

Surprises, Shocks, *and* Upheavals

*For German Chancellor Angela Merkel,
they are coming faster than ever.*

BY KLAUS C. ENGELEN

Looking for future surprises that could shock the world? This would not be an exercise Europe's top leaders such as German Chancellor Angela Merkel need these days. For her, the surprises, shocks, and upheavals are coming faster than ever. For years, she has played a key role in crisis management at the helm of the largest and strongest member country of the European Union.

What is causing unease in some quarters is the question of whether she can and will hold on to power after Germany's 2017 national election. Following the vote by the majority of UK citizens to leave the European Union, a major challenge for the bloc's leaders will be to keep the remaining twenty-seven-member European Union together. At this juncture of the historic European integration process, another Merkel "We can do this" could help. But she would need to widen her political base in Germany considerably and end the divisive quarreling among EU member states whose leaders she offended last year by not consulting with them before opening the German borders.

But she also would need a lot of luck to prevent the smoldering economic and banking crisis in the euro area from blowing up again. The failure to tackle structural reforms and overcome the lack of competitiveness in most EU states makes it harder to reduce high unemployment levels. Parts of Europe have been sliding into a stagnation trap. Also, the International Monetary Fund has warned that the euro area needs a "comprehensive strategy" to deal with €900 billion of non-performing loans on the books of eurozone banks. Italy's struggle to cope with their €360 billion in non-performing loans and the recent share price losses of major euro area banks—including Deutsche Bank and Commerzbank—should also raise the alarm bells in Berlin.

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Whether Merkel—who has headed the German coalition government since 2005—will survive the refugee crisis and perhaps more terrorist attacks by Muslim fanatics is an open question. She faces other difficulties as well. A breakdown of the fragile EU-Turkey refugee deal could lead to a new wave of incoming refugees on Greek shores. Can she protect the stakes of Germany's export industries in the coming complex divorce negotiations with Britain after Brexit? Will she get the backing to contain the alarming erosion of European cohesion and solidarity in order to secure the European Union's external borders and distribute incoming asylum seekers from war-torn countries? She also needs to confront the potential damage of Brexit to Europe's security structures and NATO in light of Russian President Vladimir Putin's aggressive strategy to weaken Europe and its transatlantic alliance in order to get rid of the U.S.-led sanctions regime.

NOW JIHAD STRIKES GERMANY

The latest shock is the spread of terrorist attacks to Germany. Unlike France, Belgium, Britain, and the United States, Germany had been spared the bloody attacks by Islamic fanatics. On the heels of the horrific attack in Nice on France's own the July 14 national holiday, when a 31-year-old Muslim killed 85 people by driving a truck on the city's promenade, a young Afghan asylum seeker, armed with an axe and a knife, attacked a group of passengers on July 18 on a train in

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Big Test Ahead

In December 2015, *Time* magazine bestowed the title of "Person of the Year" on the then-61-year-old world leader for the way she managed the economic crisis of the euro, and the way she's currently handling the refugee crisis and the terrorism threat looming over Europe. As *Time* managing editor Nancy Gibbs stated, "She has stepped up in a way that was uncharacteristic even for her. She's been a very long-serving leader, the longest-serving in the West. She controls the world's fourth-largest economy, but this year she really was tested in how she would respond to some of the most difficult challenges that any leader is facing in the world."

—K. Engelen



Angela Merkel

the town of Würzburg, leaving five people gravely injured. He was shot by the police. In a video posted online, that attacker had pledged allegiance to ISIS, which in turn took responsibility for the bloodshed he caused, calling the 17-year-old axeman a "soldier" of its self-declared caliphate. This was followed on July 22 by the "Munich massacre" in which nine mostly young people with immigrant backgrounds were killed by a youth who then committed suicide. Finally, the night of July 24, a 27-year-old Syrian blew himself up outside a music festival after he was turned away from the event by security workers. According to Bavaria's Interior Minister Joachim Herrmann, a video was found on the bomber's phone showing him pledging allegiance to Islamic State, announcing "revenge" against Germany "for standing in the way of Islam." The same day, a 21-year-old Syrian man murdered a woman with a knife near Stuttgart, a killing that the authorities judged as "family related."

To quote *Der Spiegel* on how one of the largest German cities reacted to the news of a mass shooting: "The degree to which Germans have become susceptible to collective panic could be observed on the evening of July 22. When 18-year-old David Sonboly began his mass shooting in front of a Munich shopping center, many reflexively thought it was an IS attack against Germany. Within minutes, rumors began circulating on the Internet that a terrorist commando had gone on a killing spree in the Bavarian capital. The reports centered on men with assault weapons, on shots being fired on Karlsplatz square, and on detonations in downtown Munich. The social networks amplified

Zombie Banks and Zero Interest

Despite years of strengthening the euro area banking systems and putting in place the new institutional frameworks of a European banking union, the threat of a new banking crisis still looms.

Germany and other eurozone governments shifted a large part of their fiscal and economic reform burden to the European Central Bank and its “unconventional monetary policy.” This action comes with a price: Zero or even negative euro interest rates and massive securities purchases have undermined the market structure of the euro area financial systems. The old-age savings income of millions of citizens has eroded. The business models of banking and insurance sectors have suffered damage. The ECB’s actions have not led to more business investments and economic growth.

—K. Engelen

people’s fears even though they were wrought with speculation, half-truths and erroneous reports.” As it turned out, the authorities were not able to put the Munich mass killing on the ISIS account, says *Der Spiegel*. “The perpetrator was a young German man with Iranian roots—and possibly racist motives—who wanted to lure people of the same age into an ambush. For a while, he was even regarded as a potential jihadist. There are no simple categories left for classifying these kinds of attacks.”

But Daniela Schwarzer, director of the Europe Program at the German Marshall Fund, argues that Germany is reacting to the deadly shootings so far with calm. As Schwarzer told the *Financial Times*, “Despite the four incidents taking place in quick succession, there has been no groundswell of support for a crackdown by the secret services. For the time being, the debate in Germany on the appropriate domestic response is far removed from that in France, where the state of emergency is the new normal. ... So far, the AfD and other anti-immigration movements have failed to sow distrust and fear, as populists in other countries have done.”

WHAT IS WRONG WITH 2016?

Reflecting on how Germany has been drawn into the hybrid war of jihad extremists, Mathieu von Rohr, deputy editor of *Der Spiegel*, asks, What is wrong with 2016? “We are living in an age of shocks and crises that could well be traumatizing in their rapid succession and concentration, since it’s not yet clear whether they’re only a temporary jolt or the beginning of a trend with no end in sight.” He uses as his title the famous “Apocalypse Now.”

And he asks, “Has the world gone mad? ... It feels like the world is out of step, that multiple crises are encroaching upon us and that the distant world of international politics is about to get dangerously personal. How are we supposed to deal with the feeling of living in an era that we no longer seem to understand?” To illustrate his point, Rohr draws attention to the fact that a Twitter user’s “I’m tired of living in interesting times” was re-tweeted more than a thousand times. “Every day, people on social media ask: What is wrong with 2016? ... What more does it have in store for us?”

SOME ARE BLAMING MERKEL

Such violence immediately raised concerns that Germany—under Merkel’s highly controversial welcome policy for refugees beginning last summer—may have undermined the country’s security and the safety of its citizens. Under Merkel’s protection, not only hundreds of thousands of asylum seekers from Syria, Iraq, and Afghanistan but also refugees from other areas looking for a better way of life could enter Germany without identity controls. This was criticized as an unprecedented “state failure” not only by Germany’s political right but also by a large number of Merkel’s conservative followers.

What is shocking is that chat transcripts obtained by German authorities indicate that the two jihad perpetrators involved in the attacks in Ansbach and Würzburg had repeated contacts with suspected members of Islamic State via telephone numbers registered in Saudi Arabia, according to *Der Spiegel*. They even received instructions from abroad how to proceed with their assaults.

The attacks have shaken the country and opened Merkel’s refugee policy to new criticism, especially from the political right, from her conservative coalition partner in Bavaria, the Christian Social Union and its leader Horst Seehofer, and from those eastern EU member states whose governments refuse to let refugees into their countries. With Hungarian Prime Minister Viktor Orbán

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leading these critics, the eastern and central European EU member states reject accepting their fair share of the incoming refugees. Germany's open-door refugee policy is dividing the European Union and undermining Europe's solidarity. Merkel is confronted with the question: How many "soldiers" have the jihadists sent among the masses of refugees through the "Balkan route" and the open borders into Germany, where they connect with helpers to prepare their terrorist attacks?

In the wake of the terror attacks in Würzburg and Ansbach, Merkel's approval rating plunged. The ARD-Deutschlandtrend August poll showed the chancellor's approval rating had dropped 12 percentage points to 47 percent, the second-lowest level since the start of the current parliamentary term in 2013. A month earlier, 57 percent of Germans were satisfied with Merkel's work. On the other side, Seehofer, her Bavarian coalition partner and challenger, improved his standing from 33 percent in July to 44 percent in August. The poll also shows widespread dissatisfaction with the chancellor's open-door refugee policy, with just 34 percent of respondents indicating that they backed Merkel's refugee policy, compared with 42 percent in the preceding July poll that was taken before the terror attacks.

STICKING TO "WE CAN DO THIS"

When responding to questions at her recent Berlin summer press conference, which was brought forward after a wave of terror attacks that plunged Germany in a mood of fear and uncertainty, Merkel revealed in her sober, matter-of-fact style that she still enjoyed a good night's sleep and—in addressing a journalist's question—that Donald Trump, the new Republican presidential candidate, so far had not appeared in her dreams.

On the question of how to handle the refugees, after Germany took in last year more than a million people and is struggling now to provide for them and integrate them all over the country—sometimes against a hostile reception by the local population—Merkel sticks to her guns. "I never said it would be easy. But I'm just as convinced now as I was then that we will complete this great task. We can do

it, and in the past eleven months we already done a lot." Reacting to the wave of terror, she begged to put things into perspective. "For me, it's clear—we stick to our principles. Angst can be no guide for political action." She set out a nine-point plan to respond to the attacks, including beefing up the security forces, lowering hurdles for deporting refugees, and measures to sort out and monitor refugees who might be radicalized. Her basically optimistic message did not silence her critics. "Germany has woken up in sheer terror, but the chancellor is still singing her lullabies, and therein lays her failure."

LOSING THE BREXIT BATTLE

The recent attacks come on the heels of earlier major setbacks. Merkel's hopes that the United Kingdom would stay in the European Union were dashed on June 23, when 52 percent of British voters opted to leave the European Union. Merkel called it "a watershed moment which could further divide Europe." As Jürgen Falter, a veteran professor of politics at Mainz University, told the *Financial Times*, "[Merkel] faces a historic challenge ...to hold Europe together. This is in Germany's interest and it is in Europe's interest, too. No question, she is very worried."

Germany, in effect, had positioned itself as a compromise broker between Britain and other EU countries, realizing that a four-fifths majority of British and German business representatives were against Brexit.

Losing the Brexit battle means a new challenge in keeping the remaining European Union together. Stefan Wagstyl, Berlin's *Financial Times* correspondent, put the implications of Brexit for Merkel in the proper perspective. He notes, "For Angela Merkel, Brexit is a threat to everything she has achieved in more than a decade as the EU's dominant political force." Wagstyl's bottom line: "Already damaged by the refugee crisis, Britain's vote to leave the EU has dented Angela Merkel's position in Europe, giving her opponents the opportunity to attack her over austerity and German power."

Mark Mazower, a professor at Columbia University, puts Brexit in a larger perspective, arguing in a *Financial Times* editorial that "the prospect of [Britain] leaving is a violent corrective that will make the entire union seem more fragile." In his view, the "UK referendum result was, immigration aside, a vote against the huge institutional changes that have transformed the nature of democratic governance across Europe in the past thirty years." And he warns, "Other member states may contemplate exit and anti-European forces will be emboldened. So far we tend to underestimate the significance of this because of the continued power of the governing coalition in Germany. But if—perhaps once Chancellor Merkel leaves

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office, or even before—the German political elite experiences the kind of crisis that currently grips France, then the EU’s entire leadership will be in danger of falling apart.” Mazower concludes, “The danger of the Brexit vote is that in the long term it will have helped produce a much more fragmented Europe than the one we have today—one that will leave neither Britain nor the rest of Europe safer or better equipped to confront challenges that will continue to exist.”

RESCUING THE EU-TURKEY DEAL

EU President Jean-Claude Juncker and Merkel are sticking to the European Union’s migration deal with Turkey for obvious reasons. If Turkey ceases patrolling its coastline and the number of refugees crossing the Aegean increases, Greece would soon expand into a huge refugee camp. No wonder that Brussels and Berlin are taking the blackmail threats of Turkey’s President Recep Tayyip Erdogan—to get out of the deal if the European Union does not yield on the visa question—in stride.

Merkel’s man in Brussels, Elmar Brok, who chairs the Foreign Affairs Committee of the European Parliament, argues that “Turkey also has its stakes in the deal” and

Merkel is paying a high political price.

that “there is no plan B” for dealing with Turkey. The military coup against the powerful neo-Islamic Erdogan regime so far has not derailed the landmark refugee deal that effectively stopped the flow of refugees reaching Greece. Erdogan is taking the coup as justification for an orgy of revenge—purging at least 60,000 people—against the movement of his former Islamic partner Fethullah Gülen, who is accused of having instigated the coup from his exile in the United States. The European Union had promised Ankara €6 billion and political concessions if his government would take back migrants who reach Greece from Turkey. Most of the money would be used as support for the almost three million refugees within Turkey. In view of the struggles of the European Union and the German government to keep the refugee inflow under control, the statements emanating from Austria are not helpful. The head of the Austrian government, Christian Kern, told ORF Television that he believes that the European Union should abandon negotiations with Turkey, which he dubbed a “diplomatic fiction.” The Austrian chancellor intends to raise this issue at the meeting of heads of state and government in

September. Austria will ask for an alternative solution. “We know that democratic standards are clearly not sufficient to justify its accession.” He also pointed out another important reason, the huge economic differences between Europe and Turkey.

Turkey has been a candidate to join the European Union since 2005, although negotiations have been almost stagnant for years and the EU Commission has warned that if Ankara reintroduces the death penalty after the coup on July 15, it would terminate the process. Austria’s new leader also criticized the reaction of the Turkish authorities following the failed coup and said that there are “unmistakable signs” that have raised fears that Turkey is heading towards a dictatorial regime. He recognizes that Turkey is a very important partner of the European Union, and another method for cooperation between the country and the bloc should be reached. And Sebastian Kurz, his young foreign minister, made headlines suggesting that the migration deal that EU leaders struck with Turkey is “an immigration policy that is falling apart like a house of cards.”

What today’s Austrian leaders forget to mention is that Kern’s predecessor Werner Faymann stood by Merkel’s side in September of last year when they both defended their decision to open German borders to unregistered refugees. Faymann then was scathing about Hungary’s latest shut-out of refugees and postulated, “You can’t just stick your head in the sand, it’s about people who have a right to asylum,” and Merkel declared, “If we had not shown a friendly face, that’s not my country.”

BETTING ON A CRISIS MANAGER

Merkel, at the helm of German coalition governments since 2005, has dealt with more crises than most Western leaders. A never-ending series of bad surprises, shocks, and upheavals that she and her governments have had to manage on the domestic and international stage may have helped prepare her to cope with the new challenges.

What Roland Freudenstein of the Wilfried Martens Centre for European Studies predicted last year may still be relevant. “The refugee crisis is most likely the make-or-break issue defining Angela Merkel’s chancellorship. In the short run, much will depend on whether the numbers of incoming refugees can be reduced. This works only in cooperation with partners inside and outside the EU, especially Turkey. But it is not impossible. If the numbers decrease and the division of labor among German authorities on the federal, regional, and local levels and NGOs can be improved, there is a chance that she can regain lost territory among voters. Otherwise, populists are set to gain.”

And Freudenstein continues: “Opposition to Merkel is split between a seriously worried conservative wing

of her party and an openly xenophobic set of extremists, which makes things a bit easier for her. Moreover, whatever happens, there is no visible replacement for her as leader of either her party or the country, so her chances still look good for the 2017 parliamentary election, possibly in a changed coalition.”

Last September, Merkel, apparently following her humanitarian impulses, gave the signal to open the borders for Syrian and other asylum seekers that were massing on the way from Austria to the German entry points. She made history and may have saved Europe’s honor in a time of war and misery. But she may also have strengthened the Brexit forces and started the break-up of the European Union.

As Brexit and the wave of terror attacks in Bavaria show, Merkel is paying a high political price. The sight of a million refugees flooding German towns and stretching the resources of Europe’s largest economy was used by Britain’s populists in the referendum to extract Britain from the European Union. And by sticking to her open-door immigration policy, Merkel strengthened protest parties on the political right all over Europe, especially the *Alternative für Deutschland* in Germany.

Some of those who now are worried about the danger of the European Union unraveling after Brexit see Merkel in a position of leadership to put it back together. “For the first time, I’m really grateful Merkel is around,” says Hans Kundnani, a Berlin-based fellow at the German Marshall Fund of the United States. “She’s taking the cautious approach, which is exactly what’s needed here.” Kundnani was sharply critical of Merkel when *Time* spoke with him while reporting for her profile as that magazine’s 2015 Person of the Year. The foreign policy researcher has “new appreciation for her plodding, bland approach” at a time when the reaction to the Brexit vote was the most chaotic political situation he’s experienced. “She sort of was a lone voice of reason.” In private meetings, says Kundnani, Merkel will move carefully and deliberately to disentangle Britain from the European Union, and engage in no negotiations until Britain presents formal notice of its intention to leave by invoking Article 50 of the EU Treaty. “There is a danger now of unravelling the EU. Not because of Brexit itself, but because members are fighting with each other about how to respond. After the referendum, foreign ministers from the six founding members got together to express ‘European Unity’—which was an extremely divisive thing to do, because it left out the other twenty-two members. A lot of Eastern and Central Europe were not happy.”

In his regard for Merkel, Kundnani is not alone. Sylke Tempel, editor of the *Berlin Policy Journal*, published by the German Council on Foreign Relations,

praises Merkel for advising against punishing Britain for leaving. She argues that London, after all, remains in NATO and a score of other international institutions that bind the United Kingdom’s fortunes to other European nations. “Foreign policy is like a really complicated dashboard right now. If you move one button here, you might trigger off something there. This is why she’s be-

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often through uncharted waters.*

ing cautious. She understands this is like untying really, really complicated knots.”

“Germany is the strongest player, quite clearly,” Guntram Wolff, director of the Brussels think tank Bruegel, told the Associated Press. “So in that sense, [Brexit] will probably increase the role of Germany in the EU.” Not surprisingly, Merkel’s cautious policy stance with respect to the coming Brexit negotiations has the strong backing of German industry.

Talking about never-ending crises, shocks, and bad surprises, in her eleven years at the helm of the German government, Merkel has had to steer the ship of state often through uncharted waters. When the U.S. investment bank Lehman Brothers filed for Chapter 11 bankruptcy protection in September 2008, holding over \$600 billion in assets, Merkel and her finance minister Peer Steinbrück faced the worst financial crisis in modern times. They appeared together in front of the TV cameras with a guarantee for all savings in German banks. Soon came the spectacular and costly rescue of Greece and other highly indebted euro area member states that had lost access to capital markets. Then Merkel put through the imposition of a staged shut-down of nuclear plants in Germany in reaction of Japan’s Fukushima disaster. She pushed for the Minsk agreement to defuse the bloody military conflict in the Ukraine after Russia, under President Vladimir Putin, annexed Crimea in a blunt disregard of international treaties. Then, in the summer of last year, Merkel made the momentous decision to open the borders to more than a million refugees from troubled countries in a stunning humanitarian gesture. In her view, she needed to confront one of Europe’s biggest challenges in decades as the leader of a strong Germany with a major leadership responsibility for Europe and its historic legacy. She did this with the mantra “We can do this”—(*Wir schaffen das*)—insisting

that Germany is strong enough to cope with such a historic challenge. From early on, some experts and party followers expressed concern that the trained physicist who was educated and professionally trained in East Germany lacked the West German post-war “constitutional patriotism” or *Verfassungspatriotismus*, the sensitivity towards constitutional issues and the importance of laws, statutes, and traditions of international and European institutions. In over a decade as chancellor, to the horror of even her party elders, Merkel seemed to have no problem ignoring the German Constitution and the European treaties, as well as the statutes of major global institutions such as the International Monetary Fund, if that helped her to stay in power.

We previously argued that “when the history books are written, it will be seen that some of the decisions by the coalition governments under Chancellor Merkel that were made to cope with the banking and the euro sovereign debt crisis changed Europe’s institutional landscape on the basis of questionable legal footings.” In the view of Germany’s leading constitutional lawyers, Merkel has continued this disregard for law and constitutional limitations, when she let the masses of unregistered refugees into the country without any legal basis, without calling in the German legislature, and without consulting with the EU leaders under the existing statutes, with the exception of Austria’s Chancellor Werner Faymann. ◆