

## ***The Recalibration of the World and German Foreign Policy***

Robert Kappel and Helmut Reisen

How should Germany position itself in a recalibrated world where China and India are becoming increasingly stronger actors? Since 2014, the People's Republic of China has been practising a more assertive global financial diplomacy than before. Was does that mean for the strategic focus of German foreign policy between the poles of transatlantic commitments and the ever more assertive new powers?

### **Analysis**

- On the international stage, an ever growing attractive power emanates from China. The establishment of the New Development Bank (NDB) of the BRICS countries and the Asian Infrastructure Investment Bank (AIIB), the internationalisation of the renminbi, and the increasing importance of the BRICS group in the G20 and in global debates are some visible recent examples of the large-scale strategy of China and the other new regional powers of building multilateral institutions parallel to those dominated by the West.
- The United States remains the world's most important international actor, most important military world power, and second most important economic power after the European Union. Its influence and global charisma, however, are dwindling significantly.
- The European Union and Germany continue to be interested in a close cooperation with the United States, but the attraction of the transatlantic partnership is beginning to erode. The European Union has established numerous international ties, the most important of which are the strategic partnerships with China and India.
- The European Union, however, is so far limited in its capability to provide global public goods and establish itself as a civil power.

*Keywords:* Germany, European Union, India, United States, People's Republic of China, international processes and tendencies, structural changes in the international system

## Pax Americana – and afterwards?

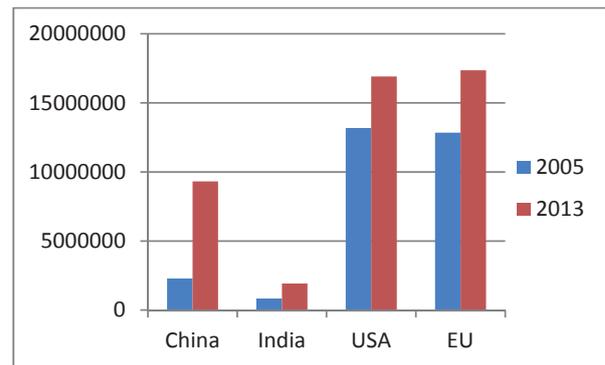
It is often suggested (and equally as often disputed) that the *Pax Americana* is coming to an end. At least since the end of World War II, this term has been used to denote the international leadership position of the United States. The Bretton Woods institutions, the OECD, and NATO can be understood as steering instruments under US leadership. Unlike in the 1990s following the collapse of the Soviet Union and its satellites, the world today is no longer perceived as unipolar but rather as multipolar or apolar. The cohesive force of the United States has flagged, which is most evident in Africa and the Middle East. The Obama administration is neither succeeding in effectively combating terrorism nor stemming the antagonistic leadership claims of Saudi Arabia, Iran, Turkey, or Egypt. The United States has to accept the further decline of its influence – namely, the erosion of its economic and military power and the attractiveness of the US model. Neither China nor India nor Russia has stepped into the breach; all three countries have only shown a limited degree of willingness and ability to intervene in conflicts. Despite strong economic ties with the Middle East, the European Union is not an autonomous bargaining political actor in the region; with the exception of Africa, this applies to all world regions.

The observed economic rise of China over the last three decades (Kappel 2011; Reisen 2013) and the delayed foreign policy engagement of China particularly within the scope of the BRICS group<sup>1</sup> and in global financial diplomacy (Wang 2014) are the basis of China's international leadership claims. Figures 1 to 3 illustrate the shift in global weight. The European Union remains the biggest economic area in the world, followed by the United States (Figure 1). Compared with the other countries under consideration, the United States is by far the richest country,<sup>2</sup> followed by some distance by Europe and China; India, meanwhile, is even further behind (Figure 2). China, however, is catching up significantly as can be seen by its rather high gross domestic product (GDP) growth rate (Figure 3) and its increasing per capita income.

1 The BRICS group consists of Brazil, Russia, India, China, and South Africa.

2 Countries such as Luxembourg, Norway, Switzerland, Singapore, and certain oil sheikhdoms have a higher per capita income than the United States.

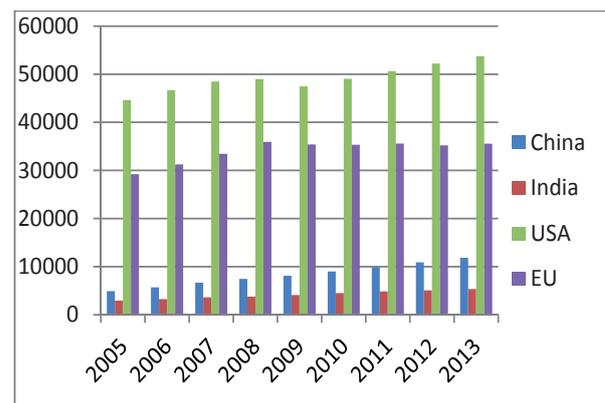
Figure 1: GDP\* in USD millions, 2005–2013



\* GDP is calculated at current exchange rates to allow for the comparison of the economic situations of different countries.

Source: World Bank, online: <<http://data.worldbank.org/indicator>> (23 April 2015).

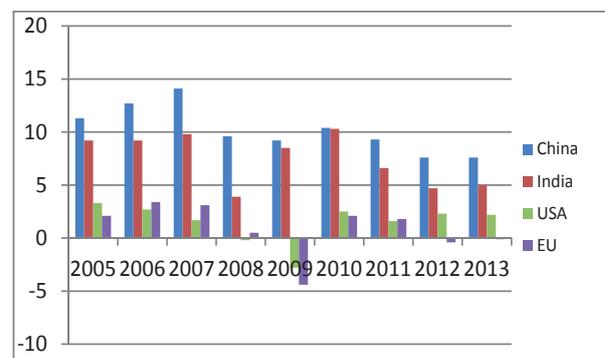
Figure 2: Per Capita Income (GNI-PPP\*) in USD, 2005–2013



\* Per capita income (GNI-PPP) is the average per-person income for a country calculated over one year.

Source: World Bank, online: <<http://data.worldbank.org/indicator>> (23 April 2015).

Figure 3: GDP Growth Rate in Percent, 2005–2013



Source: World Bank, online: <<http://data.worldbank.org/indicator>> (23 April 2015).

The data presented here suggest, albeit roughly, that China has become a prominent international actor; this, however, does not equally apply to India, Russia, Brazil, South Africa, Indonesia, or Mexico.

Meanwhile the cooperation between China, India, and Russia has intensified – despite these countries different views on many issues (security, climate, trade, the UN Security Council, the Russia-Ukraine conflict) – and that they along with the other BRICS countries are aiming for an alternative model over a Western one. The reputation of the BRICS group has increased significantly with this agenda. Increasingly, the BRICS countries are helping to shape global decisions.

### Benign Hegemons?

To what extent do China, the United States, India, and Germany still or already play the role of a “benign hegemon”? Charles Kindleberger (1973, 1986) has worked out several key criteria for leadership power. According to its definition, a benign hegemon provides reliable regulatory systems and is thus recognised as a stabilising power that makes a contribution to peace. For Kindleberger, the adoption of this role presupposes a willingness to absorb a disproportionate share of the costs for the stabilisation of the financial and economic system. A hegemon must have the power and capacity to fulfil this role and, in particular, ensure the following conditions (Kindleberger 1973):

- acceptance of the open market so that exports from the crisis regions can be absorbed
- the countercyclical provision of long-term financing
- a stable exchange rate system
- a willingness to serve as a “lender of last resort”

- the securing of macroeconomic and monetary policy coordination
- peaceful international relations
- a capacity to transform.

A hegemon must be ready to lead, which it will only be able to manage – according to Kindleberger – through research achievements, high productivity, and mobility. Therefore, a hegemon must also be a leading economic power and have the capacity to develop politically and economically.

Kindleberger argues that small countries do not possess such economic power, have negligible influence on the production of public goods, and bear no responsibility for the whole system. Nevertheless, when small countries collectively undertake “conscious parallel actions,” they can become powerful and oppose hegemons (Kindleberger 1981). Thus, collective actions can increase the “power of the powerless” (Narlikar 2015).

Which role does the United States, China, Germany, or India play in the provision of global public goods in the financial and economic sector or in peacekeeping? Table 1 offers a schematic illustration.

#### *Open markets*

As a developing country, China – like India – is interested in the construction and protection of new industries. Up to now, Germany and the United States have been classic free-trade nations despite their agricultural protectionism. Nonetheless, the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) contradict the hitherto free-trade status of Germany and the United States by undermining the multilateral regulations of the World Trade Organization (WTO) and targeting the implementation of chiefly US norms and the containment of China.

**Table 1: Leadership Claims according to Kindleberger’s Criteria\***

Public Goods	China	Germany	India	United States
Open markets	(X)	X	0	X
Long-term financing	X	(X)	0	0
Exchange rate stability	(X)	(X)	(X)	0
Macroeconomic coordination	0	0	(X)	X
Lender of last resort	(X)	0	0	X
Peacekeeping	0	(X)	0	(X)
Capacity to transform	X	(X)	(X)	X

\* X indicates positive; (X), mixed; 0, negative.

Source: Own ratings.

### *Long-term financing*

With regard to the countercyclical provision of long-term financing, China is already considered to be exemplary. Since the end of the 1990s, Chinese national financial institutions began to award developing countries generous development and export credit. China hereby secured a leadership position, which has recently become stronger through the setting up of parallel multilateral development banks (Heilmann et al. 2014; Shambaugh 2013). These financial institutions definitely have the potential to become serious competitors to the US-led World Bank and the Asian Development Bank (Reisen 2015). India has not yet carried out any leadership responsibilities.

Through the KfW Development Bank, Germany at least has a well-equipped development bank and strongly participates in the European Investment Bank (EIB). Nevertheless, within the scope of the eurozone, Germany has impeded both fiscal union and shared government bonds and has declined to take on a constructive leadership role despite its significant financial contributions to various aid packages.

The United States stands out rather as a promoter of pro-cyclical financing, especially through the emphasis on private portfolio investments and the omnipresent pressure to cut back on capital controls.

### *Exchange rate stability*

Since suspending convertibility of the US dollar into gold and the collapse of the Bretton Woods system of fixed exchange rates, US Federal Reserve monetary policy has been avowedly guided by national objectives; global monetary policy leadership has been surrendered. With its de facto pegging of the renminbi to the US dollar, China has prevented a global currency war, since the Bank of Japan and the European Central Bank (ECB) have been deliberately weakening the external value of their currencies. In this respect, China is (still) showing global responsibility.

Germany plays a mixed role with regard to the preservation of the eurozone. Together with France, Germany has violated criteria defined in the Maastricht Treaty and has prevented the EU Commission from launching sanctions proceedings. More important, however, is that Germany has actively torpedoed the creation of institutional preconditions for a functioning monetary union –

namely, fiscal and banking union as well as a common market for government bonds.

### *Macroeconomic coordination*

Here the United States remains the undisputed leading power – for example, within the context of the G20 it pushes for macroeconomic coordination and the reduction of external imbalances (beggar-my-neighbour policies in the form of large current account surpluses). In China and Germany, a neo-mercantilist mindset and ignorance of the Keynesian circular-flow model prevent an understanding of the need for global macroeconomic coordination.

### *Lender of last resort*

Internationally, the US Federal Reserve continues to play the most important role of lender of last resort in instances of worldwide systemic financial crises. Due to underdeveloped financial markets and existing controls on capital movements, the People's Bank of China cannot play this role. Nonetheless, China's significant foreign exchange reserves and public finances were vigorously used during the 2007/2008 global financial crisis to effectively prevent a slump in economic performance.

### *Peacekeeping*

The United States has lost its capacity to operate as a global peacemaker. The civil wars in Syria and Iraq, the rise of Islamic State (IS), and the incapacity to invigorate the democratic movement in the Middle East point to the limits of US hard and soft power. Many observers interpret this as a sign of the relative decline of the United States. In regions without clear leadership power – such as the Middle East – new power constellations are developing, which are evidenced by ever fiercer conflict between Saudi Arabia, Iran, Turkey, and Egypt (Fürting 2014).

China, which apart from in UN missions has barely performed as a world actor in peace processes or conflict regions, is not yet able or willing to follow in the footsteps of the United States. With the exception of its ties with neighbouring states, China must be seen as a "hesitant hegemon" that strictly adheres to the principals of the United Nations – that is, non-intervention and non-interference (Noesselt 2015). India is, except for activities in its immediate neighbourhood, generally not inclined to function as a stabiliser or capable of doing so.

**Table 2: Influence and Leadership Ability\***

Public Goods	China	Germany	India	United States
Climate policy	(X)	(X)	0	(X)
Migration and refugee movements	0	(X)	0	(X)
IS terror	0	0	0	(X)
Peacekeeping mission in Mali	0	(X)	0	(X)
Collapse of Libya	0	0	0	(X)
Iranian nuclear programme	0	(X)	0	(X)
Crisis in Afghanistan	0	(X)	0	X
Ukraine–Russia crisis	0	X	0	(X)

\* X indicates positive; (X), mixed; 0, negative.

Source: Own surveys; Betz and Never 2015; Destradi 2014; Destradi and Jakobeit 2015; Fürtig 2014; Never and Betz 2014; Noesselt 2015.

### *Capacity to transform*

The United States continues to show a great capacity for transformation, followed by Germany and the European Union. The United States is equipped with the best universities and research institutes, it develops its total factor productivity<sup>3</sup> more quickly than all other countries, and it has high levels of immigration. However, China – in particular – is drawing increasingly closer to the level of the West, is developing transformation capacities, and is thus increasingly exerting economic power. India is in every respect a straggler.

In addition to testing in accordance with the Kindleberger criteria, it is necessary to ask what influence the United States, China, India, and Germany have on the resolution of numerous international trouble spots and hazardous situations. These shall be examined in relation to eight global challenges faced by the international community (Table 2). It should be pointed out, however, that the direction in which the respective governments have acted to resolve the individual political conflict areas is indicated in a rather unsophisticated manner.

The United States and China have only shown a moderate interest in making conceptual and financial contributions for a global climate regime. India is virtually irrelevant in this context. As a consequence, it is unlikely that a generally binding climate regime will be implemented in the near future. The degree to which other options come into play depends on, inter alia, the willingness to establish climate clubs that agree on objectives and implement measures – of which sanctions would form part (Betz and Never 2015).

With regard to migration policy, the United States, as an immigration country, has a completely different starting position than does China or India – neither of which are yet to really address the challenges presented by refugee movements or tackling the causes of refugee flight. By contrast, the European Union is facing huge challenges due to the civil wars in the neighbouring regions of the Middle East, North and West Africa, and Eastern Europe; the fleeing of hundreds of thousands of people from terrorist groups; and the financial and social crises in Africa and the Middle East – all of which have so far only been addressed with inadequate measures. Even so, in the European Union and individual EU member states, there is a willingness to receive hundreds of thousands of refugees.

The fight against IS and other terrorist organisations is led entirely, even if half-heartedly, by the United States – though sometimes in cooperation with other European countries (such as France in the fight against Boko Haram in Nigeria). The United States also has allies in the European Union when addressing the crisis in Afghanistan and the conflict in Ukraine, or rather Russia's conduct. The European Union, especially the German government, is ready to take part in negotiations to avoid an escalation of the Ukraine crisis. In contrast, neither China nor India has offered any concepts or concrete measures in this field. The same applies to the disintegration process in Libya.

Overall, it can be said that in the aforementioned conflict areas, the United States has assumed a less hegemonic role than ever; they have rather taken a back seat. Despite this, neither Germany, nor the European Union, nor Russia, nor even the rising power of China has taken the United State's place. The resulting vacuum is unlikely to be filled. In the escalating geopolitical situ-

<sup>3</sup> Total factor productivity is a measure of productivity. It indicates which part of the growth of production cannot be attributed to a growth in the use of production factors (labour and capital) but rather to technical progress.

ation and following the further collapse of countries (South Sudan, Somalia, Yemen, Libya, Syria) certain regional leading powers have attempted to increase their influence – for example, Turkey and Saudi Arabia – without, however, having the capacities to address the challenges posed by terrorism and state failure (Fürtig 2014).

### The Role of Germany and Europe

Given the obvious weakness of the international community, the question is how Germany and the European Union should position themselves. Here it is important to note that in recent years Europe's scope for action has been severely constrained not only by relative economic stagnation but also, above all, by crises in the eurozone and emerging political crises (Ukraine–Russia and the Middle East). On the one hand, Europe's weak stance is due to internal disputes as well as different national interests. On the other hand, the provision of global public goods are significant challenges that cannot be resolved solely by the European Union. Therefore, no adequate cooperation strategy has been offered in reply to Russia's geostrategic action (for example, with the creation of the Eurasian Union) or the collective actions of the BRICS group, in which Russia plays an important role.

It is a similar situation with regard to the actions of China and India, which are so far unwilling and unable to provide global public goods in either Afghanistan or Iran (Destradi und Jakobeit 2015). Also in the scope of the strategic partnerships between the European Union and Germany, on the one hand, and India and China, on the other, there is a lack of shared concepts, capacities, and financial resources to address the above-mentioned conflicts. In Germany itself, the strategies with which the federal government plans to reposition itself in terms of foreign policy and to assume greater international responsibility have not yet been developed.

Thus the questions arise as to how Germany as an individual actor within the European Union will lead internationally and assume responsibility, and with which allies Germany can and will attempt to shape the regional and global order. Germany has economic power, shaping power, and a positive image; Germany's economic model and its concept of the civilian exercise of power are emphasised as being especially characteristic of Ger-

many (Jakobeit et al. 2010; Kappel 2014). Decisive is, however, where Germany positions itself and where it in actual fact engages creatively.

These questions of a new German foreign policy perspective have been put up for discussion.<sup>4</sup> The German government is increasingly growing into the role of a “well-intentioned hegemon,” is playing an active role within the scope of the European Union, and is ready to take on more global responsibility. Germany is evidently changing from a (geo)economic power into a European key actor that is gaining profile through its cooperation with European governments, its close cooperation with China, its involvement in the Ukraine–Russia conflict, and its global policies.

However, Germany still lacks the capacity for action, which is shown by its nondescript policies towards Africa and the Middle East, among other things; strategic action is not yet recognisable (Kappel 2014). That similarly applies to the conflict-marked transatlantic cooperation (TTIP, Ukraine, accession of several European countries to the AIIB). A redefinition of the North Atlantic policy between the United States and the European Union is at the moment not forthcoming.

Presently, doubts about Germany's capacity to act as a well-intentioned hegemon still prevail. Günther Maihold, a political scientist and deputy director of the German Institute for International and Security Affairs (SWP), justifiably asks: “How can German foreign policy free itself from being too opportunistic, ad hoc, and reactive oriented?” (Maihold 2014: 48). As the political scientist Hanns Maull (2014) explains, Germany has to upgrade its foreign policy and finally fulfil European and international expectations. This would require the resolution of numerous problems – for example, the legitimisation of German foreign policy – and a commitment to the establishment of the European Union as a foreign policy actor; Germany should exert its influence through its role model function and not through hegemony.

German decision-makers know how little Germany can alter the coordinates of politics beyond Europe. They also know that in the global political arena, there are many actors with different ideas who talk, negotiate, and block so that it is virtually impossible to show real leadership and suc-

<sup>4</sup> See the final report of the Review 2014 process, Federal Foreign Office (2015), *Review 2014 – Krise – Ordnung – Europa*, online: <[www.auswaertiges-amt.de/DE/AAmt/Review2014/Ueberblick/Text\\_node.html](http://www.auswaertiges-amt.de/DE/AAmt/Review2014/Ueberblick/Text_node.html)> (4 May 2015).

cessfully steer. China is still only a “partial power” in the world community (Shambaugh 2013; Noesselt 2015), but the coordinates of world politics are manifestly changing. The world is being recalibrated. China, India, and the other BRICS countries distinguish themselves through their capacity and will to influence regional and international development. Once German policy anticipates these developments and develops instruments which take these shifts into account, exploits its capacities to address global challenges, and attempts to push through global and regional solutions with other EU allies or middle-sized powers, then can Germany and Europe improve their damaged image as an economic core of the world economy, as a model of prosperity, and as a civil power and avoid being seen as hesitant actors on the periphery.

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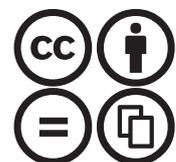
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