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*Germany's "Grand Coalition" Government: Prospects and
Implications*

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January 17, 2006

Abstract. A "grand coalition" government of Germany's two largest parties, the Christian Democratic Union/Christian Socialist Union¹ (CDU/CSU) and the Social Democrats (SPD) led by CDU candidate Angela Merkel took office on November 22, 2005, after the two parties worked out an agreement on a coalition governing program. The German federal election of September 18, 2005, had produced no clear winner or direction for the next government. Some see this government as short-lived and unlikely to succeed, while others believe that only such a coalition has the combined strength to implement potentially painful but needed economic and social benefits reforms, assuming that it can overcome partisan politics. Foreign policy is likely to play a secondary and less contentious role, given the press of domestic business and a general consensus on most international issues. The atmosphere of U.S.- German relations has already improved since the Merkel government took office, as reflected by the successful first official visit of Chancellor Merkel to Washington on January 13, 2006.

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Germany's "Grand Coalition" Government: Prospects and Implications

January 17, 2006

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Germany's "Grand Coalition" Government: Prospects and Implications

Summary

A "grand coalition" government of Germany's two largest parties, the Christian Democrat Union/Christian Socialist Union (CDU/CSU) and the Social Democratic Party (SPD) led by CDU candidate Angela Merkel took office on November 22, 2005, after the German federal election of September 18, 2005, had produced no clear winner. Some experts believe that the coalition will be fragile, short lived, and will accomplish little with each side trying to gain political advantage over the other. Such negative expectations are not shared by other analysts who believe that only such a large coalition can implement potentially painful but needed economic and social reforms, assuming that it can overcome partisan politics.

The most difficult and crucial areas on which the coalition must cooperate if the government is to succeed involve social and economic policy. Government success will be important, not just for Germany, but also for Europe and global economic health. Experts believe that Angela Merkel, as Chancellor, wants to speed domestic social and economic reforms. It is not clear whether she will have broader domestic support to do so, especially among the SPD base.

Many observers expect more continuity than change in German foreign policy under the "grand coalition" government. On most issues, the CDU/CSU and the SPD are not far apart. Germany is expected to continue to give priority to multilateral approaches to solving international problems. Many expect Chancellor Merkel to balance traditional strong Franco-German cooperation within the EU with closer ties to the United Kingdom, and other countries such as Italy, Spain, and Poland. She is expected to pursue European integration as a corollary rather than in opposition to the transatlantic partnership.

U.S. officials and many experts hope for improvement in U.S.-German bilateral relations under the Merkel-led government. Merkel has given priority to reducing the strains in transatlantic relations, as well as improving negative German public opinion regarding the United States. The new German government is unlikely to fundamentally change the German stand on Iraq, meaning that it will provide some financial and training assistance outside Iraq, but no military personnel on the ground. It is likely to continue to take a lead in efforts to stabilize Afghanistan. Chancellor Merkel is expected to continue Germany's domestic and international efforts to combat terrorism. The United States, Germany, and the EU are working together to oppose Iran's development of nuclear weapons. Chancellor Merkel has indicated that she will not support a lifting of the EU arms embargo against China, which the United States also opposes. A number of differences are likely to continue even under the Merkel government, such as on the treatment of terror suspect prisoners, extra-judicial "renditions," environmental policy, and the International Criminal Court. Chancellor Merkel's first official visit to Washington and her talks with President Bush on January 13, 2006, were designed to demonstrate that a new positive chapter had opened in bilateral relations, although differences were discussed candidly. The two leaders agreed on most points, including the urgency of addressing Iran's nuclear ambitions. This report will be updated.

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Germany's "Grand Coalition" Government: Prospects and Implications

Introduction

A "grand coalition" government of Germany's two largest parties, the Christian Democratic Union/Christian Socialist Union¹ (CDU/CSU) and the Social Democrats (SPD) led by CDU candidate Angela Merkel took office on November 22, 2005, after the two parties worked out an agreement on a coalition governing program. The German federal election of September 18, 2005, had produced no clear winner or direction for the next government. Some see this government as short-lived and unlikely to succeed, while others believe that only such a coalition has the combined strength to implement potentially painful but needed economic and social benefits reforms, assuming that it can overcome partisan politics. Foreign policy is likely to play a secondary and less contentious role, given the press of domestic business and a general consensus on most international issues. The atmosphere of U.S.- German relations has already improved since the Merkel government took office, as reflected by the successful first official visit of Chancellor Merkel to Washington on January 13, 2006.

2005 Election

Lead-Up to Early Election

On May 22, 2005, German Chancellor Gerhard Schroeder surprised his country by announcing that he would seek early federal elections in September 2005, a year ahead of schedule. His decision followed the resounding defeat suffered by his Social Democrats (SPD) in the state election in North Rhine-Westphalia, a traditional SPD stronghold.² This was the most recent in a string of state election losses that had given the Christian Democratic Union (CDU) opposition firm control of the German Bundesrat (upper house of parliament). The sluggish economy, persistently high unemployment, as well as concern about welfare and labor reforms, both enacted and planned, were widely seen as principal reasons for the SPD defeat.

Early elections are rare in Germany because the German Basic Law (Constitution) makes it very difficult for the Bundestag (lower house of parliament) to be dissolved. Only the President can dissolve parliament and only after a vote of

¹ The Christian Socialist Union (CSU) is the Bavarian sister party of the Christian Democratic Union (CDU).

² For more information, see: <http://www.germany-info.org>.

no confidence in the government. German President Horst Kohler set new elections for September 18, 2005 after the Bundestag held a vote of no confidence in the government which the Chancellor himself initiated on July 1, 2005. Before the election was held, the decision was reviewed and approved by the German Constitutional Court.

Election Results

The election gave no party the necessary majority with its preferred coalition partner. Although the Christian Democratic Union/Christian Social Union (CDU/CSU) got the most votes by a slim margin, it had an unexpectedly weak showing compared to pre-election polls and in light of the general disgruntlement with the previous government. Analysts attributed the weak showing to the fact that voters were deeply skeptical of whether a CDU/CSU government could accomplish more than its predecessor and were also worried about some of the CDU reform ideas. According to official results, the CDU/CSU received 35.2 percent of the vote, barely beating out the Social Democrats (SPD) with 34.3 percent of the vote. This left neither party in a position to form a government with just its most likely coalition partner. The Free Democratic Party (FDP) actually did better than expected with 9.8 percent of the vote and ahead of the Greens who received 8.1 percent. The new Left Party, a union of east German former communists and a breakaway faction of the SPD, received 8.9 percent of the vote, enough to be seated as a faction in the Bundestag. The former communist party (PDS) did not achieve the 4 percent threshold to gain seats in the Bundestag. Voter turnout was 77.7 percent, slightly less than in the 2002 election.³

Table 1. Major Party vote percentages in the last three German Federal Elections

	1998	2002	2005
CDU/CSU	35.1	38.5	35.2
SPD	40.9	38.5	34.3
FDP	6.2	7.4	9.8
Greens	6.7	8.6	8.1
New Left	—	—	8.9
PDS	5.1	4.2	—

The results reflected a significant north-south political divide among the electorate. The CDU/CSU received the most votes in the southern states of Bavaria, Baden-Wurttemberg, Rhineland Palatinate, and Saxony (the southernmost state in the

³ German Federal Statistical Office.

[www.bundeswahlleiter.de/bundestagswahl2005/presse_en/pd360211.html]

east).⁴ The SPD was first in all of the other states. Although the CDU/CSU received the most votes overall, election analysts also saw the results as reaffirming the continuing combined strength of leftist parties.⁵ The vote for center-left and left parties (SPD, Greens, and the New Left Party) totaled 51.3 percent.

Despite lackluster performances, both SPD candidate Chancellor Gerhard Schroeder and CDU candidate Angela Merkel claimed a mandate as they each embarked on negotiations with other parties to try to form a governing coalition. After talks between the two main parties and possible junior coalition partners broke down, the only remaining viable option, short of calling new elections, was a “grand coalition” between the CDU/CSU and the SPD, which was agreed to in October. A “grand coalition” was something that neither the CDU/CSU nor the SPD would have preferred. A grand coalition had governed the Federal Republic only once before for three years in the 1960s.

The New Government and Program

On October 9, the two parties announced agreement on the make-up of the coalition government. Under the agreement, Angela Merkel would become Chancellor. Gerhard Schroeder would step down and not serve in the new government. In return, the SPD would get the position of Deputy Chancellor and eight cabinet positions, including the ministries of foreign affairs, finance, and labor. The CDU/CSU would get the other six cabinet positions, in addition to the Chancellorship and the Chancellery Chief of Staff.⁶ The subsequent withdrawal from key positions of two of the most powerful politicians in the coalition talks complicated Angela Merkel’s efforts to form a government. CSU leader Edmund Stoiber, who had been designated to become Economics Minister, withdrew from the prospective government on November 2, 2005 and returned to his position as Bavarian leader.

Franz Muntefering, the designated Deputy Chancellor and Minister of Labor, resigned his position as SPD party chairman a day earlier on November 1, 2005 after being opposed by younger members of his party. He indicated that he would remain in the government. Matthias Platzeck, the Prime Minister of Brandenburg in east Germany, was named to replace him as SPD Chairman.⁷ As a supporter of reforms and a fellow east German, he was expected to be able to work closely with Chancellor Merkel. Shortly after being named, Platzeck appointed a young pro-reform centrist, Hubertus Heil to be SPD General Secretary in place of another more leftist candidate who had been nominated. Peter Steinbrück (SPD) was named Finance Minister. He was expected to be an advocate of social and economic reform in light of his support for the previous government’s reform efforts which were substantial

⁴ Atlantic Times, October 2005

⁵ See Simon Serfaty and Derek Mix. Germany Stalled. CSIS Euro-Focus, September 21, 2005.

⁶ The Times (London), October 18, 2005.

⁷ International Herald Tribune, November 3, 2005.

even if they did not go far enough. Frank-Walter Steinmeier, previously Chancellor Schroeder's chief of staff and a principal advisor was named Foreign Minister. Franz-Josef Jung (CDU) was named Defense Minister.

Negotiations to shape a coalition government program, which began on October 17, were completed on November 14, 2005, allowing Angela Merkel to be formally elected Chancellor by the Bundestag on November 22. Compromise was difficult to achieve and the discussions were accompanied by considerable political disagreements, even among the different factions within each party. CDU/CSU leaders identified four issues in particular that had to be agreed on before the coalition could take office: a new budget, reviving the labor market, reform of the welfare system, and tax reform, but had to give on most of them.⁸ The parties could not agree on Ms. Merkel's campaign priorities, including, labor, income tax, health care or social security system reform. In the end, most of the talks focused on budget reductions and tax increases. The parties agreed to a three percent increase in the valued added tax (VAT) and raising the retirement age from 65 to 67. Other sensitive issues were set aside. Even so, 50 members of the coalition parties did not vote for the agreed program in the Bundestag. However, the coalition agreement was seen as just a starting point for the government. Many issues were likely to be revisited and the agreed program could be altered by agreement of the governing parties. For example, on health insurance reform, the parties agreed to find a solution by the middle of 2006.

Meanwhile, the new Bundestag convened on October 18, 2005, and elected Norbert Lammert (CDU) as Bundestag President.⁹ Seats in the Bundestag were allocated as follows:

Table 2. Makeup of German Bundestag After the 2005 Elections¹⁰

Total	614
CDU	180
CSU	46
SPD	222
FDP	61
Greens	51
New Left	54

⁸ Deutsche Welle [<http://www.dw-world.de>].

⁹ The New York Times, October 19, 2005.

¹⁰ [<http://www.bundestag.de>]

Implications for German Policy

Domestic Politics

Despite the coalition agreement on the outlines of the government program, specific policies and priorities of the new government were considered likely to evolve as conditions demanded. Some experts believe that the coalition will be fragile, short lived, and unable to do much with each side trying to block the other. Some critics are skeptical about Angela Merkel's strength as a leader in view of her relative inexperience and perceived inability to inspire people. Other observers believe that she is being seriously underestimated and may prove tough and effective. In fact, her image has already improved significantly since she assumed office, as the voters have seen her in action.¹¹ Both parties appear to have a vested interest in making the government work to overcome the seeming repudiation of each by the voters. Furthermore, the difficult choices that need to be made to curb spending and reinvigorate the economy may require the support of a "super" majority, which the "grand coalition" represents. With its combined strength and the weakness and fragmented nature of the new opposition, the government should have little trouble putting its policies into effect if the CDU/CSU and SPD can agree, but that is a major question.

The new government represents a significant change in the German political power structure. A woman is leading Germany for the first time in history. Also for the first time, political leaders from the former East Germany will wield unprecedented influence, holding the chancellorship and a number of other key positions. Some commentators emphasize that the election results confirm the end of decades of post-World War Two German consensus that in the past gave German politics a great deal of predictability and stability. In the run up to the 2005 elections, the SPD was seen as having moved sharply to the left. Since the election, the compromises needed to forge a grand coalition also forced the CDU/CSU to move somewhat to the left. Others see the movement by voters away from the two largest parties as a sign of polarization.¹² Most important to some experts, the new cast of leaders represents a generational change from the group that came into its own during the 1960s, many of whom on the left of the spectrum were from the radical protest movements of the late 1960s and early 1970s, to a generation that came of age after the fall of the Berlin Wall in 1989.¹³ Some expect that Angela Merkel and other politicians of her generation will be more open and flexible in their outlook than their predecessors. Some see irony in the likelihood that Germany's efforts at renewal may now be spear-headed by those raised in the east.

The CDU and SPD do agree on some important issues. One is the need for reform of the unwieldy German federal system where states' rights and prerogatives

¹¹ Public opinion surveys indicate her approval ratings have risen 18 percent to 50 percent. *Financial Times*, December 29, 2005.

¹² Thomas Kielinger, *The German Patient Revisited* [<http://www.aicgs.org/c/kielinger093005.shtml>].

¹³ Frederick Sudeman in *Financial Times*, October 15, 2005.

overlap with those of the federal government. Most see the need for a clearer delineation of federal and state responsibilities. They advocate placing such things as environmental protection and some police powers exclusively under the central government. The two parties have already worked together in the Bundesrat in an attempt to make it easier for the various police and security agencies to cooperate in combating terrorism.¹⁴

Currently some 60 percent of legislation falls under the jurisdiction of both the Bundestag and the Bundesrat. Once planned changes to the federal system are implemented, it is believed that the majority of legislation will require approval only by the Bundestag rather than by both chambers.¹⁵ The Bundestag is the “lower” chamber, elected nationally and having the principal legislative role. The Bundesrat is made up of representatives appointed by the fifteen state (Laender) governments and is the body in which the interests of the states are represented. Because most recent state elections were won by the CDU, the Christian Democrats form a decisive majority in the Bundesrat. State elections are not concurrent with federal elections, so only the Bundestag changed as a result of the September 2005 election.

Economic and Social Policy

Some commentators interpreted the 2005 election results as a popular rejection of reform. Others disputed that view, arguing that the election was not a referendum on reform, that the voters understood the need for reform, and that most parties campaigned on reform platforms. In fact, a recent German Marshall Fund survey supports the view that most Germans recognize the need and are eager for genuine reform of the social and economic system. Among major European countries, German citizens are least averse to reform, according to the poll.¹⁶

The most difficult and crucial areas on which the coalition must cooperate if the government is to succeed involve social and economic policy. Government success here will be important, not just for Germany, but for Europe and global economic health. Germany has the world’s third largest economy but its economic performance has stagnated for a number of years, acting as a brake on other European and world economies. Both the CDU/CSU and the SPD recognize the need for reforms but consensus on specific measures may be difficult to achieve. Both parties agree that the previous government’s package of planned reforms entitled “Agenda 2010”, only some of which the previous government had been able to implement, should be the starting point for the new government’s efforts. They also agree on eventually cutting corporate taxes to attract investment, although such cuts may be postponed to ease the budget deficit. However, more is likely to be needed since such cuts will not apply to the majority of companies, because most are still family-owned. The

¹⁴ Constanze Stelzenmueller in the *Financial Times*, October 11, 2005.

¹⁵ Der Koalitionsvertrag zwischen CDU, CSU, SPD, Sec. 5: Handlungsfähigkeit des Staates verbessern, [<http://www.cducsu.de/upload/koalitionsvertrag/>], November 14, 2005.

¹⁶ Markus Shaper. Germans Want Reform! *AICGS Advisor*, December 16, 2005.

coalition partners agree on the need to reduce the budget deficit which has for several years exceeded the three percent ceiling under the EU Stability and Growth Pact.

Experts believe that Angela Merkel, as Chancellor, remains committed to tax, social welfare, and labor market reforms, even though the coalition government agreement does not spell out those reforms. She has publicly advocated cutting the income tax rates at the top and at the bottom and compensating for the shortfall by raising the value-added tax, as has been agreed by the coalition partners, and eliminating a number of special tax breaks. In order to create jobs and reduce unemployment, she will seek to bring down labor costs, among other things by shifting part of health care costs from employers to workers. She got coalition agreement to gradually raise the retirement age from 65 to 67. Such steps have the support of business leaders who have long called for similar changes.¹⁷ It is not clear whether they will have broader support, especially among the SPD base. Even many in the CDU/CSU are wary of sweeping labor reforms. There is an urgent need to reduce unemployment from its average level of over 11 percent. SPD officials who head the labor and finance ministries, are likely to receive strong pressure from the SPD's core labor constituency to try to preserve labor rights and benefits.

Forecasts by several economic institutes predicted little immediate improvement in German economic performance in 2006.¹⁸ Eastern Germany continues to lag far behind the west and has a much higher unemployment rate. Still, many economists have become more optimistic concerning the prospects for German economic reform and recovery. Many predict that the German economy will rebound regardless of what the government does due both to restructuring that has already been completed and to the expected rebound in the world economy. These economists argue that the reforms that Chancellor Schroeder instituted are more far reaching than he is given credit for, and that the economic benefits from these reforms will soon be felt. They also point out that within the corporate and private sectors, major reforms have already been instituted that will have a positive impact. In 2003, the Schroeder government — risking the support of its core labor constituency — introduced what were widely seen as necessary and long overdue reforms designed to overhaul the pension system, loosen labor laws, reduce unemployment benefits, and cut back expenditures on the health care system, and tax cuts to stimulate the economy.¹⁹ The German share of global exports has increased. Germany is now the number one exporting country in the world, ahead of the United States. If consumer confidence and spending also recover, Germany could achieve stronger than anticipated growth.

Early indications since Chancellor Merkel took office are positive. German consumer confidence in December 2005 rose to its highest level since the beginning of 1999, suggesting rising optimism about economic prospects and possibly heralding a broad based recovery. Following a significant rise in corporate investment, some economists now predict that economic growth in 2006 will be between 1.5 and 2

¹⁷ Marcus Walker in *Wall Street Journal Europe*, October 11, 2005.

¹⁸ *International Herald Tribune*, November 3, 2005.

¹⁹ The Measures of Agenda 2010. German Government Statement, May 22, 2003. [<http://eng.bundesregierung.de/dokumente>]

percent.²⁰ In addition, unemployment figures are better than expected for December. Others caution that the key to long-term economic health is still the implementation of further radical tax and labor market reforms and containment of health care costs. They worry that the government and public might lose the sense of urgency about reform.

Among the most acute pressures for reform, especially of the social welfare and pension system, are the serious demographic challenges that Germany faces with its ageing population. A recent Organization for Economic Cooperation and Development (OECD) study warned that the ageing of the population could lead to lower economic growth, strains on public finances, and shortages of skilled labor.²¹ The new government will be challenged by a number of related social issues. In order to take care of its ageing population, Germany needs to expand its younger work force substantially, which at this point may be possible only by bringing in foreign labor. Germany society, however, remains resistant to substantial immigration. Thus Germany's attitude to accepting and integrating immigrants, including a substantial Muslim minority remains a pressing issue for the Merkel government. The previous German government adopted new immigration and citizenship laws which for the first time established a process by which foreigners in Germany could gain permanent residency and eventual citizenship. However, Germany has yet to assimilate immigrants into German society, especially the country's expanding Muslim minority. The 3.3 million Muslims (mostly Turks) now make up about 3.5 percent of the German population. With a birth rate three times higher than for ethnic Germans, the Muslim population is expected to roughly double by 2015.²² Many of these Muslims view German society as unwilling to fully accept them. Unemployment and poverty are much higher in the German Muslim community than in other segments of society, especially among the youth. German concern is growing over the radicalization of some young Muslims and the potential emergence in their midst of an increasingly hostile and alienated population, possibly susceptible to terrorist recruitment. Many Germans see the Muslim community as refusing to accept German norms and values and as wanting to stay apart from the majority population.²³

Foreign Policy

Many observers expect more continuity than change in German foreign policy under the "grand coalition" government. On most issues, the CDU/CSU and the SPD are not far apart. In addition, foreign policy is not likely to be the highest priority on the new government's agenda as it seeks to deal with pressing domestic problems. However, Angela Merkel is already seen as bringing some changes in style and substance. Traditionally, the Chancellor has the dominant voice on foreign policy

²⁰ *Financial Times*, December 29, 2005.

²¹ Organization for Economic Cooperation and Development. *Germany: Ageing and Employment Policies*, November 24, 2005. 168 p.

²² [<http://www.pbs.org/wgbh/pages/frontline/shows/front/map/de.html>]

²³ See also CRS Report RL33166, *Muslims in Europe: Integration in Selected Countries*, coordinated by Paul Gallis.

regardless of which party holds the Foreign Ministry. Chancellor Merkel's key foreign policy adviser is Christoph Heusgen, a seasoned diplomat who was critical of Gerhard Schroeder's conduct of foreign policy.²⁴ The new SPD Foreign Minister Frank-Walter Steinmeier, though a close associate and past adviser to Gerhard Schroeder as his Chief of Staff, is seen as a pragmatist who in the previous government conducted quiet diplomacy with his network of contacts in other countries to smooth relations during difficult times.²⁵ While he has not held major foreign policy positions, he coordinated the German intelligence agencies and is considered a global security expert.²⁶

Former Chancellor Schroeder prided himself with having returned Germany to "normalcy" among nations, a country like others that acts and speaks out in its own national self-interest and is less hesitant to seek influence commensurate with its size and economic strength. While pursuing distinctly German interests in bilateral relations, in the European Union, and on broader international issues, he was sometimes seen as strident and lecturing. Some observers expect that a Merkel-led government will be less combative than Chancellor Schroeder was at times. Most experts also believe that German foreign policy will be shaped largely by domestic developments. German influence in the world is likely to depend on its ability to restore its own economic vitality.

Germany is expected to continue to give priority to multilateral approaches to solving international problems. The United Nations will continue to be viewed as the principal multilateral forum for dealing with international security issues. Germany is a major financial contributor to the UN and has sought to enlarge its role and influence by gaining permanent membership on the Security Council. Chancellor Merkel is not expected to press Germany's quest for a permanent seat on the United Nations Security Council. According to CDU/CSU spokesmen, Chancellor Merkel will press for UN reform more broadly.²⁷ In any case, the UN has postponed consideration of changes to the membership of the Security Council indefinitely.

Since Angela Merkel had little background in EU politics, it was unclear how she would seek to shape the German EU role. Her EU credentials were quickly tested at her first EU summit in December 2005. She reportedly impressed other participants with her knowledge of details and her commitment to making the EU more effective. She was credited by her counterparts with playing a decisive role in forging agreement on the EU 2007-2013 budget. She was praised as a coalition builder who helped defuse French concerns over farm spending and British problems with the EU rebate. She also won goodwill by foregoing planned EU assistance to Germany of 100 million Euros and ceding the money to Poland.²⁸

²⁴ Gunther Hellman in the *International Herald Tribune*, December 1, 2005.

²⁵ Peter Siebenmorgen in the *Atlantic Times*, November 2005.

²⁶ Hugh Williamson in the *Financial Times*, October 15, 2005.

²⁷ *Financial Times*, June 17, 2005.

²⁸ EU Agrees on Budget Framework for 2007-2013. [<http://www.germany-info.org>]

Many expect Chancellor Merkel to balance traditional strong Franco-German cooperation within the EU with closer ties to the United Kingdom, and other countries such as Italy, Spain, and Poland. She has indicated that she will be sensitive to the interests of smaller EU member countries, especially the newer central European members. She is expected to pursue European integration as a corollary rather than in opposition to the transatlantic partnership. She has indicated that her positions on issues such as the failed EU constitutional treaty, the budget, and the Common Agricultural Policy (CAP) are similar to those of Chancellor Schroeder.

The EU has long been a central pillar of German policy, as the instrument through which Berlin seeks to play an influential role in Europe and the world without arousing concerns among its neighbors. Germany has championed EU integration and enlargement. The German Bundestag voted overwhelmingly to ratify the EU constitutional treaty on May 12, 2005, and the Bundesrat followed suit on May 27, 2005. This new EU treaty, commonly referred to as the "EU constitution" represents the latest EU effort to reform its institutional bureaucracy and decision-making procedures to enable an enlarged EU to function more efficiently. However, the crucial no vote in the May 29 French referendum and the constitution's subsequent rejection by Dutch voters in a separate referendum seemed to stall further EU reforms and integration. It was felt that strong leadership would be required to regain momentum. Some critics saw as a problem the Schroeder government's excessively close coordination of EU policy with France, to the exclusion of other countries. Now, some observers hope that Germany will play a more decisive leadership role by once again becoming the "honest broker" of competing EU interests, as Chancellor Merkel appears to have done at the December EU summit. German leadership is seen as necessary. The country has traditionally been the engine of EU economic growth and political development. Germany is the largest contributor to the EU budget and other EU members account for almost 50% of Germany's trade. Germany's ability to fully exercise its EU leadership will depend on the success of its efforts to stimulate domestic economic growth. If it fails, Germany may be a drag on the other EU economies.

Germany has been a primary supporter of the EU's further enlargement to the east as a means to ensure political and economic stability on Germany's eastern border. Germany sees its prosperity as tied to the fortunes of new member and candidate countries. Germany is the main Western trading partner of every country in central and eastern Europe and a leading source of foreign direct investment. Turkey's candidacy for EU membership was an issue in the 2005 election campaign, with SPD leaders supporting eventual membership and CDU/CSU politicians, including Merkel, voicing opposition to full Turkish membership (as opposed to some privileged partnership status). However, since EU accession talks with Turkey have begun and are expected to take many years to complete, the current government will not have to face the issue.

A Merkel-led government is likely to continue Germany's support for the EU's European Security and Defense Policy (ESDP), though with greater emphasis on ensuring that it complements rather than competes with NATO. Some view the previous Schroeder government as more inclined to support the French drive to build an independent defense capability independent of NATO. Many agree that until

Germany increases its defense spending substantially and grapples seriously with reforming its armed forces, a robust European defense capability is unlikely.

Under Chancellor Schroeder, German relations with Russia were given high priority. In fact, Schroeder's very close personal ties to Russian President Vladimir Putin, to the extent that their families would vacation together, were a source of widespread criticism. In view of this friendship, Chancellor Schroeder was seen by some as soft-pedaling the erosion of democracy in Russia, the war in Chechnya, or Russian attempts to pressure and interfere with the democratic process in other former Soviet countries. His policies toward Russia were sometimes seen by Germany's eastern neighbors as threatening to their interests, as in the case of the agreed new gas pipeline between Russia and Germany that will by-pass eastern Europe and the Baltic states, negotiated by the Schroeder government before it left office.²⁹

Chancellor Merkel has been more critical of Russia and has made it clear that she will not follow in former Chancellor Schroeder's footsteps in terms of the special relationship with Russian President Putin. Germany is likely to continue to pursue strong bilateral relations with Russia, particularly in light of Germany's growing energy dependence on Moscow. But Chancellor Merkel has indicated that relations will not be to the detriment of Germany's east European neighbors. She has repeatedly emphasized the priority she will place on bilateral relations with Poland, a country that had been skeptical of the close Schroeder-Putin ties.

Germany and the United States

Bilateral and Transatlantic Relations. U.S.-German bilateral relations are an area in which U.S. officials and many experts hope for improvement under a Merkel-led government. Angela Merkel has been a strong friend of the United States and an Atlanticist who has given priority to removing the strains in transatlantic relations. She and her SPD coalition partners agreed in the coalition agreement on the central importance of Germany's relations with both the United States and NATO.³⁰ The new government has pledged in the Coalition Agreement to seek to improve public opinion on bilateral relations by creating a better understanding of the United States among Germans and of Germany and Europe in the United States. At the same time, the new government indicated that a strengthened bilateral partnership would allow for differences of opinion on specific issues.³¹ This message had already been conveyed in December 2005 during Secretary of State Rice's trip to Berlin and in Washington by new German Defense Minister Franz Josef Jung on December 19,

²⁹ Shortly after Schroeder's resignation, it was announced that he would become a member of the board of an energy consortium including Gazprom, a huge Russian conglomerate with close ties to Russian President Putin. This move, while not illegal under German law, was widely criticized in Germany and abroad. See Anne Applebaum, What are the Russians Buying? Washington Post, December 13, 2005.

³⁰ Hugh Williamson, *Financial Times*, November 1, 2005.

³¹ Der Koalitionsvertrag zwischen CDU, CSU, SPD, Sec. 9: Deutschland als verantwortungsbewusster Partner in Europa und der Welt, November 14, 2005. [<http://www.cducsu.de/upload/koalitionsvertrag/>]

2005. It was reiterated during Chancellor Merkel's first official visit to the United States as Chancellor on January 13, 2006. Statements by President Bush and Chancellor Merkel at the conclusion of their meeting in Washington on January 13, 2006, declared their talks a success in again placing bilateral relations on a firm footing of trust and indicated that candid discussions had taken place on a wide range of issues. They agreed that intensive cooperation is necessary in light of the common threat of terrorism and the Iran nuclear challenge. Chancellor Merkel indicated that she had invited President Bush to Germany and that she would be returning to Washington in May 2006.³²

Traditionally, Germany has sought to maintain a careful balance of emphasis between NATO and the European Union. Chancellor Schroeder's commitment to this balance was called into question by his statement to the Wehrkunde Conference in Munich delivered on his behalf by Defense Minister Struck on February 14, 2005, and reiterated in a *Wall Street Journal* interview.³³ He stated that strategic issues in transatlantic relations should be decided with the EU rather than at NATO. This seeming endorsement of the primary role of the EU in the transatlantic context was seen by some experts to be in contrast with past German support for NATO preeminence in the security sphere. Now Chancellor Merkel is seeking to restore the balance. She has stated repeatedly that progress in EU integration should not come at the expense of the transatlantic partnership. And other members of the CDU/CSU have reaffirmed the central role of NATO on security questions. Many expect her to also seek to play a constructive role in EU-U.S. relations.

The change in German leadership is already having an impact on the atmosphere of U.S.-German relations at the top. Despite significant efforts to smooth relations since 2004, the personal animosity between President Bush and Chancellor Schroeder has been difficult to overcome. Mr. Schroeder is thought to have contributed to eroding German public opinion about the United States, particularly with his vocal attack on U.S. policy in Iraq and with his very public rejection of the Anglo-American model for Germany's own economic renewal. Ironically, his rhetoric on Iraq, aimed at his domestic audience, did not match German actions which were generally more supportive of the United States (see Iraq discussion below).³⁴

Despite the positive signs of smoother bilateral relations, there is no agreement over how much Chancellor Merkel will be able to do in this regard. Pessimists warn that it will be an uphill battle for Chancellor Merkel to overcome negative public opinion toward the United States and the fallout from strong differences on specific U.S. actions, such as fresh allegations of CIA use of U.S. military airports in Germany to transport suspected terrorists to third countries. Anti-American or at least anti-Bush administration sentiment has continued to grow among the German public and U.S. policies, for better or worse, are part of the German domestic political debate. Some 40 percent of Germans now view the United States as a positive force

³² White House Press release, January 13, 2006. {<http://www.whitehouse.gov/news/releases/>}

³³ *Wall Street Journal*, February 16, 2005.

³⁴ Karen Donfried, Senior Director for Policy Programs, German Marshall Fund, at a GMF panel discussion in Washington, D.C., October 18, 2005.

in the world, a significant drop from pre-Iraq war attitudes. A number of longstanding differences are likely to continue even under the Merkel government. These include environmental policy — especially with regard to climate change, the International Criminal Court, and the role of the United Nations and other international organizations. Some also point to the heavy representation of Schroeder-era SPD members in the foreign policy establishment as a factor limiting how much change can be expected.

From a longer term perspective, some specialists argue that the differences in outlook that have emerged between the United States and Germany over recent years are based on fundamental changes in underlying realities, rather than on specific policies and actions. While a close relationship with the United States is still a strong German foreign policy interest, a reunited Germany in a stable Europe is seen as less dependent on the United States for its security. In turn, the United States no longer sees a need to protect Germany and as result the country's importance to U.S. policy has arguably evolved. In fact, from the vantage point of present-day U.S. interests, Germany's influence on the direction of the EU is probably the most important aspect of Germany's political role. In the economic realm, since Germany is the world's third largest economy, the United States has a very strong interest in German policies and how they are likely to influence the global economy.

Whatever the changes in the nature of bilateral relations, the more permanent economic, cultural, and military ties that bind the United States and Germany remain very strong. The United States and Germany continue to share strong economic interests. Each country is a leading investor in the economy of the other, especially in the areas of research and development. These investments contributed to some 1.3 million jobs in the two countries. Germany is the fifth largest U.S. trade partner.³⁵ For Germany, the United States is its largest trade partner outside the EU. Extensive cultural and education exchanges, as well as family ties and tourism bind the two countries. The United States continues to station some 65,000 troops in Germany, although the U.S. military is planning to close a number of bases and remove substantial forces from Germany over the next several years. Nevertheless, some U.S. strategic bases will remain in Germany for a range of U.S. and NATO operations and contingencies.

Specific Issues

Iraq. The current German government is unlikely to fundamentally change its stand on Iraq. At the same time, Angela Merkel has been very vocal about the German interest in a successful outcome in Iraq. It is not clear whether she will be more receptive to U.S. Administration requests for a greater German role in the reconstruction of Iraq beyond commitments already made (training of Iraqi police, helping to rebuild the Iraqi water infrastructure, and forgiving some Iraqi debt) than was her predecessor, given ongoing German domestic opposition to the war in Iraq.

³⁵ *Fact Sheet: Germany and America-A Strong Alliance for the 21st Century*. Nov. 12, 2004. [<http://www.germany-info.org>]

Even while the previous government publicly opposed the war in Iraq, Germany took a number of steps to help the United States indirectly. In fact some German officials claimed that Germany had done more to help the United States on Iraq than most official U.S. coalition partners. While Germany would not send troops to Iraq, it compensated by increasing its troop levels and responsibilities in the Balkans and Afghanistan. German forces also replaced U.S. troops protecting key U.S. installations in Germany.³⁶ All of these actions freed up some U.S. forces for re-deployment elsewhere.

Afghanistan. The German government has been, and is likely to continue to be, very supportive of efforts to stabilize Afghanistan as part of the fight against terrorism. As one of its last acts, the outgoing Bundestag, on September 28, 2005, approved an increase in German International Security Assistance Force (ISAF) troops in Afghanistan to 3,000, the biggest single country contribution to the 10,000-person ISAF force.³⁷ The German government has deployed Provisional Reconstruction Teams (PRT) and has provided humanitarian and reconstruction assistance to Afghanistan. President Bush has expressed his appreciation for the extensive role Germany has played in Afghanistan. In total, Germany has some 7,000 troops participating in peacekeeping operations abroad, a larger number than any other European nation except Britain.³⁸

Terrorism. U.S.- German cooperation in the fight against terrorism has been close and effective. Germany now sees radical Islamic terrorism as its primary security threat. After 9/11, it became apparent that Germany had terrorists on its own soil. Three of the hijackers in the United States had lived and plotted in Hamburg and other parts of Germany for several years. Other terrorist incidents are also believed to have had a German connection, indicating that radical groups saw Germany as one of the easier places in Europe from which to operate. Germany's annual "Report on the Protection of the Constitution 2004" estimated that about 32,000 German residents were members of 24 Islamic organizations with extremist ties. Germany adopted new anti-terrorism laws that limited legal protection for extremists. Legislation approved in November 2001 targeted loopholes in German law that permitted terrorists to live and raise money in Germany. The immunity of religious groups and charities from investigation or surveillance by authorities was revoked, as were their special privileges under the right of assembly, allowing the government greater freedom to act against extremist groups. Under the legislation, terrorists can now be prosecuted in Germany, even if they belonged to foreign terrorist organizations acting only in other countries. Authorities are no longer barred from monitoring what goes on inside mosques.³⁹ The government of Chancellor Merkel

³⁶ For a detailed accounting of German actions to assist Iraq, see Fact Sheet: German Aid for the Stabilization and Reconstruction of Iraq. March 11, 2005. [<http://www.germany-info.org>]

³⁷ *Financial Times*, September 29, 2005.

³⁸ Germany's Contribution to the Fight Against Global Terrorism, March 3, 2005 [www.germany-info-org/relaunch/info/publications/infocus/terror/mil.html]

³⁹ German Embassy Press Office. Fact Sheet. Germany's Contribution to the Coalition (continued...)

is expected to continue Germany's domestic and international efforts to combat terrorism.

Differences on some issues may complicate cooperation in certain areas in combating terrorism. Germany remains at odds with the United States concerning the treatment of prisoners, particularly the Al Qaeda and Taliban detainees in Guantanamo Bay, Abu Ghraib, and elsewhere. German Foreign Minister Steinmeier also expressed the concern of the German government over allegations of CIA prisons in other countries and extra-judicial "renditions," possibly through Germany. He said he was worried that Europe and the United States were drawing different conclusions on the best way to fight international terrorism. Germany protested the revelations about U.S. involvement in the 2002 abduction and imprisonment in Afghanistan of a German of Lebanese descent, Khaled al Masri. He was released for lack of evidence against him two years later.⁴⁰ There have also been problems over extradition of terror suspects arrested in Germany to the United States and other countries. German laws do not allow extradition of a person wanted by another country if there is a possibility that person might face the death penalty. Germany's Constitutional Court recently ruled that the German law implementing the EU arrest warrant did not comply with the German constitution. As a result, Mamoun Darkazanli, a German of Syrian origin whose extradition had been requested by Spain and who is also wanted by the United States for his alleged terrorist links, was released from custody.

Iran. The United States and the EU 3 (the UK, France, and Germany) are working together to oppose Iran's development of nuclear weapons. Germany, together with Britain and France, has taken the lead in negotiations with Iran to get verifiable guarantees that its nuclear program will serve strictly peaceful purposes in return for economic incentives and an end to Iran's isolation. The United States has supported the EU3 initiative toward Iran while maintaining its own pressure on the Iranian government. Given the Iranian government's decision in early January 2006 to restart a nuclear research facility and the more defiant stance of the new Iranian government, skepticism is growing with regard to Iranian intentions or willingness to forego developing nuclear weapons in exchange for political and trade rewards. Chancellor Merkel is facing an early challenge on how Germany and its allies can constrain Iranian nuclear ambitions. On January 10, 2006, Foreign Minister Steinmeier sharply condemned the Iranian action, saying that Iran had "crossed a line," and indicated that the EU3 would consider next steps to respond, including asking the International Atomic Energy Agency (IAEA) to refer the issue to the UN Security Council.⁴¹ At the conclusion of talks in Washington with President Bush on January 13, 2006, Chancellor Merkel condemned Iran's nuclear stance but stressed

³⁹ (...continued)

Against Terrorism. May 10, 2002.

⁴⁰ *Financial Times*, December 15, 2005.

⁴¹ [<http://www.Germany-info.org>]

that she and President Bush were in agreement that Iran's nuclear challenge should be resolved diplomatically.⁴²

China. Chancellor Merkel has taken a harder stance toward China than her predecessor. The previous government, together with France, had led efforts to lift the EU arms embargo on China, despite strong opposition from the United States and several EU countries. German politicians across the spectrum, even many SPD politicians, disagreed with Chancellor Schroeder's effort to lift the embargo on human rights and security grounds.⁴³ Chancellor Merkel has indicated that she will not support a lifting of the EU arms embargo against China, linking future progress on the issue to China's human rights policy.

⁴² Chancellor Merkel meets President Bush. [<http://www.Germany-Info.org/relaunch/politics/>]

⁴³ *Financial Times*, November 12, 2005.