



## Merkel III in EU and foreign affairs - it's the spirit, stupid!

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Once more, **Europe has an eye on Berlin**: Chancellor Merkel's victory in the **general elections held on 22 September 2013** also confirms her as a leader in the EU scenario. After a month of exploratory talks it seems clear by now that the Social Democratic Party (SPD) will emerge as the junior partner in the new Merkel government. Within this grand coalition, the signs are that **there will be continuity in Germany's European and foreign and security policies**. This owes much to the numerical dominance of the Christian Democrats (CDU/CSU) within any forthcoming coalition government, but also to the bi-partisan and public consensus on key external relations issues. While 'national interests' will not change overnight, we might expect some modifications due to a new party-political constellation as well as to the risks and dynamics in the euro-zone and the not-so-distant and critical neighbourhood that stretches from **Syria to Iran and Afghanistan**. Needless to say, Germany alone has little impact on the course of events and is highly dependent on cooperating with its partners and in the frameworks of the EU, NATO and the UN for promoting order in Europe and the world. **The big question concerns Germany's level of ambition and commitment**. In this respect, we can hardly expect a 'Berlin rhapsody', a blaze of ideas, initiatives and resources to put into international politics. Merkel II (2009-13) operated in a permanent crisis-management mode, aware that even a tragic end to the euro-zone ('if the euro fails, Europe fails') was just around the corner. A Merkel III government could be tempted to interpret the current calm as an invitation for a(nother) 'pause', not only as regards the EU but in its foreign and security policy in general. Recently, even President Gauck referred to the portrayal of Germany as a 'sleepwalking giant' that is not living up to its international responsibilities. Also, as far as EU politics are concerned, Germany might just stumble into the next crisis cycle and fall back on its 'more of the same' mode of complacent pragmatism. Merkel III must operate in a different spirit: it will be the main task of any junior partner to encourage a fresh and courageous start to the next government.

### *Germany's EU policies*

Confronted with high expectations to lead the EU and solve the euro-zone's problems, while at the same time being subject to a certain unease over an imaginary German hegemony, the next government needs to communicate its goals and intentions clearly and credibly. Given Germany's importance in making or breaking the EU system, and the latter's political and economic importance for Germany's well-being and international influence, **EU policies should be a priority for the new government**. It is not necessary –or might even be counterproductive– to spell out the specifics in a coalition agreement. What is important is to have a pro-integrationist attitude. The 'to-do list' of the most important issues outlined below will be worthless if the new government fails to integrate these pieces into a broader political project.



The new government's overriding concern will be the **better functioning of the euro-zone** and the **further taming of the financial markets**. This is a mission that has not by any length been accomplished, given the daunting risks of insufficient growth in the euro-zone and in emerging markets for years to come, as well as the high levels of unemployment across the EU, most severely in its southern periphery, namely Spain, Italy, Greece and even France. It is fertile ground for political instability and populism when social protest takes to the streets, when futile political polarisation and weak governments emerge. These developments seriously condition any plans or action to improve the euro-zone's governance and make the EU politically more robust. But still, the depth and swiftness of reforms remain controversial issues between and within political parties.

The **full establishment of a banking union** is a priority reform in Germany's EU agenda, but only the first pillar, the single supervision mechanism, preliminarily within the European Central Bank (ECB), is on track. With whom the final decision on the resolution and closing down of banks will rest –the EU Commission– is still under dispute and strongly rejected by Berlin –which prefers a 'network' of national agencies–, as is the way in which the deposit guarantee scheme will be defined and financed. **The crucial point is the transfer of sovereignty**, not only because of the ruling of the German constitutional court, which is effectively a sword of Damocles hanging over every bold step towards further integration. Sometimes German decision-makers use this objective constraint as a tactical weapon if they need an ally to justify presumed 'red lines'. The SPD, however, will focus less on legal issues and more on the protection of the (German) taxpayers. With regard to an effective and at the same time supranational banking union with as little loopholes for 'bad banks' as possible, there are mixed messages from integrationist-minded members of the SPD group on the one side and those sitting in the budgetary committee on the other. It cannot be ruled out that the grand coalition will backtrack from the bold step of a banking union and further slow down its completion.

The second agenda item is a **growth strategy for internal market players**. One might assume that a red component in the coalition will inject demand-driven politics and opt for state-funded investment programmes; however, no large-scale initiatives at the EU level are in sight. Moreover the shockingly high rates of (youth) unemployment demand investment in education and innovation over the entire EU. The investments could be linked to competitiveness through structural reforms, such as those that Merkel II had already declared as the key objective of EU economic policy. A rethink will probably gain ground in Germany as to an economic model primarily based on the export industry. The Social Democrats see a huge structural deficit in domestic consumption and investment that needs to be addressed in Germany's own interest and for the sake of the EU economy.

The third issue is about **solidarity and effective support for the ailing economies in the south of the euro-zone**. A straightforward mutualisation of debts has been ruled out by all relevant parties; the SPD is even silent on a redemption fund for Eurobonds. The discourse is now moving from transfer policies to insurance mechanisms (eg, a European Monetary Fund) which would require a treaty change. The exclusion of automatic transfers and disincentives for moral hazard are important cornerstones for paving the way for some form of collective liability mechanism within a future fiscal union. Thus, fiscal support in return for reforms and consolidation will remain the prescription from Berlin. The new government might, however, agree to a scheme less rigid on targets and dates for debt reduction and also speak more



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softly to the countries concerned. A new atmosphere of sound and mutual trust would certainly be helpful.

When the Economic and Monetary Union (EMU) was established in the Maastricht treaty, a strong consensus existed in Germany that a political union would be indispensable to make it work, and the sooner the better. Both political ambition and the belief that this is still a tangible goal for an EU of 28 members are withering away. However vague, the defining elements of political union were: more supranational decision-making, meaning (qualitative) majority voting as a rule with the Council and the European Parliament (EP) as key legislative actors; a strong Commission as the engine of integration and guardian of 'an ever-closer union'; and further sector-related real transfers of competences. Within the spectrum from centre-right to centre-left, this traditional *leitbild* no longer seems politically correct. The CDU/CSU has gone furthest in testing the potential of stronger intergovernmental rules and structures, initially more by default than by design (see the fiscal compact). The growing decoupling of the euro-zone from the rest of the Union has given momentum to this new route to 'integration'. The Franco-German proposals of May 2013 show the appetite of the Chancellery and, not surprisingly, of the Elysée, for more intergovernmental as well as exclusive structures and procedures for the euro-zone. Another push towards loosening the community method and dismembering of the Union has come from the UK, which claims the repatriation of competences to national level within a newly-agreed deal.

If Germany wants to continue on the path of more intergovernmentalism it has to seek partners that cooperate effectively inside EU institutions, namely in the European Council or outside. It will be important to systematically develop its bilateral relations with EU members: not only with its obvious partners in Paris and Warsaw, or with London as a quiet ally in the economic field, although on the sidelines, but also with cooperative countries in the southern crisis-belt, such as Spain and Portugal, and with difficult friends, like the Netherlands and Italy.

Given all these tendencies it could be the task of the junior partner –and the next Foreign Minister– in Merkel III to re-open the general debate on the appropriate balance between intergovernmental and supranational elements and institutions in governing the EU, not only the euro-zone. The initial success of intergovernmental solutions to support the tumbling supranational construction might not hold in the future. **More important than the question of treaty changes is that Merkel III clarifies its position vis-à-vis the Commission.** In Berlin the Commission has lost a lot of its reputation and authority. Merkel II was at best ambivalent to a powerful (and not necessarily politicised) Commission. However, it is difficult to imagine how, for example, the German proposal for contractual relationships between member states and the EU can work without a Commission that can effectively monitor, inspect and sanction its implementation on the ground. Moreover, comments from German political parties as to the germ-cell of an economic government (the EU Commission, euro-zone ministers, the Euro summit or even the European Council) reveal a messy discourse; the same can be said on the question of the election and role of the Commission president. Merkel III has to sort this out in a non-ideological but determined manner. A German candidate for the position of Commission president with a strong European reputation could be conducive to finding a solution. Merkel III should centre on how to strengthen the bonds and principles that keep the 28 together and make the Union more legitimate and effective.



*International responsibility and the need for clarity in security and defence policy*

With regard to international politics, the new government will have to follow a demanding agenda. With the Transatlantic Trade and Investment Partnership (TTIP) negotiations and the further advancement of the Merkel II strategy paper on 'Shaping Globalisation-Expanding Partnerships-Sharing Responsibility', the new coalition will find two contested issues at the top of its programme. In the **TTIP negotiations** the SPD will pressure Merkel to review the **NSA's espionage activities** and it will struggle to find a uniform position on the free trade of agricultural products and intellectual property rights. The further development of **Germany's strategic partnerships with China and the Russian Federation** could prove difficult too. The SPD also broadly shares the CDU's preference for 'German bilateralism', that is heavily criticised in the EU. It would therefore be wise for both partners of the grand coalition to rethink the current approach and to bring Germany's strategic partnerships back in line with the EU's. Other challenging questions are the role of the Common Foreign and Security Policy (CFSP) in Germany's own policy, its level of ambition therein and how to enable the EU to reach this level. While a Merkel III Germany may continue to play a rather low-key role in foreign policy, it is nevertheless likely that the international community will see some changes in Germany's security policy, notably with regard to a greater international responsibility. The decision of the Merkel II government to abstain from voting in favour of UNSC resolution 1973, to let its key allies on both sides of the Atlantic intervene in Libya and Mali while at the same time exporting armaments to countries with dubious human-rights standards have raised doubts about Germany's notion of international responsibility. Berlin was accused of being a free-rider in security and defence politics and criticised for its 'geo-economic' definition of international security.

**Germany's wavering course is likely to end.** It is largely forgotten that Germany's stance was most drastically altered by the so called 'Red-Green coalition' under Chancellor Schröder and Foreign Minister Fischer. Between 1998 and 2005 Germany engaged militarily in Kosovo, Afghanistan and Congo, the country played a decisive role in the creation and configuration of the Common Security and Defence Policy (CSDP) and placed humanitarianism high on its foreign policy agenda. The first grand coalition under Merkel's leadership carried on with this agenda. Merkel could without a doubt be considered the most outspoken European leader in her advocacy for the respect of human rights and freedoms. However, during her second term in office, she moved Germany more in the direction of what some called a '**geo-economic power**'. With the government participation of the Social Democrats, we might witness changes in Germany's stance on the out-of-area deployment of the *Bundeswehr* as well as on its commitment to CSDP.

A **return to an international security agenda driven by humanitarianism** will be accompanied by at least two constituent parts. First, the SPD has openly criticised Angela Merkel for her stance on **weapon exports**, blaming her of confusing them with any kind of pro-active foreign policy. As a consequence, the party wants to return to the formulation of restrictive export guidelines, banning sales to countries that violate human rights and freedom of expression. Furthermore, it envisages an active involvement of the German Parliament in armament exports. Secondly, the SPD shares the conviction that the notion of **R2P (Responsibility to Protect)** needs to be clarified. The party leaders acknowledge that there are situations where the use of military force is the only remaining instrument to stem violence and secure peace.

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This alone does not guarantee a more active German participation in military operations. For the SPD the development and promotion of civilian crisis-prevention and crisis-management capabilities seem far more important than the definition of benchmarks about when and where to engage militarily. Nevertheless, its historical legacy and the distinct struggle for the right course of action make it likely that, even as junior partners, the Social Democrats will push Angela Merkel towards a more active engagement in international relations. Germany will not become a second France or UK in Europe; under Merkel III, however, it might return to a policy more inclined to burden-sharing.

A new coalition government is also likely to go along with a change in the country's wavering attitude and criticised investment in CSDP. For instance, the Merkel II government inhibited initiatives for drafting a new European Security Strategy, rejected the Franco-British initiative to join the Lancaster House agreement on force cooperation and the joint procurement of strategic capabilities, and almost stifled the discussions on Pooling and Sharing military equipment and capabilities by reducing its level of ambition to training, maintenance and logistics. In comparison to the Merkel II government, the SPD has openly campaigned in favour of 'more European integration' in security and defence policies, allowing for a European army. Thus, it is likely to push Merkel's CDU/CSU towards a greater leap forwards towards military integration. The result might be a German government more actively involved in armed forces cooperation and in the development of CSDP missions and operations, especially those aimed at supporting the Union's comprehensive approach.

However pressing the need for structural reforms and initiatives at home, **the grand coalition must invest its political energy into regaining and re-building confidence in European integration as a political project** and not just in order to muddle through. This will also be vital if things go wrong and mechanisms to deal with bank insolvencies and ensuing national bankruptcies are not yet in place and decisions on bail-outs and liabilities have to be taken on the spot. It will thus be important for the political dimension of the challenges ahead, as well as the fiscal and economic implications of the ongoing technocratic-intergovernmental management process to stabilise the euro-zone, to be well understood and prepared for. Whereas major changes seem unlikely, there is room for some modification, especially as regards the questions of a banking union, a European growth strategy, Germany's solidarity with its EU partners and –in other fields– a greater international responsibility. Any refinement will, however, depend on the spirit in which the new government tackles the issues. It will be the task of Merkel's junior partner to avoid a return to 'more of the same' in European and international politics.