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The Foreign Policy of Germany Inc.

Drang nach Osten

It is July 2010. The venue is sunny Yekaterinburg, and the occasion is the annual Petersburg Dialogue between German and Russian leaders. Yekaterinburg is an industrial town behind the Ural Mountains and is the place where the tsar and his family were murdered in 1918 and where Boris Yeltsin began his early career. Its German name was changed back from the Soviet “Sverdlovsk.” Standing in front of the cameras are Angela Merkel, the German chancellor, and Dmitry Medvedev, the Russian president. Merkel’s relationship with Russia is complicated. She grew up in communist East Germany and became a fluent Russian speaker during her schoolgirl days. While she developed a sympathy for Russian culture, her experience in the former East Germany seems to have made her a Russia skeptic. She, like Barack Obama, is an unemotional realist, who understands the nature of Russian power, the immutable nature of Russian authoritarianism, and that country’s central importance to Germany.

While Medvedev represented the outward looking, friendly face, the real power player, Russian prime minister Vladimir Putin, had a deep connection with Germany. He joined a German language club while a young student in Russia, surprising his teachers who thought he was not interested in anything academic. He picked up the language easily and used this background to become a KGB agent in Dresden, and when he visits Saxony he speaks of “returning home.” He sent one of his children to a German school in Russia and has employed several former members of the East German secret service, the Stasi, in Russian enterprises. When he meets German leaders, he speaks with them in fluent German and he impressed the Bundestag with his command of the language. He thought he knew how to manipulate the former East German schoolgirl now turned German chancellor. At one of their early meetings, knowing that Merkel,

who as a child had been bitten by a dog, has a strong aversion to big dogs, Putin brought his black Labrador Retriever Koni, apparently with the intention of both intimidating the chancellor and letting her know how much he knew about her. This must have been an unpleasant moment for her, bringing back memories of Russian tactics in her former homeland.¹ Merkel would later recount that when she hears Putin speak German, she is reminded of listening to an interrogator.

Once Merkel came to power, much was made of her desire to promote democracy and human rights in Russia. She told American politicians that her background in East Germany made her an especially strong advocate of democracy and liberty. During her first trip to Moscow, she met with human rights and democracy activists to the consternation of Putin. This was in sharp contrast to her predecessor Gerhard Schröder, who was a particularly close friend of Putin, having celebrated Christmas and birthdays together and using nicknames such as “Gerd” and “Volodya.” Putin had sent a Cossack chair to Schröder for his private home, and Schroeder adopted two Russian girls through Putin’s intervention. After leaving office, Schroeder became a key executive in a European consortium dominated by Gazprom, the massive Russian energy concern. He referred to Putin as a “flawless democrat” and was careful not to criticize his policy in public while being openly critical of President George W. Bush.

Yet, on this July day in Russia, Merkel is standing with the leader of Russia’s new generation. Behind her is a phalanx of 25 German businessmen, with a deep interest in the Russian market as she signs major economic agreements with Medvedev. The businessmen are a virtual Who’s Who of German business—Peter Löscher of Siemens, Martin Winterkorn of Volkswagen, Thomas Enders of Airbus, Martin Blessing of Commerzbank, and Johannes Teyssen of the energy giant, EON, among others. At the meeting, Siemens signed deals worth a billion euro. The chancellor stated, “We will also discuss domestic political problems and various issues which have to do with human rights,” as well as “research, education and health.” But she pointedly added that the thrust of the meeting was “that we do business, that we make profits and that we cooperate more intensively.”²

Like her Social Democratic predecessor, Merkel seems to have a better relationship with the Russian president than with his American counterpart. All of these signify the major changes occurring in Germany’s foreign policy. Germany is the key player in Europe on dealing with Russia. Given the lack of consensus in Europe over Russia, Berlin plays a decisive role in shaping a coherent and successful Russia policy. Yet, while Germany is crucial to any

Western policy consensus on Russia, there are real differences in interests, cultures, and approaches between Berlin and Washington, as well as between Berlin and Warsaw, Brussels, and other key European capitals that have led to divisions. There is a real possibility that without a common approach, Germany will increasingly play the role of mediator among Russia, the United States, and Europe.

There are voices in the West that have raised concerns about Germany's reliability as a partner in dealing with Russia. The conservative *Weekly Standard* warned, "Berlin has entered a new era of shared interests with Moscow and divergence from Washington. Incoming administration officials would be wise to recognize that on issues ranging from the gas dispute to Eastern Europe to Afghanistan and Iran, the Germany of today is not the partner the United States once had."³ Zbigniew Brzezinski believes, "If the romance between Russia and Germany goes too far, it could strike a blow against European integration,"⁴ and Edward Lucas, international editor of *The Economist* and author of a book on Russia titled *The New Cold War*, argues that the German-Russian relationship is "the most puzzling and troubling feature of modern European politics."⁵ Philip Stephens from the *Financial Times* reports that "Mr. Obama's aides fret that Ms Merkel sometimes prefers the company of China and Russia over that of the US in the UN Security Council. She is too soft on Moscow. German exports trump allegiance to the western alliance."⁶

There has long been an undercurrent of worry about Germany's reliability as a partner, dating back to the Rapallo complex of the 1920s, when Germany and the Soviet Union signed a treaty of reconciliation, and more recently with then Polish defense minister Radek Sikorski's, references of the Nord Stream Russia-German gas pipeline as a new Molotov-Ribbentrop pact. The future of the German-American relationship and of Europe itself will hinge, in part, on how Germany, Europe, and America manage their approaches toward Russia. What then are the sources of both divergence and convergence of interests between Berlin and key Western capitals on Russia and how can a Western strategy be developed?

Trading state versus civilian power

The place to begin to answer these questions is in business. The German genius⁷ has been manifest in philosophy, music, social and natural sciences, military affairs, and economics long before its late national unification in the nineteenth

century. Germans have been much less impressive in the realm of politics and diplomacy, with, at times, disastrous results both for themselves and for others. After the monumental catastrophe of Hitler's Reich, Germans decided to put their energies, intelligence, and organizational skills into the economic sphere, largely ceding the military and diplomatic fields to the Americans in the Cold War. Divided, discredited, and demoralized, they succeeded in creating the most powerful economy in Europe and the fourth largest in the world. The Deutsche Mark became for the Germans what the nuclear arsenal was for the French, a symbol of national pride. During the 44 years of national division, West Germany was a semi-sovereign power in military affairs, a subcontractor to the United States in defense policy, more a consumer than a provider of security.

The West German grand strategy relied on its economic prowess for its influence and was brilliantly successful. The German approach came to be one of a "civilian power." As developed by the political scientist, Hanns Maull, this strategy relied on Germany exerting its influence through its economic resources rather than on the more traditional instruments of statecraft. The Germans took away the German threat from their neighbors by stressing their European vocation and multilateral diplomacy. West Germany slowly regained its sovereignty by submerging much of it in the European Union and NATO. It regained both respect and legitimacy by developing a post-national and postmodern identity, which minimized national identity. It openly confronted its "unmasterable past"⁸ in a forthright and admirable manner, in contrast to that of the other leading civilian power, Japan, and succeeded in lowering the fears and distrust of its neighbors.

With the unification of Germany in 1990, this strategy continued and was adapted to the new era of globalization ushered in by the end of bipolar world. The German military participated in the NATO alliance in wars in Kosovo and later Afghanistan, but it continued to shrink in size, budget, and public acceptance. The opening of new markets to German industry in Asia, Eastern Europe, and the Middle East reinforced the export orientation of the German economy. Today, Germany is moving from being the center of Europe to the center of the global economy.⁹

Germany as a reemerging power

The German economy has always stood out from those of other advanced industrial economies in many aspects. First is its heavy reliance on exports.

Germany, a country of only 80 million inhabitants, ranks third in the world in exports, just behind China and America with a population five times its size. In 2013, exports made up 41 percent of the German GDP, with exports have accounted for two-thirds of GDP growth during the past decade. Second, Germany is more reliant on manufacturing than is the United States and other advanced industrial economies.¹⁰ Industry makes up almost one-quarter of Germany's GDP, employing more than five million people. Four sectors dominate German industry: cars, machinery, chemicals, and electronics. Merkel once told Tony Blair that the secret of the German economy is that "we still make things."

The German economic success can be attributed to a highly calibrated "business cycle chain" that starts with initial demand stimulus in the form of strong exports, which in turn drives corporate investment and ultimately drives employment and private consumption. Unlike the United States, Germany does not depend on household spending to drive its economy, with private consumption in Germany being largely level during the past five years. This leaves Germany increasingly dependent on foreign sales. On the positive side, the combination of moderate consumption and high savings rate has kept the inflation rate in check and limited the growth of private debt. It has, however, created tensions with the United States and its southern European neighbors, leading the US Treasury Department to chastise it in its 2013 report with the following analysis:

Germany has maintained a large current account surplus throughout the euro area financial crisis, and in 2012, Germany's nominal current account surplus was larger than that of China. Germany's anemic pace of domestic demand growth and dependence on exports have hampered rebalancing at a time when many other euro-area countries have been under severe pressure to curb demand and compress imports in order to promote adjustment. The net result has been a deflationary bias for the euro area, as well as for the world economy. Stronger domestic demand growth in surplus European economies, particularly in Germany, would help to facilitate a durable rebalancing of imbalances in the euro area.¹¹

In the 2010 KOF Globalization Index, Germany ranked eighteenth in the world, which exceeded most of its European competitors as well as the United States. A number of factors are at the heart of Germany's global competitiveness. First, German industry has managed to maintain high worker productivity and high level of plant capacity utilization relative to its European competitors. This fact

has been attributed to the quality of its educational system and its willingness to reinvest capital in areas of high productive capacity. Second, German industry has been able to retain its higher industrial investment rate because of a decreasing corporate debt and net interest burden. In the 1990s, the country chose to retain its core industrial capacity, forswearing the process of “deindustrialization,” which has undercut US and UK global industrial competitiveness. Finally, a government-funded short-time working scheme, *Kurzarbeit*, helped keep employees, who otherwise would have been laid off during the financial crisis, on the job during the depths of the crisis. This enabled Germany companies to retain skilled labor and expertise.¹²

A key factor in the new German economy is its movement outside the euro zone to markets in Eastern Europe, Russia, the Middle East, and Asia. This is due to both the implications of unification and globalization. While Germany formally unified in 1990, unification took two decades to reach what might be called an approximation of completion. During the period, Germany transferred over \$1.9 trillion to eastern Germany in investment and subsidies, an enormous burden that slowed productive investment. It is only now, with this costly transition mostly behind it, that the German economy has been able to flex its muscles and start to punch at its own weight. German trade still depends on European markets. In 1991, the EU area absorbed 51.3 percent of total German exports. While the euro zone still accounts for the largest source of German trade, growth is coming from the outside. In 2010, German exports to the euro zone had fallen to 41 percent, while Asia accounted for 16 percent (up by 4% from the year before). By the end of 2012, the effects of the European recession were being felt, and while exports to the EU remained stagnant, exports to non-EU nations jumped by more than 10 percent. German exports totaled over €1 trillion by the end of 2013. German investment has followed similar patterns. By 2014, German manufacturers invested in and imported more from China than France, and while France remains Germany’s largest export market, China ranks fifth in exports and second in imports (see Figure 1.1).

German business thinks globally, and it is the German private sector that is pushing German foreign policy in many areas. Today, the business of Germany is leading, and politics follows behind. The best and brightest can be found in business rather than in politics. This has major implications for the civilian power paradigm. While economic power has always been a main component of this approach, its strategic dependence on the United States and its orientation toward western markets tempered the conflict between its political values and its economic interests. During this period, Germany emerged as what former

Preliminary result:

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Figure 1.1 Germany's major trading partners, 2012 in EUR bn.

chancellor Helmut Schmidt described as an economic giant but a political dwarf. With unification and the end of the Soviet Union, Germany emerged from a semi-sovereign status with less dependence on the United States and NATO for its security and growing interdependence in both Europe and globally. Germany became primarily a trading state with a strong geo-economic approach. Its role in global economic institutions, such as the G-20, the IMF, the WTO, and the World Bank, grew while it became a secondary player in NATO and within European security policy. When the Greek and other weak European economies came to Germany for bailouts, the Germans were far less “European” than they were when they were West Germans. German business and banking are also relatively less concerned with the European market as they expand into the wider world.

Germany as a geo-economic power

In my assessment, we are on the way—including German society in a broader sense—to understanding that a country of our size, with such an export orientation, that in an emergency, military deployments are necessary in order to protect our interests, for example, securing free trade routes or preventing regional instabilities, which would definitely negatively influence our trade, jobs, and incomes. This all has to be discussed, but I think we are not on such a bad track.¹³

German President Horst Köhler resigned shortly after making these remarks, yet, what he said was both accurate and unremarkable. As a trading state lacking

many of the key raw materials needed to fuel its manufacturing machine, it is imperative that Germany has predictable and stable access to these raw materials, especially minerals and energy. It is also imperative that it maintains its reputation as a reliable supplier, especially in the age of just-in-time production in a global chain of production. What the former German president said is also stated in the German defense ministry's official White Book on defense policy. All of these highlight the tension between Germany the Civilian Power and Germany Inc. the export-driven economy.

The global German trading state will give priority to stable economic relationships over other considerations such as the political record of its partners, including the state of democracy, human rights, and labor rights in economic partner countries. This is an economic form of realism known as geo-economics or commercial Realpolitik, similar to that of political realism, which puts the national economic interest as the ultimate value in a state's foreign policy.¹⁴ So, if a large trading partner, like China, exercises pressure on German business to avoid meetings with Dalai Lama, political actors will comply. When Chancellor Merkel did meet with him, all the major economic players in Germany, as well as the Social Democratic opposition's leadership, criticized her for risking German exports and jobs. She subsequently toned down her remarks on Tibet.

Edward Luttwak and a few other strategists began to recognize at the beginning of the 1990s that geo-economics was replacing geopolitics in the core or center of the globalizing international system.¹⁵ The French analyst, Pascal Lorot, notes,

Nations are engaged—alongside their national companies—in offensive policies to conquer external markets and to take control of sectors of activity considered to be strategic. For nations today the quest for power and assertion of their rank on the world stage depends more on their economic health, the competitiveness of their companies and the place they occupy in world trade.¹⁶

Globalization has only accelerated these tendencies into a zero-sum world. The increasing porousness of borders, the growing role of multinational corporations with global strategies, and the decline of the national security state have led to a switch from the territorial state to the trading and investment state. The key concerns of political leaders are with prosperity and competitiveness, not with security in the central global core. Security remains a problem in what Robert Cooper calls the premodern and modern world, and the post-9/11 focus on terrorism is an example of the threats emanating from the periphery, but the American response with its exaggeration of military power and the security

nature of threats has led it to fall behind in the real competition of the twenty-first century. Germany, in contrast, has forged ahead as one of the most successful contemporary geo-economic states.¹⁷

This approach is in tension with the civilian power emphasis on human rights, multilateralism, and “Moralpolitik.” Given contemporary Germany’s historical legacy, it has been incumbent on German leaders to stress the moral high ground in foreign policy and to continuously atone for the sins of the Third Reich. The clash between these two major imperatives has been most visible in the Middle East where German companies have aggressively sought markets in a manner that has alarmed Israel. German companies have been accused of providing materials to Iraq, Libya, and Iran that could be turned against Israel in a military attack and continues to sell tanks to Saudi Arabia. German companies were heavily involved in selling the Assad regime components for their chemical weapons capability. Germans have had a special sensitivity to their moral and historical responsibility to Israel, given the Holocaust. As a nonnuclear power, it has a strong stake in a stable nonproliferation regime. Thus, while the German economic stake in Iran was substantial, it nevertheless supported economic sanctions on the Iranian government to halt its pursuit of a military nuclear capability.

As Germany moves further away from its horrific past and as a new generation of leaders born after German unification assume greater power and responsibility, the geo-economic aspect of its foreign policy will likely increase. The German geo-economic model of foreign policy is characterized by the following:

- A definition of national interest in economic terms.
- A shift from multilateralism to selective multilateralism.
- A predominant role of business and especially export-oriented business in the shaping of German foreign policy.
- The elevation of economic interests over human rights, democracy promotion, and other noneconomic interests.
- The use of economic power to impose national preferences on others.¹⁸

This shift has some important implications. First, it cedes overall grand strategy to business interests, especially those associated with the export market and natural resources, and reduces the role of political and administrative leaders. Within the government, this model enhances the role of the chancellor’s Office, The Finance, Economics, and Technology ministries and reduces that of the Foreign and Defense ministries. At the same time, the symbiosis between business and politics is deepened in those cases in which German business has

to deal with state-dominated economies, most notably in China, Russia, and the Middle East.

Second, a geo-economic approach clearly subordinates *Moralpolitik* or the concept of Germany as a normative power and lowers the priority of noneconomic values in German policy at the expense of human rights, democracy, and related considerations.¹⁹ Stability, predictability, and reliability of Germany's reputation as a stable economic partner are paramount. In this sense, risk aversion, already a deeply embedded trait in the German political culture, is reinforced.²⁰

The nature of hard security and of the military as an instrument of state influence is also transformed. As former president Köhler's remarks indicate, given the centrality of economic and especially trading interests, the military's primary role will be to protect German access to raw materials and to keep secure sea lines of communications and other key trading routes. The old roles of protecting the German homeland from invasion or of deploying forces for missions defined by NATO are clearly downgraded. In Edward Luttwak's characterization, "methods of commerce are displacing military methods."²¹ At the same time, Germans can continue to comfort themselves as being antimilitarist, even pacifist, and exceptional in their rejection of the use of military force à la the United States, France, and the United Kingdom. However, as the American role in European security recedes and German industry becomes more vulnerable to threats to its lines of supply and commerce, the notion of comprehensive security will have to be redefined.

Finally, globalization in all its broad implications has reinforced these tendencies. Globalization has begun to pull Germany out of Europe as its markets have expanded and Europe has faltered as a competitor. It has also promoted a much deeper and significant shift in the distribution of power and the emergence of new non-European powers while weakening the significance and influence of the United States, a trend that was accelerated by the financial crisis and the dysfunctions of the American political system. All of these trends have weakened the anchors of Germany's foreign policy that had been founded on its ties to the West. Finally, globalization has brought with it a "zero-sum world," in which competition for markets, technology, and natural resources has accelerated.²²

Adapting *Ostpolitik* to globalization

A major question facing Germany in this new era of zero sum competition is whether the economics *über alles* approach and the risk averse style that it

encourages is compatible with strong leadership. Does Germany want to be what a former national security advisor to Chancellor Kohl calls “a greater Switzerland, where foreign policy supports commercial aims and military engagements are avoided.”²³ When former German foreign minister, Joschka Fischer was asked in 2010 to characterize contemporary German foreign policy, he responded:

The current foreign policy is essentially foreign economic policy and follows almost exclusively domestic political considerations. What is useful in the election campaign? What brings consent and what brings rejection? Where is the domestic political risk, can I take that, what does it cost me? I would call this “refusal to lead.” Thereby we lose more and more of what used to be at the core of German foreign policy in the future; and what should also be at the core in the future.²⁴

The advent of the strategic culture of the geo-economic state is in many ways an extension of Germany’s approach to the world since the *Ostpolitik* that began in the late 1960s. The legacy of 1989 is central to the German strategic culture and its approach toward Russia. It is also an important part of the German-American divergence on Russia and lies in the lessons learned from the end of the Cold War. Germans tend to believe the Cold War ended peacefully and Germany was reunified because of détente and engagement with the other side. The German public has consistently credited Gorbachev and then foreign minister, Hans Dietrich Genscher, and not Ronald Reagan, for the peaceful ending of east-west hostilities. The lesson drawn for future policy was that dialogue, diplomacy, mutual trust, and multilateralism were the best approach for dealing with seemingly intractable opponents. When Helmut Kohl decided to support the enlargement of NATO in the 1990s, he did so with the precondition that Russia would be included through the NATO-Russia Council. Gerhard Schröder stressed diplomacy and multilateralism in contrast to the Bush approach to Iraq and formed a coalition with Russia against the Bush policies, while Angela Merkel has linked sanctions against Iran to active engagement with Iran in negotiations.

The policy of “Change Through Rapprochement” allowed it to gain the confidence of the Soviet leadership to the point that Gorbachev could accept the unification of Germany in 1990 without fear of revanchism. This approach is not only compatible with the political culture of democratic Germany but also with the imperatives of an EU Europe and the world beyond. In short, soft power and a multilateral approach enhanced German influence, prestige, and room for maneuver. Thus, the geo-economic grand strategy is an adaptation

and transformation of this approach, which was shaped largely not only by the division of Germany but also by its relationship to the then Soviet Union, now Russia. The implications for Germany's relationships with contemporary Russia will be an important part of this evolution and adaptation to the new international conditions. It implies that German ties with Moscow will increase and the priority of Russia, China, and other new powers will also rise in German foreign policy. Germany will be the leading power in defining European policies toward Russia and China as well, given its growing economic power and influence in Europe.