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Security and Geo-Economics

Free trade routes and a secure supply of raw materials are crucial for the future of Germany and Europe. Around the globe, changes are taking place in markets, channels of distribution, and the ways in which natural resources are developed, secured, and accessed. The scarcity of energy sources and other commodities required for high technology products will have implications for the international community. Restricted access can trigger conflicts. Disruptions of transport routes and the flow of raw materials and commodities, e.g. by piracy or the sabotage of air transport, pose a threat to security and prosperity. This is why transport and energy security and related issues will play an increasingly important role for our security.

German Ministry of Defence, Defence Policy Guidelines, 2011

The geopolitics of geo-economics

Edward Luttwak and a few other strategists began to recognize at the beginning of the 1990s, that geo-economics was replacing geopolitics at the core or center of the globalizing international system.¹ While military power and traditional security concerns still dominated the peripheral areas of the world, the globalizing core states in the central arena of world affairs had entered what Robert Cooper later labeled the postmodern world.² In this system the global core traditionally included Europe, North America, and Japan, but has since expanded with globalization. “War between them has become almost unthinkable . . . Hence military power and classic diplomacy have lost their traditional importance in this central arena of world affairs.”³ As James J. Sheehan observes in his study of the demilitarization of Europe, there has been, “a subtle but definite shift in the meaning of international security, which had increasingly become a problem

of maintaining order and stability rather than defending territory against aggression.”⁴ In Europe this has been especially the case as the European states that had been shaped by war before World War II were now made by peace.⁵ Although interstate war has diminished, the international system still rests on individual territorially defined states that continue in an adversarial competition for power and influence, however this competition is now channeled chiefly by economic means. Unlike mercantilism, which left open the option of war as an instrument of state policy, “today developed states compete in the marketplace not on the battleground.”⁶

As Luttwak points out, state policies are determined at the micro-level by a variety of actors, so a geo-economic strategy is shaped by the political and bureaucratic system of the state. He notes, “. . . there can be no successful geo-economic action without ambitious industrialists and effective economic bureaucrats.”⁷ In France the state and its bureaucracy continue to play a major, if diminished, role given its highly centralized state while in Germany the private sector is much more influential given the diffusion of power in the German system and the relatively weak central bureaucracy. Again Luttwak, the state “must allow mere commerce alone to reign on the main stage of international life, under the undisputed control of business people and corporations. By embracing it state bureaucrats can assert their authority anew.”⁸ The French analyst, Pascal Lorot, writes, “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.”⁹ Even beyond this is the contention of Ravi Abdelal of the Harvard Business School, that commercial *realpolitik* has replaced traditional *realpolitik* as great power politics is now based on the profit motives of and shared ideas of firms.¹⁰ Yet as Joseph S. Nye has observed, economic power is “largely local or ephemeral or both. It is difficult to wield on a global scale. The basic reason is that the locus for most decision-making is households and firms, and is thus highly diffuse.”¹¹

Globalization has only accelerated these tendencies from what Gideon Rachman has called a zero-sum future into a zero-sum present.¹² 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 state. The key concern of political

leaders is now 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.

Today, as the defense policy guidelines makes clear, the security of its supply of raw materials, especially energy and minerals, is the most pressing rationale for German defense strategy, in short the defense policy of a geo-economic power. This has a number of implications. It means that German security interests will be defined largely by its economic interests. Germany's strength lies in its prowess as an export power, but this is also a potential vulnerability given the role of factors outside of Germany's control. This means first and foremost that German planners must place safeguarding access to the raw materials and the international production chain needed to run the German export economy at the top of their defense priority list. It also implies giving priority to its relationships with those states that are either major German markets or providers of key natural resources, as well as promoting the German defense industrial base and German defense jobs and becoming a major arms exporter.

Military force: *Nein Danke*

Germany has seen itself as a civilian power since it reemerged from the ashes of World War II, first as West Germany of the Bonn Republic and then later as the united Germany of the Berlin Republic. The once fiercely military nation of Prussia has been a post-national postmodern power for over 60 years. Unification did not make any significant alteration in this self-perception. However, Germany is not a pacifist nation. It has substantial armed forces and a defense budget of \$46 billion in absolute terms, which makes it the tenth largest in the world, although this comprises only 1.3 percent of GDP.

With the new strategic conditions of the post-Cold War world, German defense policy needed to develop a new rationale for the development of its force structure and procurement of equipment. German defense planners

have undergone a number of strategic shocks since the end of the Cold War. First there were the series of conflicts in the Balkans, followed by the attacks of 9/11 and more recently the Libyan intervention of NATO.¹³ The German aversion to the use of force has been tempered by what its former Green Foreign Minister, Joschka Fischer, once termed the lessons of the Third Reich: “Never Again War and Never Again Auschwitz.” To which a third, “Never Again Alone” needs to be added. When these imperatives collided in Kosovo, Germany chose to use force to avoid genocide but it did so together with its NATO partners. Similarly, in Afghanistan it chose to intervene because of its NATO obligations. However it opposed the American war in Iraq, an opposition the overwhelming majority of Germans think then and now was justified. This was followed by the case of Libya in 2011, in which Germany abstained from intervention and in doing so chose the never again war option over the never again genocide imperative and the never again alone principle. At the same time it sided with two of its most important trading partners, China and Russia, against its NATO allies as it sided with France and Russia against the United States in the Iraq War.

Germans have consistently ranked near the bottom of Western nations in their belief that military force can bring justice. The Transatlantic Trends surveys have found that while Americans tend to be the most willing to see force linked to justice, the Germans are lower in comparison to Americans with only 27 percent in 2013 agreeing with the proposition that “under some conditions war is necessary to obtain justice,” compared to 68 percent in the United States. However Germans are close to where other Europeans polled came out on this issue, with the exception of the United Kingdom.¹⁴ Here again, German political culture meshes nicely with its interests as a geo-economic power. In this same poll a full 89 percent agreed that economic power is more important in world affairs than military power.¹⁵ The use, or the threat of the use, of military force threatens trading relationships not only in terms of export markets but also in terms of access to raw materials, and is very dysfunctional for a geo-economic power.

During most of its existence, the United States provided for West Germany’s security, including secure sea lines of communication. This has allowed Germany to maintain its position as a consumer of security provided by the United States. This condition is now changing given the shift of American strategic interests from Europe to the Pacific and the Indian Ocean. European security is now being left increasingly to Europeans at a time when all European

nations, including the two major military powers, France and Britain, are cutting back on their defense budgets. Germany as well, already at the low end of defense spending, is further cutting its defense budget. As an analysis on the state of European security policy put it, "EU governments are increasingly turning inwards and defense budgets are being cut across the board. Little attention is devoted to strategic thinking on Europe's hard security position in the world."¹⁶

Germany has become *Die Nein Nation*, the country that feels its lack of participation in the Iraq war and its participation in the Afghan conflict has justified non intervention. The slow move away from a strategic culture of reticence, which culminated in the Afghan commitment, has now become undone. While over half of the German public supported the German military intervention in Kosovo and early on in the Afghan action, by the time of the Libyan conflict, almost two-thirds opposed German military intervention while at the same time two-thirds favored the NATO military intervention. In other words, Germans expressed the view that others should take on the risks for something that they thought should be done.¹⁷ The ability to say no to America and the growth of a sense of sovereignty has also contributed to a policy of nonintervention.¹⁸

Defending Germany Inc.

While some contend that this is a return to pacifist roots, in fact Germany is pursuing the grand strategy of a geo-economic power. As outlined in the opening chapter, this means that it sees its power as being defined by prosperity and success in the growing competition of global economic market place. Hard security is not a priority in the world in which Germany operates. It was pulled into Afghanistan out of its NATO commitments, a legacy of an era when hard security was a priority in a divided Europe and a divided Germany. It operates in Cooper's postmodern world and leaves the conflicts of the periphery to the United States. The lessons of Afghanistan that are likely to be learned in Germany will be to not allow Germany to be drawn into conflicts in the periphery but to concentrate on succeeding in the new competition of economics. This is also linked to domestic politics, where politicians are measured by their economic performance not their military successes. It also means that export success

promotes an aversion to involvement and the use of force. As an expert of German and EU foreign policy, Ulrich Speck notes:

The relationship between an economic success that is driven by exports and the reluctance to interfere in other countries affairs is the big “unknown” in the analysis of German’s role on the international stage. It could be argued that by staying neutral or by staying in the EU mainstream, German politics manages to avoid confrontations and clashes that might end with interference of its business relations. But how a relative abstinence from foreign policy and a global network of economic relations are related to each other over the longer term is subject to speculation. Foreign policy experts rarely look at the economic aspects, and economists tend to ignore foreign policy.¹⁹

In other words, this is not pacifism but rather noninterventionism, which often becomes acquiescence. It can also result in what the German journalist, Jörg Lau, has labeled “the German love for dictators.”²⁰

Defense and defense spending are subordinated to these larger strategic objectives. Terrorism remains a top threat, but is viewed as one of an internal and criminal nature to be dealt with by the traditional means of law enforcement and intelligence at home. German strategists prefer a defensive strategy of dealing with the problem in Europe as opposed to the offensive, proactive strategy of going to the external sources of terrorism in the lands from which they emanate in contrast to the approaches taken by the Americans, Israelis, French, and British. Germans spent over a decade dealing with domestic terrorism in the 1970s and 1980s in the form of the Baader Meinhof group and were unsparing and often ruthless in their responses to it. But they learned the lessons of not overreaching at an excessive cost to civil liberties and understanding the political nature of terrorism. The attacks of 9/11 were hatched in Hamburg and the German government has been aggressive in tracking and eliminating terror groups based in Germany and has closely cooperated with its partners, including the United States on a variety of levels, but it has concluded that the military instrument is not very effective in dealing with this threat. German security officials are more worried about the threat at home with German- and European-based Jihadists than with going after them outside of Europe.

The resource and markets imperative

The greatest security challenges for geo-economic Germany are maintaining the sea lines of communication (SLOCs) to insure the economic system

operates unhindered, protection against cyber attacks and especially industrial espionage including data protection, maintaining access to raw materials, and maintaining a secure defense industrial base. Unchecked immigration and movements of displaced persons, preventing the proliferation of weapons of mass destruction and dealing with the problems of organized crime will also be security imperatives. In regard to Russia, specifically, dealing with the effects of Russian corruption and organized crime, Russian cyber attacks and the geopolitical competition in eastern and southern Europe will be the primary security threats for German security policy, displacing the Cold War security concerns about a Russian military threat to the German homeland.

The German export machine is extremely vulnerable to disruptions in its supply chains and export markets. The expansion of its markets with the end of the division of Europe in 1990 and with the globalization that followed has meant that over €85 billion of its economy depends on maritime links. Ninety percent of its foreign trade volume and 60 percent of its value depends on maritime transport.²¹ The dependence of the EU as a whole is also substantial with 90 percent of its foreign trade and 40 percent of the internal market dependent on maritime routes. These dependencies are as existential as the threat of nuclear war was during the bi-polar era.

Access to raw materials is likely to become a major factor in the security policies of all nations, especially Germany. The US National Intelligence Council in its *Global Trends 2030: Alternative Worlds* report concludes that an increase in the global population from today's 7.1 billion to 8.3 billion by 2030 along with an expanding middle class and swelling urban populations will increase pressures on natural resources.²² The report of the Transatlantic Academy on global resource competition examined the strategic side of this competition and noted that for a country like Germany, which is highly dependent on the import of raw materials, not only access but the spill-over effects of interstate conflicts over resources, especially in Asia, will have direct effects on both the German economy and German security.²³

German public and private sector leaders are growing increasingly concerned about the security of access to the minerals and energy needed to fuel the German economy. Germany imported over €84 billion of resources in 2009, €62 billion for energy and €22 billion for minerals. Given its almost total dependence on imported raw materials, it has taken a number of steps to develop a raw materials strategy including the creation of a resources agency. A number of government related think tanks including the SWP and the Bundeswehr Transformation

Center have undertaken studies into the implications of a raw materials deficit for Germany. As one analyst put it:

In the next decade the policy of the German government, including foreign policy, will be affected by the consequences of the decreasing availability of natural resources. It can be expected that the mission of the Bundeswehr will be redefined, and the importance of African states and current exporter countries such as Russia and China for German policies will increase. At the same time, Germany will seek to strengthen cooperation among importer countries, which should make pressure on resource-exporting states more effective. In this context, it can be expected that the efforts taken to develop an EU resource strategy or even a “comprehensive resource policy” will be intensified; or at least, the EU’s energy policy will permanently include the issue of sourcing raw materials.²⁴

The team of authors of the Future Analysis department of the Bundeswehr Transformation Center focused on the consequences of an irreversible depletion of raw materials and on the consequences of the world reaching the peak oil threshold in 2010.²⁵ They warned of shifts in the global balance of power, of the formation of new relationships based on interdependency, of a decline in importance of the Western industrial nations, of the “total collapse of the markets,” and of serious political and economic crises. The *Spiegel* report on the Bundeswehr study focused on the implications for Germany’s relationship with Russia:

The scenarios outlined by the Bundeswehr Transformation Center are drastic. Even more explosive politically are recommendations to the government that the energy experts have put forward based on these scenarios. They argue that “states dependent on oil imports” will be forced to “show more pragmatism toward oil-producing states in their foreign policy.” Political priorities will have to be somewhat subordinated, they claim, to the overriding concern of securing energy supplies. . . . The relationship with Russia, in particular, is of fundamental importance for German access to oil and gas, the study says. “For Germany, this involves a balancing act between stable and privileged relations with Russia and the sensitivities of (Germany’s) eastern neighbors.” In other words, Germany, if it wants to guarantee its own energy security, should be accommodating in relation to Moscow’s foreign policy objectives, even if it means risking damage to its relations with Poland and other Eastern European states.²⁶

The Bundeswehr study was written just before the emergence of the shale gas revolution in the United States and its emphasis upon the centrality of oil to future scenarios now appears overwrought. While the time lines may be pushed back further into the future, the essential problem of resource scarcity remains and the conclusions drawn for German security policy remain valid. The report highlights the fundamental tension between an interest- and values-based foreign policy for Germany, which is heightened by resource dependence:

... new selectivity in supply relationships may lead to some countries appearing to be more convenient partners; that is, those whose foreign policy is deeply rooted in the principle of non-interference in other countries affairs, and thus in the absence of political conditionality. ... value—based concepts of foreign, security and development policy may increasingly become subject to pressure to conform to more pragmatic rival models, like those already pursued by China and India.²⁷

The report warns of the need for short-term cooperation with authoritarian regimes in the fields of energy and security conflicting with long-term goals of bringing about change in these regimes. It concludes that, “the integration of economic interests and aspects of supply security into security policy and interministerial cooperation in this field is likely to be the central issue of security discourse in the years to come.”²⁸

In addition to the energy dependence already discussed, there is a concern for access to rare earth minerals, which are vital to many of the high-tech applications of German industry. German business under the leadership of Federation of German Industry, the BDI, raised concerns at this time as well about German dependence on resources, especially rare earth minerals. The OA produced a paper on China’s expansion into Africa and Central Asia including its restrictions on rare earth exports. It concluded that Germany and the EU have vital interests in gaining access to raw materials and that China is making a major effort to secure natural resources, especially in rare earth minerals. The paper noted that these resources are vital to the high-tech sector and that they exist in Russia and Central Asia. The OA has proposed a natural resource strategy with Kazakhstan and is working with the German federal government to develop a strategy based on the model of the natural gas cooperation developed by the OA with the Soviet Union in 1970.²⁹

This resource imperative will further temper the *Moralpolitik* side of German foreign policy as evidenced by Merkel’s signing a rare earth accord with Nursultan

Nazarbayev in February of 2012, which gave German companies better access to rare earths. Merkel raised the issue of human rights with the Central Asian dictator, but was rebuffed.³⁰

Resource vulnerability and dependence has direct security implications for the German private sector, especially the resource extraction industries. Western companies face the problem of providing security for operations in areas where states are weak or nonexistent. Steve Coll's study of the role of Exxon Mobil in dealing with security for its fields in Africa and Asia is one example of a larger issue, writing, "Exxon's sway over local politics and security was greater than that of the United States embassy."³¹ Coll describes how the company had to provide for its own security in the oil-rich Aceh region of Indonesia, which had been experiencing a successionist guerrilla war.³² German firms face similar security challenges. The Bundeswehr study on peak oil discussed the challenges facing private companies in areas with fragile statehood, which provide a vacuum of government functions and in which there is a need for "corporate counterinsurgency."³³ As German interests in these resource-rich but government-poor regions in Africa, the Middle East, and Asia grow, so do these security challenges.

German defense planners will have to be concerned over the issue of sea lines of communication (SLOCs) insuring delivery of raw materials and industrial components as well as for export of German goods. The United States Navy has been the major provider of this public good for the world, including Germany, but it is likely to be challenged in the future by China as the latter extends its maritime reach to feed its expanding resource-dependent economy. India is also expanding its maritime role in the Indian Ocean region, further diluting the American maritime presence. The German navy took part in antipiracy operations off the coast of Somalia and is likely to see this as an important future mission. As one German report citing the great American maritime strategist, Alfred Thayer Mahan observed, "... control of the sea determines a state's economic welfare. Globalization without container ships is not conceivable."³⁴ Given that Germany thinks of itself as a land power and given the severe constraints on the defense budget, it is likely that it will have to rely on the EU, NATO, and the United States to protect its SLOCs, and it is likely to be pulled into more missions dealing with this priority. Given the decline also in the military budgets of Europe's primary maritime powers, Britain and France, Germany will have to actively shape NATO and European alternatives for dealing with these threats.

The Merkel doctrine and arms exports

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On the defense industrial side, German policymakers have given a priority to maintaining a defense industrial base for jobs, exports, and the technological expertise it produces. The major cuts in German defense spending have put great pressure on the German arms industry to find

markets outside of Germany. German arms exports started to rise in the mid-1960s and by 1981 reached an annual value of \$2 billion. After some fluctuations in the early 2000s, the arms business began to rise again. In the past decade German arms exports have more than tripled and now comprise 11 percent of the global market. On the basis of the annual value of exports, the 2006–10 period all made it to the top ten years of the German arms industry of the post-war era. In these years, Germany became the third biggest arms exporter in the world after the United States and Russia. The German government has approved arms exports to Saudi Arabia, Bahrain, Yemen, Syria, and Libya. In 2009 alone, Germany made over €1 billion in arms sales to the Middle East, including tear gas, pepper spray, electric shock gear, shackles, and water cannons.³⁵ Arms exports totaled over €10 billion in 2011, with 42 percent headed for non-NATO or the NATO equivalent of EU countries, a jump from just 29 percent in 2010. Given Germany's special responsibilities to Israel and the special nature of that relationship, these arms sales raise another especially poignant choice between "Moralpolitik" and geo-economics and the trend is clearly, but not exclusively, in the direction of the latter.

This shift has been conceptualized as the Merkel Doctrine, based on the chancellor's decision to only send troops to conflict zones in emergency situations and instead to sell "partner countries" weapons so that they can defend themselves. This is in part a response to the German experience in Afghanistan and the public revulsion against German involvement there. Under this approach, the government has a rationale for not getting involved in conflicts beyond Europe. As the *Spiegel* noted, "The chancellor points out that her foreign policy is 'committed to values' of democracy and human rights. And yet she permits weapons shipments—in the name of stability—to unsavory regimes whose human rights records are often appalling."³⁶ This doctrine is a reversal of many years of policy in the Bonn Republic of limiting or prohibiting exports of weapons to "areas of tension." This was one legacy of the Holocaust and Germany's determination not to provide weapons that could be used against Israel, with "areas of tension" being a code word largely for the Middle East. German leaders also did not want to be involved in providing weapons to autocratic regimes that would use them to suppress dissent. It was for this reason that the then Chancellor Helmut Schmidt denied the sale of Leopard tanks to Saudi Arabia in the 1970s, despite pressure from the arms industry.

Table 5.1 World's largest arms exporters 2001–10

2001–10 Rank	Supplier	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1	United States	5908	5229	5698	6866	6700	7453	8003	6288	6658	8641
2	Russia	5896	5705	5236	6178	5134	5095	5426	5953	5575	6039
3	Germany	850	916	1713	1105	2080	2567	3194	2500	2432	2340
4	France	1297	1368	1345	2219	1724	1643	2432	1994	1865	1834
5	United Kingdom	1368	1068	741	1316	1039	855	1018	982	1022	1054
6	China	499	509	665	292	303	597	430	586	1000	1423
7	Netherlands	203	239	342	209	583	1187	1326	530	545	503
8	Sweden	880	191	526	314	538	432	366	454	383	806
9	Italy	216	426	341	212	774	502	684	417	514	627
10	Israel	407	436	368	628	368	299	438	281	807	472

Source: Stockholm Peace Research Institute: the totals are in euros

Tank exports To Saudi Arabia: A case study in the Merkel Doctrine

On June 27, 2012 in the small cabinet room in the German Chancellery, a paradigm shift in German foreign policy occurred.³⁷ There a meeting of the Federal Security Council took place chaired by Chancellor Angela Merkel in which a decision was made to deliver more than two hundred of Germany's top of the line Leopard 2A7+ model to the Kingdom of Saudi Arabia.

This would be the first time Germany supplied heavy arms to an Arab government that has declared its intentions to fight its opponents "with an iron fist," a country that deployed tanks against demonstrators in a neighboring country and ranks 160th on the Economist's Democracy Index, just a few spots above North Korea, which holds the very bottom spot.³⁸

Merkel, on this day, broke with the long-standing German policy, from Helmut Schmidt through Gerhard Schröder, not to export weapons of war to crisis regions. Merkel "determined it to be acceptable to deliver weapons wherever doing so best serves Germany's geopolitical and economic interests."³⁹ The first phase, which began in 2010, was initiated by Frank Haun, the chairman of the board at Krauss-Maffei Wegmann:

"As chairman of the board at Krauss-Maffei Wegmann, a Munich-based arms manufacturer with 3,500 employees, Haun was looking to tap new markets. Krauss-Maffei Wegmann had been hit hard by the Greek crisis as well as by budget cuts at the Bundeswehr, Germany's armed forces. The number of orders the company received was dropping and annual sales looked likely to slip beneath the billion-euro threshold by the end of the year. Haun also liked to complain about the 'enormous competitive disadvantages' his company faced, because 'in no other country in the world' did the defense industry face 'more severe export limitations' than in Germany. Given all these factors, Saudi Arabia fit quite nicely as a new market for the Leopard tank."

Haun addressed the Defense Ministry, the Chancellery and the Foreign Ministry, relaying the considerable interest from Riyadh to buy Leopards. Riyadh indicated that Saudi Arabia was interested in buying 200 tanks, making the deal worth up to €5 billion. Haun met with Foreign Minister Westerwelle and was able to get the Foreign Ministry to go along with the deal, a break with its usual reticence to do these type of deals. Both Merkel and Westerwelle agreed not to block the deal, but with one caveat: "No German government sells heavy-duty 'made in Germany' military equipment to an Arab country that stands in opposition to Israel's security interests."

The Spiegel account of the meeting relates that the Foreign Ministry staff noted that the possibility of these weapons being used against demonstrators in the Arab Spring weighed against the deal while the Saudi's role in the region

as a security guarantor in the region was an argument in favor. The foreign minister did not take a position in the meeting while the economics minister spoke in favor and the justice minister argued against it on the grounds that it went against German policy going back to Hans Dietrich Genscher's time as foreign minister. Interestingly, all three ministers were members of the FDP. In the end Westerwelle went along with the decision to sell the arms to the Saudis as he knew that Merkel had made up her mind to do so. Merkel cited Israel's approval of the deal and the need to have Saudi Arabia act as a counterbalance to Iran. "Another argument put forth in the chancellery that day was that the deal would be a complete package, not a one-time delivery, with Germans providing technical support, logistics, and training as part of the agreement. This would give Germany long-term influence in the country, the tanks providing a point of access to Saudi leaders. . . . The session minutes, classified as confidential, show the various arms deals discussed that day in table form. Beside the agenda item Saudi Arabia, just one word is noted: "Approved." At around 5:25 p.m., the chancellor brought the session to a close. The ministers had taken less than an hour to make history."

In a speech in September given to a group assembled by the Körber Foundation, Merkel elaborated on her decision stating that it was right to arm countries in order to act in Germany's interest: "If Germany shies away from military intervention," the chancellor suggested, "then it's generally not enough to send other countries and organizations words of encouragement. We must also provide the necessary means to those nations that are prepared to get involved. I'll say it clearly: This includes arms exports." In her second key point, the chancellor outlined a new, internationally networked arms policy. "But we should try to go a step further," Merkel continued. "If we in NATO agree that the organization is not capable of solving all conflicts and that emerging, newly industrialized countries and regional organizations should take on more responsibility, then we in NATO also need to take steps toward a common policy when it comes to arms exports." The speech was the formulation of the Merkel Doctrine and its new defense guidelines.

In a position paper delivered to the European Commission on October 27, 2011, the German government argued that when it comes to export controls, "The effort to prevent proliferation and destabilizing arms accumulations should not unreasonably hinder or impede legal trade, particularly when it comes to economic relations with new regional powers." The document focused on so-called dual-use goods, which have both military and civilian applications. Both "foreign and security policy considerations" as well as "economic interests" should be "adequately considered."⁴⁰ This marked a clear shift in the direction of a geo-economic security policy, one that serves both strategic and economic

interests and supports a German defense industrial complex, albeit of a different nature and scale than the American one.

The German arms industry remains a significant political force in Germany and is able to lobby effectively for both preferential awarding of defense contracts by the German Ministry of Defense as well as for a free hand in exporting arms. As one report on lobbyists in Germany notes, “Who and to what extent lobbies for the export and production of weapons is completely non transparent—both from the side of the arms firms as well as from interested buyers.”⁴¹ Small compared to its British and French counterparts, German defense companies tend to be regionally concentrated in Baden Wuerttemberg and Bavaria, giving them clout within the chancellor’s party, the CDU and its Bavarian sister party, the CSU. The arms industry directly employs about 98,000 people and indirectly another 218,640 people in Germany. The Table 5.2 lists the top five German arms industries and their ranking among the top one hundred in the world, including EADS, which is a joint venture European venture with a large German ownership stake.

As the Spiegel article noted, “Either it shrinks with declining demand, or it develops new markets. But those markets happen to be regions of the world where dictators are at war with one another, religious regimes are funding terrorists or autocrats use violence to suppress their own people. The biggest growth markets are in the Middle East and in the emerging economies of Southeast Asia and South America.”⁴²

This is also the conclusion of the SIPRI annual report in 2013, which states, “One of the consequences of the financial crisis in the USA and Europe has been additional pressure to seek new export markets. This has led the USA and European states to streamline bureaucratic procedures and to be more willing to engage in licensed production, technology transfer and cooperative production arrangements.”⁴³ In the wake of the Merkel Doctrine, German exports have continued to climb.

As noted above, decisions on arms exports are made in secret by the Federal Security Council, which consists of the chancellor and the eight permanent members of the Cabinet. Journalistic reports indicate that the Justice Ministry and the Development Ministry have been the major skeptics on loosening controls on arms exports, while Finance, Defense, and Economics (the core geo-economic ministries) have been in favor. The foreign minister is reported to take public positions opposing these sales, but privately has promoted arms sales in a number of cases, including to Russia and Egypt.⁴⁴

One consideration behind this strategy is that it serves business interests and saves or even creates jobs. Germany has continuously lowered its military

Table 5.2 German firms in the SIPRI top 100 arms-producing and military services companies in the world excluding China, 2011.
(Figures for arms sales, total sales and total profit are in millions of US dollars)

Rank	[b]	2011	2010	Company [c]	Country	Sector	Arms sales (US\$ m.)		Total sales, 2011 (US\$ m.)	Arms sales as share of total sales, 2011 (%)	Total profit, 2011 (US\$ m.)	Total employment, 2011
							2011	2010				
7	7			EADS		Aircraft, Electronics, Missiles, Space	16 390	16 360	68 295	24	1 442	133 120
26	32			Rheinmetall		Artillery, Electronics, Military vehicles, Small arms/ ammunition	2 980	2 660	6 192	48	313	21 520
49	57			ThyssenKrupp		Ships	2 080	1 340	68 244	3	-2 479	180 050
54	54			Krauss-Maffei Wegmann[i]		Military vehicles	1 740	1 590	1 807	96	..	..
60	63			Diehl		Missiles, Small arms/ ammunition	1 380	1 210	4 072	34	71	13 970

Source: Stockholm International Peace Research Institute

<http://www.sipri.org/research/armaments/production/Top100>

expenditure since the end of the cold war and has stayed below NATO's 2 percent of GDP prescription over the last 20 years. Although Germany is the third largest contributor to the NATO mission in Afghanistan, its opposition to the invasion of Iraq and the intervention in Libya confirm the country's traditionally skeptical stance toward foreign interventions. With little appetite for participating in missions abroad and shrinking military budgets, the tens of thousands of jobs provided by the arms industry in Germany can only be upheld by the expansion of foreign markets.

These are the jobs that the proposed merger of Europe's two defense giants, the British BAE and the Franco-German EADS might have endangered. The idea of the merger was based on sound business considerations and would have created the world's largest aerospace company and the perspective of a long-needed deepening of the EU's defense industries. However, the deal collapsed when Angela Merkel unexpectedly blocked it. Although the exact reasons for withdrawing her support are unclear, fears of a lack of German influence in the future firm, the transfer of the headquarters to Toulouse and London and as a result the outflow of high-tech jobs from Germany lay behind the decision.⁴⁵ Chancellor Merkel clearly put German interests ahead of interests in creating a more credible European defense industry and capabilities in making this decision. Given the declining defense market in Europe EADS will have to expand into emerging markets in China, India, Brazil, and the Middle East.⁴⁶

Germany has a clear interest in consolidating the European defense market. Only by consolidating its defense industries on a European scale can German firms remain competitive against American firms and they can do so in markets that are not politically sensitive. The case of Airbus is a good example as a purely German firm would not have the capabilities or capacity on its own to compete with Boeing. In addition only by defense consolidation can these firms have a European and global market large enough to sustain themselves. This will require the German government to decide which defense industries it can support and how it can promote European consolidation.

The NATO Libya operation revealed significant deficiencies in European defense capabilities, deficiencies that will only grow with the cuts to defense budget around Europe, including in both Britain and France. The Libya campaign saw a shortage of reconnaissance means and aircraft as well as the lack of a global electronic interface to coordinate weapons systems. The Libya case was also an indication of the long-range strategic consequences of the US shift toward Asia in its strategic priorities, leaving the Europeans to fill in the gap in their region.

The long-term result of these trends is “a Europe that is incapable of defending its strategic interests outside its borders.”⁴⁷ The German government will have to make some tough decisions on the defense industrial division of labor within Europe and will need to draw a line between industry and strategy, including deciding, “What role does national and international arms industry play in German security policy and vice versa.”⁴⁸

Drones and German security

The development of drone technology is a major development in military technology with important implications for security policy and the ability to keep up with competition in the high-tech sector. Drones now pose a central question for the future of security policy as they now promise a casualty free (for the attacker) means of using force and after the Afghanistan experience this means minimizing “boots on the ground.” Given the aversion of all Western democracies in the wake of the wars in South Asia and the Middle East to deploy forces for substantial periods of time, drones are a tempting low cost alternative for politicians and military planners. This is a concern for many Germans who fear that drones will make it easier to turn to the use of force and would elevate its role in a world in which they would like to see the contrary occur. Regarding the use of drones, the German public was by far the most opposed of all the Western publics polled with 61 percent opposing and 38 percent approving their use compared to an average of the 11 EU publics surveyed of 53 percent disapproving and 41 percent approving. In the United States approval was overwhelming by 71 percent to 25 percent disapproving.⁴⁹ The discussion in Germany has tended to blur the differences between combat and surveillance drones, and what each should be used for.

The drone issue became a major concern for Defense Minister Thomas de Maziere in 2013 when it was revealed that the Ministry of Defense (MoD) had spent €600 billion on developing a European version of the American drone known as Eurohawk only to discover that it was not safe to fly in European skies. De Maziere had to cancel the program in May 2013 and almost lost his job over this project due to the way he handled it once it was revealed, seeming not to take responsibility for knowing about the issues involved and seeming to tolerate an attempt by the Ministry to prevent the information from being revealed. The project was a joint venture between EADS and Northrup Grumman. Northrup manufactured the Global Hawk while an EADS subsidiary developed its reconnaissance system.

“The problems, which ultimately led to the Euro Hawk failure, arose out of this business arrangement. The American airspace permit for the Euro Hawk—the prototype was built in the US—was not valid in Germany and could not be

obtained, because German regulators had no experience with the new drone technology. And according to the German defense ministry, the American side withheld documents detailing the technical specifications of the Euro Hawk. As a consequence, it could not be proven beyond doubt that the Euro Hawk would not pose a danger to civilian air traffic.

The Euro Hawk company claimed that the drone system functioned flawlessly, while promising that it would lay out an 'affordable and doable' plan to address the safety concerns. In other words, the project could be completed if money kept coming from the defense budget. But the defense ministry cancelled the program in May and is now searching for a new platform. The reconnaissance system designed by EADS should, if possible, be used in an alternative drone project."⁵⁰

Like a number of other attempts by German firms to collaborate with American defense contractors, Euro Hawk was a failure.

Beyond the issue of management competency and responsibility, there is also the technological aspect and prospect that, as Markus Kaim of SWP put it, "Germany is being left behind. Apart from the United States and Israel, many countries have or are developing armed drones, such as Britain, China and India." A technological gap is opening between most NATO countries that do not have drones, and the United States, which will widen even further, adding more strains to the alliance.⁵¹ Here again there will be a conflict between the geo-economic imperatives of technological competition and a strategic culture that remains deeply suspicious of the development of military capabilities.

The Merkel Doctrine became an issue of contention not only with a number of influential civil society groups, including the churches and human rights organizations, but also within her own party. Roderich Kiesewetter, an arms expert within the CDU parliamentary group, urged that the Bundestag be given a veto right on arms exports, but his motion was rejected by his party. The chair of the CDU's working group on defense, Ernst-Reinhard Beck forcefully defended German arms exports, stating in June 2013, "We who are proud of export nation Germany should also be so regarding arms exports."⁵² The dark side of this approach became apparent after the use of chemical weapons by the Syrian government in August 2013. Just days before the Bundestag elections of 2013, it was revealed that German firms, along with other Western companies, had contributed to Bashar El Assad's stockpile of chemical weapons.

Also despite German criticism of America's gun culture German firms ranked third in small arms exports to the United States behind Brazil and Austria, selling 313,528 firearms in the US market in 2011 according to the US Bureau

of Alcohol, Tobacco, and Firearms.⁵³ This is part of a larger market for German small arms exports as Germany is the third largest exporter of small arms in the world, trailing only the United States and Italy.⁵⁴

The German approach to viewing arms sales as primarily driven by economic considerations carries with it a number of strategic implications. Arms exports have an impact on regional military balances making Germany responsible for both change and stability in a region. In addition, Germany carries a responsibility to provide spare parts so that in the case of conflict it becomes a *de facto* ally of the nation or nations it supplied. As one commentator notes, "If Saudi Arabia goes into a war with German tanks, providing spare parts to Riyadh and thus support to its campaign and could raise the terrorism danger in Germany."⁵⁵ In addition, customers are demanding not only the weapons systems but the technological know-how as well, creating tomorrow's competitors. The more international German firms become the less dependent they will be on German policy and German interests.

Germany faces some important choices regarding the future of its arms export policy. To what extent should it be driven by industrial priorities as opposed to a security-policy-based rationale? How transparent should these policies be? Currently these are very nontransparent decisions made in secret by the Federal Security Council with the Bundestag being informed after the fact. Finally how European should defense industrial consolidation be and how can German policies support this needed Europeanization?⁵⁶

Cyber security and industrial espionage

Cyber security is another key security concern for Germany. As one study on cyber security policy in Europe observes, "The old threat scenario involving tank divisions from the East has been replaced by the challenge posed by invisible adversaries whose geographical source can often not be determined. Virtual attacks, threatening critical infrastructure, government institutions and personal data form one of the key challenges to security policy in the 21st century."⁵⁷ The United States has created a Cyber Command and NATO has recognized in its 2012 Strategic Concept that defending against cyber attacks is an urgent security challenge.

In Germany a number of steps have been taken to shape its response to this new security threat, including the adoption of a national cyber security strategy in 2011, the consolidation of cyber security competences in the hands

of the Federal Government Commissioner for Information Technology and the creations of the National Cyber Defense Center that integrates the capabilities of the intelligence and security services.⁵⁸ A National Cyber Security Council was also established in 2011 involving the chancellery, various ministries, the states, and industry representatives as associate members to decide wider cybersecurity policy and to strengthen cooperation between government and business. However funding and personnel for these initiatives remains small.

German security planners have to be primarily concerned with combating *cyberwar* by states against the military and civilian populations of other states as was the case of Russian cyberattacks on Estonia and Georgia or the Stutznetz attacks on Iran; this category would also include *cyberterrorism* such as the hacking into cybersystems to create nuclear power plant meltdowns and *cyberespionage* involving breaches into governmental or nonstate enterprises by foreign government agencies. For example, the German Minister of the Interior told the 2011 Munich Security Conference that the German government experiences four to five attacks every day on its cybernetwork. It is also estimated that the German government has infiltrated over 90 computers in Afghanistan and Congo.⁵⁹

The emergence of cyberpower in the twenty-first century is a major example of power diffusion and creates a challenge for states as “more things are happening outside the control of even the most powerful states.”⁶⁰ This diffusion also blurs the lines between domestic and international and spills over into the competencies of almost all government agencies and the private sector. It also blurs the lines between governments and criminal elements as is the case with the Russian Business Network, which has inherited some capabilities and personnel from the former Soviet state and maintain connections with the government.⁶¹ The Bundeswehr acknowledged that it has a Computer Network Operations Team capable of offensive action. It is part of the Strategic Reconnaissance Command stationed in Rheinbach, near Bonn. Press reports suggest the unit started training a few years ago and reached initial operational capability in 2012. However, actual offensive operations would require the approval of the German parliament, as all German military actions do.⁶² In the view of a German defense analyst and former planner, Germany needs to do more on the offensive capability side:

Cyber is a particular important issue addressing in particular “prosperity.” Germany is well regarded by experts as among the leading nations in the world. Yet the government is not too well prepared. The best expertise is in private

groups and the military. There is a lack of a governmental capability. The official position is: focus on cyber defense, which is ridiculous with regard to the cyber environment that clearly favors the attacker. There will be several interagency and multinational initiatives to come to include participation of countries such as Brazil and Japan but the capability for offensive action remains more theoretical than practical. Our CERT teams are excellent, but neither the legal situation nor equipment, training and organization allow for offensive action.⁶³

Cybercrime, including theft of intellectual property, extortion, fraud, and identity theft, is not a security threat in this sense although it is a major problem for law enforcement and for the private sector.⁶⁴ The competitive edge of German industry is centered around its ability to apply sophisticated and precision technology to industrial products. German dependence on high-tech exports and patents has made this an especially important concern, given that German companies face the rise of major competitors, especially China, where the issue of stolen intellectual property from German firms is a growing concern.⁶⁵ A prime example is the field of solar technology where Chinese firms have used German technology to produce solar panels at the same levels of quality but for much lower cost, in effect driving German firms out of many markets. For a geo-economic state, this is like having hundreds of Pearl Harbor attacks daily. A July 2013 survey of 400 German businesses conducted by Ernst and Young revealed that German companies were increasingly concerned about industrial espionage, with 76 percent expecting it to increase in the future, although 82 percent felt their firms were adequately protected. When asked which countries or regions posed the greatest risks for industrial espionage, China was listed by 28 percent, the United States by 26 percent, and Russia by 12 percent.⁶⁶

The survey was taken in the immediate wake of the revelations by Anthony Snowden of the US National Security Agency's Prism program, which dealt with activities focused on combating terrorism. However the continuing revelations of the linkage between eavesdropping for terrorism and individual data protection blurred the lines among counter terrorism, industrial espionage, and civil liberties. When the same question was asked two years prior only 6 percent of German companies listed the United States as a high risk center for industrial espionage and data theft. Concerns about Russian attacks also had increased, doubling from 6 percent in 2011 to 12 percent in 2013. The main concrete results of cyber attacks were the violation of patents (24%), counterfeiting of products (24%), and poaching employees to gain inside information (21%) and the main motives attributed for these activities was to gain a competitive advantage (48%).

The governmental threat assessment has centered on mafia style private actors operating on the demand of the Russian government as well as for international organized crime groups. The website <http://www.sicherheitstacho.eu/> hosted by the Bundesamt für Sicherheit in der Informationstechnik (BSI), which updates cyber attacks monthly revealed that Russia ranks high as a source. However, Germany itself ranks relatively high as a source of cyberattacks, with about a half a million a month emanating from German-based sites.

The Snowden leaks set off a firestorm in Germany over the issue of data privacy. Snowden revealed that 500 million pieces of personal data were intercepted each month in Germany with the collaboration of the BND, the German Intelligence Agency. Not only was German business confidence in the US damaged, but public pressure on the Merkel government to take action was substantial. This was ratcheted up with revelations in October 2013 that the NSA tapped into Merkel's personal cell phone. Given the German past, which included eavesdropping and spying on citizens by Hitler's Gestapo and the East German Stasi, Germans are more sensitive to this than most Europeans. The sharing of information between Western intelligence services is one thing, but American spying on the offices of the EU representatives in New York and Washington and on the German chancellor indicated a much more comprehensive and uncontrolled program, which had little to do with counter-terrorism. Distrust of American motives spilled over to such American companies as Google and Apple when they reported that they had turned over records of individual Europeans to the American government.

The cyber world is central to geo-economic powers. It has the potential of shifting perceptions of partners and adversaries or more likely blending the two so that Germany's key partners, like the United States and China, can also become it key adversaries at the same time. Following the disclosure that the Americans had tapped into Merkel's phone and had done a massive search of French phone and internet data, the commercial dimension came out into the open. The United States has engaged in a major effort to deal with what the White House called an unprecedented level of theft of trade secrets by China and American intelligence officials have pointed to efforts not only by China but by EU nations to steal commercial secrets. The French have been considered by American officials as "one of the most talented powers at stealing industrial secrets and intellectual property . . . although in recent years they has been pushed to the sidelines by the Chinese."⁶⁷

To German private sector executives, the Americans provide both an important market and an important competitor. Nostalgia about the Berlin

Airlift and the fall of the Berlin Wall is being replaced with images of America as Big Brother and of a country that spies on its friends and allies. It undermines confidence in American companies and gives an opening to German ones.⁶⁸ Some early estimates put the losses to US cloud companies in Europe at between \$22 and \$35 billion and Prism has made the case for European cloud systems. Reinhard Clemens, CEO of Deutsche Telekom's T-systems group, already argued in 2011 that creating a German or European cloud computing certification could advantage domestic cloud computing providers. He stated, "The Americans say that no matter what happens I'll release the data to the government if I'm forced to do so, from anywhere in the world. Certain German companies don't want others to access their systems. That's why we're well-positioned if we can say we're a European provider in a European legal sphere and no American can get to them." And after the recent PRISM leaks, German Interior Minister Hans-Peter Friedrich declared publicly, "whoever fears their communication is being intercepted in any way should use services that don't go through American servers."⁶⁹ The French and German governments proposed stricter controls on data flows and data protection both within the EU and in the major free trade and investment talks with the United States.

Russia and German security

Russia is no longer a direct military threat to German security but rather an indirect one. Most German assessments of Russian military capabilities stress their weaknesses and problems rather than their capabilities to strike Germany. It remains a nuclear power but its conventional forces have outdated capabilities with only ten percent of its weapons systems judged to be up to date. It is especially deficient in the high-tech and information systems areas and remains an industrial army in an era of network centric warfare.⁷⁰ It needs to be reshaped into a smaller and more deployable force but the resistance of the military leadership combined with other spending priorities has undermined any serious reform. The short war with Georgia in August 2008 provided evidence of how incapable Russian forces were in network centric operations and how deficient they were in the areas of communications, tanks, aircraft, and helicopters. They were capable of defeating a small post-Soviet country but remain incapable of dealing with a larger conventional war.⁷¹

If military reforms were to succeed, Russia could pose a major factor in regional conflicts in its immediate region, but it will not pose a credible conventional threat to Germany and its NATO partners. The restructuring of German armed

forces away from its old heavy conventional force structure aimed at preventing an invasion from the East toward smaller more mobile forces reflects this basic shift in the threat perception. Russian nuclear forces remain a threat and the Kremlin has used the threat of targeting these forces on Europe to counter the development of NATO anti-missile systems. German defense planners are interested in air and missile defense systems not to deal with a Russian threat but in regard to broader NATO responsibilities and threats from the south.⁷² Missile defense systems will be needed to protect German and NATO forces deployed outside of the NATO region. There is also a geo-economic interest in missile defense systems, "From a military-technical point of view, Germany is aware that if it made no national contribution to the system, German companies would largely be excluded from air and missile defense development projects in Europe, and in the future Germany might become dependent on its allies in both the military and industrial dimensions."⁷³

As detailed in the previous chapter, German concerns about Russia stem from the corruption it supports and fosters both within its borders and in Europe. Cyprus is an example of this new type of threat. The financial crisis that struck that island in 2012 brought a direct clash between Germany and Russia. As one journalist observed, "Kremlin anger over its losses in Cyprus could put the nail in the coffin of the 'special relationship' shared by Germany and Russia, German businessmen and advisers increasingly fear."⁷⁴ When Cyprus went to the EU to bail it out from its financial crisis, the terms set threatened to cause huge losses for Russian billionaires and state-run businesses, and possibly for Putin himself. Cyprus had become a Russian island, kept afloat by Russian money-laundering operations. As the German government deliberated over how it should respond to the request of Cyprus for an EU injection of €10 billion, (of which €2 billion would come from German taxpayers) the German Intelligence Service wrote a report pointing out that any bailout would benefit Russian oligarchs, businessmen, and Mafiosi. The report noted that the amount of Russian money in Cypriot banks totaled €26 billion, larger than the GDP of Cyprus.

The BND officers didn't bring good news. Formally, the island nation sticks to all the rules on combating money laundering laid down by the EU and other international agreements, the agency said. The country had passed the necessary laws and set up the required organizations. But there were problems when it came to implementing those rules, it added. They weren't being applied properly. The Cypriots, the BND said, sign everything, pledge a lot, but keep few of those promises. Money laundering is facilitated by generous provisions for

rich Russians to gain Cypriot citizenship, according to the BND which found that some 80 oligarchs have gained access to the entire EU in this way.⁷⁵

Cyprus is another case, like Bulgaria, Croatia, and the Czech Republic where Russian money and corruption are being used to control weak states and undermine both the EU and NATO. The geopolitical side is enhanced by the large gas reserves discovered off the coast of Cyprus and in which the Russians have an interest. Talk of a possible Russian naval base on the island was also in the air. In the end the troika of the EU Commission, the ECB, and the IMF provided a €10 billion package in return for central control of the banks and other restrictive measures. Russians depositors did take a haircut and the result further soured German–Russian relations and undercut those in Germany who would foster a closer relationship.

Despite these new security challenges, Germans remain committed to a form of cooperative security with Russia. They cannot change geography and must find ways of living with a nuclear power in its neighborhood. Germany also has to manage the region between Russia and itself, which has been the source of bloody competition during the twentieth century. It is to this region that we will now turn.