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“In part because of deadlock within the government on domestic policy, the chancellor has turned to foreign policy as her main stage.”

Angela Merkel’s Germany
JACKSON JANES AND STEPHEN SZABO

Angela Merkel, whom The Economist has called a “world star,” is the most prominent of a new generation of leaders emerging in Europe. She is in charge of Europe’s pivotal country at a time of great challenges to the EU as it seeks to come out of its constitutional and enlargement crises. Germany has the presidency of the EU and of the Group of Eight industrial nations in 2007, but Merkel and her country will be central to Europe’s evolution long beyond this spring.

With Tony Blair in Britain and Jacques Chirac in France serving as lame ducks, and with many other European leaders locked in political stalemates, much of Europe today is experiencing a vacuum of leadership. Thus, both George W. Bush and his successor as US president will look to the German chancellor as America’s most important partner in Europe for years to come. Understanding Merkel and the political and economic context in which she operates is, consequently, important for anticipating what to expect from her chancellorship—in its impact both on Germany and on the future direction of the continent.

THE PRAGMATIST
A number of Merkel’s personal characteristics influence her approach to leadership and policy making. First, as a natural scientist, having studied and practiced physics, she is a highly rational person, without a strong ideological bent or approach. A problem solver and an incrementalist, Merkel favors a trial-and-error approach to policy and is able to make quick adjustments when they are needed. As she put it, “Many will say, This government takes a lot of small steps but not one decisive one.’ And I reply, ‘Yes. That is precisely what we are doing. Because this is the modern way to do things.’” Merkel lacks a big, unifying vision, and in this respect resembles her predecessor as chancellor, Gerhard Schröder. Unlike Schröder, however, she avoids personalizing political relationships and prefers a businesslike and interest-based approach in policy making.

Second, Merkel is a political latecomer and an outsider to German politics. An East German, she did not become active in politics until after the fall of the Berlin Wall, when she was well into her 30s. She is, consequently, not anchored in her party, the Christian Democratic Union (CDU), and has not been able to take advantage of an extensive political network—a problem aggravated by her gender in a male-dominated party. She has begun to change this by creating her own network, both within and outside the party, but she still faces many rivals and lacks a deep regional base, something that is normally essential in German politics.

Third, her East German upbringing has made her a very private person who reveals very little about herself or what she is thinking. She is not a social animal or backslapper and is always in control of her emotions.

Finally, Merkel is not among the so-called ‘68ers, the generation of Schröder and his Green foreign minister, Joschka Fischer, who cut their political teeth in the late 1960s partly in resistance to the American role in the world. Merkel, born in 1954 and raised in East Germany, is the first of a new generation of leaders who were never among the 1960s rebels nor among the Atlanticist generation of her mentor, Helmut Kohl. Although she came of age during the end of the cold war, her political career was shaped in the post-Berlin Wall era of a unified Germany.

Merkel will be joined in power soon by others of her generation in France and the United King-
dom—people like Ségolène Royal or Nicolas Sarkozy in France, and David Cameron or Gordon Brown in Britain—as well as José Manuel Barroso in the EU. This group is pragmatic regarding both Europe, which is no longer seen as the great peace project of the Kohl-Mitterrand era, and the United States, which is neither the model it was for the postwar leaders who shaped Europe nor the anti-model it was for many of the ’68ers.

**Squabbling in the Ranks**

Merkel was sworn in as chancellor on November 22, 2005. The first year of her tenure was marked by uncertainty over whether her political coalition (the “grand coalition”), which includes both Merkel’s CDU and the Social Democratic Party (SPD), would have the stamina to hold together for another three years. The SPD holds almost as many seats in the Bundestag (parliament) as does Merkel’s own CDU—making the coalition far more challenging to manage than was Schröder’s coalition, which consisted of the SPD and the smaller, ideologically kindred Green party.

Despite current tensions between the parties in Merkel’s coalition, however, there is at present no real alternative to this political equation in Germany. Speculation about the need for new elections remains exactly that, primarily because the voters would lose even more confidence in the political leadership if it declared bankruptcy so soon after taking over. Neither the Greens nor the Free Democrats can offer a viable alternative by themselves. And the idea of creating a red, green, and yellow mixture (SPD, Greens, and Free Democrats) or a black, green, and yellow coalition (CDU, Greens, and Free Democrats) is not in the cards. There is still a great deal of political baggage left over from the September 2005 elections that will prevent any such reconfiguring from happening very soon.

Merkel enjoys a solid level of personal popularity among Germans, but confidence in the two large political partners, the CDU and SPD—which between them have close to three-quarters of the Bundestag under their control—has waned. After all, voters ask, if there is no viable opposition to stop them, why can they not get more done in the way of reforms instead of making so much noise about why they cannot agree on such reforms?

Even the CDU and its conservative Bavarian partner, the Christian Social Union, are increasingly bickering over the issue of health care reform.

All this wrangling comes during a continuing slide in membership in the SPD and the CDU. The Social Democrats have lost over 40 percent of their members from a high of more than 1 million in 1980, while the Christian Democrats in the same period have lost 14 percent of their members. Currently, the two parties are virtually tied in membership, at around 600,000 each. The smaller parties have lost ground in the past eight years as well, and the number of citizens choosing not to vote has been increasing steadily.

This frustration is causing a backlash that has allowed a right-wing party, the National Party of Germany (NPD), to squeeze into two state parliaments in eastern Germany. Many of the NPD votes have come from Germans under 30 years old who are beleaguered by high unemployment rates and see dim prospects for their future.

Still, the general loss of confidence among voters and the cross-party bickering that has contributed to it should come as no surprise. Domestic political battles were destined to throw sand into the machine of the CDU-SPD coalition. After all, the domestic policy realm is where the full forces of particular interests meet in battle. Health care reform legislation is the best, or worst, example, and not only in Germany. It remains a dangerous area for the coalition’s future. Indeed, one can also see the wreckage of health care reform efforts in the United States going back many years, not to speak of social security reform efforts more recently. These are the deadly third rails for all politicians.

**Pressures for Reform**

Merkel has been able to push through important reforms that have toughened up policies dealing with pensions. And corporate tax rates are set to come down significantly. As Germany’s export machine continues to hum along at record levels, the economy in 2007 looks to be as strong as it was last year.

In general, though, reform efforts so far have produced a mix of some change but also continued stalemate. Germans are struggling to finance the social systems they have built up over the past
five decades, and are trying to redistribute the load. This is not unique to Germany—Sweden, Denmark, and the Netherlands have been struggling with these problems as well. Yet Germany seems to be uncertain about the scope and pace of change. A question being newly framed amid today's global competition is how much of the acclaimed "social market economy" that was developed after World War II should be accounted for by "market" and how much by "social."

The very fact that the 2005 elections resulted in a so-called grand coalition of the two major political blocs was a reflection of the voters' uncertainty in the face of rising pressures to reform social and labor protections. The challenge any government faces is proposing realistic goals and then maintaining support for reaching them, even when changes pinch people where it hurts. It is precisely then when a government must be persuasive in explaining to the public why the goal is worth the pain and the adjustments needed to reach the goal.

This has proved difficult in Germany. For example, the government's decision in November 2006 to raise the statutory retirement age from 65 to 67 was vital to maintaining the viability of the social security system, but it requires a major adjustment in the national psyche. Likewise, reducing unemployment insurance is crucial in encouraging people to search for new jobs, but it violates long-entrenched expectations of the unemployed.

The German people's skepticism regarding domestic reforms is compounded by a policymaking system that is designed for consensus politics and discourages strong leadership. Suspicion of strong leaders is a legacy of Hitler's Third Reich, with its concentration of power at the top. In contrast to Japan, for example, contemporary Germany has a weak state and a strong civil society. This makes unpopular reforms very difficult to achieve.

On top of this, Germany's parliament is one of the largest in the world, with 614 representatives. And Germany has a federal system with powerful state governments. Wrestling with serious problems that involve so many actors, in a 24-7 media environment no less, is not a formula for smooth decision-making.

Berlin's coalition partners are stuck with each other for the moment, whether they like it or not. But they should not be stuck in political mud when it comes to implementing their agenda. Bringing down the national debt and encouraging job growth by deregulating the labor market can generate some confidence in the future. Yet Germany also faces formidable structural problems in the business and banking sectors, and it continues to pay a high cost for the reintegration of (less affluent) eastern Germany. The coalition partners need to look like they are focused on confronting the country's problems, rather than themselves, if they are to bring the voters along with them. This seems to work better with foreign policy than it does at home.

**Balancing with Bush**

In part because of deadlock within the government on domestic policy, the chancellor has turned to foreign policy as her main stage. Schröder had centralized policy making in the chancellery and marginalized the role of the foreign office and the parliament—since his Social Democrats were in a coalition with the small Green party, this was relatively easy to accomplish. Merkel, on the other hand, is in a much more challenging coalition. In contrast to Fischer, who was Schröder's foreign minister, Merkel must contend with a Social Democrat, Frank Walter Steinmeier, as foreign minister. This means there are far greater checks on Merkel's power than on any chancellor over the past three decades.

This has not stopped her from forming an effective foreign policy team. Merkel generally values analytical thinkers over party politicians in the chancellery. As her chief of staff, Thomas de Mazière, told the German weekly *Die Zeit*, "A clear head can learn about compromises and contacts better than a political tactician can learn clear thinking." Thus, Merkel has tended to hire technocrats or specialists in foreign policy positions. A good example is her key foreign policy adviser, Christoph Heusgen, a thorough Europeanist who served six years in Brussels working for the EU foreign policy chief, Javier Solana.

Merkel entered office believing that the Schröder foreign policy had lost the traditional German balance between France and the United States. She has made the US relationship her primary responsibility and priority, with the goal of reestablishing a constructive and balanced relationship with Wash-
ington after the *Sturm und Drang* of the Schröder years. Her East German experience left her with a very positive image of America, which she associates not only with freedom but also with innovation and flexibility.

Nevertheless, Merkel is a politician who understands the deep suspicion toward George W. Bush among the German public and media. This reflects in part the new sense of sovereignty and status of a unified Germany that is no longer as dependent on the United States as it was during the cold war. Merkel understands that she needs to be regarded as a reliable partner in Washington while not being seen as Bush's dachshund back home.

Ever the realist, the German chancellor understands that it is in the national interest to have a good working relationship with the world's dominant power, and that trying to use Europe as a counterweight to America only ends up splitting Europe and isolating Germany. On the other hand, drawing too close to Bush and to America carries its own dangers, as the case of Britain's Blair demonstrates. Thus, the Merkel approach toward the United States combines a close personal relationship between Merkel and Bush with a continuing, critical distance from unilateral aspects of Bush's foreign policy. In many ways she is rebuilding some bridges while waiting for the next American administration, which she hopes will be more user-friendly for Europe.

This approach is apparent in a number of policy areas. On NATO, the Merkel government has emphasized a NATO-first approach, giving the alliance priority in the security realm over the European Union's Security and Defense Policy. The new German Defense White Book, issued in November 2006, underlines a shift in German defense strategy away from the old territorial-defense focus of the cold war to a crisis-intervention rationale with light, mobile forces. Merkel intends to maintain the important German contribution to NATO peacekeeping forces in Afghanistan, without widening its mandate or increasing that commitment. She has also deployed German peacekeepers to Congo and Lebanon, and a German commander now heads the EU force in Bosnia. Along with France and Britain, Germany is working closely with the US administration to forge a unified approach toward thwarting Iran's nuclear ambitions.

In foreign economic policy, the chancellor is interested in maintaining some momentum in trade liberalization despite the likely failure of the Doha round of global trade negotiations. In particular, she has put forward new proposals for a transatlantic free trade area. Merkel has also moved to reduce the German fiscal deficit by raising the value-added tax, thus restoring Germany's reputation for fiscal responsibility in hopes of serving as an example to other EU deficit states. The German leadership remains concerned about the impact that US trade and fiscal deficits will have on the international financial system. As the world's largest exporter, German business worries about the impact of a falling dollar on its foreign markets.

**ENLARGEMENT FATIGUE**

Merkel is now on a center stage in Europe. Germany will hold the EU presidency during the first half of 2007. In this capacity, Merkel will have a chance to help restore some momentum to the European project, which has been staggering since the rejection of the EU constitutional treaty by French and Dutch voters in 2006. Because of the current leadership vacuum in Europe and the impending French presidential election this spring, the German role is likely to be limited to finding some ground for action in the future regarding the constitutional treaty. So no dramatic breakthroughs should be expected during the German term.

On the other important dimension of the European project, EU enlargement, Germany has moved from being the great promoter to being a skeptic. Past German governments supported the "big bang" enlargement of 2004, which brought in 10 member states, mostly from East-Central Europe. The Merkel government reluctantly went along with the entry of Bulgaria and Romania on January 1, 2007, but seems to have reached its limit regarding future enlargement. The Schröder government supported the entry of Turkey, but the Christian Democrats are opposed, and the governing coalition remains deeply divided on this key issue.

Germany's enlargement fatigue results in part from a fear of immigration and the cheap labor that it brings. Although immigration into Germany has been curtailed by legislation, the foreign population of the country stands at 7.3 million, or about 9 percent of the population. This is a larger proportion of the population than is the case in the United States. Of this group, 1.8 million have Turkish origins, with about one-third having been born in Germany. Another half-million of Turkish origin have been naturalized and are now German citizens. Germans are struggling to deal with the issue of how to define citizenship, which has
traditionally been based on German heritage. Although citizenship laws have been liberalized somewhat, Germany is still a long way from becoming a multicultural society, and demands for German language competence for new immigrants have been increasing.

Germany's growing skepticism about enlargement is also the result of strained federal budgets, themselves a consequence of years of slow economic growth and high unemployment. Berlin in the past financed the union's enlargement through its contributions to the EU budget. But Germany is no longer willing or able to serve as Europe's paymaster. This marks an important shift in German foreign policy and implies that the EU is probably approaching its final borders.

**REALISM ON RUSSIA**

The German-Russian relationship is once again a central issue in the European political equation. During the cold war, when Germany was divided, it depended on American security guarantees for its territorial integrity. This situation, and the Soviet occupation of East Germany and East-Central Europe, limited Germany's options and flexibility in dealing with the Soviet Union, although the German policy of detente (known as Ostpolitik) did develop an independent German approach toward the East.

After the cold war, the German-Russian relationship regained dynamism. Chancellor Kohl ensured that Russian interests were taken into account during NATO's enlargement to the east. But Schröder took the relationship to a new level by siding with Russia and France against the Bush administration during the lead-up to the Iraq War. He forged an unusually close personal relationship with Russian President Vladimir Putin. He signed the important Baltic Sea gas pipeline agreement with Russia just before leaving office and then, after leaving office, joined the board of Russia's state-controlled energy giant Gazprom.

Merkel came into office resolved to change the tenor of this relationship. She has depersonalized the relationship with Putin, and in her first visit to Moscow as chancellor openly showed her support for human rights groups. Her suspicion of Russian power has been deepened by Russia's use of its energy resources as a foreign policy tool in its relations with Ukraine, Belarus, and Georgia. She is also aware of the suspicions that the close Schröder-Putin relationship raised in the Baltic states and Central Europe, especially in Poland, and wants to repair Germany's relationships with these states.

Merkel has made a priority of improving the Polish-German relationship, but has met resistance from the Polish government, led by the Kaczyński brothers. The German government's decision to establish a Center for Refugees and Expellees, possibly in Berlin, has raised concerns in Poland about potential German property claims for land taken from Germans who lived in Poland before the end of World War II. More generally, the Law and Justice Party of the twins is suspicious of Europe and of Germany in particular. A deeply parochial and nationalist grouping, it has questioned attempts by Poles to reconcile with Germany and is deeply suspicious of Germany's close relationship with Russia.

Yet Merkel the realist has continued to talk about a "strategic partnership" with Russia. Whatever this might mean, it implies that energy dependence and the close economic ties between the two countries remain paramount in German policy. Russia is Germany's largest natural-gas provider, currently providing 40 percent of Germany's natural gas, and this dependence is due to rise above 60 percent once the Baltic pipeline is completed. While Merkel would like to find alternative sources of energy, and is looking at a combination of liquified natural gas, Central Asian gas, and nuclear power, her options are severely limited. She and her successors are faced with no real alternatives to substantial dependence on Russian natural gas during the coming decades. Moreover, although Russia has used energy as a lever against its former republics, it has never done so with Germany. For its part, Russia has no real alternatives to the EU market for its gas in the medium term. Half of Russia's energy trade is with the EU.

Germany is likely to remain Russia's most important advocate in the EU. The Merkel government continues to resist a common EU energy policy, and thus has made it easier for Russia to play off one EU state against another. In addition, Merkel's foreign minister was a key architect of the close German-Russian relationship when he was
Schröder's chief of staff. His presence in the Merkel government is seen as a guarantee of continuity in this policy area.

A NEW ROLE IN THE WORLD

A key change in German foreign policy since the end of the cold war is its increasingly global perspective. While the transatlantic and European relationships remain central to Berlin's view of the world, the Middle East and Asia have increased in importance. This reflects the end of a Western-centric world order and the need for Germany to adapt to the rise of new economic and military powers as well as to its vulnerabilities in the Middle East.

China and India have emerged both as important economic partners and as competitors for scarce sources of energy and raw materials. Germany's role in negotiations with Iran over its nuclear program, its participation in a peacekeeping force in Lebanon, and its efforts to engage Syria in a constructive relationship with the West are further indications of an expanding sense of German interests and responsibilities. As Germany's role in the world expands, it sees itself as deserving more international recognition. This includes a desire to have a seat as a permanent member of the UN Security Council. While Merkel has been less vocal in her pursuit of this goal than was her predecessor, it remains a key objective.

The agenda for the European Union is going to be a difficult one for Merkel to steer. Apart from the uncertain outcome of leadership changes in Great Britain and France, achieving consensus on anything among the union's now-27 members is a challenge at any time and on any issue one picks.

Merkel has sent a clear signal that she intends to exercise leadership this year in shaping the still-fragile framework of the EU foreign policy agenda. But merely pushing forward the next phase of the EU constitutional process will give her a full plate, and keeping her fellow member states in line on everything from the Balkans to the Middle East will be a tall order.

The longer-term issues of further EU expansion, particularly with regard to Turkey, will consume Merkel's energies well after this leadership year for Berlin. Here there is a clear division between the views of the chancellor and her party and those of her coalition partners, the Social Democrats. The CDU is opposed to Turkish membership in the EU, favoring a "privileged partnership" instead, while the SPD continues to strongly advocate Turkish membership.

Since becoming chancellor, Merkel has felt confident in the international arena. As with many politicians facing domestic troubles—her coalition with the SPD continues to be a noisy and uncomfortable one—the opportunity to shine as a world leader offers advantages. Despite low poll numbers on domestic issues during the past year, both Merkel and her foreign minister, Steinmeier, top the popularity scales among the German public. The year ahead therefore offers unique opportunities to make progress on the foreign policy front.

Of course, the opportunities will be shadowed by risks. Keeping political squabbles from affecting the foreign policy agenda will not be easy, either at home or within the EU. Still, Merkel has the baton now in Berlin and in Brussels. We will have to wait to see how well the orchestras can perform.