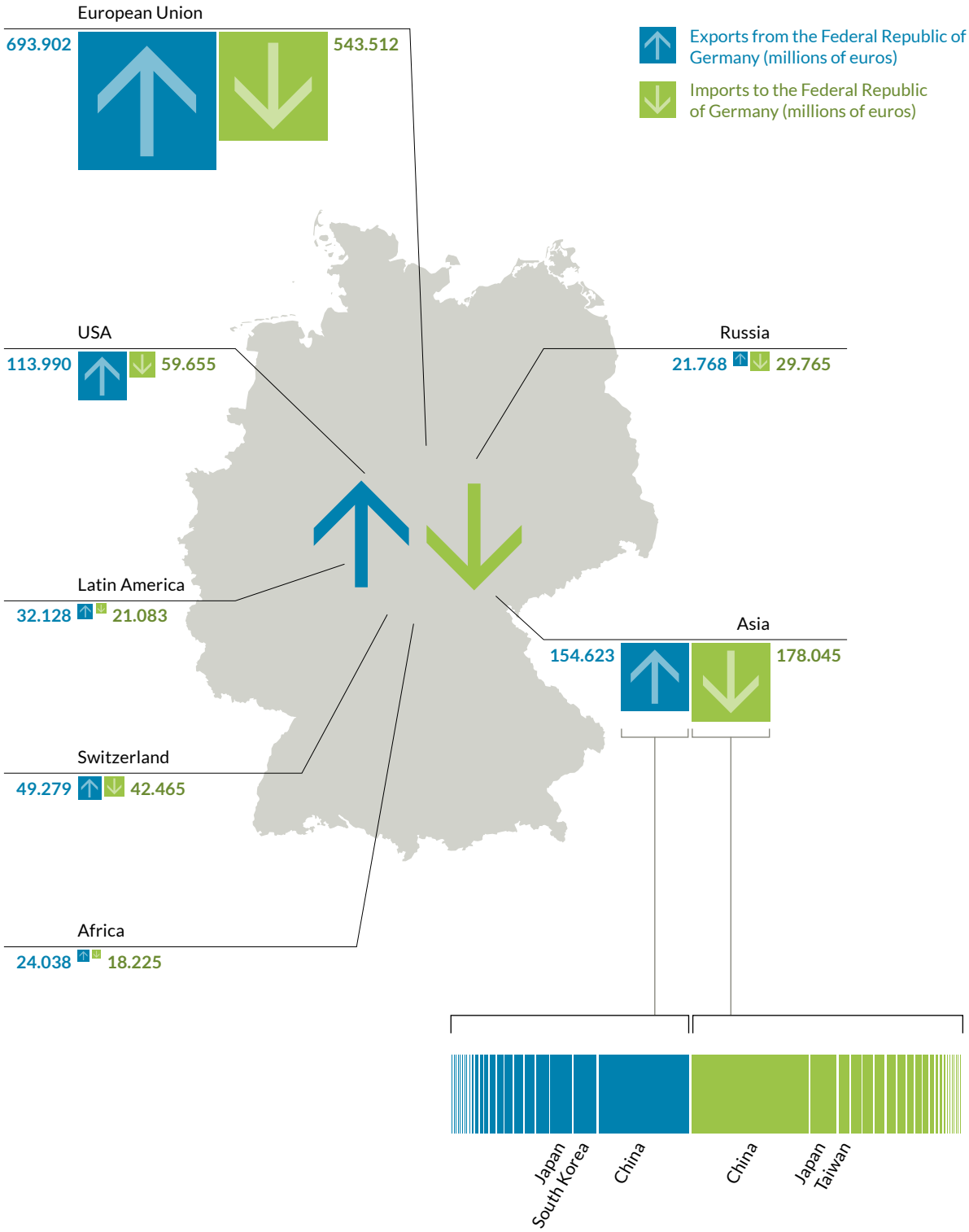
China is skeptical of existing institutions for global governance because it does not feel it is adequately represented in them. Parallel institutions such as the Asian Infrastructure Investment Bank (AIIB) or the Shanghai Cooperation Organization (SCO) diminish the influence of traditional institutions. The degree to which Germany should participate in these Chinese initiatives is, diplomatically, a sensitive topic. On the one hand, Germany has an interest in maintaining and strengthening existing mechanisms. On the other hand, it does not want to be excluded from the new organizations in the event they become generally accepted.

In the case of the AIIB, Germany decided to become a member, in part to exert influence on the bank's development. The establishment of the AIIB is, however, a good example of how China is able to play Western nations off each other, as the United States tried until the last minute to prevent the new organization from being accepted as a serious alternative to institutions such as the World Bank and the Asian Development Bank.

2. Political Alliances

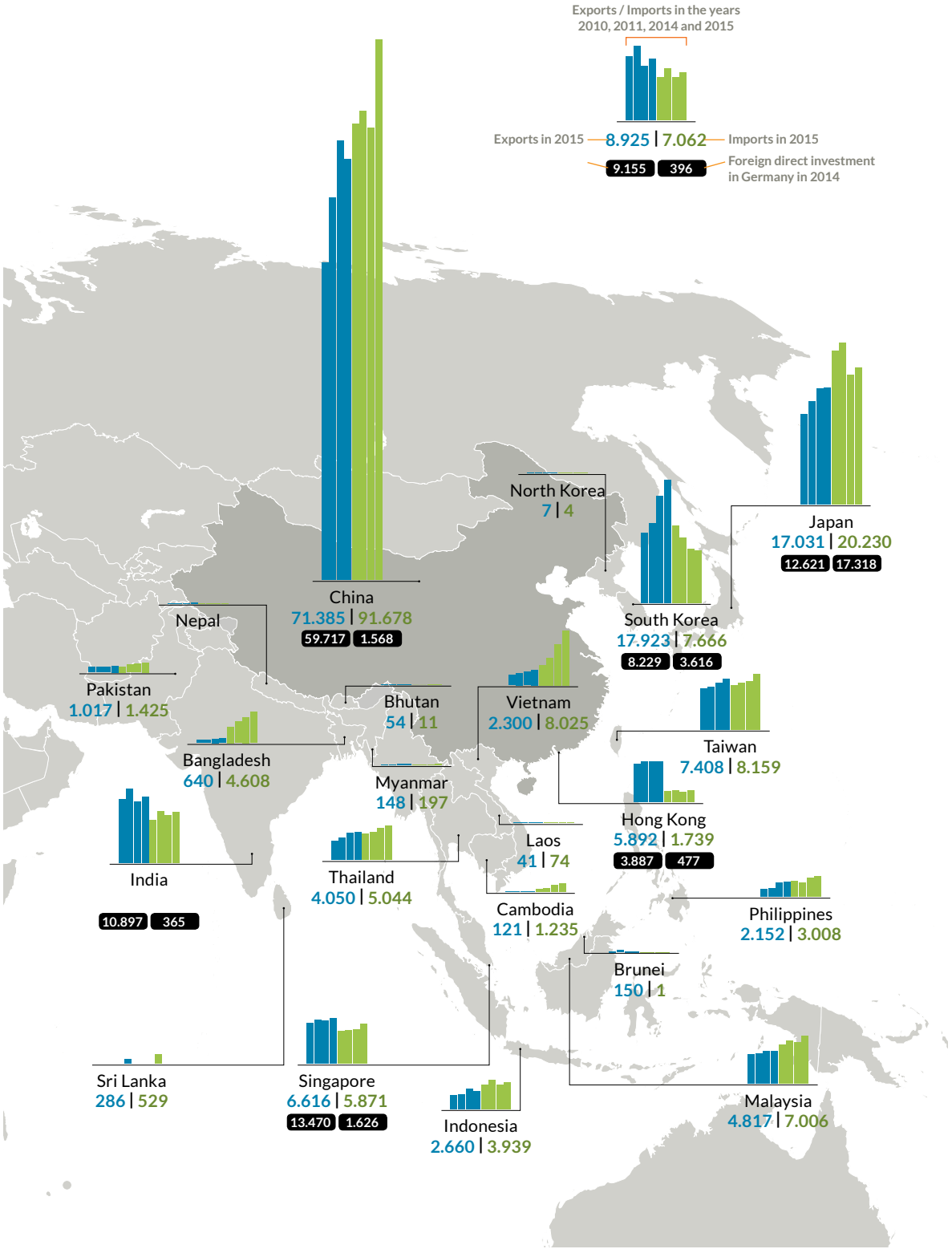
As much as Berlin has benefitted from and wants to maintain its special relationship with Beijing, it will not be able to count on receiving preferential treatment over the long term. In all of

Exports from and Imports to the Federal Republic of Germany, 2015



Source: German Federal Statistical Office (DEStatis) https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/ForeignTrade/TradingPartners/Tables/OrderRankGermanyTradingPartners.pdf?__blob=publicationFile

German Exports to and Imports from Asia



Source: German Federal Bank, "Bestandserhebung über Direktinvestitionen", April 2016

the scenarios examined, as a midsized power Germany would gain in the coming years only if Europe had a coordinated, effective foreign policy in place with regard to the People's Republic. There are many reasons why the EU's existence should be safeguarded, China's rise being one of them.

China's development is changing the international power structure. In order to be heard within it and to secure its own interests, Germany would be well advised to seek new coalitions, such as with other Asian countries. This applies both if China's global political and economic influence increases, and if China becomes involved in international confrontations. Forging new alliances is, however, not without its risks. China mistrustfully monitors where partnerships emerge around the world, especially when Beijing suspects such partnerships could offset its own increasing importance and might be designed to contain it.

3. Promoting Reform and Upholding Values

Germany has a strong interest in China's stability and having an effective government. Moreover, stability and reforms are mutually dependent: In the past, China's stability was the prerequisite for the reforms successfully implemented in many areas. In the future, it will only be possible to maintain stability if additional reforms are carried out. There is no lack in China of ambitious, intelligent goals for revitalizing the country. Yet great uncertainty exists as to whether Beijing is indeed on the right path to achieve these goals—and quickly enough to keep pace with its growing challenges.

In the past Germany has supported China's reform policies in many areas, and it should continue doing so. However, this includes recognizing that China's reformers are not only to be found among its politicians. Human rights activists and critical journalists are regularly subjected to repressive measures; openly supporting them is politically risky because China's government views this as interference in its internal affairs. Conversely, not supporting them heightens the risk of hindering reforms instead of promoting them. All of the scenarios that envision successful reform show that progress in this area is not possible without better rule of law, a system of values that espouses freedom, and a lessening of restrictions on digital media.

Maintaining a balance between pursuing interests and upholding values is one of the toughest challenges Germany's policymakers face in dealing with China. The German public expects the country's leaders to actively defend Western values such as democracy, freedom of expression and freedom of the press. China's government resists counsel offered by Western nations and sanctions countries that get too involved in its internal affairs. Defending Germany's values without endangering its business or economic interests is a balancing act that the country's diplomats will have to maintain in all of the scenarios likely to develop in the coming years.

4. Innovation

Regardless of how China develops, the competition to remain a leading innovator will be a key factor determining Germany's future prospects. Germany's economic strength stems from the innovative power of its businesses. For the most part, Germany alone will decide if it retains this competitive edge. The competition, however, is growing. China is investing enormous sums of money to catch up with the world's innovators, especially in sectors in which Germany has traditionally excelled, such as mechanical engineering, renewable energy and hybrid vehicles.

Regardless of how China develops, the competition to remain a leading innovator will be a key factor determining Germany's future prospects

This plan has only been partially successful until now, although China has become a global leader in a number of industries including telecommunications technology and high-speed trains. In any event, the new competition is forcing German industry to develop more products faster and better in order to maintain the innovative advantage of offering goods "Made in Germany." The country's policymakers must make this possible by putting the relevant educational policy framework in place.

Should China succeed in becoming an innovation leader in the relevant industries, it would be a serious competitor for German firms and, at the same time, a business location that offers many promising opportunities. If Germany's businesses want to benefit from China's innovative power and have access to its brightest and best, they must make their Chinese employees and research centers an integral part of their global development strategies.

First movers would have a considerable advantage here. Until now, however, few German companies have been confident

to transfer their core knowledge to China. Such a step will only pay off when the People's Republic achieves a truly level playing field, one that effectively protects intellectual property rights and ensures open access to the country's markets. This development can only be expected in the scenarios that assume the greatest willingness on the part of China's leaders to introduce reforms.

5. Free Trade and Investment

As a major exporter, Germany has a core interest in promoting free trade. China will remain an important sales market for its products. How the global trade regime develops will also determine the options Germany has for further reducing trade barriers. New breakthroughs seem unlikely within the framework of the WTO. Therefore, Germany should pursue additional European free trade agreements (FTAs) in order to prevent German exporters from being disadvantaged by other bilateral or regional FTAs. One possibility is a European-Chinese FTA, in particular one that also reduces non-tariff barriers.

Chinese foreign investment is increasing and as long as the country prospers economically, this trend is likely to continue. This activity stems, on the one hand, from the desire to profitably invest foreign currency holdings, for example in real estate. On the other, it is part of a strategy to create global corporations based in China, for example through the acquisition of successful Western companies. The latter goal, in particular, is controversial.

The extent of future political and economic resistance depends largely on how China is perceived on the international stage. Germany, however, has a fundamental interest in attracting Chinese capital. It can increase its appeal by reducing bureaucracy and doing more to market itself as an advantageous location for business.

A Final Word

China and Germany are key partners for each other. Their economic, political and social ties are closer than ever before. This is a welcome development, since Germany and China need each other: as markets and fair competitors, as political allies working to address global challenges and as sources of social inspiration.

The closer connection means, however, that never before has so much been at stake. The German and Chinese economies no longer simply complement each other, but increasingly compete with one another as well. That is a natural development. Conflicting interests in the political sphere must also be expected. At the same time, both Germany and China face enormous pressure to implement reform. The stress in each of their systems is also being felt in their bilateral relations.

Germany should prepare itself for disputes with China that are more difficult than those of the past. Until now, the two countries have had little experience dealing with such situations. The challenge will be to create structures that make it possible to endure these conflicts and prevent them from spilling over into other areas. This will require Germany to become more aware of its own interests and to develop instruments capable of achieving them. That might be painful, since it could disrupt what has previously been a harmonious relationship. It will also require recognizing that Germany's options for taking action where China is concerned are often limited. After all, German-Chinese relations involve much more than just pandas frolicking in a zoo.

ABOUT THE AUTHOR

Bernhard Bartsch is a senior expert at the Bertelsmann Stiftung in Gütersloh, Germany.

Citations

1 *China 2030: Szenarien und Strategien für Deutschland* (China 2030: Scenarios and Strategies for Germany). Bertelsmann Stiftung, June 2016.

Further Reading

China 2030: Szenarien und Strategien für Deutschland. Bertelsmann Stiftung, June 2016.

The Bertelsmann Stiftung has made an online tool available in conjunction with this study. It allows users to compare their own expectations of how China will develop with those of the experts: https://china-szenarien.bertelsmann-stiftung.de

More than a Market—How German companies are growing roots in Chinese society. Bertelsmann Stiftung, May 2016.

Jabin T. Jacob. *Wirtschaft im Abschwung? Der Blick Asiens auf China*. Bertelsmann Stiftung, April 2016.

A Surplus of Anxiety: TTIP and Germany

Christian Bluth

Introduction

The Transatlantic Trade and Investment Partnership (TTIP) is projected to be the most comprehensive, ambitious trade agreement in history, linking the world's two largest economies and setting standards that, for better or worse, will shape production, supply chains and consumption far beyond the European Union and United States. Econometric forecasts of TTIP's potential suggest that EU member states that already have a robust trade and investment relationship with the United States will see the greatest economic gains. For Germany, the world's third largest exporter and one of the United States' top investment partners, TTIP's appeal might seem obvious. However, a recent Bertelsmann Stiftung survey reveals a starkly different landscape on the ground in Germany.

In February 2016, only 17 percent of Germans supported TTIP—a dramatically low number compared with 55 percent two years earlier. Some of Europe's most trenchant, visible opposition to the agreement has come out of Germany. Skepticism of TTIP runs throughout German society, from the young, uneducated and unemployed to academics and professionals at the forefront of their fields.

So what happened? After all, exports constitute the backbone of the German economy, amounting to up to 40 percent of German GDP. Every fourth job in the country depends on exports. The 100 biggest German companies make two-thirds of their revenue abroad. Globalization has helped Germany's economy to grow considerably.[1] Germany strives to be the *Exportweltmeister* (export world champion), as if international trade were a sport. So why has the country lost its taste for the sport in which it excels?

This paper explores the key sources of TTIP opposition and skepticism, and how that skepticism shapes the political landscape in Germany. Understanding the root of this opposition is critical for policymakers in Brussels, Washington and Berlin. As the EU's largest, most populous member state, Germany has an influential voice in the EU's trade and foreign policies, and Berlin's blessing is key to TTIP's passage.

Decline in Support for TTIP

The Bertelsmann Stiftung survey found that 33 percent of Germans surveyed were against TTIP, though many remain undecided. The share of participants in the survey that did not feel informed enough to voice a clear opinion on TTIP also rose from 8 to 30 percent over the past two years. This is surprising since so many Germans (52 percent) said they are very interested in the topic of TTIP. The large share of people undecided about TTIP can be divided into three groups: those who are not actually interested in the matter (a minority), those who are confused by the many conflicting statements about the content of the trade deal and those who have adopted a wait-and-see approach for the actual negotiation outcome.

Ongoing criticism of TTIP has drawn many of the previously undecided Germans into the anti-TTIP camp and at the same time has made many who previously supported the deal feel much less secure about their position. Many people used to understand trade deals as a mere reduction of tariffs, leading

to increased exchange of goods. Such exchange has—and continues to have—a positive connotation for most people. But fierce criticism of TTIP has made many realize that much more is at stake.

Given how widespread skepticism toward TTIP is, it should come as no surprise that Germans oppose the agreement for a variety of reasons. Concerns about TTIP's content, such as provisions for investment protection and the extent to which negotiators aim to establish harmonized trans-Atlantic standards and regulations, are particularly common. Many fear a "race to the bottom" in protections for consumers, workers and the environment, and others simply oppose further movement toward globalization.

Opposition to TTIP is Found throughout the Entire Society

When looking at the subgroups that are most opposed to TTIP, it is striking that the opposition is not particularly strong among the usual suspects, those that might be perceived as the "losers of globalization." The typical TTIP opponent is not necessarily an unemployed man with limited education. Among Germany's unemployed, lower-paid workers or the less educated, there is a particularly high level of uncertainty about TTIP, but not a particularly strong rejection of it. So if it is not the "losers of globalization" driving the TTIP backlash, then who is it? Surprisingly, the split of support to opposition of TTIP is consistent across most subgroups—in other words, opposition can be found in all layers of German society.

Older, better-paid and educated people are more likely to have an opinion about TTIP. These groups tend to be either in favor or against TTIP and are less likely to be undecided than the average population. However, the ratio between those who believe that TTIP's consequences for Germany will be positive and those who think the consequences will be negative is roughly the same as the rest of the population: the negative opinion remains dominant.

Core Opposition Groups Are the Most Politically Engaged

A key finding of the study is that opposition to TTIP is strongest with the subgroup of participants that self-identified as politically engaged. Supporters of the strongly left-wing Left Party (die Linke) are the firmest in their opposition to TTIP. Behind them are the supporters of the Alternative for Germany (AfD), a right-wing party. Among the other parties, there are also strong degrees of opposition to the deal: Even supporters of the governing Christian Democratic Union (CDU) and Social Democratic Party (SPD) are more likely to oppose TTIP than support it. Support for TTIP only outweighs opposition among voters of the Free Democratic Party (FDP), an economically liberal party that does not currently hold any seats in the Bundestag. Though the party includes a large share of TTIP proponents, 20 percent of its voters are against the deal.

Hollowing-out Regulation—Protecting European Standards

Since average tariffs are already low in most industrialized countries, non-tariff barriers, such as the need to comply with diverging regulations, have become the most important obstacle to trade. As a result, a new generation of trade agreements, such as TTIP, has emerged. The hallmark of this new generation is that the agreements aim to make regulations converge, to lessen the trade-impeding effect seen when they come into conflict. This issue of regulation has been at the center of the debate on TTIP in Germany.

The split of support to opposition of TTIP is consistent across most subgroups—in other words, opposition can be found in all layers of German society.

One central point of criticism against TTIP has to do with concerns that the agreement might erode labor and product standards. Many Germans view U.S. standards—especially labor market, environmental and food product standards—as inferior to those of Germany or the EU at large.

In the 2016 survey, Germans' biggest concerns were consumer protection standards for food products (48 percent expect a negative effect due to TTIP), environmental standards (46 percent), labor and social standards (40 percent), and regulatory power of the state (37 percent). While these concerns exist to a certain degree in the United States, far more Germans expect TTIP to have negative consequences. The detailed results are displayed in Table 1.

Many Germans remember a series of agricultural and environmental controversies in Germany and other EU member states in the late 1990s and early 2000s, such as mad cow disease, excessive use of hormones in meat production and misuse of labels for organic food. As a consequence, consumer protection has been strengthened, both in Germany and

Table 1: Poll Results in Germany - How do you think TTIP will affect the following in your country? (in percent)

	Positive	Negative	Neutral	Don't Know
…economic growth	27	26	19	28
…employment and labor market conditions	23	28	22	28
…international competitiveness	29	24	19	28
…your country's global influence	23	21	26	29
…consumer protection (e.g., for agricultural products)	12	48	13	27
…environmental standards	12	46	16	27
…workers' rights/social standards	10	40	22	29
…cultural diversity	24	17	30	28
…public services	10	27	31	31
…democracy	10	28	32	29
…regulatory sovereignty	9	37	22	32

Source: Bertelsmann Stiftung, "Growing Skepticism: TTIP Under Pressure in Germany and the USA," April 21, 2016

at the EU level. Tellingly, the German Ministry for Agriculture was renamed the Ministry for Consumer Protection in the early 2000s (the ministry's name changed again in 2013). Since the initial name change, fewer agricultural scandals have been reported, giving consumers the impression that the higher EU standards have worked. The reputation of EU product safety standards is now very strong.

Environmental Protection

The environment is also a central concern for many in Germany. There is a perception that U.S. environmental protection standards are relatively weak. Part of this can be attributed to the prominence of climate change skeptics in public debate in the United States. Furthermore, practices such as fracking for natural gas, the extensive use of hormones in livestock or the use of genetically modified organisms (GMOs) are rejected by the German public. They are widely considered harmful to the environment and people's health. Some fear that TTIP would introduce these practices in Germany through the back door. They believe that once Germany faces greater competition from American businesses employing these practices, there would be pressure to allow them in Germany to keep domestic business competitive. Some see this as a "race to the bottom." At the same time, it is not widely acknowledged that U.S. regulation has established higher standards than Europe in some areas.

Only a minority of Germans believe that the TTIP negotiating mandate prohibits negotiators from accepting lower standards. The mandate, finalized in June 2013, was classified during the vital initial phase of the public debate on TTIP, so the intention to achieve higher standards across the board was mostly unknown when many citizens were forming their opinions and the anti-TTIP movement began to mobilize. The Council of the European Union declassified the mandate more than a year later, in October 2014, in an effort to make negotiations more transparent. Since then, the European Commission has made all EU position papers and textual proposals public, leaving only U.S. proposals and bracketed text (or language on which both parties agree) confidential. In spite of these efforts, many in Germany still fear that negotiators may eventually be willing to sacrifice product standards because they desperately want this trade deal to go forward.

International Law

In addition to concerns about product standards and the environment, there is also a strong criticism that protection of

What Is Investor-State Dispute Settlement?

Investor-state dispute settlement, or ISDS, is a mechanism whereby foreign investors may sue a host government for a breach of contract. Present in more than 3,000 trade and investment agreements, ISDS establishes ad hoc arbitration tribunals to adjudicate allegations of contractual breach and, if applicable, to determine appropriate compensation for the investor.

ISDS occurs outside of national judiciaries for the ostensible purpose of ensuring impartiality of judges in a neutral third-party forum. Proponents of ISDS argue that national courts may be encouraged by their government to rule a certain way, or may have a natural bias in its favor. Opponents of the mechanism claim that the ad hoc nature of tribunals creates incentives for judges—who may serve as lawyers in other arbitrations—to rule in ways that could be unfairly favorable to investors.

investor-state dispute settlement (ISDS) would undermine the judicial system and give foreign corporations a privileged influence over national regulation. Cases such as the recent *Vattenfall AB and others v. Federal Republic of Germany* have caused alarm in Germany about the potential of such bodies. After the 2011 nuclear disaster in Fukushima, Japan, the Bundestag voted to amend the Atomic Energy Act to speed up its planned phasing out of nuclear energy generation, with the goal of making Germany nuclear-free by 2022. In response, Vattenfall, a Swedish energy company that owned and operated two nuclear power plants near Hamburg, brought Germany to arbitration through the World Bank's International Centre for Settlement of Investment Disputes (ICSID), claiming the government had breached its commitments under the Energy Charter Treaty. The arbitration is still ongoing four years later, and recent reports suggest that Vattenfall is seeking roughly 5 billion euros in compensation for expropriation of property and loss of "legitimately expected" revenue. Even if the tribunal does not rule in Vattenfall's favor, the arbitration will cost the German government millions of euros in legal and other fees. According to Matthias Machnig, state secretary at the Federal Ministry for Economic Affairs and Energy, expenses associated with the trial alone could cost the government more than 9 million euros.[2]

Although ISDS rulings may award compensation, they cannot change laws and regulations. There is a widespread fear, especially in Germany—which has relatively strong environmental, labor and social protections—that the mere inclusion of ISDS provisions in trade and investment agreements creates "regulatory chill," or the maintenance or ex ante lowering of standards by lawmakers for fear of potential lawsuits. Many believe that including ISDS in TTIP would not only weaken existing regulation, but would also provide an important lever for foreign investors to prevent the institution of stronger regulation in the future. The public accepts the use of arbitration courts in trade deals with countries where the legal system is not independent and impartial. However, the legal system of the EU member states is perceived as sufficiently well developed and independent by Germans, hence the need for a specific protection of foreign investors is not widely acknowledged.

Thus, in the view of many, TTIP risks limiting the functioning of the state and weakens democratic institutions. These negative consequences outweigh the potential positive economic effects, which the German public does acknowledge that TTIP would bring. EU negotiators have frequently argued that these fears are unfounded and that, in fact, the ambition of TTIP is to establish a high level of consumer protection and product safety that would constitute a standard to be emulated worldwide. However, given that the negotiation process is not open to the public, these assertions are difficult to substantiate, and as a result the general public has not been convinced. Rather, arguments in support of TTIP are often seen as empty talk aimed at mollifying the opposition.

Globalization

Globalization has helped the German economy grow, opened new markets to German companies and increased the variety of products available to the German consumer at lower prices. However, these positive effects are overshadowed by negative consequences that are much more visible in the public eye. Many would argue that Germany's strong economy was made possible by the labor market reforms of the Schröder government in the early 2000s. These reforms were necessary because Germany was no longer competitive in global markets. While reforms were successful in restoring economic growth and bringing down the unemployment rate, they also resulted in a stagnation of real wages and—more importantly—a larger quantity of precarious and low-paid jobs. While the net effect was certainly positive, there were important redistribution effects. As a consequence, some associate globalization with precariousness and anxiety, instead

of growth and prosperity. Globalization has divided German society into "winners" and "losers". Inequality has risen over the past two decades, social mobility is low and low-wage workers, in particular, have witnessed a stagnation of salaries and live in fear that the industries in which they have been trained to work will become obsolete or that their jobs will be outsourced to other countries.

This is felt not only among the unemployed or the working poor; the members of the middle class also fear a decline in their socioeconomic position. According to a March 2016 survey by the German business newspaper Handelsblatt, 40 percent of Germans are unhappy with their economic situation. Fifty-eight percent agree with the statement "that children born now will face a worse situation in this country than I did."[3] These values are among the highest in Europe, even when compared with the crisis-ridden economies of southern Europe. Globalization may have benefitted Germany on the whole, but too many believe they have been on the losing side.

Even some "winners" of globalization are anxious. This is a substantial group, not just a few top earners. These are people that support increased global trade generally, but do not support TTIP because they fear a loss in regulatory quality and a threat to democracy. Others, for whom the reforms of the early 2000s were a boon, oppose TTIP because of its potential to change the economic status quo. After enduring the global financial crisis and the European sovereign debt crisis, Germany now has one of the lowest unemployment rates in Europe, at 4.5 percent, and a current account surplus of approximately 8.5 percent of GDP, second only to the Netherlands within the EU. Among a population that is characteristically risk-averse, TTIP—and the unknown or ill-understood changes it may bring to the German economy—is seen as a gamble that is unnecessary, if not irresponsible, to take.

Mobilization of the Anti-TTIP Movement

Although Germans who oppose TTIP would certainly cite some of the reasons listed above as the potential evils of the deal, the strength of the anti-TTIP movement also comes from its organizers' ability to mobilize quickly. The Stop TTIP group, an alliance mostly driven by environmentalist, consumer protection and left-wing political groups, has played a major role in shaping public opinion on the deal throughout Germany and across Europe. The group has painted TTIP as a danger to European product and environmental standards, as well as a protector of corporate interests. Furthermore, the activists attack the negotiators' lack of transparency, hinting that something nefarious must be happening behind closed doors.[4]

While other anti-TTIP activists have taken an emotional and sensational approach to the issues, the Stop TTIP campaign has developed credibility in Germany with its reasonable tone and messages that rely on evidence from studies and experts. This approach has been immensely appealing in scientifically oriented Germany.

40 percent of Germans are unhappy with their economic situation

Stop TTIP got its message out quickly and effectively through social media, emails and online and paper petitions. The group has mobilized a large Europe-wide network of organizations and people, which collected more than 3 million signatures from across the EU against TTIP and the EU-Canada Comprehensive Economic and Trade Agreement (CETA). Stop TTIP also successfully organized a march in Berlin in October 2015 that mobilized more than 100,000 protesters.

Neither German nor EU officials realized the potential of this campaign until it had already generated significant momentum. They were unable to get out in front of the movement and challenge the central claims being disseminated by the anti-TTIP camp. The German government and the European Union failed to take TTIP opposition seriously enough in 2014 and early 2015, and as a result, they have lost their ability to shape public discussion on the issue.

Corporate Interests

Support for an ambitious, comprehensive TTIP agreement might seem like a given for a German business. TTIP is expected to open the United States' massive market for goods and services, facilitate customs processes, and simplify investment and market access for large corporations and small- and medium-sized enterprises alike. Manufacturers would be able to streamline production for a wide range of goods intended for sale in the EU and the United States, cutting overhead costs that could then be passed on as savings to consumers or used for advertising or research and development. However, the German business community hardly has a unified stance on TTIP. While the Federation of German Industries (BDI) and other large industry associations are unequivocally in favor of TTIP, small- and medium-sized businesses have voiced mixed opinions, thus adding to the public skepticism about TTIP. According to a survey by the German Association for Small and Medium-sized Businesses (Bundesverband mittelständische Wirtschaft), small- and medium-sized businesses are skeptical about the advantages of a trans-Atlantic free trade agreement and weary of the effects of increased competition.[5]

The Federal Politics of a European Deal

Although the deal itself is being negotiated by the European Union and the United States, the German Bundestag is likely to have a say in TTIP's ratification. Much like CETA, TTIP will likely be a mixed accord, containing provisions that fall under member state jurisdiction and responsibility. In this scenario, the European Parliament *and* member state legislatures must ratify the agreement before the EU officially adopts the final decision to conclude it with the United States. Parliaments and other assemblies will vote on the agreement as a whole, not only on the provisions that fall under national authority. Given the political sensitivity of many elements yet unresolved, TTIP—as it now stands—faces a truly daunting challenge in the Bundestag and other European legislatures.

The European Commission's negotiating mandate lays out objectives from the member states for the Commission to follow as it works out the agreement with the United States. The mandate gives the Commission authority to broker a deal on behalf of the EU member states and enjoins negotiators to apply these objectives to the greatest extent possible. Yet politicians both inside and outside of Germany increasingly claim that the Commission is falling short in its obligation to uphold its mandate, and some even call for the formulation of a new version with stricter guidelines. In short, the European Commission holds the reins in the EU's negotiations with the United States and other trading partners, but remains accountable—both procedurally and politically—to its member states.

Although the final deal has not been negotiated and the Bundestag is not yet required to vote, TTIP has already sparked lively debate in Berlin. Members of the Bundestag and federal government have begun to take strong positions on the deal.

The Center-Right Christian Democrats

The center-right CDU as well as its Bavarian sister party, the Christian Social Union (CSU), have traditionally been business-friendly. While the parties support TTIP, CDU/CSU leaders have taken decidedly different approaches to the potential agreement. Although he has not attacked the substance of the deal, Bundestag President Norbert Lammert has advocated for greater transparency in the negotiation process. In October 2015, Lammert threatened that the Bundestag would not be able to approve the deal unless its members were given more access to relevant information. While he supports the deal in principle, he has said that this transparency is critical to the Bundestag's participation.

TTIP, as it now stands, faces a truly daunting challenge in the Bundestag and other European legislatures

The CDU's leader, Chancellor Angela Merkel, has only shown lukewarm support for TTIP. She recently spoke out in favor of the deal when U.S. President Barack Obama visited the Hannover Messe trade fair in April 2016. Since the event, she has returned to supporting TTIP only passively.

The Center-Left Social Democrats

While the Christian Democrats have taken a pro-TTIP approach, their coalition partners, the SPD, are still open to debate on the subject of both TTIP and CETA. In February 2015, the party held a conference to discuss the deals, entitled "Transatlantic Free Trade: Chances and Risks." Speakers both for and against the deals had the opportunity to voice their opinions. The debate has continued throughout 2016. Once the deal is finalized, the SPD's decision-making body will hold extensive discussions and determine the party's official position.[6]

Until recently, one of the most prominent Social Democratic proponents of TTIP was Sigmar Gabriel. Gabriel wears many hats in Berlin, as a member of the Bundestag representing a district in Lower Saxony, the minister for economic affairs and energy, vice chancellor of the Federal Republic, and chairman of the SPD. Gabriel's strong engagement in favor of TTIP has been viewed critically by many supporting his own party. His support has been interpreted as an attempt to convince the political center that the Social Democrats are a business-friendly alternative to the Christian Democrats. However, Gabriel has recently backtracked on this initial position. In May 2016 he publicly asserted, "TTIP, as envisioned by the Americans, can and will not happen."[7] Gabriel also recently pushed for more transparency in the negotiations. Though he did not directly come out against the deal, his comments demonstrate a shift in his position. Gabriel's party has been losing popularity rapidly across the country, so this may have been an attempt to engage voters and capitalize on public discontent with the deal. However, Gabriel is unlikely to win over enough voters to mount a serious challenge to Merkel's power if he faces her in federal elections next year.

The Opposition

While many politicians from the ruling parties have been cautiously supportive of TTIP, opposition parties have been active

critics of the deal. The Green Party platform is decidedly anti-TTIP on a variety of grounds, drawing on and adding to public resentment of the deal. The party claims that the deal would have adverse environmental effects, support "undemocratic corporate legal rights" and lead to a reduction in product standards.[8] In this view, TTIP would be a threat to both democracy and the environment.

The Left has also been extremely critical of the negotiations. Party officials are particularly wary of ISDS and argue that social and environmental laws will be in danger if large companies are given the right to sue states over them. Fracking is cited specifically as a potential danger of this corporate power. Critics argue that ISDS would make it costly and challenging for Germany to permanently outlaw fracking within its own borders. The Left also addresses citizens' concerns about GMOs and use of hormones in meat.[9]

If people do not know what kind of deal they will be getting, they expect the worst

On the far right, the populist AfD has also come out decidedly against the deal. Although the right-wing group does not hold any seats in the Bundestag currently, their rising power in local governments gives them a voice in the debate. From an economic perspective, one might expect the party to be open to free trade since it was started as an economically liberal party. However, the party's position on TTIP is based on its aim to regain more national sovereignty. In AfD leaders' view, globalization has harmed the ability of the state to pursue its own policies. In addition, globalization is blamed for immigration, criminality and loss of national identity. TTIP is viewed as an instrument to further advance globalization and thus does not attract many sympathies. Party leaders argue that the deal "aims to dilute consumer protection, environmental protection, legal security, social standards and cultural policy."[10] This platform resonates with many citizens who perceive the deal in this way and do not feel that the traditional ruling parties are doing enough to represent the people's concerns.

Politicians: Changing Public Opinion?

Although policymakers may respond to public perception of TTIP, few proponents have been successful in changing that perception. One important explanation for the negative public opinion of TTIP is that so few leaders have spoken out in favor of it. The chancellor is reticent, the SPD chairman is ambivalent, and the president of the Bundestag has been critical of the negotiation process. Politicians are careful to avoid being associated with TTIP because it is so unpopular, further contributing to its lack of popularity. They are also failing to correct public misperceptions about the deal.

So far, the proponents of TTIP have attempted to rally support by touting the potential positive economic effects of the deal. Since the potential economic benefits of TTIP are widely known in Germany, one could argue that this part of the communication strategy was successful. Yet advocates failed to understand that citizens' deepest concerns about TTIP are not economic, and that they foremost needed to assuage the fears associated with regulatory cooperation.

Off the record, many policymakers voice their concern about the growing skepticism about TTIP and wonder which new communication strategies might be more effective. The European Commission has changed its communication strategy from touting positive economic effects to emphasizing the envisioned high level of regulatory cooperation, but this shift may have come too late. TTIP proponents have failed to communicate the geostrategic element of TTIP, especially the opportunity that the United States and EU have to set global standards.

It would be possible to change public perception of TTIP in Germany, provided that the negotiators' final product turns out to be what its proponents claim: a trade agreement that aims to establish strong norms for products, labor, the environment and many of those standards and regulations that Germans and Americans alike hold dear. If people do not know what kind of deal they will be getting, they expect the worst. If, however, one can credibly demonstrate that TTIP will protect what they believe to be in jeopardy, it will be much easier to win public support for a trans-Atlantic trade agreement.

However, some observers believe that the negotiations, especially in the area of regulatory cooperation, are deadlocked. In Germany, the United States is frequently viewed as having a tough negotiating line. Many assert that if the United States does not adopt a more flexible posture and accommodate the elements people are concerned about, negotiators may only be able to agree to a "TTIP light." This would be an agreement significantly less ambitious and comprehensive than envisioned in 2013. "TTIP light" would likely cover market access provisions (i.e., tariffs) and other "low-hanging fruit," such as rules on some intellectual property rights, small- and medium-sized enterprises, state-owned enterprises, and customs and trade facilitation. Even these areas of relatively easy convergence would fall short of what the United States and EU would agree to in a more comprehensive deal. Many elements of the agreement are linked, which means that concessions to the offensive interests of one party—greater access to the U.S. government procurement market, for example—are

conditional on concessions to the offensive interests of the other, such as elimination of EU agricultural tariffs. A "TTIP light" would be disappointing for both sides, the growth effects would be much lower and the international standard-setting power would be almost nonexistent.

A Final Word

Beyond TTIP, the German public is becoming increasingly skeptical about international trade in general. Although Germany's export economy has benefited the country as a whole, many feel that globalization has disproportionately served the interests of large businesses and exacerbated inequality in society. Anxieties about TTIP are especially acute, given the breadth and depth of the proposed agreement and the perceived secrecy of its negotiations.

TTIP opposition in Germany takes many forms and stems from a number of concerns. Some fear that the agreement will lower labor and environmental standards and open the German market to unwanted competition from U.S. firms. Provisions on investment dispute settlement and the effects they might have on domestic laws and regulations trouble others. Despite what many Germans recognize as TTIP's potential economic value, the agreement's constituent parts leave many uneasy and unwilling to support it. Policymakers must come to understand the anxieties that people have about TTIP and address them in a serious way.

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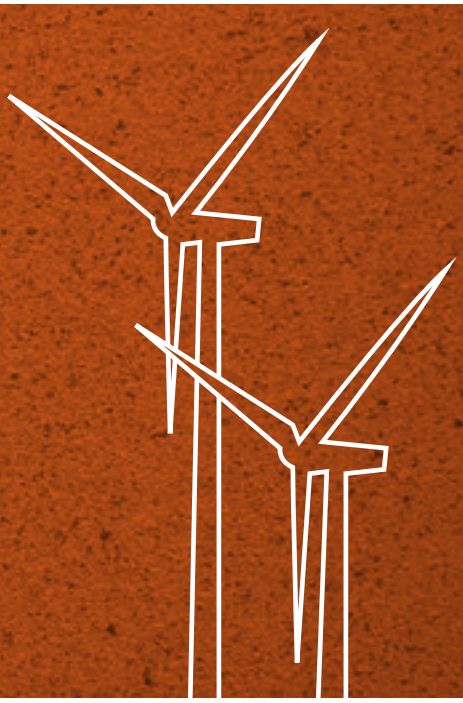
The Energiewende — A Success Story at a Crossroads

Arne Jungjohann



Germany is a world leader in renewable energy deployment. The Renewables 2016 Global Status Report ranks Germany as third (after China and the U.S.) in absolute and second (behind Denmark) in per capita installed renewable energy capacity.[1] Driven by a long-term renewable energy policy that dates back decades and a phase-out of its nuclear power, the country is spearheading a transition to renewables commonly known as the Energiewende ("energy transition"). This article explores Germany's key motivations for embarking on the Energiewende. It explains the uniqueness of the energy transition and investigates critical junctures in the country's policymaking in the last 20 years. As Germany's Energiewende continues to evolve, it faces many challenges ahead. However, there are real lessons to be learned from Germany as other states embark on their own energy transitions and explore the potential of renewables.

Five Motivations for the Energiewende

A number of evolving socioeconomic, security and environmental arguments have propelled the Energiewende over the last two decades. To some extent, they help explain the Energiewende's unique character as a bottom-up movement driven by citizens, which differs substantially from energy transitions in other countries such as the United Kingdom.[2]

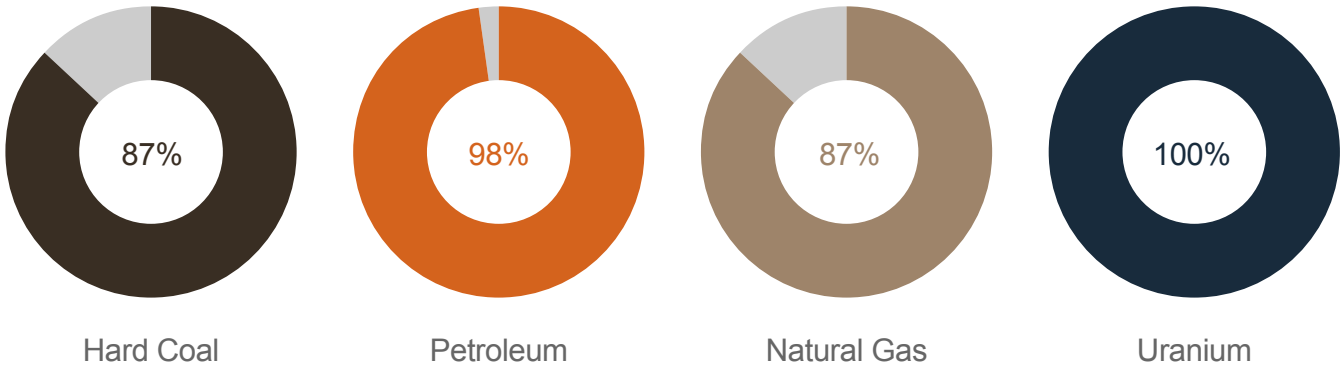
Fighting Climate Change

The Earth is warming at a faster rate than expected and 2016 is on track to be the hottest year on record, according to a report by the World Meteorological Organization (WMO).[3] A major motivation for Germany to transition to a renewable energy-based economy is its goal to fight climate change. A 2015 Pew Research Center survey found that 84 percent of Germans believe climate change is already harming or will harm people around the world (compared to 69 percent of Americans).[4] The same study looked at the partisan divide on the issue and found 57 percent of German conservative voters agree that global climate change is a serious problem (compared to only 30 percent of Republicans in the United States). In fact, there is no debate among German citizens or lawmakers whether climate change is real: There is a broad consensus that climate change is happening, is caused by human activity, and must be addressed by reducing carbon emissions and cutting energy waste. The German public feels a responsibility to act. They understand that Germany is among the countries that have most contributed to carbon emissions over the past century.

Based on its domestic performance and international engagement, Germany is perceived as a climate leader. Between 1990 and the end of 2015, the country reduced its carbon emissions by 27.2 percent. Germany aims to go further, with an 80 to 95 percent reduction by 2050. However, meeting the 2020 target to cut emissions by 40 percent is unlikely, due to high levels of coal generation and lack of progress in cutting emissions in the heating and transportation sectors.[5]Reducing Energy Imports, Strengthening Energy Security

Another motivation for the energy transition is the idea that increasing use of renewables can strengthen Germany's energy security. Since the country does not have a lot of natural resources, aside from lignite (a poor and dirty form of

Figure 1: Share of Imports of Conventional Energy Sources in Germany



Source: BMWi

coal) and relatively expensive hard coal, Germany imports two-thirds of its energy, including uranium. This dependency on energy imports makes the country vulnerable to fluctuating prices for fossil fuels and political influence from abroad. This vulnerability is particularly clear in the case of Russia. Germany is by far the largest importer of natural gas from the Russian Federation. Furthermore, Germany only produces roughly 15 percent of its own natural gas, importing about 40 percent from Russia.

In 2013, Germany spent roughly 90 billion euros on energy imports, which made up 11 percent of its total spending on imports. Developing renewable energy, hand in hand with increasing energy efficiency, can help cut the country's energy imports and thus save money. The government estimates that renewable energy offset 9.1 billion euros in energy imports in 2013 alone, most of that in electricity and heat.[6]

Reducing and Eliminating the Risks of Nuclear Power

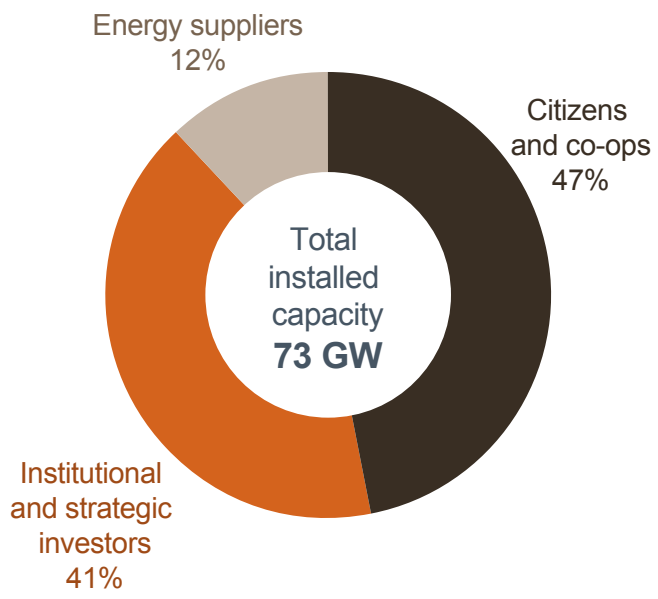
A third motivation for the energy transition is Germany's planned phasing out of nuclear power. In fact, the Energiewende movement began as a popular protest against the construction of nuclear reactors in the 1970s, long before climate change became a common concern. Among German politicians there is a broad consensus that nuclear power has no role in a sustainable energy future. If a large-scale accident like Japan's 2011 nuclear disaster at Fukushima were to occur at one of Germany's 20 nuclear reactors, it would cause disastrous environmental and economic damage and likely require millions of people to resettle. Most Germans are convinced that renewables are a safer alternative to nuclear. Furthermore, most energy experts agree that since large baseload power plants (those running 24/7 like nuclear ones) produce energy at a more constant rate, they are incompatible with wind and solar power. Renewables require flexible backup power plants that can ramp up and down quickly to complement the fluctuating electricity generation from wind turbines and solar panels. This might also explain why most Germans think that fighting climate change and phasing out nuclear power are two sides of the same coin.[7] Furthermore, building nuclear power infrastructure is considered to be overly costly while a solution for nuclear waste has yet to be found. Also, with international terrorism on the rise, the risk of nuclear proliferation (e.g., plutonium from nuclear plants to build dirty bombs) is a growing concern.

Economic Benefits for a Green Innovator

For a highly industrialized and export-oriented country such as Germany, the energy transition offers tremendous opportunities. The country is positioning itself as an innovator in green technology such as renewables and efficiency. The German Solar Energy Association, the interest group of the German solar industry, estimates that exports made up 65 percent of German photovoltaic (solar) production in 2013, up from 55 percent in 2011 and 14 percent in 2004. The target for 2020 is 80 percent. The German Wind Energy Association (BWE) puts the wind industry's current export ratio at 65 to 70 percent. Germany has built a strong domestic renewables market, not only for its own power supply, but also enabling manufacturing companies to position themselves competitively in the global market.

However, the economic benefits go beyond the manufacturing of wind turbines and solar panels. Deploying and operating renewables is labor-intensive. Those jobs cannot be outsourced. In 2014, roughly 355,000 people worked in the renewables sector in Germany (down from a high of 380,000 in 2011, due mainly to layoffs in the solar sector). This is more than in the coal and nuclear sectors combined. In 2015,

Figure 2: Ownership in Renewables in 2012



Source: AEE, www.unendlich-viel-energie.de

the German government estimated that renewables would create 100,000 net jobs by the year 2030 and 230,000 by 2050.[8]

Energy Democracy

In most countries, the energy sector has long been in the hands of big utilities, which operate large power plants. In contrast, renewables offer the opportunity to switch to a number of smaller generators. One notable feature of the German solar landscape is that neither big investors nor utility companies play a major role. The traditional energy suppliers invested relatively little in renewables. Rather, German farmers and homeowners own 60 percent of the country's capacity.[9] Though most countries do not collect data on this, it seems safe to say that Germany has a comparably high level of citizen involvement in energy production. This is one central factor that differentiates the Energiewende from energy transitions in other countries. One in every 60 Germans is now an energy producer. Germans can even sell power at a modest profit thanks to the feed-in tariff policy. This policy guarantees priority access to the grid for renewables. It requires utilities to buy power from independent energy producers (like a person with a solar panel on their roof). Those producers receive a set price for each kilowatt-hour of electricity they feed into the grid, generally for 20 years. This price, differentiated by technology and the size of the installation, is decided by regulators to ensure a modest return on investment (e.g., buying, installing and operating that solar panel). By 2012, almost half of all installed renewable energy power in Germany was co-owned by citizens and cooperatives. The German energy transition is a democratic movement that opens up formerly closed markets to new investors, thus increasing competition.

Over the last decade, roughly 900 energy cooperatives have been established to make it easier for citizens to participate in renewable energy projects. Overall, energy cooperatives leveraged an estimated 1.67 billion euros in investments from more than 130,000 private citizens in 2014. The high level of citizen engagement and community ownership accelerates the energy transition: By triggering more private capital to transform the energy sector and reducing NIMBYism (a term that characterizes opposition to new development, "Not In My Back Yard"), acceptance levels for renewables have increased.[10]

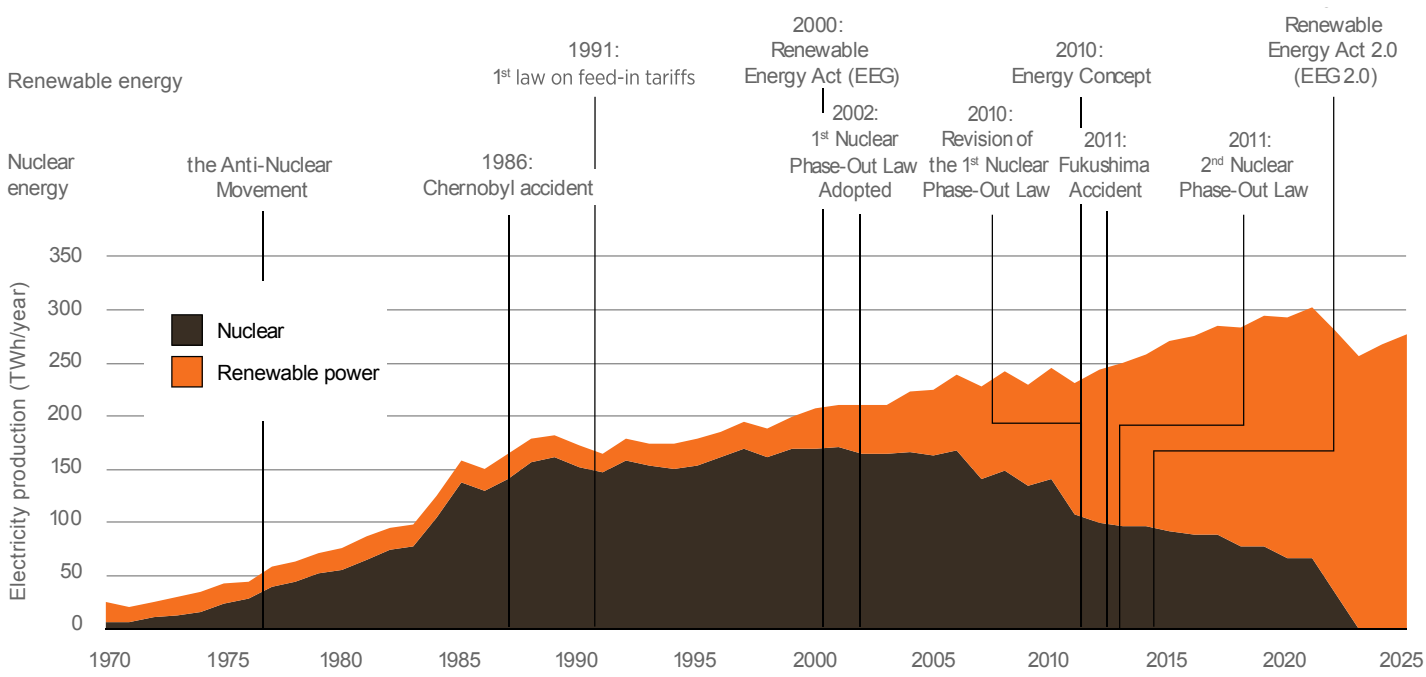
Critical Junctures in Energiewende Policymaking

Germany's renewable energy law is seen as a cutting-edge policy and has steered the country's rapid shift to renewables.[11] However, crafting and passing the legislation was not without its challenges. Like in other countries, German industry and utilities frequently lobby for legislation that benefits their interests and often manage to leave their mark on legislation. This helps explain why the original nuclear phaseout from 2002 came more slowly and with more uncertainties than anti-nuclear campaigners had hoped. Another difficulty was the emissions trading system: The industry successfully lobbied for free CO2 allowances, resulting in generous windfall profits for polluters.

With their own large power plants, German utilities were hostile to the idea of promoting distributed renewable energy. Assuming they wield a great deal of leverage on bureaucrats and policymakers to shape legislation to their benefit—why would the German utility companies not prevent the growth of small-scale, citizen-owned renewable energy that erodes their business model? Why did they not see what was coming at them and just block new legislation or prevent the worst as they did with emissions trading and the nuclear phaseout? Looking back, there were three critical turning points that enabled the change to occur:

- First, the original feed-in tariff law was drafted in the summer of 1990 by a handful of politicians who realized that the federal government, especially the Ministry of Economics, would not advance their cause. As a result, an unlikely coalition of parliamentary backbenchers across party lines drafted the bill without government agency support. Matthias Engelsberger, a conservative politician, pushed for the bill so farmers in his district in Bavaria could continue operating their small hydropower plants. Herman Scheer, the Social Democrat, ensured that his party did not

Figure 3: Nuclear and Renewable Electricity Generation and Major Events (1970-2025)

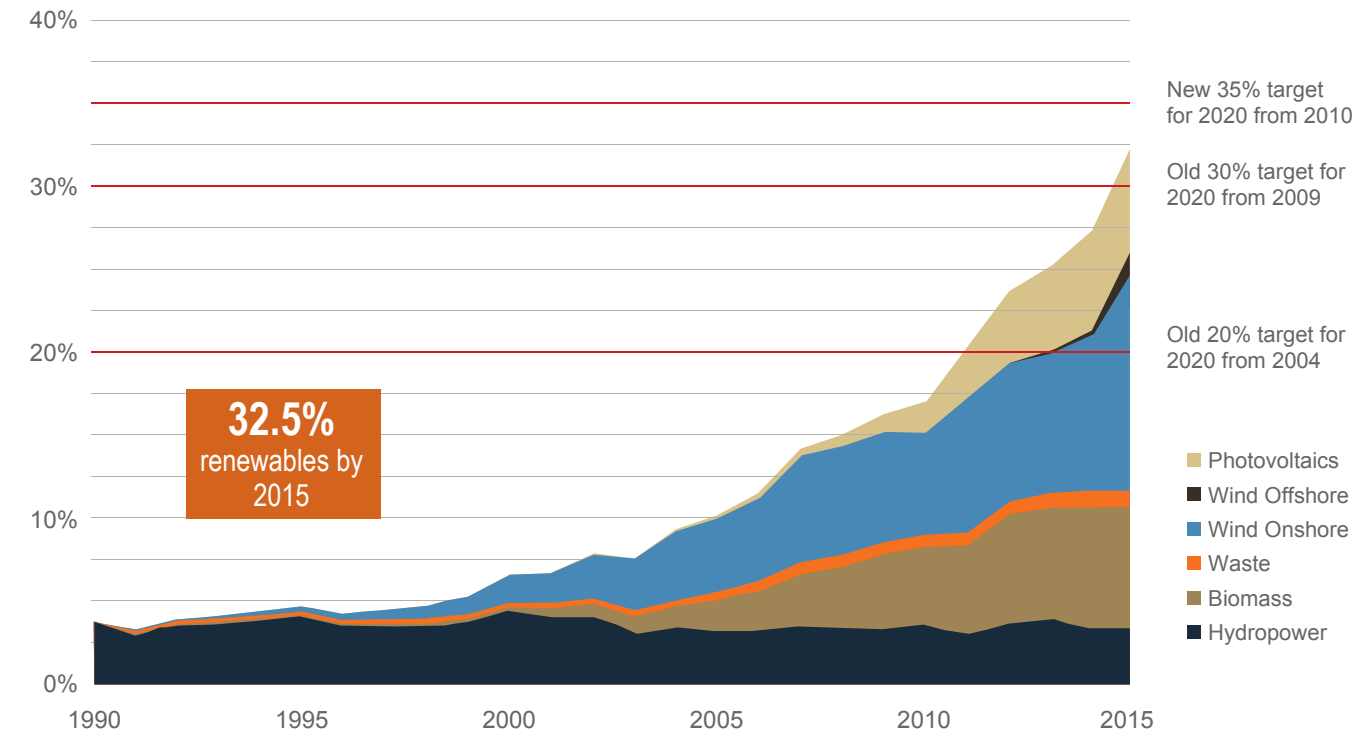


Source: IRENA, "Renewable Energy Prospects: Germany," REmap 2030 analysis, Nov. 2015, International Renewable Energy Agency (IRENA), Abu Dhabi, page 15.

oppose the bill. Finally, Wolfgang Daniels from the Green Party co-authored the legislation. However, he ultimately removed his name from the bill so that it would not be voted down for political reasons. In addition, 1990 was the year after the fall of the Berlin Wall, an extraordinary and busy time for policymakers and stakeholders, who were preparing for reunification across all sectors. The coalition made use of a short window of opportunity in which the anti-renewable camp, led by utility companies, was preoccupied with taking over the East German energy sector.[12]

- In the year 2000, the Red-Green alliance (a coalition between Social Democrats and the Green Party) disrupted the traditionally strong ties between utilities and the government by passing the Renewable Energy Act. The Ministry of Economics, the government agency in charge of energy, was not interested in extending incentives for renewable energy. Backed by the big utilities, it blocked the requests of parliamentarians from the Social Democrats and the Green Party to draft legislation. Like their predecessors a decade earlier, the politicians—in particular Herman Scheer of the Social Democrats, and Michaele Hustedt and Hans-Josef Fell of the Green Party—realized they would have to circumvent their own government. Again the utility companies were distracted with arguably bigger issues, including the nuclear phase-out and the ecological tax reform that were being negotiated in parallel. To close the deal and overcome opposition from the pro-coal camp within the Social Democratic Party, electricity generation from mine gas (which escapes coal mines) was included in the law.
- The nuclear accident in Fukushima, Japan, in March 2011 was a decisive moment for the Energiewende. It coincided with a heated debate on nuclear policy in Germany. The year prior, the center-right coalition of Christian Democrats and Free Democrats passed an energy package, which included the lifetime extension of Germany's nuclear plants. However, the majority of Germans and many small and municipal utilities opposed the extension. The deal energized the anti-nuclear community and mobilized large demonstrations. When Chancellor Angela Merkel saw the explosions in Fukushima, she knew her nuclear policy could not stand. With the public overwhelmingly supporting a phase-out more than ever before, and with important state elections coming up, she decided to reverse her party's long-held position on nuclear power overnight. When the phase-out law from the coalition came to a vote in parliament, it received nearly unanimous support. The vote sealed the nuclear phase-out over the next decade. From

Figure 4: Renewable Share of German Gross Electricity Consumption by Source (1990–2015)



Source: AGE

that moment, it was clear that the nuclear industry would end its business in Germany for good.

These three junctures are crucial to understanding how the Energiewende came to be implemented. These moments were unique in the sense that a small window of opportunity opened to enact change in an otherwise stable system with influential incumbents. Traditional interest groups and their allies in parliament and government, such as the German utilities and the Ministry for Economics, were unable to prevent progressive legislation. Of course, three single decisions over 20 years do not make for a comprehensive policy framework. The success of the Energiewende is due to the hard work of many over a long period of time. Without political leadership, skillful maneuvering within the policy arena, a bit of luck and the right timing, the Energiewende legislation would not have progressed to where it is today.

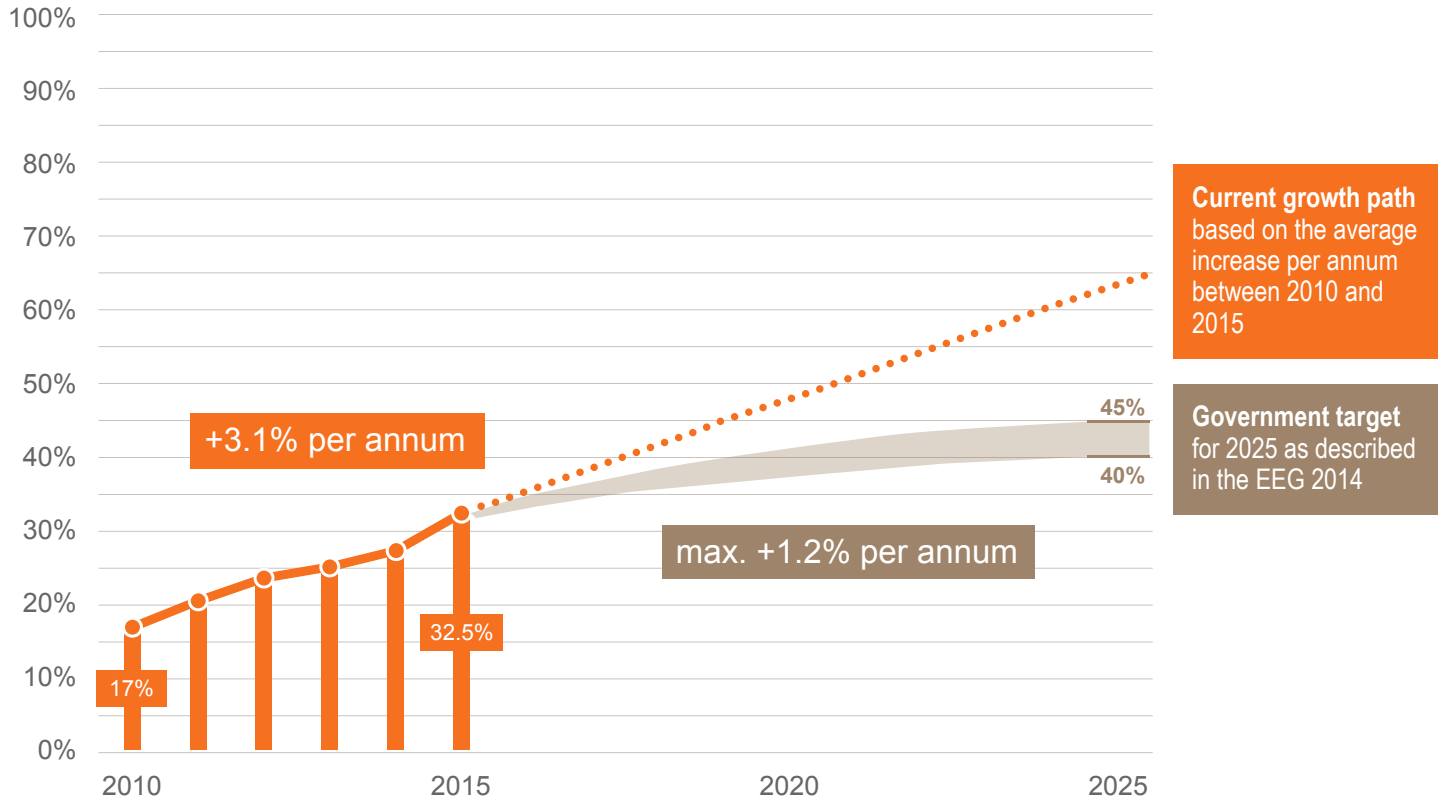
The Energiewende at a Crossroads

For many years, Germany's policy instrument of choice was the feed-in tariff. It guaranteed a fixed payment for 20 years (in most cases) and priority grid access for renewables. The policy provided high investment certainty and triggered tremendous growth in renewable power generation capacity. When the initial law was introduced in 1990, the role of renewables in Germany's power mix was negligible. By 2015, renewable electricity made up 32 percent of consumption and had grown at a speed that exceeded all expectations. The government repeatedly had to upgrade its targets to keep up with renewables growth.

However, in the spring of 2016, the German government put forward plans to overhaul the Energiewende's flagship policy. The reform of the Renewable Energy Sources Act includes a switch from feed-in tariffs to auctions: Instead of automatically receiving guaranteed payments, renewable energy installations will now have to compete on the open market in an auction bid for subsidies. Sigmar Gabriel, minister for economic affairs and energy and the party leader of the Social Democrats, hails the reform as a paradigm shift in the way renewables are funded: "More competition, continuous growth with effective steering, restrictions on costs, stakeholder diversity and dovetailing with grid expansion—these are the coordinates for the next phase of the energy transition."[14] With the reform, the government reiterates previously set goals to increase the share of renewable electricity to 40 to 45 percent in 2025, to 55 to 60 percent in 2035, and to at least 80 percent by 2050.

To keep a steady hand on the increase in renewable power, a "deployment corridor" will set limits to how much renewables

Figure 5: Share of Renewable Electricity in Domestic Demand and Government Targets



Source: AGEB, EEG 2014

capacity may be added per year. These limits are set per technology, such as onshore and offshore wind, solar power and biomass. Small renewables installations like rooftop solar will continue to receive feed-in tariffs. The government believes this will ensure that citizen cooperatives and project developers remain active in operating small renewables plants. It argues that the reforms are making renewables deployment more predictable, thereby facilitating grid expansion and improving planning security for Germany's neighbors and the energy industry. After all, Merkel promised the Energiewende would not destroy German utilities.[15]

Critics argue that the government is putting the brakes on the Energiewende. Green campaigners see the new limits for onshore wind power, the most cost-competitive renewable technology, as a sign that the government is trying to slow the rapid growth of renewables. In light of past growth rates, this concern seems justified. Since 2010, Germany has increased the share of renewables in electricity demand by 3.1 percent per year, on average. If this growth trajectory continued, the share would rise to 60 percent by 2025.[16] With the new proposal for reform, however, the government seeks to ensure that renewables growth does not exceed its 2025 target of 40 to 45 percent.

Critics expect that these changes will not only fundamentally threaten Germany's leadership in energy and climate policy, but also lead to significant job losses and reduce business opportunities for entrepreneurs. Anna Leidreiter, a climate policy expert at the World Future Council, a nonprofit that advocates for policy to enable sustainable development, argues that the switch from feed-in tariffs to auctions, in particular, would weaken investment opportunities for small investors, energy cooperatives, farmers and enterprises.[17]

The parliamentary majority of the Christian Democrats and the Social Democrats passed the law despite this opposition. However, in a last-minute change, special rules for citizen energy projects were included. They have to participate in the auction system, but also enjoy certain benefits. For example, they will automatically receive the highest feed-in tariff accepted in the tender, rather than their own (possibly) lower bid.[18]The Energiewende is at a crossroads. So far, citizens, communities and new investors have been the driving force

behind the energy transition. This is likely to change with the reforms coming into effect in early 2017. The introduction of caps and the switch from feed-in tariffs to auctions will most likely result in big investors and large corporations dominating the market. The reforms threaten to exclude many potential investors, including ordinary citizens, whose billions of euros could be used to finance the transformation to a low-carbon economy. An analysis by the Climate Policy Initiative concludes that more than 30 billion euros per year could be available for investment in the expansion of renewable energy capacity in Germany if the country shifts policy effectively to deal with the next phase of the energy transition and keeps investment open.[19]

Future Challenges

So far, the implementation of renewables has gone smoothly. Despite the high share of renewables, Germany enjoys one of the most reliable grids in the world. However, generating 50 percent or more of electricity from variable renewable sources will require some serious changes in the power system, because it will no longer be dominated by baseload power plants. This includes flexibility measures such as better cross-border exchange with other countries, demand-side management such as smart grids and smart metering, and linking the power sector to the heat and transportation sectors. This sector coupling—basically meaning that excess electricity from renewables can be used in the heat and transportation sectors—is particularly important to harness all renewable energy potential and to reduce costlier options such as curtailment or battery storage.[20]

In addition to these technical challenges, German policymakers will have to address the future costs of the energy transition. So far, domestic manufacturers have kept their competitive edge, backed by strong exports, despite concerns about rising electricity prices. Some of the most energy-thirsty companies are actually benefitting from the lowest wholesale prices in Europe. Many are exempted from the taxes and levies that fund the Energiewende. As consumers shoulder the bulk of these costs and some firms do not qualify for such benefits, the topic of competitiveness is likely to persist as the Energiewende progresses.[21]

What does progress look like in the long run? The Fraunhofer Institute for Solar Energy Systems (ISE) calculated what it would cost to cut emissions by at least 85 percent by mid-century. The study concludes that once carbon is priced and increasing fossil fuel prices are included in cost calculations, the transition to renewables is cheaper than just keeping the current system going.[22]

Finally, Germany still relies heavily on coal power. Those who think nuclear should be part of a low-carbon future have criticized Germany for the 2011 nuclear phase-out and argue that coal is filling the gap. Indeed, Germany went through a temporary uptick in coal power in 2012-2013 and reported rising greenhouse gas emissions. However, analysis shows that the reduction of electricity generation from nuclear power is fully offset by an increase in renewable energy. The coal uptick mainly happened due to greater power exports and a gas-to-coal switch in the power sector, driven by higher prices for natural gas.[23]

However, Germany's continued reliance on coal remains the Energiewende's Achilles heel. Mary Robinson, the former president of Ireland and UN special envoy on climate change, sharply criticized the government's recent decision to pay new subsidies for the closure of old coal plants, and rightly so.[24] Without a real commitment to shift away from coal in a certain time frame, the German government will face a credibility problem.

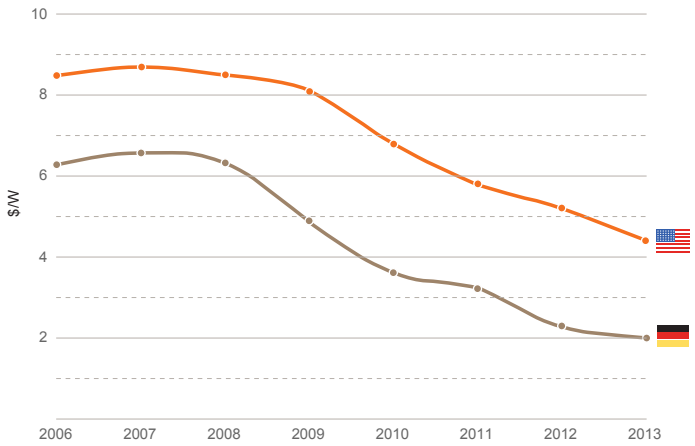
Global Problem, Global Solution

No country is the same and what works in one place might be a dead end in another. Still, the German case offers some pointers for other states interested in addressing the renewable energy issue. Overall, Germany's Energiewende shows that there are no perfect solutions. On the contrary, it takes societal and political will, flexibility and endurance to transition. Three central lessons can be learned from Germany's experience:

1. **There is no silver bullet.** Policies should be coordinated across sectors and levels of government to achieve maximum effectiveness. Despite the high public visibility of flagship projects such as the Renewable Energy Act or the Nuclear Phase-Out Law, no policy alone has proven to be the single cause of success. For the Energiewende, many individual policies were integrated into a larger policy framework. This framework is comprehensive and oriented toward the future, including binding long-term targets guiding implementation efforts and the compulsory review of policies at regular intervals.[25] What is remarkable in international comparisons—and a contrast to the "all-of-the-above" approach favored by many in the United States—is that German policies set clear priorities (for renewables, against nuclear, and likely soon against coal) for its energy mix.

2. **Germany is an economic showcase for the energy transition.** The Energiewende demonstrates the feasibility of an energy transition and provides an illustration of the economic benefits that come with it. The German case shows how countries can create a secure business model and necessary framework conditions for significant investment in renewables.[26] Together with long-term policy goals backed by cross-partisan support, this framework generated a high investment certainty for industrial manufacturers, which helped drive down costs of renewables even further. Some

Figure 6: The Cost of Fully Installed Photovoltaic Arrays in Germany and the US (10 kW - 100 kW)



Source: RMI, Fraunhofer ISE

stress the need for more research and development before renewable technologies can play a bigger role. However, the Energiewende has shown that both innovation and cost reductions have often come from deployment, not from waiting for breakthroughs. Germany embarked on the transition when renewables were still expensive. By cutting red tape and providing easy access to financing, Germany managed to make it easier for homeowners to invest in solar panels. In return, the market grew and costs declined. Comparisons show that installing a 100kw solar panel on the roof of a family house in Germany cost roughly $2,000 in 2013, while American homeowners would have to pay more than $4,000 for a comparably sized model.[27] In a nutshell, the German government made it easy for its citizens to go solar. Germany does not enjoy particularly favorable conditions for wind and solar resources, so for other states, the economic benefits could be even higher.

3. **The energy transition represents a one-time window of opportunity to democratize the energy sector.** Global investments in wind and solar soared to roughly $265 billion in 2015 alone. After China, the United States is the world's biggest investor in renewable power capacity with an estimated $44 billion, an increase of 19 percent from the previous year.[28] These numbers show that the energy transition is already underway. Once utilities have built giant wind and solar farms, the market will be closed to citizens and communities. Without energy democracy, corporations, which view citizens as consumers, will handle the transition. The Energiewende shows that it pays to expand the discussion about the energy transition beyond affordability and greenhouse gas emissions. These are, no doubt, important criteria to consider, but so are basic civil rights in the energy sector. This involves including citizens and providing them not only the choice to buy, but also to produce clean power and sell it at a fair price. An active role for citizens in the energy transition would strengthen communities, increase its acceptance and accelerate the transition.[29]Germany will continue with its transition to a renewable energy-based economy. It remains to be seen if important milestones (such as cutting greenhouse gas emissions by 40 percent by 2020) can be met. Future Energiewende reform plans are on hold until the 2017 election. Germany's next government will have to address the challenge of a coal phase-out and decide how to expand the Energiewende to the heat and transportation sectors.

ABOUT THE AUTHOR

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Germany's Security Policy: From Territorial Defense to Defending the Liberal World Order?

Stefani Weiss

Stark differences exist in the strategic culture[1] between Europe and the United States.[2] They concern as much the disparity in military power—all 28 member states of the European Union together spend less on defense than the United States alone—as well as the very different historical experiences.[3] Two devastating wars taught Europe to embrace reconciliation, cooperation and peaceful conflict resolution. The success of European integration, which led arch-enemies such as France and Germany to unite in a democratic and rules-based multilateral system, convinced Europeans to favor soft power over hard power. Likewise, the civilizing force of European integration made Europeans think of the EU as a role model for shaping a peaceful world order. In contrast, the United States as the world leader and in its own words "second to none" has overwhelmingly favored power politics and the maintenance of military superiority to secure peace and stability.

In particular, these strategic differences came to light in the trans-Atlantic crisis that followed President George W. Bush's decision to invade Iraq in 2003. The majority of European countries, led by Germany and France, openly opposed the invasion and instead advocated the continuation of United Nations inspections and a diplomatic solution to the crisis in order to dismantle Saddam Hussein's alleged weapons of mass destruction program. As a result of Bush's failed Iraq policy, the United States, under President Barack Obama has become much more reluctant to intervene militarily in recent years. Nevertheless, foreign policy expert Robert Kagan's comment that "Americans are from Mars and Europeans are from Venus"—oversimplification though it is—is still an apt description of the two distinct approaches in the readiness to use force.[4]

Are Germans Different when it Comes to Issues of War and Peace?

To draw further on Kagan's metaphor, the most "Venusian" country in Europe is probably Germany.[5] Even more than two generations after the Second World War, the trauma of being guilty of a war that had killed the unimaginable number of 70 million people has not been overcome. The pledge of "Nie wieder Krieg, nie wieder Auschwitz!" (Never again war, never again Auschwitz) is deeply ingrained in the German public consciousness. A pacifist, not pathetic, and post-heroic attitude prevails throughout large parts of society and the political sphere.

Accordingly, Germans' relationship with military force and security policy more broadly has always been a sensitive, and sometimes contentious, subject. This relationship has evolved from outright rejection of the build-up of the new armed forces in the Federal Republic of Germany in 1955,[6] to allowing German soldiers to be referred to as murderers,[7] and eventually to mass protests over nuclear armament. These protests culminated in 1979, when more than 500,000 people gathered in Bonn to oppose the NATO Double-Track Decision. The Decision offered the members of the Warsaw Pact a mutual limitation of medium-range nuclear missiles combined with the threat that, in case of disagreement, more American Pershing II missiles would be deployed in Western Europe. The decision came in response to the Soviet build-up of SS-20 medium range nuclear missiles.

An important driving force behind the demonstrations was the German peace movement, which ultimately led to the formation of a new party, the Greens. The ascension of this anti-war and anti-nuclear party into the German Bundestag was astonishing and led to a fundamental change in the balance of power within the West German party system. As a result of Germany´s past, the Greens' agenda of human security, disarmament, conflict prevention and civilian crisis management resonated with many citizens. Accordingly, the two peoples' parties, the Social Democratic Party and the Christian Democratic Union, which since 1949 had formed the government alternately with junior parties or in a grand coalition, saw themselves forced to embrace many of the Greens' demands.

A 2007 survey polled people in the United States, Germany, France and United Kingdom about their views on their respective military forces. The study found that 87 percent of Americans were proud of their military. Sixty-six percent in the United Kingdom said they were proud and 53 percent in France. Germany's rate was the lowest, at only 42 percent.[8]

Recent polling suggests that Germans today are more at ease with the Bundeswehr, the federal armed forces.[9] However, this comfort is not without its limits. The German army is still most esteemed for its role in national defense and providing aid after natural disasters at home and abroad. Citizens remain critical of German participation in military operations and missions outside of the country. Nearly 61 percent of Germans reject the expansion of foreign deployments of German troops in stabilization and peace-enforcing missions, as acting German Defense Minister Ursula von der Leyen has advocated.[10] Nevertheless, strong resistance to military involvement seems to have given way to resignation, as surveys conducted during the Bundeswehr's mission in Afghanistan show. A majority of Germans feel that their nation's memberships in the EU, NATO and the UN make further engagement—at least in humanitarian crisis contingencies—inevitable.[11]

However, German approval of NATO is in sharp decline. In 2009, 73 percent of Germans supported the alliance, but in 2015, only 55 percent held this view.[12] Furthermore, when asked if their country should help a neighboring NATO partner in the event of a military conflict with Russia, 58 percent of Germans answered no, higher than in any other NATO member. Only 38 percent of Germans would invoke NATO's Article 5, which forms the very basis of collective defense in the alliance and ensures that "an attack against one Ally is considered as an attack against all Allies."

From Territorial Defense to "Out of Area" Missions and War Abroad

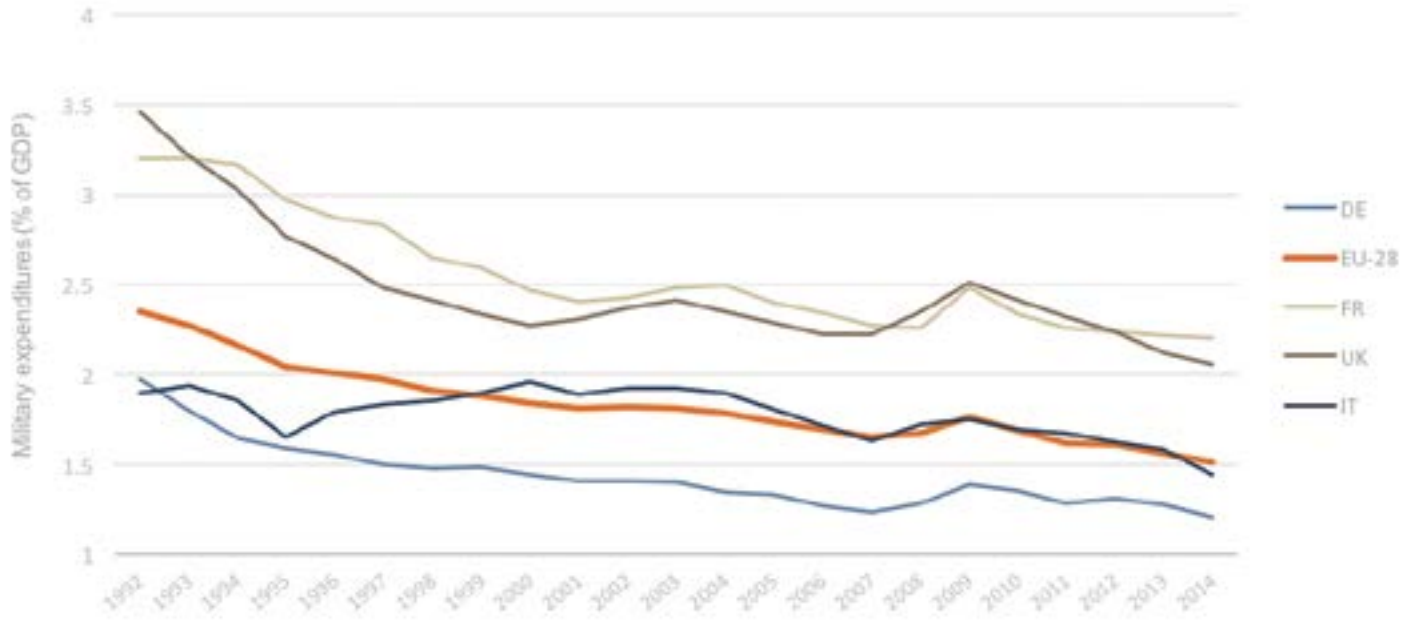
Despite these enduring German attitudes on war, Germany has evolved significantly over the past decades. Successive governments in postwar Germany have made decisions on defense and security matters that were seen as justified by reasons of state (i.e., German alignment with the West, trans-Atlantic solidarity and European integration). At times, these decisions have been out of tune with the demands of voters. On multiple occasions, German chancellors have been forced to link important security policy decisions with a vote of confidence in the Bundestag or await the rulings of the Federal Constitutional Court, Germany's highest court. Above all, lack of public support has made it difficult for government to communicate openly with the public about what is really at stake with these decisions. As a consequence, Bundeswehr engagements have often been portrayed as reconstruction support, post-conflict peacebuilding and development assistance.

Only 38 percent of Germans would invoke NATO's Article 5

The Bundeswehr was a product of the Cold War. In the beginning, it was less under German than NATO command. NATO set the framework for its strategy, its operational plans and armaments. West Germany took on the main burden of conventional defense in Europe with 495,000 soldiers, which could increase to 1.2 million during wartime. The Bundeswehr was established as a purely defensive force meant to deter an attack by the Warsaw Pact. West Germany was well aware that if deterrence were to fail, both its territory and that of East Germany would become the main—and even nuclear battlefield.[13] This influenced West German politics, which was always more oriented toward détente than the containment of the Soviet Union. Nonetheless, the Bundeswehr did not play any visible role in the foreign policy calculations of the Bonn Republic. It remained unthinkable to use the army in combat missions outside the borders of the alliance. Even UN peacekeeping operations were mostly off-limits.

Only once during the Cold War did West Germany come close to a broader strategic reassessment of its national security policy. Then-Chancellor Helmut Schmidt of the Social Democrats put his weight behind the NATO Double-Track Decision in the late 1970s in order to counter the Soviet buildup of SS-20 medium range ballistic missiles. Schmidt was convinced that without this decision, the credibility of the United States' extended nuclear deterrence for Europe would be at stake. Schmidt lost his case, and neither the people nor his own party followed him. Instead, they fought emphatically against the stationing of American Pershing II missiles

Figure 1: Military Expenditure in Europe



**Defense budgets in France and the United Kingdom include nuclear deterrence costs that are estimated to be above 10% of the defense budget in France and around 6 % in the UK, although they may be more costly.*

Source: Worldbank (Word Development Indicators). Figure shows military expenditures using NATO classification.

in Germany. It was left to his successor, Helmut Kohl, to implement the decision, which eventually—with a weakened Soviet Union—led to the abolition of all intermediate-range and short-range nuclear missiles in Europe.

The End of the Cold War Era: Globalization of Insecurity

When the Cold War ended and both German unity and Eastern enlargement of NATO had been achieved, Germany's principled pacifism took a new ground. Surrounded by friends, Germans felt that their national security was well served. Furthermore, the country was absorbed with managing the process of reunification, which came with a hefty price tag,[14] and demanded the reduction in the number of German armed forces from roughly 600,000 to 370,000.[15] Many believed that money spent on defense would be better spent on the economic development of the eastern part of Germany.

Nonetheless, politicians could not ignore that there was no peace dividend to harvest. Instead, new risks and security threats emerged. In the age of globalization, Germany's favorable geographic position in the middle of Europe was no longer a guarantee of security. Instead, growing global interdependence brought about a "globalization of insecurity," meaning that conflicts and crises in faraway regions posed ever-greater risks to the open societies of the Western Hemisphere. These new risks emanated from the many secessionist and independence movements that followed the power vacuum left by the dissolution of the Soviet Union. Furthermore, the problems of state failure in many parts of Africa as well as the threat posed by international terrorism became more acute. Accordingly, the United States and other NATO partners demanded that Germany not only foot a large portion of the bill, as in the Gulf War of 1991, but also engage their own troops outside of the traditional NATO area.[16]

The end of the Cold War represented an important turning point for a different mission profile for the German armed forces. Beginning in 1991, the Bundeswehr participated in a number of UN missions to demonstrate its readiness and to take on its share of responsibility. In these missions, the Bundeswehr took on exclusively humanitarian tasks, such as the transport of relief goods or the provision of medical aid. There was no involvement in combat missions, and the operational environment was secure enough that the Bundeswehr members would not be forced into action to defend themselves. However, these humanitarian engagements under UN mandate were highly controversial and highlighted Germany's difficult relationship with the use of its military for purposes other than national defense. A

decision by the Constitutional Court in 1994[17] ended political debate, for the time being, ruling that German forces could be deployed outside of NATO territory to help implement decisions of the UN Security Council.

Reunited Germany

Despite these domestic difficulties, the participation of the Bundeswehr in UN or EU-led missions became the new normal after 1992. The involvement remained exclusively humanitarian or limited to advisory or support missions, such as monitoring, transport, training and air or maritime surveillance. Although there were significant exceptions, in most cases the number of soldiers deployed were limited to fewer than 100. What distinguished the Bundeswehr's participation from other EU or NATO partners was the level of risk it was willing to take. Many allies have been critical of the constraints, i.e., caveats, that Germany put on its operations.

Although the "out of area" ruling was a victory for the Christian Democratic-led government,[18] the judgment was no carte blanche. It obliged the executive, under all circumstances, to call for a parliamentary vote before German troops could be sent abroad. This requirement distinguishes Germany from the United States and most other NATO members whose heads of state or government have more latitude to decide on troop deployment before asking legislative bodies for approval. German allies in NATO and the EU continue to look skeptically on this parliamentary reservation, questioning whether Germany could be relied on as a partner when it comes to questions of war and peace that would require quick decision-making.

Further rulings of the constitutional court shaped Germany's path as it adapted to the new security environment. The Bundeswehr transformed itself from a purely defensive army into an international deployable expeditionary force that could run peacekeeping missions as well as combat operations.

The Balkans became the test ground for Germany's readiness to engage militarily together with its allies. Since 1995, Germany has contributed more than 5,000 soldiers to the Peace Implementation Force (IFOR) and later in the Stabilization Force (SFOR) in Bosnia and Herzegovina. The real trial for how far Germans were prepared to engage militarily came with the Kosovo War in 1998.[19] It could be called an irony of history that the newly elected coalition government of Social Democrats and Greens led the Bundeswehr into its first war. Both parties, but in particular the Greens—as the trustees of the ideals of the peace movement—were until then the strongest supporters of a German culture of military restraint and exclusively civil crisis prevention and management. It took all of Green Party chief and Vice Chancellor Joschka Fischer's persuasiveness to convince his party that Germany—with its history of the Holocaust—could not wash its hands in innocence anymore in light of an imminent humanitarian catastrophe among the Albanian people.

Participation of the Bundeswehr in UN and EU-led missions became the new normal after 1992

Even today, debate persists about whether or not German participation in NATO's aerial bombing of Serbia, with its civilian casualties, was constitutional.[20] Although the Bundeswehr acted within the framework of a collective security system, the Operation Allied Forces lacked a mandate from the UN Security Council. In the strictest sense, as many experts on international law have argued, the military intervention could be qualified as a war of aggression that was waged without the justification of self-defense and is thus prohibited under the UN Charter and the German constitution.[21]

The Age of Terror

The German government, under then-Chancellor Gerhard Schröder and Vice Chancellor Fischer, was given no breathing space. The 9/11 terrorist attacks in the United States sent shockwaves around the world and changed the political and security landscape once again. Asymmetric warfare, as it has since been called, became the overarching security threat in the new century. Given the many victims and the extent of the destruction, NATO's Article 5 was interpreted in a new way. Alliance solidarity could be called upon not only in case of an attack by a state on a NATO member, but also in the case of major terrorist attacks. The German government fully supported the corresponding NATO Council decision to invoke Article 5 and saw it as its primary duty to join the United States in the so-called "War on Terror."

The federal government believed that a united and sovereign Germany should take on a greater share of responsibility in international affairs. However, Schröder was only able to secure support for sending troops to Afghanistan by linking the decision to a confidence vote in the Bundestag. He won that vote, but the argument that 9/11 was as much an attack on the so-called "civilized world" as it was an attack on the United States, and that accordingly Germany's own security needed to be defended in Afghanistan, never really gained traction in Germany.

Current Bundeswehr Missions

Germany has started to assume greater responsibility in security politics, including militarily, to work for a free and peaceful global order. The map below shows the current deployments of the German Bundeswehr. This map only lists Bundeswehr missions and does not include civil missions, such as police or judicial efforts.

Kosovo
Up to 700 supporting UN mission to ensure public safety and order

Mediterranean Sea / Italy
130 (can go up to 900) rescuing people being smuggled in unsafe boats/ in shipwrecks

Mali
Close to 1,000 soldiers in two missions to provide military training, advise and support civil-military cooperation

Aegean Sea
Up to 200 supporting local coast guards to fight people smuggling

Syria and Iraq (Turkey)
Tornado jets and up to 1,200 for reconnaissance

Syria and Iraq
Up to 1,200 preventing and suppressing terrorism by Islamic State group

Iraq
Up to 150 training Kurdish fighters, the Peshmerga, who fight the Islamic State group in northern Iraq

Lebanon and Cyprus
Boats and up to 300 preventing arms smuggling and securing sea borders

Afghanistan
Approximately 1,000 doing many tasks including - supporting,consulting and training Afghan forces, security and logistical support

Somalia / Horn of Africa
Up to 600 patrolling sea to prevent pirating, up to 10 advise and provide education on land

Sudan
Up to 50 subject-matter experts providing logistical, medical and technical support

South Sudan
Up to 50 observing human rights situation and ensuring access to humanitarian aid

Table 1: Bundeswehr Deployments since 1990

Country	Name of Mission	Number of Soldiers	Beginning of Mission	End of Mission	Mandate	Completed
Afghanistan	ISAF Mission	5,350	14-Jan-2002	31-Dec-2014	UN, NATO	Yes
	UNAMA Mission	Up to 50	28-Mar-2002	ongoing	UN	No
	Resolute Support	850 - 980	1-Jan-2015	ongoing	NATO	No
Aegean Sea		200	1-Feb-2016	ongoing	NATO	No
Ethiopia / Eritrea	UNMEE	2	Feb-2004	Oct-2008	UN	Yes
Bosnia and Herzegovina	Sharp Guard, Deny Flight, and the Airlift (Luftbrücke) in Sarajevo	600	Jul-1992	Sep-1996	UN	Yes
	UNPROFOR	1,700	8-Aug-1995	19-Dec-1995	UN	Yes
	IFOR/SFOR, later EUFOR ALTHEA	63,500	1996	16-Nov-2012	UN, NATO	Yes
Democratic Republic of Congo	EUSEC RD Congo	24	Jun-2005	30-Sep-2014	EU	Yes
	EUFOR RD Congo	780	30-Jul-2006	30-Nov-2006	UN	Yes
	Artemis	97	18-Jul-2003	25-Sep-2003	UN	Yes
Georgia	UNOMIG	20	1994	Jun-2009	UN Observation Mission	Yes
	OSCE	Up to 15	27-Aug-2008	Jun-2009	OSCE peace mission	Yes
Horn of Africa	EUCAP Nestor		2012	7-Jul-2015	EU	Yes
Indonesia	AMM	4	15-Sep-2005	15-Mar-2006	EU	Yes
Iraq	UNSCOM	37	Aug-1991	30-Sep-1996	NATO	Yes
Cambodia	UNAMIC	145	Oct-1991	12-Nov-1993	UN	Yes
Fight against international terrorism	Counter Daesh (in Syria and Iraq)	Up to 1,200	4-Dec-2015	limited to one year	UN	No
	OEF/OAE - Afghanistan	Up to 100	16-Nov-2001	Nov-2005	UN, NATO	Yes
	OEF- Horn of Africa		Feb-2002	End of 2010	UN	Yes
Kosovo	KFOR	Up to 700	12-Jun-1999	ongoing	UN	No
Kuwait	OEF	250	10-Feb-2002	4-Jul-2003	UN, NATO	Yes
Lebanon/ Cyprus	UNIFIL	Up to 300, average of 150	1978	ongoing	UN	No
Liberia	UNMIL	3	May-2015	30-Jun-2016	UN	Yes

Country	Name of Mission	Number of Soldiers	Beginning of Mission	End of Mission	Mandate	Completed
Mali	EUTM Mali	Up to 300 EU soldiers	28-Feb-2013	ongoing	UN, European Training Mission	No
	MINUSMA	Up to 650	27-Jun-2013	ongoing	UN	No
Macedonia	Essential Harvest	500	29-Aug-2001	27-Sep-2001	UN, NATO	Yes
	Amber Fox	220	27-Sep-2001	16-Dec-2002	UN, NATO	Yes
	Allied Harmony	70	16-Dec-2002	31-Mar-2003	UN, NATO	Yes
	Concordia	70	31-Mar-2003	15-Dec-2003	UN, EU	Yes
Mediterranean Sea / Italy	EUNAVFOR MED Sophia	130, but can go up to 950	1-Oct-2015	ongoing	UN, EU	No
	MEM OPCW	Up to 300	2-Apr-2014	5-Sep-2014	UN	Yes
Rwanda	UNAMIR	30	18-Jul-1994	31-Dec-1994	UN	Yes
Somalia	EUTM SOM	10	Mar-2010	ongoing	UN	No
	EUNAVFOR Somalia Atlanta	Up to 600	2008	ongoing	UN	No
	UNOSOM 2	2,420	21-Apr-1993	Mar-1994	UN	Yes
Syria & Iraq - Turkey	Inherent Resolve - Syria and Iraq	Up to 1,200	4-Dec-2015	ongoing	UN, EU	No
	Inherent Resolve - Iraq	Up to 150	31-Aug-2014	ongoing	Bundestag	No
Sudan	UNAMID	Up to 50	8-Nov-2012	ongoing	UN	No
	AMIS	44 EU soldiers	Jul-2005	ended but no date given	UN, EU, NATO	Yes
South Sudan	UNMISS	Up to 50	8-Jul-2011	ongoing	UN	No
Turkey	AF TUR	Up to 400	14-Dec-2015	30-Dec-2015	NATO	Yes
West Africa	Ebola	No exact number given	3-Oct-2014	10-Mar-2015	UN	Yes
Western Sahara	MINURSO	Up to 4	16-Oct-2013	30-Apr-2016 (last decided time limt from UN Security Council)	UN	Yes
Central African Republic	EUFOR RCA	Up to 80	10-Apr-2014	18-Feb-2015	UN, EU	Yes

The more German soldiers were wounded or killed, the less politicians were able to justify to the general public that this was a humanitarian intervention broadly embraced by the Afghan people

In the U.S.-led Operation Enduring Freedom (OEF) that formed the backbone of the counterterrorism operations after 9/11, the Bundeswehr was not only involved with naval forces to protect the sea lanes against terrorist attacks in the Red and Arabian Seas, in the Gulf of Oman or off the coast of Somalia, but also with special forces to fight al-Qaida in Afghanistan.

However, the contingent of elite soldiers sent to Afghanistan was small (around 100) and went rather unnoticed by the German public. The involvement only became an issue in Germany in 2009, when the situation in Afghanistan deteriorated further and there was internal debate about how long the right to self-defense, which legitimated OEF's mandate, could be claimed.

Germany's participation with armed forces in the International Security Assistance Force (ISAF), which since 2003 was under NATO command, garnered far more attention and public discomfort.[22] One reason for this was the size of the contingent. With more than 5,000 soldiers, the German contribution was the third largest in Afghanistan after American and British forces. The more German soldiers were wounded or killed, the less politicians were able to justify to the general public that this was a humanitarian intervention broadly embraced by the Afghan people.[23]

It took a fatal Bundeswehr-ordered airstrike near Kunduz in 2009—which killed more than 100 Afghan civilians—for the German government to struggle to call the situation in Afghanistan an "armed conflict within the parameters of international law." Before the attack, the Bundeswehr's presence in Afghanistan was always discussed as a civil-military stabilization operation, with the emphasis put on civil. Policymakers knew that such qualifications resonated well with a German audience. Accordingly, the Bundestag shied away from establishing a robust Afghanistan mandate that would allow German soldiers to take part in combat operations other than in self-defense. The reclassification in 2010 was thus an important step both in regards to being open with German citizens and allowing German soldiers in Afghanistan to resort to force to fight the Taliban without risking prosecution under German law.

In spite of the many missions Germany has conducted after 1992, the resignation of the German President Horst Köhler in May 2010 showed anew how far away Germany is in even pondering the necessity of the use of force. Moreover, it demonstrated how little these missions were founded in a security strategy that echoes German national interests. Köhler felt compelled to leave office after he said in an interview that in case of emergency, resorting to military force might be necessary to protect German national interests, for example by securing trade routes or by forestalling regional instabilities.[24] The interview prompted an enormous outcry across the party spectrum. His observation in that same interview—that Germany has become much more open and prepared to raise and discuss questions of national interest—was proven wrong.

The international community's sobering experiences in Somalia, the Balkans and Afghanistan have demonstrated the limitations of what humanitarian interventions can achieve even if the military component is embedded firmly in a civilian approach. They provided new arguments for the deep-seated German "culture of reticence." Furthermore, these experiences might have been one of the reasons why Germany abstained in the March 2011 UN Security Council vote on erecting a no-fly zone in Libya that was supposed to protect the civilian population against the atrocities committed by Moammar Gadhafi.[25] The operation became NATO-led.[26] It escalated into a war that ousted Gadhafi, which turned into a civil war. Today, jihadist forces linked to the Islamic State group are in control of large parts of the country, leaving the international community struggling to support a government that could eventually take over state control in Libya.

Although in hindsight Germany might have had sound arguments against a military intervention in Libya, the decision to abstain backfired and damaged Germany's international reputation. Germany could not reclaim the moral high ground as a civil power and found itself isolated from its NATO allies—in a camp with China and Russia. Under these circumstances, Germany's traditional commitment to the EU, NATO and the UN looked increasingly hollow to its partners.

The New Narrative: Taking on More Responsibility

In 2014, German political leaders began a new attempt to persuade society—and perhaps themselves—that Germany must assume greater responsibility in security politics, including militarily, to work for a free and peaceful global order.[27]

At least three factors are driving this recent reorientation in German foreign and security policy. First, the ever-deteriorating security situation around Europe has forced Germany to reconsider its approach. The war in Syria and Iraq, with its millions of refugees and the spread of jihadist terrorism, has reached Europe, stirring a previously unknown feeling of insecurity among the German public. In a decision that would have been unimaginable just a few years earlier, Germany engaged outside of NATO in a multilateral coalition—that has no UN mandate—to fight the Islamic State group. The Bundeswehr supports the coalition with reconnaissance sorties over Syria and with naval forces in the Mediterranean Sea. Additionally, the Germans are in charge of a training mission for Kurdish fighters, the Peshmerga, who fight the Islamic State group in northern Iraq. Germany supports these forces with arms deliveries, breaking a longstanding taboo in German export policy against supplying weapons in conflict zones.

Germany's newfound economic strength has presented a challenge for Berlin

Germany has also had to accept that Russia is no longer a reliable partner. On the contrary, Russia violated international law and overrode the established European security order by annexing the Crimean Peninsula. Suddenly, Germany had to realize that war between states is back on the European agenda and national defense, in the classical sense, is an issue once again. This drew new interest in NATO, but also led to a reassessment of the German force posture and military capabilities. Accordingly, Germany is playing a significant role in NATO's Readiness Action Plan (RAP) that was agreed upon at the 2014 Wales Summit and enhanced at the recent NATO Warsaw Summit in July 2016.[28] The Bundeswehr will again form the backbone of conventional defense in Europe. The measures taken shall strengthen deterrence vis-à-vis Russia and reassure Eastern NATO allies with a number of significant military steps, such as the increase of the NATO Response Force to a division-size[29] force, including a new Very High Readiness Joint Task Force (VJTF). NATO agreed to permanently deploy military forces on a rotational basis to the Baltic states and eastern Poland starting in January 2017.[30] Germany will lead troops in Lithuania and will probably be the largest force contributor after the United States.

Second, the framework for German politics also within Europe has changed decisively. In particular, Germany had to bury its hope of a further deepening of the European Union. Instead, with the mounting opposition in many member states and the UK voting to leave the EU, the future of this historic project is very much at risk. European integration was instrumental for Germany to convince its neighbors that it has learned the lessons of the past and will never again go it alone. The weakening of the EU runs thus counter to German interests, because it is accenting Germany's economic and financial dominance. Among other issues, Berlin's management of the eurozone crisis as well as the refugee crisis have left bitter feelings and left many to ask again, how much Germany Europe can bare?

Third, the fact that Germany has emerged as the largest, wealthiest and most dynamic economy in Europe has made some of its partners in the EU and NATO even more critical of what they see as Germany's free-riding when it comes to security. Germany's newfound economic strength, as much as the relative weakness of many of its allies in Europe, has presented a challenge for Berlin. This imbalance is pushing the Germans to do something that has long made them uncomfortable, namely to take on leadership—a role that has to be substantiated militarily. Given the existing resentment against Germany in Europe, Berlin would still prefer to exercise its power in concert with others. Unfortunately, the European Union has struggled to find a common approach. Thus the "reluctant" hegemon finds itself in a situation comparable to the United States. It seems damned if it leads and damned if it does not.

The German Foreign Policy Review and the White Paper on Security Policy

Against this backdrop, the German Foreign Minister Frank-Walther Steinmeier ordered a foreign policy review that sheds light on how Germany wishes to define its role in world affairs and how it should run its future foreign policy.[31] The results of the paper were not groundbreaking and may even be frustrating for countries like the United States, France or Britain, whose history differs strongly from Germany's and thus have less issues in using force to achieve political ends. The concluding report did not explicitly draw on security or defense issues. In fact, the emphasis was placed mostly on strengthening civil capabilities for crisis prevention and management as well as peace building, which were implemented in part by a reorganization of the Foreign Office.

What was perhaps most remarkable was the way in which the review process attempted to overcome the lack of strategic culture in Germany. During the process, many experts were invited to contribute to the debate, but the public was also involved from the beginning. In many town hall meetings, online discussions and other fora, ordinary people had a chance to voice their concerns and to have discussions with international relations experts as well as representatives of the Foreign Office on newly evolving security threats such as cyber warfare, the return of geopolitics, the resurgent threat from Russia, terrorism and the challenges of globalization.

This format of broad and inclusive deliberations was also used in drafting the White Paper, essentially a government-wide paper, with the explicit objective of stimulating further public debate on security issues in Germany.[32] Published this summer, the document underscores the evolving role of Germany in Europe and its readiness to assume greater responsibility, not only in its European neighborhood, but also on a global scale to defend the liberal international order.

Reference points for the development of the Bundeswehr put forward in the White Paper are collective defense, international crisis management and cooperative security as outlined in NATO´s Strategic Concept of 2010.[33] As with the foreign policy review, special emphasis was placed on prevention and a comprehensive approach that uses a broad spectrum of instruments including diplomacy, development, military, trade, environmental protection and epidemic control. Accordingly, the Bundeswehr's defense mission shall encompass national defense including homeland counterterrorism operations, defense of its allies, defense against terrorist and hybrid threats, the full spectrum of international crisis management, protection of sea lanes, peacekeeping in the framework of the UN and humanitarian and rescue missions. In order to cover this range of tasks, the Bundeswehr will receive 14,000 more personnel and better equipment.[34] The defense budget will see a steady increase from around 34.3 billion euros in 2016 to 39.2 billion euros in 2020.[35]

The document underscores Germany's willingness to strengthen NATO and its partnership with the United States. The document's authors even asserted that "Alliance solidarity is part of the German reason of state." In this context, Germany reiterates its commitment to the targets set by the Wales NATO Summit in 2014, namely of trying to approach the long-term goal of spending 2 percent of its gross national product[36] on defense and dedicating 20 percent of its defense budget toward investment in research and development and equipment.

A report from the defense ministry on operational readiness revealed that fewer than half of the fighters, fighter-bombers, transport aircraft, helicopters, tanks or naval forces are ready for use

Simultaneously, Germany wants to push NATO's Framework Nations Concept, which it proposed in 2013. Its goal was to close NATO's capability gap by forming different clusters of European allies, large and small, that would share their capabilities in order to arrive at a more coherent and capable force.[37] Within this context, Germany is also prepared to make key capabilities available to other nations.

Regarding the European Union, Germany has committed itself to developing the Common Security and Defense Policy into a full-fledged European foreign and security policy that should not only form the European pillar within NATO, but could also act autonomously. To achieve this objective, Germany wants to use the instrument of permanent structured cooperation that allows groupings of member states to proceed with defense integration. The White Paper advocates an independent European Union military headquarters as a European equivalent to NATO's Allied Command Operations/ Supreme Headquarters Allied Powers Europe (SHAPE), and the development of a European defense market including better cooperation in the fields of research and development as well as innovation. Furthermore, the existing sharing and pooling approach garnered new attention in the report.

The projects listed above are only a small part of the many other plans in the White Paper. It is a programatic document that provides guidelines and suggestions for the future, and it remains to be seen which of these new aspirations will come to be. Many experts doubt that the current budget increases will suffice to transform the Bundeswehr into armed forces that can cover the full spectrum of operations.

What truly distinguishes the White Paper from its predecessors is not only the clear-eyed analysis of the many new threats and challenges, but the blunt assessment of the

many deficiencies in operational capabilities that haunt the Bundeswehr after years of budget cuts across almost all weapons categories, not to mention the unassailable lead the United States holds in modern network-centric warfare. A report from the defense ministry on operational readiness revealed that fewer than half of the fighters, fighter-bombers, transport aircraft, helicopters, tanks or naval forces are ready for use, in many cases because of a lack of spare parts.[38] The defense minister has therefore called for the investment of approximately 130 billion euros to rectify the problem.[39] The recently decided-upon increase in defense spending will not satisfy these investment needs, casting doubts about how serious Germany can become after all.

A Final Word

It is not that Germany has been dragging its feet all these years. Just recently, Chancellor Angela Merkel, the longest serving head of government in Europe, and Steinmeier were instrumental in arriving at the nuclear deal with Iran and in brokering the Minsk Agreements. Germany was even prepared to engage in a coalition war in Syria that does not fall within the framework of a collective security system nor is it legitimated by a UN mandate, as the German constitution requires. Although Germany is not fulfilling its defense potential, neither are other European allies that are also "free-riding" on the U.S. security umbrella. That has to change and Germany is prepared to take over its fair share of the burden.

Nevertheless, the use of force will remain the "ultima ratio" in German politics. Instead of a policy of containment or risk control, Germany will seek to continue a policy that rewards positive behavior. This corresponds to Germany's own experience of earning a worthy place among the community of nations following World War II. Accordingly, Germany will strive to tame power not through geopolitics, but through the management of interdependences that can yield win-win situations.

There is yet another facet of this issue that has to be taken into account: It is doubtful if a strong German military buildup and an active foreign and security policy will be in the interest of Germany's neighbors or the United States. Such a ramp up could be a double-edged sword for both Germany's partners and the country itself. Dissatisfaction in Europe is already growing about a Germany that is seen as increasingly pursuing its own interests powered by its economic clout. Accordingly, as much as Germany has been asked to take on greater leadership, suspicion would brew about whether or not Berlin will serve the interests of its partners once it plays a more active role.

There may be an answer to this conundrum: The European Union. As in the past, Germany can only feel as safe as its neighbors do. Therefore, a strong European Union is needed where national armies are united into a European army. That would also make most effective use of ever-shrinking budget resources.[40] Germany appears to be prepared to walk that line. The proposal in the White Paper to open its army to other EU citizens underlines this. But to arrive at such a solution, it will not only be necessary for Germany to overcome its lack of strategic culture, but for other partners, like France, to give up their sovereignty—something that is losing its value in the age of globalization.

ABOUT THE AUTHOR

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Citations and Notes

1 The term strategic culture was among others defined by Colin S. Gray, one of the most influential American strategists, as "the modes of thought and action with respect to force, which derives from perception of the national historical experience, from aspirations for responsible behavior in national terms of a country", Colin S. Gray, *Nuclear Strategy and National Style* (Hamilton Press, 1986).

2 The paper has profited strongly from the insights of Helmut W. Ganser, Brigadier General (ret.), who has served among other assignments as deputy policy director of the MOD Berlin, military adviser to the Permanent Mission of Germany to the United Nations New York, and defense adviser to the Permanent Mission of Germany to NATO Brussels. I am particularly grateful for all his valuable comments.

3 Stockholm International Peace Research Institute (SIPRI), "SIPRI Military Expenditure Database," *https://www.sipri.org/databases/milex.*

4 Robert Kagan introduced this analogy first in his essay "Power and Weakness" in *Policy Review* 113 (June and July 2002), before he expanded on it in his book *Of Paradise and Power: America and Europe in the New World Order* (New York: Alfred A. Knopf, 2003).

5 For better understanding, it is important to recall that Germany after 1949 was a divided country mirroring the East-West-division of the Cold War days on its territory. Reunification between West- and East-Germany took place only in 1990 and it was only then that Germany fully regained its sovereignty from the four victorious powers of the Second World War (United States, Soviet Union, United Kingdom and France).

6 The West German parliament decided in 1949 against German rearmament, and only with the beginning of the Cold War was a new West German military structure, firmly anchored in NATO, set up. Under Soviet occupation, the same took place in East Germany, the German Democratic Republic, where the National People's Army (NVA) was founded.

7 This remark stems from an article published in 1931 by the German author Kurt Tucholsky. It was, since the founding of the Federal Republic of Germany in 1949, used as a campaign slogan in conflicts about the Federal German Army. Thereby it is settled case law that this remark is not an insult but is covered under freedom of expression.

8 Ansgar Graw, "Deutsche sind nicht stolz auf die Bundeswehr," *Die Welt, May 19, 2007, http://www.welt.de/politik/deutschland/article880613/Deutsche-sind-nicht-stolz-auf-die-Bundeswehr.html.*

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11 Renate Köcher, "Unterstützung für die multifunktionale Truppe," *Frankfurter Sonntagszeitung, December 1, 2002.*

12 Katie Simmons, Bruce Stokes and Jacob Poushter, "NATO Publics Blame Russia for Ukrainian Crisis, but Reluctant to Provide Military Aid," Pew Research Center, June 10, 2015, *http://www.pewglobal.org/2015/06/10/nato-publics-blame-russia-for-ukrainian-crisis-but-reluctant-to-provide-military-aid/.*

13 In peacetime, 250,000 American soldiers were stationed in Germany. British, French, Belgian, Dutch and Canadian forces added up to another 150,000 NATO troops on German soil.

14 Reunification needed, among other things, to integrate more than 16 million people that were raised under communist rule, to transform a centrally planned economy into a market economy and not least to assimilate the East German army that had been trained to fight NATO.

15 About 90,000 NVA troops had to be incorporated.

16 Operation Desert Storm was the second phase (January-February 1991) of a war waged by a U.S.-led coalition force against Iraq in response to Saddam Hussein's annexation of Kuwait.

17 "BVerfGE 90, 286 - Out-of-area-Einsätze," *http://www.servat.unibe.ch/dfr/bv090286.html.*

18 It is worthwhile mentioning that it was the Christian Democrats' own coalition partner, the Liberals, that called upon this court decision.

19 The Kosovo war started in February 1998 and ended in June 1999. NATO started its operation against Serbia in March 1999.

20 This time the parliamentarian group of the "Linke," in parts successor of the former East German state party SED, appealed to the constitutional court. The complaint was dismissed without a decision taken on the matter. Nevertheless, there is broad consensus in Germany that the Kosovo intervention without an UN mandate was not setting a precedence but constitutes the very exemption.

21 UN Charter Article 53; Grundgesetz (German Constitution) Article 26.

22 The UN Security Council has mandated ISAF as a peace-enforcing mission to assist democratic transformation and reconstruction in Afghanistan.

23 Germany led the Regional Command North based in Mazar-i-Sharif. The task of the German forces was to assist the Afghan government with security and reconstruction in the four northern provinces of Kunduz, Takhar, Baghlan and Badakhshan. It was also responsible for the Provincial Reconstruction Teams in the provinces of Kunduz and Badakshan.

24 Rücktritt von Köhler, "Das umstrittene Interview im Wortlaut," *Suddeutsche Zeitung, May 31, 2010, http://www.sueddeutsche.de/politik/ruecktritt-von-koehler-das-umstrittene-interview-im-wortlaut-1.952332.*

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26 For more information about Operation Unified Protector, see: *http://www.nato.int/nato_static/assets/pdf/pdf_2011_11/20111108_111107-factsheet_up_factsfigures_en.pdf.*

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28 Warsaw Summit Communique, July 9, 2016, *http://www.ndc.nato.int/news/news.php?icode=965http://www.nato.int/cps/en/natohq/official_texts_133169.htm.*

29 A division is a large military unit or formation, usually consisting of between 10,000 and 20,000 soldiers that is able to run operations independently.

30 Four battalions are foreseen, each encompassing between 3,000 to 4,000 troops.

31 Federal foreign Office, "Conclusions from Review 2014," *http://www.auswaertiges-amt.de/EN/AAmt/Review2014/Schlussfolgerungen_node.html.*

32 "The White Paper 2016 On German Security Policy and the Future of the Bundeswehr" can be downloaded here: *https://www.bmvg.de/portal/a/bmvg/!ut/p/c4/04_SB8K8xLLM9MSSzPy8xBz9CP3I5EyrpHK9pNyydL3y1Mzi4qTS5Ay9lPzyvJz8xJRi_YJsR0UAlHdqGQ!!/.*

33 NATO, Strategic Concept 2010, *http://www.nato.int/cps/en/natohq/topics_82705.htm.*

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Russia—A Threat to European Security? A View from Germany

Gabriele Schöler

Introduction[1]

Tensions between Russia and the European Union, the United States and others have been high since the Russian annexation of Crimea in February-March 2014. Russian President Vladimir Putin's aggressive move sent shockwaves around the world—few believed he was capable of such an overt maneuver. As the dust settled, Germany stepped forward to advocate for a robust response and sanctions against the Russian Federation. Although Germany has at times been branded a "reluctant leader," Chancellor Angela Merkel showed fortitude and resolve while navigating this complex situation.

Germany's history of division—straddling east and west—and reunification gives it a unique perspective on the current chill in Russian-European relations. Merkel in particular, with her personal history living in East Germany, is perhaps the European leader best suited to handle the widening divide. As decisions are made on an international level about continuing sanctions and the NATO presence in Poland and the Baltics, all eyes will be on Merkel and the Federal Republic. However, opinions in Germany are far from homogeneous when it comes to the way forward.

Public Perception: the Great East-West Divide

A March 2016 survey by the Bertelsmann Stiftung and its Polish partner, the Institute of Public Affairs (ISP), found that while a large minority of Germans polled (38 percent) perceived Russia to be a military threat, the majority (56 percent) did not.[2] Opinions in Germany were almost the same in a poll conducted one year earlier, even though emotions were running high at that time in the midst of the Russia-Ukraine conflict.

Germans, however, are split along the former "East-West divide" in their perception of the Russian threat. In 2015 and 2016 alike, residents of western Germany tended to fear Russia more—44 percent in 2015, 39 percent in 2016, as compared with 31 percent and 32 percent of eastern Germans in 2015 and 2016.

While the Cold War may be over, it continues to shape the way that Germans from eastern and western Germany perceive Russia even today. Before the fall of the Berlin Wall, those in the west saw Russia as a foreign and powerful threat. Germans in the east did not have the same experience. While their freedoms might have been curtailed during Soviet times, they developed a greater understanding of the Kremlin and Russian culture.

Germans in the east may also remember the poor state of the Soviet army leaving Germany and thus may not believe that same army could pose a real threat. However, the modernization of the Russian army under Putin's administration has become an increasing concern throughout Germany. This has been particularly clear since the annexation of Crimea and Russia's military engagement in eastern Ukraine, and as new information about Russian militarization has come to light.[3]

In contrast, Poles and people from the Baltic states are indeed afraid of Russia's military might and potential, as recent polls have shown. For Poles and non-Russian people from the Baltic states, perceptions of Russia are influenced deeply by

their suffering under Russian and Soviet aggression in the past, not only in World War II and during Communism, but dating back even earlier.[4]

Seventy-six percent of Poles surveyed were convinced that Russia posed a threat to Poland, with only 14 percent not seeing a threat.[5] Both Estonia and Latvia have large minorities (30 percent and more than 40 percent, respectively) whose first language is Russian. Perceptions of Russia in these states are divided along ethnic lines. Overall, 59 percent of respondents from Estonia and 43 percent from Latvia said they felt threatened by Russia in military terms. Yet when broken down by ethnicity, those numbers reveal a stark divide: Eighty percent of native Estonian speakers and 69 percent of native Latvian speakers surveyed see Russia as a threat, while only tiny shares of the Russian-speaking minorities in Estonia (7 percent) and Latvia (5 percent) agree.[6]

While Germans may not see Russia as a threat, they would agree with their eastern neighbors that Russia under Putin is not a reliable international partner. As a result, most Germans do not think that the Federal Republic should closely cooperate with the Kremlin. Only one in three Germans polled (33 percent) favored closer cooperation, almost the same rate as in 2013.

Germany's Debate About Russia

Although most in Germany are critical of the Kremlin and do not support cooperation between the two states, a certain portion of the population supports Putin and the Russian Federation. The term *Russlandversteher*, or person who understands (sympathizes with) Russia, has found its way into common usage in the German media over the past few years. The *Russlandversteher* in Germany include a broad spectrum of people from both far-right and far-left, some pragmatic politicians and Germans in the east who are perhaps nostalgically looking back to the "good old Soviet times."

In December 2014 a group of prominent so-called *Russlandversteher* published an open letter entitled "War Again in Europe? Not in Our Names!" calling on the German government to take a less aggressive approach to the annexation of Crimea and the media to present a more balanced narrative. Signatories included former Federal President Roman Herzog of the Christian Democratic Union (CDU), former Chancellor Gerhard Schröder of the Social Democratic Party (SPD), acclaimed film director Wim Wenders, business people, journalists and even a few bishops. Although not in the majority, these advocates for greater understanding have a powerful voice in the Federal Republic.

Some argue that NATO "counteraction" against Russia is "provocative behavior." NATO expansion could also be seen as a threat to Russian security. Since 1989, Russia has seen the dissolution of the Warsaw Pact and the loss of territory, influence and global power. Worst of all, from Putin's point of view, not only did Russia lose its status as a world power, but gave this very power up to its former arch-enemy, the United States (or rather NATO). NATO integrated all the former Eastern European Warsaw Pact states, and three former republics of the USSR on top of that.

> ***Russlandversteher***
>
> Literally translated, this expression means "person who understands Russia." The verb "verstehen" has a dual meaning similar to the English verb "to understand," and so implies an understanding of the facts of an issue as well as an "emotional" understanding in the sense of "sympathizing." The latter sense underlies the idea of "Russlandversteher": The term characterizes a person who not only understands Russia—if ever one can "understand" Russia in the primary meaning of the word—but very clearly supports it.

From this perspective, "who is perceived to pose a threat to whom?" may be a more critical question than "who started the conflict?" The former has always been the raison d'être behind arms races, military deterrence and, ultimately, measures of proactive defense (or worse, aggression).[7]

Russian Propaganda

There is another group that must not be ignored in this debate, the Russian Germans, or *Russlanddeutsche*. This term denotes ethnic Germans from the former Soviet Union, many of whom have settled in Germany, where they now number 2-3 million people.[8] This group is typically apolitical, but in January 2016, many were mobilized after media reports surfaced of the alleged rape of Lisa F., a 13-year-old Russian German girl in Berlin. The girl told police she had been kidnapped and raped by migrants who looked "Middle Eastern," but later admitted making up the whole story in order to get out of trouble with her family. But long before it became clear that the accusation was false, the damage had been done. A Russian journalist published Lisa's story, and it was broadly covered in the Russian state media. Russian Germans organized large demonstrations in front of the chancellery in Berlin and in other German cities and argued that the government was not doing enough to protect them. In response, many others in Germany voiced their concern about Russia's manipulation of the whole case.[9] The incident and subsequent protests caused a minor diplomatic crisis between Berlin and the Kremlin.

Russian Germans (*Russlanddeutsche)*

German settlers first arrived in the region known as Kievan-Rus, home to a loose federation of East Slavic tribes in present-day Russia and Ukraine, in the late 9th century. Initially, settlers from Germany lived among the Russian people, but in the late 17th century, Czar Alexey Mihailovich forced all foreigners to move outside of Moscow's city limits. The area became known as the "New German" or "German Quarter." Russians called those unable to speak Russian (particularly Western Europeans) "German" or "nemtsy." The term came from Russian "nemoy," meaning "mute."

Catherine the Great was herself a Prussian princess who married into the Russian imperial family. She actively recruited migrants from abroad, especially Germany, promising special privileges such as religious freedom, exemption from military service and local self-administration. Most Germans who answered her call settled as farmers in the Volga region. These German settlers achieved moderate prosperity and became politically and economically influential.

In the late 19th and early 20th centuries, the German settlers lost their special status and were subject to politically motivated "Russification measures." Many emigrated, often to North and South America, in the years leading up to World War I. When the war broke out, the approximately 2.4 million Russian Germans living in Russia were considered potential traitors. While Russian Germans continued to migrate to the Americas during the Bolshevik Revolution and Russian Civil War, emigration came to a standstill under Joseph Stalin's rule. Volga Germans were briefly able to maintain some autonomy by founding the German Autonomous Soviet Socialist Republic within the USSR in 1924. When Adolf Hitler launched Operation Barbarossa, invading the USSR in 1941, the autonomous republic was abolished and war broke out between the two states. Russian Germans were again seen as potential traitors and sent east to Siberia and Kazakhstan, many forced into manual labor.

As Germany faced defeat, many Russian Germans who had remained in European Russia followed Hitler's retreating army west to Germany. A trickle of migration continued in the following decades. Soviet President Mikhail Gorbachev's perestroika in the 1980s and the fall of the Soviet Union led to more significant migration flows to Germany at the end of the 20th century.

The case of Lisa F. brings to light the broader issue of what many have termed Russian "propaganda" as part of the Kremlin's "hybrid war." Much has been written about Russian propaganda and Putin's so-called "troll factories," armies of internet agitators who disseminate pro-Russian misinformation. News outlets such as Russia Today (RT) now publish their stories in English, German and several other European languages, broadening their potential audience. The EU established a task force to address the question of how to react without resorting to true "counter-propaganda" *à la* Putin. Their efforts include the publication of the Disinformation Review, which, as its name suggests, highlights cases of disinformation circulated in Europe and beyond.

Golineh Atai, Moscow correspondent for Germany's ARD channel, was one of the first well-known and respected journalists who spoke out openly in Germany about the "information war" facing journalists covering Russia. In her acceptance speech for Medium magazine's "Journalist of the Year 2014" prize in February 2015, she addressed the power of the Kremlin's propaganda machine and the self-censorship to which many journalists outside of Russia have resorted in order to avoid its wrath.[10] Since then, more journalists and commentators in Germany have dared to speak out, and Germans have become increasingly aware of how the Kremlin uses the media to promote its own interests. As the case of Lisa F. has shown, this is still a long and difficult process, even in a country like Germany, which values press freedom greatly as a result of its own history.

Policymakers

While most Germans (64 percent) do not see Putin's Russia as a reliable partner, the majority (59 percent) hope that Merkel will be able to improve relations with the Kremlin.[11] Merkel, with her personal history of involvement in the demonstrations for freedom in East Germany, has a complex relationship with Moscow.

On a cultural and linguistic level, Merkel and Putin understand one another and each other's backgrounds. Merkel is a fluent Russian speaker and well-versed in Russian literature and

A History of German-Russian Relations

9th - 13th centuries

German settlers arrive in "Kievan Rus"– a loose federation of East Slavic tribes based in present-day Ukraine and Russia

1914 - 1918

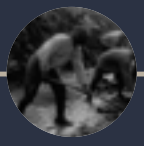
World War I – Germany and Soviet Union are at war. Germans living in Russia are seen as potential traitors

1917 - 1922

Russian Civil War

1939

World War II begins in Europe, Molotov-Ribbentrop Pact keeps the peace between Russia and Germany



From 1941

Russian Germans deported to Kazakhstan and Siberia, many are put into forced labor

1945 - 1946

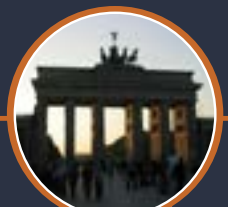
Nuremberg Trials - Allied Powers (USSR, U.S., Great Britain and France) try 22 Nazi criminals

1949

GDR (German Democratic Republic) in the east and the FRG (Federal Republic of Germany) in the west established as separate states

Late 1980s

Migration of Russian Germans from USSR to Germany increases under Soviet President Mikhail Gorbachev's perestroika

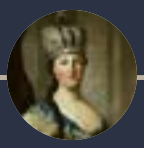


1990

German Reunification

Since 1991

More than 2 million Russian Germans migrate from the former Soviet Union to Germany



1763

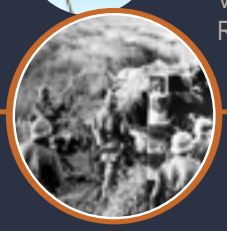
Catherine the Great (born a Prussian princess) signs decree to recruit Germans and other foreigners to settle in her empire– 30,000 people (mostly Germans) arrive within the first five years

1917

Bolshevik Revolution

1924 - 1941

Volga German Autonomous Soviet Socialist Republic within USSR

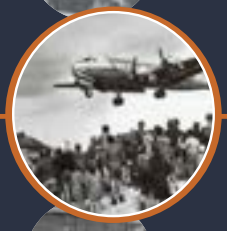


1941

Nazi Germany launches "Operation Barbarossa" and invades the Soviet Union. Approximately 11 million Soviet soldiers and millions of civilians are killed

1943 - 1948

Many Russian Germans leave Russia for Europe, North America and elsewhere

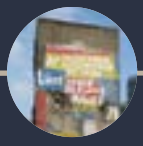


1948 - 1949

Soviet blockade of West Berlin – U.S. airlift sustains city

1961

Construction on the Berlin Wall begins



1989

Fall of the Berlin Wall

1991

Fall of the Soviet Union

2014

Russia annexes Crimea – Germany responds with criticism and supports EU sanctions

culture. For Putin's part, the German language was a major focus of his KGB training, which he put to use while he was stationed in Dresden in the second half of the 1980s.

Despite this understanding, Merkel is critical of Putin. When pro-Russian forces mobilized in Crimea on March 1, 2014, Merkel publicly spoke about the territorial integrity of Ukraine. The tone of a phone conversation between Merkel and Putin a day later was described as "frosty": In that call, Putin admitted for the first time that the militia active in Crimea was directly connected with Russian troops. Merkel's statement to the press after this phone conversation is considered one of the most severe of her time in office.[12] Merkel went further in a phone call with U.S. President Barack Obama. The New York Times reported that she voiced doubts about whether Putin "was in touch with reality" or lived "in another world."[13]

Merkel leads the Bundestag's grand coalition of the center-right Christian Democratic Union (CDU) and center-left Social Democratic Party of Germany (SPD). Traditionally, the CDU and perhaps more so its Bavarian sister party, the Christian Social Union (CSU), have been more critical of Russia. However, in recent years, this position has become more complex. Many CDU/CSU politicians still back tough sanctions and an aggressive approach toward Russia. Norbert Röttgen (CDU), chairman of the Bundestag's Committee on Foreign Affairs recently stated that "there is no reason to change the existing course" and that until Russia changes its Ukraine policy, "an easing of the sanctions would divide Western policy and seriously weaken both its credibility and influence."[14] Although Röttgen has a powerful voice in the Bundestag, some CDU/CSU politicians have taken a different approach. Bavarian Minister President Horst Seehofer (CSU), for example, visited the Kremlin in February 2016 to advocate for improved relations between Germany and Russia. Although one of his motives may have been to undermine Merkel and her relatively tough stance toward Putin, his visit demonstrated a shift in his party's platform on Russia.

The SPD, on the other hand, has historically been more understanding and tolerant toward both Russia and its leader. The socialist party has had what some refer to as a "special relationship" with the Kremlin since the era of Chancellor Willy Brandt's *Ostpolitik* (Eastern policy). The term denotes the Federal Republic of Germany's foreign policy from 1969-1989, which sought reconciliation and a balance of power with the Soviet Union and the Eastern European states. Rapprochement and pragmatism were favored over a more hardline approach. Social democrats and others believe that this strategy enabled the fall of the Berlin Wall and eventually the reunification of Germany. Without a strong relationship between the Federal Republic and USSR, they reason, the Kremlin would never have allowed Germany to reunify in such a peaceful way. As a result, many feel gratitude toward Russia for allowing reunification.

Gerhard Schröder continued the party's tradition of friendly ties with the Kremlin as chancellor in the late 1990s and early 2000s. Even now, Schröder remains a vocal advocate for improving German-Russian relations and, as discussed earlier, he was one of the signatories of the open letter to the German government and media in 2014. This advocacy is often linked to Schröder's connections to Russia's Gazprom, which will be discussed in the following section.

On a cultural and linguistic level, Merkel and Putin understand one another

Parties on the far right and far left, which are currently not part of the ruling coalition, have also shown support for Putin and the Russian Federation and been critical of NATO. On the far right, Alexander Gauland, one of the top officials for the Alternative for Germany party (AfD) recently claimed that NATO is "an instrument of American geopolitics."[15] The party warns against close alignment with the United States and advocates instead for improved dialogue with Russia. Likewise, members of the Left Party (die Linke) have been critical of the "Western" reaction to the situation in Ukraine. They also advocate for a more lenient approach toward Russia and reject what they perceive as U.S.-influenced policy.

Leading from the Center

Although there are strong disagreements within the German government about the appropriate response to Russian aggression, Merkel's stalwart approach has largely steered the nation's policy. The chancellor's ability to effect change comes not only from her leadership at home, but also from her strength as a leader in Europe and globally through Germany's membership in multilateral institutions and international organizations including NATO, the G7 and the EU. As discussed in the chapter on Germany's role in the EU, the Federal Republic prefers to act in concert with these larger organizations in order to effect change and mitigate risk.

Defense Minister Ursula von der Leyen has described this German approach to foreign policy—and the Ukraine crisis specifically—as "leading from the center." She defines the term as "to contribute one's best resources and capabilities to alliances and partnerships," while simultaneously enabling "others with less resources to make their vital contributions as equal partners."[16] In Ukraine, she asserts, "Germany has

demonstrated appropriate commitment at an early stage," as a part of NATO, the EU and the Organization for Security and Cooperation in Europe (OSCE).[17] According to von der Leyen, Germany's approach to Russian aggression in Ukraine is rooted in its ability to lead within these partnerships.

Merkel's personal political capital, combined with her country's growing economic and political clout, have put Germany in this powerful position. Berlin can exert serious influence within multilateral organizations and effect global and European change. As the longest-serving leader in the EU, Merkel has close personal connections to her counterparts across the continent. These relationships and the respect that she has earned in Brussels and throughout Europe enabled her to rally a consensus that sanctions against Russia were needed to apply pressure on the Kremlin to de-escalate the situation in Ukraine. Despite the protests of some leaders, Merkel was successful in either persuading or strong-arming each of them to agree to the sanctions and later to support an extension of those sanctions.

Although Merkel may have been successful in implementing the policy she felt was needed, the sanctions have not yet produced the results that Merkel had hoped for. Russian aggression continues to create anxiety, especially in NATO's eastern flank. Furthermore, those suffering the brunt of the sanctions both domestically in Germany and throughout the EU are becoming increasingly dissatisfied with the German hardline approach.

Cutting Economic Ties?

Many German companies are suffering losses because of the sanctions, and some business leaders have been critical of the policy. However, German industry on the whole has backed the sanctions. Ulrich Grillo, president of the Federation of German Industries, argues that long-term security is more important than short-term financial gains.[18]

Berlin can exert serious influence within multilateral organizations and effect global and European change

Despite the sanctions, some business ventures are able to continue. One such venture currently being debated is Nord Stream 2, a natural gas pipeline that would run between Russia and Germany through the Baltic Sea. Russian Gazprom and several European energy companies including German BASF/Wintershall and Uniper, an energy company that recently split off from E.On, are spearheading the project. Schröder has been chairman of the Shareholders' Committee for Nord Stream since he left office in 2005.

Proponents say that the pipeline is purely about business, not the current political situation. The companies involved hope to make a profit by increasing the volume of gas transported and bypassing the hefty transit fees imposed by Ukraine and other Eastern European states. Supporters also assert that the pipeline will improve the diversity of the energy landscape in Europe, thus improving the continent's energy security.

Nord Stream 2's critics argue that the pipeline would undermine existing sanctions, even though it would not violate them directly. It would also increase Europe's energy dependence on Russia, which the Kremlin could use to its geopolitical advantage. Leaders of several Central and Eastern European states, including states that currently collect substantial gas transit fees and will be bypassed by the new pipeline, wrote a letter of concern to European Commission President Jean-Claude Juncker in March 2016. They expressed their fears about energy security and energy dependence on Russia. More recently, Poland's antitrust authority presented opposition to the Nord Stream consortium on the grounds that such a merger would lead to a "restriction of competition" in the market already dominated by Gazprom.

Within the EU, Germany initially spearheaded the campaign to impose sanctions. However, in recent months, it has taken a decidedly softer approach. Foreign Minister Frank-Walter Steinmeier told the press that "an all or nothing approach, even if it sounds good, doesn't work." He continued, "We must still be able to have a joint reflection if we want to find solutions for other big conflicts."[19] However, as long as the Minsk Agreements are not fulfilled, the German government does not seem likely to consider easing sanctions.

Old Promises?

In Berlin and elsewhere, decision makers and experts alike are increasingly reconsidering whether isolating Russia is the appropriate strategy and if economic sanctions are productive.

Polish and Baltic fears and demands must also be taken into account: Polish Foreign Minister Witold Waszczykowski told his German counterpart Steinmeier that Poland wants additional security packages and expects Germany, the United States, Canada and other NATO partners to show more military strength at the Alliance's eastern border. NATO recently made the decision to send four battalions, 4,000 troops in total, straight to the eastern flank of the alliance in Poland and

the three Baltic states. These moves are meant to assuage real anxieties about future Russian aggression.

NATO troops in Central and Eastern Europe on a permanent basis would be a clear violation of the Founding Act on Mutual Relations, Cooperation and Security between NATO and the Russian Federation signed in Paris in 1997. The act's stated mission is to "build together a lasting and inclusive peace in the Euro-Atlantic area on the principles of democracy and cooperative security."[20] It was initiated to assuage Moscow's concerns about NATO's eastern enlargement.

Some have argued that the German and U.S. governments made promises about limiting NATO expansion to then-Soviet leader Mikhail Gorbachev in February 1990 in order to get Moscow's approval for German reunification. In fact, there is no formal, legally binding document stating such a promise or agreement.[21] Gorbachev stated in an interview in 2014, "The topic of 'NATO expansion' was not discussed at all, and it wasn't brought up in those years." However, the former leader recalled, "Another issue we brought up was discussed: making sure that NATO's military structures would not advance and that additional armed forces from the alliance would not be deployed on the territory of the then-GDR after German reunification."[22] Many in Russia feel that these alleged assurances have been violated by NATO in recent years.

A Final Word

As time has passed, it has become increasingly clear that Russia will not return Crimea to Ukraine. *Russlandversteher* argue that the status quo of sanctions and saber-rattling is not a sustainable long-term solution. At the same time, Putin's critics see these measures as critical to preserving world order. There is no consensus among policymakers within the ruling coalition and even within the individual parties. In the coming months, there will be a real debate about the way forward with Russia.

These domestic German debates have a broad impact far beyond Berlin. Germany has proven itself to be a European and global leader in recent years. Despite the deep understanding that Putin and Merkel share, Putin overstepped a line for the chancellor with the annexation of Crimea. This violation has affected German-Russian relations ever since. Merkel and her government's approach toward Russia will certainly continue to have an impact on the EU's choice of policy toward their eastern neighbor. This will have far-reaching global consequences in the long run. The Federal Republic, together with the other EU member states, will continue to shape broader global policy toward Russia in the future.

ABOUT THE AUTHOR

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Echoes of History: Understanding German Data Protection

Alvar C.H. Freude and Trixy Freude

The Basics

The discussion surrounding surveillance and the collection of personal data—whether by the private or public sector—and the debate over the authority of the intelligence services have never been more relevant in Germany. The debate has become more complex and contentious as a result of the disclosures about U.S. surveillance by whistleblower Edward Snowden and the growing threat of terrorist attacks worldwide. Some politicians are using this heightened awareness to call for and sometimes push through tougher security laws, while others have rallied against what they perceive to be too much government surveillance. In the midst of this jockeying, pragmatic solutions offered by moderate players have often gone unnoticed. Although there are a variety of opinions on the subject, non-Germans are usually surprised by the strength of the opposition to surveillance measures in the country.

Germans place a great deal of importance on privacy and data protection. Fear of the private sector and, even more so, government abuse of personal data is widespread. That said, German laws grant citizens a great deal of protection. Storage of personal data, for example, is prohibited, with some exceptions—unless the affected individual has consented to the storage.

Data protection is not explicitly enshrined in Germany's constitution, also known as the Basic Law, but it does enjoy protection by virtue of what is known as the "census ruling" by Germany's highest court. In this 1983 landmark case, the court decided that citizens have a basic right to self-determination over their personal data. The decision was in response to a census that became the subject of numerous constitutional complaints of violations of respondents' civil rights. Following the decision, the federal government was compelled to separate personal data from the census questionnaires and ensure greater anonymity for survey-takers. Due to opposition, the census was delayed until 1987, and scaled back considerably.[1] In the ensuing years, suspicion of surveillance has remained strong.

Privacy in Context

The private sphere is particularly protected and is a human right that should be restricted only under specific circumstances. Although the idea of privacy dates back to antiquity, our current understanding of the term is a product of the modern age. Historically, privacy has frequently been infringed upon depending on the type of government, such as fascism, or circumstances like war or terrorism.

World War II, the darkest chapter in Germany's history, left a deep mark on its citizens. As a result, Germans feel strongly about data protection—specifically, protection of the citizen against abuse of his or her data—and protection of privacy. The Federal Constitutional Court (FCC), Germany's equivalent of the Supreme Court, has derived a right to data protection from a section of the constitution pertaining to personal freedoms, which will be discussed later in this article. In turn, specific laws such as the Federal Data Protection Act, as well as the Criminal Code, the Civil Code, the Telecommunications Act and the Telemedia Act, govern how various kinds of data may be handled.

This approach is materially different from how data protection is handled elsewhere. In the United States, for example, some specific regulations exist regarding issues such as the privacy of children on the internet. However, there is no comprehensive body of U.S. laws like the German Federal Data Protection Act. Nevertheless, privacy is a right worthy of protection around the world, even if it is not explicitly stipulated in a nation's constitution.

Legal efforts relating to privacy are aimed at creating a space where every individual can behave freely. This is spelled out in Articles 10 and 13 of the Basic Law, which deal with privacy of correspondence, posts and telecommunications as well as the inviolability of the home. There are, however, exceptions for law enforcement authorities and intelligence services. For example, audio surveillance of private premises—known in casual parlance as *Großer Lauschangriff*, or large-scale eavesdropping—is permitted in certain cases and only as an extreme measure of law enforcement. The introduction of this instrument was so controversial that one of its major opponents, Minister of Justice Sabine Leutheusser-Schnarrenberger, resigned when her party voted to support it.[2] The former minister brought a constitutional complaint against the legislation, which was partially successful.[3]

Data protection legislation in the European Union and particularly in Germany is extensive. The protection covers all data pertaining to the personal or material circumstances of the individual. The buying and selling of data as practiced in some countries—where extensive information about individuals, such as their shopping habits, can be purchased from data merchants—is inconceivable in Germany. Although data merchants do exist there, they are subject to strict regulation.

Surveillance, Control and Intelligence Services in Nazi Germany and the GDR

There are historical explanations for the distrust and revulsion Germans feel toward state surveillance, which help explain the widespread belief that privacy merits special protection. During its reign from 1933 to 1945, the Nazi regime used numerous instruments to monitor the public, control behavior and use citizens to monitor their neighbors, colleagues and friends. National Socialism dictated public and private life; all spheres of society and the state had to submit to the *Gleichschaltung*—the policy of achieving rigid and total coordination and uniformity. Total uniformity meant the elimination of democratic structures in favor of the *Führerprinzip*, or the leader principle, which allowed the leader's authority to go unchecked and exist above the law.[4]

The Third Reich also systematically abused private data: It maintained a so-called index of Jews that listed the identity of all Jews dating back to their grandparents' generation. In addition, it relied on data collected during the Weimar Republic (1918–1933), including records of homosexuals. Nazi Germany's persecution of Jews and homosexuals proved that no matter the intent of the data-collecting entity, the collection of so much personal information about individuals could be dangerous in and of itself.

The state used the Gestapo, its secret police, and numerous party organizations to exercise control, but it could not penetrate every facet of its peoples' private lives. The Gestapo relied on the more or less willing collaboration of the people. And it got it in the form of denouncers, who sought rewards for spying on and incriminating anyone who opposed the state ideology. However, fear of or loyalty to the system was not the only reason people informed against each other. Often it was "the attempt by the weaker ones to assert themselves against the stronger ones."[5] Citizens took advantage of the government's system to hurt their personal enemies.

The German Democratic Republic (GDR), also known as East Germany, was founded in 1949 after the postwar partition of Germany. Though it had a constitution in which personal freedom and the inviolability of the home were enshrined, it functioned as a socialist dictatorship.[6] Individual rights were regularly violated by the Ministry for State Security, also known as the Stasi.

The Stasi searched private premises, installed hidden tapping devices, questioned neighbors and combed the personal mail of "suspicious persons," usually opponents of the regime. Surveillance, control and intimidation were commonplace. Logs known as "house books" showed just how deeply the state intruded into the privacy of its citizens. Beginning in the mid-1960s, every house was required to keep a record with details about each resident, including place of birth and profession. Likewise, information about any visitors had to be entered in these books. The Stasi also created files on hundreds of thousands of citizens. In particular, outside influences were considered dangerous and suspicious. Mail from West Germany was typically screened, as were letters sent from the residents of the GDR to West German relatives. Against this historical backdrop, state surveillance of the citizenry evokes a deep-seated uneasiness among Germans even today. Many feel that measures that are barely acceptable in a democracy could easily be abused in the event of a change in government, as has happened in the past.

When Germans bring up the U.S. National Security Agency (NSA) and its controversial surveillance and data collection practices, they often compare it to the Stasi. How many files did the Stasi hoard, how many filing cabinets were needed? How many cabinets would be needed to store the volume of data that the NSA collects? The comparison trivializes the extensive personal files collected on citizens of the GDR, but it shows how fiercely Germans feel about the intelligence services collecting their data.

The Current Landscape

There is broad consensus among German politicians that data protection is important in and of itself. Still, there are stark differences between the parties' approaches to the issue. These differences are particularly evident on issues like the rights companies should have in data processing, as well as how law enforcement and intelligence services should be regulated. Members of the conservative sister parties, the Christian Democratic Union (CDU) and the Christian Social Union (CSU), including Chancellor Angela Merkel, are more inclined to call for lower standards of data protection and highlight the opportunities that big data applications have to offer. Their center-left coalition partner, the Social Democratic Party (SPD) places a greater emphasis on data protection. Opposition parties, particularly the Greens and the Left, support data protection even more staunchly. Many in those parties believe that data protection is in jeopardy. In recent years the Free Democratic Party (FDP) has not held any seats in the Bundestag, but it remains vocal on civil rights issues.

Merkel often holds back for a long time before taking a public position on complex and controversial political issues like data protection. She allows the debate to evolve and then assumes the lead late in the discussion. This could be observed in her response to the Snowden revelations: For a long time, she said nothing. Only after it was disclosed that the NSA had monitored her cellphone did she comment publicly: "Spying on friends—that's totally unacceptable."[7] At the ninth National IT Summit in 2015, a meeting of the federal government and business community, Merkel spoke about data protection and demanded that big data applications not be impeded by data protection.[8] However, she still refrains from taking clear public positions on many data issues and lets her ministers and party cohorts do the talking.

At the same time, positions also diverge among the individual ministries. For example, the Federal Ministry of Justice and Consumer Protection established a working group for the National IT Summit, which aims to strengthen data protection. Within this forum, several focus groups have taken on different challenges. The Consumer Sovereignty and Transparency Focus Group is developing simple and clear privacy statements, while the Privacy by Design/Data Protection through Technology Focus Group is working on recommendations for privacy-friendly product design. Members of the group include representatives of private industry, civil society, the scientific community and the ministry.

The differences among political players are particularly evident in the discussion surrounding the Snowden disclosures. While many conservatives view Snowden as a traitor and would like to have the same options for data storage in Germany as exist in the United States, the Left and Greens criticize the activities of intelligence services—in Germany and abroad—and want the most stringent regulations possible. The Social Democrats are torn between their commitment to the governing coalition and their own domestic policymakers on the one hand and support for basic rights on the other.

Ultimately, the only option for privacy and civil rights advocates is to resort to the Federal Constitutional Court and the European Court of Justice. For example, in a 2008 judgment on a law regarding online searches and government Trojan Horse software, which allows law enforcement to monitor online communications of suspected criminals, the FCC introduced a "fundamental right to the guarantee of confidentiality and integrity of information technology systems,"[9] and in 2010 the court overturned the law on data retention. Four years later, the European Court of Justice declared the underlying EU data retention directive invalid on the ground that it violates fundamental rights.[10]

German Data Protection Laws and the Federal Data Protection Act

By the late 1960s, increased automation in electronic data processing spurred calls to regulate the processing of personal data. In 1970, the world's first data protection act was adopted in the German state of Hessen; in 1974, the state of Rhineland-Palatinate followed; and in 1977, the Federal Data Protection Act was passed. The legislation was meant to protect personal data "against abuse in their storage, transmission, modification and deletion (data processing)."[11]

As mentioned earlier, debate about the census in the 1980s was particularly contentious. With its 1983 census ruling, the FCC introduced a basic right to "self-determination over personal data," according to which every individual has control over the processing of his or her data. However, as with all fundamental rights, this must be weighed against other rights, such as the freedom of expression.

The central message of the judgment can be summed up as follows (emphasis added):

> A societal order and a legal order enabling it in which citizens are no longer able to know who knows what about them, when and in what context would be irreconcilable with the right to self-determination over one's own personal data. **Anyone who is unsure whether deviant behavior is being recorded at any time and permanently stored, used or passed on as information will try to remain inconspicuous in such conduct. […] This would harm not only the individual's opportunities for self-development but also the common good because self-determination is a basic condition of a free democratic community that is based on the ability of its citizens to act and collaborate.** Consequently, the free development of personality under the modern conditions of data processing presupposes protection of

> the individual against the unlimited collection, storage, use and passing on of his personal data. This protection is thus encompassed by the basic right of Article 2 (1) [free development of personality] in conjunction with Article 1 (1) of the Basic Law [human dignity]. In this respect, the basic right guarantees the **power of the individual, in principle, himself to decide on the disclosure and use of his personal data.**[12]

To this day, the judgment remains groundbreaking and continues to influence legislation. The same also applies to the Federal Data Protection Act, which implements the EU Data Protection Directive in its latest form. The law has been frequently revised over the course of time and is based on six basic principles:

- **Ban subject to permission:** The collection, storage and use of personal data is in principle prohibited unless permitted by a legal provision or the affected individual's consent.
- **Direct collection:** Data may be collected only from the affected individual himself. The law does provide for exceptions, for example, if such collection would be too complicated or if another law permits the collection.
- **Data economy:** Data is not to be kept too long and must be deleted after an appropriate period.
- **Data minimization:** As little data as possible is to be collected and processed.
- **Purpose limitation:** Data processing is permitted only for a specific, previously defined purpose unless the affected individual consents to another arrangement.
- **Transparency:** The affected individual must know that data is being collected, what type of data it is, why it is being recorded and how long it will be stored.
- **Necessity:** The collection of the data must be necessary; it is only permitted if no other means are available.

The European Data Protection Directive

The European Union has several legislative means. There are directives, which set the framework and must be translated into national law by the legislators. There are also regulations, which are applicable to all member states.

The European Union's Data Protection Directive of 1995 describes the minimum standards for data protection and the processing of personal information, but it is implemented differently in each EU state. Ireland, for example, though subject to the directive, has weaker data protection laws and exerts less government oversight than many other EU states. This makes it attractive for international companies to base their offices there. That will change, however, with the new General Data Protection Regulation, which will take effect in all European Union member states, including Ireland, in May 2018.

The New European General Data Protection Regulation

The General Data Protection Regulation will ensure a uniform framework throughout the EU. Still, in special sectors, such as data protection in the employment sector, so-called "escape clauses" remain, permitting member states to write their own rules. Despite some gaps, the regulation will ensure that the same standards apply throughout the European Union. Citizens will be affected by the changes to varying degrees depending on the current data protection landscape in their country. In Germany, relatively little will change, as the level of data protection is already high. Many provisions already existed under the Federal Data Protection Act. There will also be some new provisions, such as the marketplace principle. It states that all companies operating in the EU, even those that have their headquarters in a country outside the EU, must comply with local standards when processing personal data of European citizens.

Privacy advocates and civil society organizations see the Privacy Shield as only a minor improvement over Safe Harbor

Another new provision is the right to data portability. It requires social network providers, such as Facebook, to give their users the option to transfer their data—including, for example, posts, photos or lists of friends—to another provider. Another new feature is the right to be forgotten. Under this provision, users can demand, subject to certain conditions, that their personal data be deleted from internet services such as search engines. Moreover, in the future, companies will face stiffer penalties if they violate data protection requirements, which could add up to 4 percent of their worldwide turnover.

The negotiations on the implementation of the General Data Protection Regulation lasted several years. It took broad political discussions before the European Commission, the European Council and the European Parliament were able to reach the current compromise. For example, the question of how to deal with big data applications was a hard-fought issue.

Safe Harbor and the Privacy Shield

In order to bridge differences between European and American data protection laws and to facilitate trans-Atlantic business, the European Commission recognized the Safe Harbor principles in 2000. These principles allowed for the transfer of data of EU citizens to the United States when certain rules were observed. However, the European Court of Justice invalidated this decision in 2015, arguing that once data was transmitted, it could no longer be controlled and American authorities effectively had unfettered access.[13]

In its critique of the Safe Harbor principles, the court said, "legislation permitting the public authorities to have access on a generalized basis to the content of electronic communications must be regarded as compromising the essence of the fundamental right to respect for private life."[14] With that ruling, the most important legal basis for transmitting personal data to the United States ceased to exist.

Soon thereafter, negotiations began to establish a new agreement. Starting in July 2016, the Privacy Shield replaced the invalidated Safe Harbor principles. The Privacy Shield has come under heavy criticism because, like Safe Harbor, it is not a law, but merely a European Commission "adequacy decision" that proposes revisions. Privacy advocates and civil society organizations see the Privacy Shield as only a minor improvement over Safe Harbor.[15] One improvement is the requirement that U.S. companies store EU citizens' data only for as long as it takes to meet the purpose for which the data is collected. But American authorities will continue to have access to the data under U.S. law, leading many critics to surmise that complaints will be filed and the European Court of Justice will rule against the Privacy Shield.

Intelligence Services in Germany: Powers and Oversight

Given the historical context described earlier, Germans have a complicated relationship with intelligence services in general and their national services in particular. Here, a distinction must be made between domestic and foreign intelligence services.

The Federal Office for the Protection of the Constitution and the 16 state offices for the Protection of the Constitution are domestic intelligence services. Their task is to collect and analyze information about anti-constitutional and extremist activities, as well as to combat foreign espionage. The Office for the Protection of the Constitution has grabbed headlines in recent years due to various scandals, particularly in connection with a series of murders and other attacks committed between 1999 and 2011 by the far-right terror organization National Socialist Underground (NSU). Important documents were shredded, files were lost and dossiers were not processed appropriately. The domestic intelligence agencies were unable to solve the NSU attacks or the murders, let alone investigate them as extremist crimes. Authorities were unaware of the very existence of the group. Instead, the Office for the Protection of the Constitution sometimes suspected that the victims themselves belonged to criminal organizations. Numerous inquiry committees were established in both the German Bundestag and the state parliaments as a result of the failures of the Office for the Protection of the Constitution and the police.

Critics such as legal scholar Wolfgang Gast have argued that the domestic intelligence agencies monitor the leftist scene especially rigorously, but look the other way when it comes to right-wing extremism. Gast observed, "Domestic intelligence agents have always been engaged far more intensively and actively in monitoring presumed or actual machinations of the leftist scene than terror from the right."[16]

> "What sense does oversight make, when the overseers rely solely on mere statements by those who are supposed to be overseen?"

The Federal Intelligence Service (Bundesnachrichtendienst, BND) is the German foreign intelligence service. It collects information outside Germany about terrorism, organized crime, illicit financial flows, drug and weapons trafficking and "sensitive" regions such as Afghanistan and Pakistan. The BND partially coordinates with the NSA and has come under public criticism for passing data to the agency. In 2014, the German Bundestag established an inquiry committee to examine, among other things, this cooperation and determine the extent to which and the reasons why foreign intelligence services are spying in Germany. However, the investigation has proven difficult because witnesses from intelligence circles are reluctant to provide information and the federal government does not grant many people permission to testify.[17]

The Federal Armed Forces Counterintelligence Office is the smallest, but also the most secretive, of the German intelligence services. As the counterintelligence service of the Bundeswehr, the German armed forces, it performs roughly the same tasks as the Office for the Protection of the

Constitution for members of the armed forces. Its responsibilities include counterespionage and security clearance checks of soldiers.

The Bundestag oversees and monitors the intelligence services through the Parliamentary Control Panel, made up of members of parliament who are bound by an oath of confidentiality. The federal government is obligated to thoroughly inform this top-secret panel about the activities of the intelligence services. However, since membership in the body is only one of the MPs' many tasks, few have the time to study the issues in-depth and scrutinize all the information. Journalist Daniel Leisegang noted, "The Parliamentary Control Panel appears to be a toothless tiger, for ultimately the overseers have to rely primarily on the information of government officials and the services, the veracity of which they can only confirm to a limited degree. For this reason, in the past they usually did not learn of legal breaches or failures on the part of the intelligence services until it was reported in the media."[18]

Wolfgang Nešković, a former judge of the Federal Court of Justice, was a member of the Parliamentary Control Panel until 2013. He has criticized the oversight practice of the panel, saying: "What sense does oversight make, when the overseers rely solely on mere statements by those who are supposed to be overseen? That's comparable to a fare ticket check, where the conductor does not have travelers present their tickets but rather contents himself with their assurances that they have one."[19]

It is not (open) courts, but the G10 Commission of the Bundestag or—in the case of the state intelligence services—the G10 Commission of the relevant state parliament that decides whether surveillance activities of the intelligence services are permissible. The G10 Commission meets secretly and is made up of members who are independent and selected by the parliaments.

Government versus Private Surveillance

The discrepancy between citizens' desires and citizens' actions in relation to data protection has frequently given cause for discussion. Advocates of government surveillance argue that while Germans heavily criticize monitoring by the intelligence services, they also willingly disclose their data on Facebook and other sites. However, this criticism is not a strong one. First of all, online users are not a homogenous group. Many consciously boycott social networks. Second, there is an important distinction to be made: On most networks, the user decides what personal information to disclose. In the case of government surveillance, the user has no influence; people cannot opt out, or can do so only with difficulty. They cannot contest and often do not even know what data is being collected and stored and why.

Still, some German politicians generally hold the view that citizens should criticize Facebook more and government surveillance less. Civil rights advocates criticize both, and they are fighting back through creative means. In Germany and 18 other countries, the Big Brother Award (BBA) is conferred annually to companies, projects or politicians identified as "data leeches." Interior ministers have won in the past, many earning the Lifetime Award, the prize for lifetime achievement.

For some, it may sound strange that technology-savvy people, such as members of the Europe's largest hacker association, the Chaos Computer Club (CCC) condemn government and private sector data collection. Frank Rieger, a CCC spokesman, puts it this way: "Frequently, the people who earn the most money act as though it were almost a law of nature, that the loss of privacy is an inevitable consequence of the use of computers and networks. They don't, however, like to publicly discuss the profit motive behind that view."[20]

A Final Word

Germany has a very different understanding of data protection than many other countries, such as the United States. People fear that their data, whether stored with private companies or the government, can be easily abused, now or in the future. The increasing popularity of right-wing populist and extremist parties shows that, even in firmly established democracies, there is a risk that leadership will change. Citizens fear not only that their data could be directly abused, but also that, in the event of a change in government, the intelligence services could abuse their role.

Meanwhile, EU politicians continue to debate individual regulations about the powers of the security agencies and intelligence services. However, groundbreaking progress has not come from the political sphere. Rather, courts have decided these important issues, including the census ruling, data retention judgment, Trojan Horse software and within Europe, the European Court judgment on Safe Harbor. This explains why any attempts to weaken German and European data protection laws through political influence are destined to fail. The FCC and the European Court of Justice have already made clear that they derive the right to data protection and self-determination over personal data directly from the inalienable fundamental rights of the individual.

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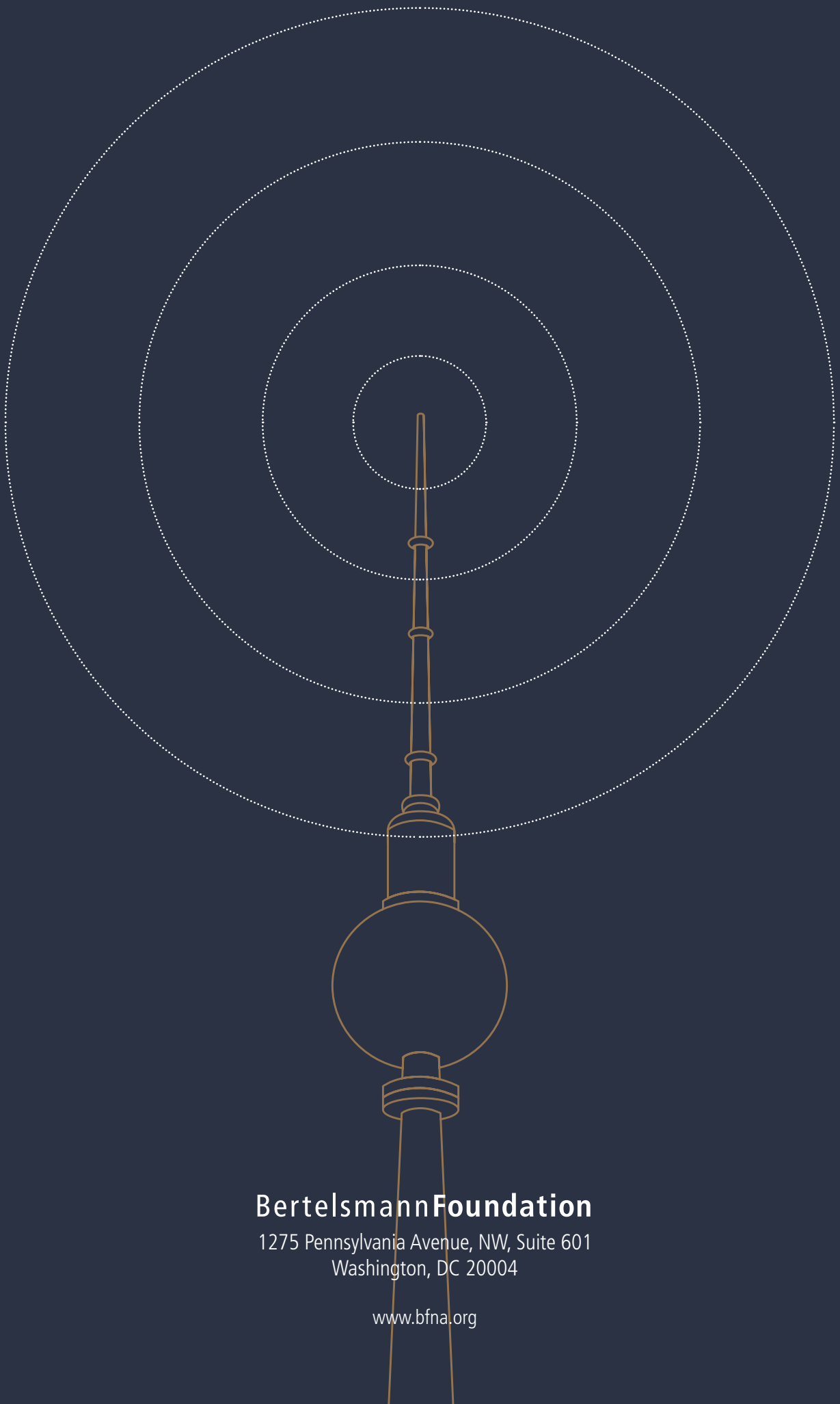

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