

55TH KÖNIGSWINTER CONFERENCE

BERLIN, 19-21 MAY 2005

Europe, a Global Player: Economic Competitiveness and Political Success?

Conference Report

- Horst Köhler, Germany's Federal President, called for a strong and united Europe and for educating the young generation free of stereotypes and prejudices to facilitate their living together in a common Europe.
- A MORI opinion poll surprised with findings that Britons held a more favourable opinion of Germans than vice versa.
- Europe - a global player: yes, but...
- Germany's economic performance and outlook, in the meantime a problem for the EU as a whole, was of great concern to the British, but not only to them; a potential "car crash in slow motion".
- British self confidence remained high.
- The Lisbon Agenda, strongly endorsed by the British, lacks ownership for its objectives in Germany.
- The EU has to step up its efforts to define its own security role and identity in conjunction with strengthening its capabilities and developing its common foreign and security policy.
- The EU has to be a serious, reliable and thereby influential partner to the US. Transatlantic partnership remains essential for any EU-chartered security policy.
- Despite plenty of common ground in foreign policy considerable difference appeared whether to include a military option against Iran in the efforts to control its nuclear ambitions.
- Education and research are key to Europe's competitiveness: the US system being the benchmark for excellence German and British educational systems are, in different ways, under pressure to reform and receive adequate funding.
- Immigration is required, but needs integration, e.i. language proficiency and national identity on the one side, on the other European society has to open itself embracing immigrant culture and religion.
- Strong common view that translating the immense challenges of change into political action requires a cooperative approach which would be helped by the UK political elite assuming a stronger European role.

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A few days of early summer in the residential gentleness of Berlin-Dahlem set the scene for an immensely fruitful exchange of views, only days ahead of the political turmoil that shook Europe in May 2005. As every year for more than half a century, the Königswinter Conference brought together high-ranking British and German representatives from the world of politics, diplomacy, journalism, academia and business – this time only weeks after the general elections in Great Britain and merely days before the conservative landslide victory in North-Rhine Westphalia that was to spell early elections for Germany. Above all, the looming French referendum on the European Constitution overshadowed the conference as it set out to explore British-German approaches to the European Union.

Former Ambassador Gebhardt von Moltke, Chairman of the Deutsch-Britische Gesellschaft, and Lord Watson of Richmond, Chairman of the British Königswinter Steering Committee, opened the conference by pointing to the context of change and unfolding events in which the gathering was taking place. As if in anticipation of the outcome of the referenda in France and the Netherlands, von Moltke contrasted (British) pragmatism and (German) idealism as fundamentally different but not incompatible attitudes towards European integration. He wondered whether Europe's ambitions could be salvaged if integration was no longer perceived as an end in itself, but instead pursued pragmatically, if and when deemed necessary.

Both Chairmen invited the conference to adopt a constructive approach to the discussions, and to go beyond a mere analysis of the challenges, deficits and problems towards an understanding of the common opportunities and strengths of the two countries in defining solutions.

German President Horst Köhler opened the conference with a pointed speech which attracted significant media attention. He stated that affinity with British culture and the English way of life was more pronounced in Germany than vice versa and he lamented the lack of German language education in the UK. President Köhler pointed out that language proficiency provides cultural insight and first-hand experience of another country and he regretted that without it, Britons would increasingly be unable to access Germany and German culture in a profound way. In addition, the dominance of World War II in school teaching, broad-

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casting and throughout the public debate in Great Britain was cementing dangerously grotesque stereotypes of Germany, which also seemed to be popular with the young generation of Britons. Federal President Köhler, in a very outspoken way, called for renewed efforts to break the vicious circle between prevalent stereotypes and their perpetuation through the educational system, quoting from the Berlin address of Queen Elizabeth II on the need to 'learn from history without being obsessed by it'.

— Touching on the EU as the central theme of this year's Königswinter conference, Federal President Köhler encouraged an open debate in the face of challenges posed by enlargement and, above all, by the economic problems in some EU Member States and Germany in particular. He stressed that EU citizens wanted answers on the identity and finalité of Europe and that European political elites would be well advised not to cloud their discourse with technocratic terminology and political language devoid of content. Federal President Köhler emphasised the need to complete the EU's internal market, not least as the only way in which Europe could face the pressures of globalisation without relinquishing its own values and principles.

— The President stressed the large degree of common interest that Great Britain and Germany share in European affairs. Beyond the goals of the internal market, he welcomed the momentous project of enlargement, which had been propelled by intense British-German cooperation. But it was foreign policy which Köhler portrayed as the most urgent field in need of further cooperation, stressing that only a united Europe could pull its weight in the international arena. In this respect, the Federal President expressed his confidence in the forthcoming British Presidency of the EU, especially with regard to the traditionally global and transatlantic outlook of British foreign policy. In his concluding statement, the President noted with satisfaction the prominence that Queen Elizabeth II had attributed to Europe by visiting Great Britain's two most important European partners, France and Germany, within the same year (2005).

President Köhler's picture of a pro-British attitude in Germany and an anti-German attitude in the UK was in stark contrast to the opinion poll findings of Sir Robert Worcester, Chairman of MORI. Sir Robert, to the surprise of many, pre-

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sented recent findings that only 32 per cent of Germans were *favourable* to Great Britain, whereas 44 per cent of Britons held a favourable opinion of Germany - despite the well-known fact that Germans were significantly more *familiar* with Britain than vice versa. French attitudes appeared much closer to German values than to British, in a number of economic and political areas.

Productive Europe

Concerning the economic and industrial situation, British participants no longer admired the 'German economic model', which had been seen as exemplary up to the late 1980s. Veterans of the conference remarked that, during the past few years, Königswinter had become increasingly aware that the UK was outperforming Germany, and is itself becoming an economic and industrial role model.

Manufacturing, a traditional strength of the German economy, was seen as having little future in Europe, on account of globalisation and international competition. By not moving rapidly enough into high-value and knowledge-driven services, the German economy appeared to be gradually losing ground. The picture was painted in gloomy colours with frequent references to the forthcoming demographic impact of an ageing society, birth rates being particularly low in Germany.

Focusing on Eastern Germany, some participants feared that too much time had already been lost in the inevitable process of restructuring. With regard to reforming the German social welfare system, it was argued that its scope and cost should be reduced to affordable and 'sensible' levels, implying that the tendency to rely on state support and public insurance of private risks was still too ingrained in the German mentality.

Touching on a similar psychological issue, a number of voices argued that the high rate of saving in the German economy could be seen not as a precondition for investment and consumer spending, but rather as a symptom of a profound lack of confidence in the economy. The need to raise confidence was seen as equally important and intertwined with continuing structural reform.

A speech given over lunch by Jürgen R. Thumann, President of the Bundesverband der Deutschen Industrie (BDI), reminded conference participants that a de-

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gree of confidence still existed amongst the German business community. Speaking for small and medium-sized enterprises, Thumann struck a tone that rang favourably in British ears. He asked for less state interference, a reduced regulatory and tax burden, a continuation of the reform process and ultimately more trust in the forces of the market – quoting numerous examples of German companies successfully competing in the global market.

The EU's Lisbon Agenda, repeatedly referred to by Thumann, was also at the heart of the Königswinter discussion on productivity in Europe. Many participants remarked on the striking contrast between the German populist debate on the alleged vices of capitalism (raging at the time of the conference), and the widespread British and Scandinavian acceptance of the concepts and principles behind the Lisbon Agenda. The profound lack of political ownership of these objectives in Germany was a puzzle to many. Some referred to excessive state interference; others argued that German companies could have done more to anchor the Lisbon Agenda within society.

Participants shared the view that German economic malaise already had become a problem throughout the EU, and in the euro zone in particular. More than one asked whether political freedom and democratic values were sufficiently strongly ingrained in German political culture to weather a prolonged period of economic hardship. Some participants pointed out that, to date, democracy and political freedom had for post-war Germans always been associated with external security, peace and domestic prosperity. Hence, addressing economic problems should be seen as a political task of the highest urgency. The need for reform stretched from the economic and political structure to political culture and psychology. Failing in this task would have dramatic consequences. Many felt that the situation in Germany was already 'like watching a car crash in slow motion'.

The conference was vividly reminded that the most fundamental forces requiring Germany and Europe to change were external. A powerful image of the rise of Asia and particularly China was painted in a dinner speech by Stephen Green, Group Chief Executive of HSBC Holdings. The fact that, after almost 200 years, the Chinese economy was regaining its place in the top three largest economies of the world represented a seismic change at a time when Europe's societies

were ageing. Asia was claiming its place, economically and politically. European economies have no choice but to focus on adding value by applying advanced knowledge or innovation if they intend to preserve their prosperity.

Strong and Safe Europe

The notion of Asia rising and Europe decaying was also present in the discussions on European foreign and defence policy. Participants agreed that, in strategic terms, the present period was of an immensely formative nature, comparable in importance to the 1940s and 1950s.

The debate focussed on analysing the changing threat constellation, distinguishing between material and ideological threats as well as between state and non-state threats. Among the non-state threats, Islamic fundamentalist terrorism was perceived as continuing to constitute a major challenge to Western security. The discussion also focussed on states seeking to acquire nuclear weapons as well as on a possible combination of hostile states, Islamist terrorism and weapons of mass destruction.

It was argued that, in the face of these threats, Europe still had a long way to go in implementing a workable strategic framework; although improvement was acknowledged with respect to Europe's shared cognitive basis and common threat assessment. The more powerful EU Member States should do more in order to conduct foreign policy in tune with each other, especially with regard to states that posed, if not threats, at least certain challenges to world order, such as China and Russia.

The debate raised the controversial issue of humanitarian standards. Some participants argued for a specific European role in non-military defence and in spreading of humanitarian values; others warned not to cast aside the fundamental principles of the international system, even if that implied engaging in security cooperation with states violating human rights. The discussion also showed that neither the UN-based system of collective security, nor the wider sphere of international law, provided clear guidance on whether interventions could be justified on humanitarian grounds, such as in the Kosovo war in 1999. The international

community was seen as being inconsistent, but possibly necessarily so, in intervening selectively and on utilitarian grounds.

Starting from that point, the European approach to Iran was discussed in detail, showing certain differences between Germany and Britain. Whereas the British side thought that Europe would soon have to choose whether to support US-led military action against Iran's ambitions for nuclear weapons, the German side argued that stepping up pressure against Teheran should not include a military option at the present stage – begging the question of whether the prior exclusion of any military option does not fundamentally undermine the force of non-military arguments.

Dr. Klaus Scharioth, State Secretary at the German Foreign Office, reiterated in his dinner speech that improving the effectiveness of the European security and defence policy as well as the common foreign and security policy was a matter of highest priority. He emphasised the importance of the European Constitution in this respect and referred to the close cooperation between Great Britain and Germany in the field of EU foreign and security policy. With regard to the transatlantic relationship, Scharioth underlined that the degree of consensus between the US security agenda and the EU Security Strategy was very high. However, German and British conference participants agreed in their adverse criticism of US recourse to 'preventive' military action (i.e. military measures against potential threats before these even have materialised).

There was a clear sense at Königswinter that the EU would have to intensify its efforts to find its own security role and identity and to strengthen its capability. Some urged Europe to translate into action its thinking on the role of international law and ethics, legitimacy rather than effectiveness, and pre-emption rather than prevention.

However, it became equally clear that British and German participants found closest accord in the conclusion that the transatlantic link was by necessity the basis for any EU security policy. A strong Europe has to be part of a well functioning transatlantic partnership. Any divergence from that fundamental principle was seen as misguided and potentially hazardous. Some German commentators

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urged their British counterparts to pull their weight within the EU in order to reinforce and strengthen Europe's transatlantic outlook. The first step would be for Europe to become 'serious' and 'reliable', enhancing communication with the United States and seriously improving military capabilities.

Clever Europe

Discussing education and research policy in Europe, most participants also turned their eyes across the Atlantic and felt that the US system should be the benchmark for both Germany and Great Britain in terms of its focus on excellence and the clear choice of an elitist over an egalitarian approach. Also the institutional diversity with respect to access to higher education and the variety of different types of teaching was seen as a strong asset of the US system, as well as the high degree of inter-university competition and academic autonomy. The debate also touched on the implications of globalisation for education and research. From a global perspective, Europe was still a major player in this field, albeit a player gradually losing competitiveness and relative advantages.

While the British higher education system was characterised as being divided into a world-class elitist camp of top universities and, a struggling sector of state schools and universities, it became clear that the German model of state-based higher education was undergoing profound and even systemic change in the context of the Pisa exercise and the Bologna process. The former had brought home to Germans the need to reform their educational system, and the latter was understood as channelling change across the EU in the direction of the American model.

The conference debated to what extent quality standards would have to be enforced by the state or through the market. Some participants thought that standard-setting should be the core if not the only activity of the state in this sector. However, most German participants felt uneasy about introducing private sector mechanisms to higher education and research. The idea of 'marketing' universities in order to 'sell' education or the concept of paying market prices for the essentially idealistic activity of research was not acceptable to all, despite the fact that these features appeared to be closely associated with the American model.

On the other hand, the budgetary problems of publicly funding higher education and research would put increasing pressure on the state-funded model. It was argued that increased recourse to private funding was inevitable and that university finance should also include fees. The latter were understood to create a positive bond between the student 'customer' and the university 'producer' and would induce students to search for and demand high 'value for money' in terms of teaching quality.

— Funding was also amongst the central issues in the debate on research. Most participants perceived a strong correlation between economic growth and R&D spending, worrying that the increasing funding gap between European countries and their global competitors would drastically reduce innovation and economic performance. The boundaries of state intervention were challenged: while some radical voices wanted to drive the state completely out of the funding and conduct of research, others argued that governments should remain active, at least in the form of public-private-partnerships that would be superior in inducing long-term research strategies.

Diverse Europe

— Against the background of ageing societies and an ever wider EU, the 55th Königswinter Conference also discussed the role and features of immigration and integration in Germany and the UK. Most participants agreed that immigration alone would not effectively address the demographic challenge. This could be achieved only through a combined strategy of working longer, raising productivity, increasing birth rates and facilitating immigration (in conjunction with successful integration).

It became clear that the issue of immigration had been publically contested in both Britain and Germany. Whereas the elites in both countries perceived the need for a certain type of immigration, broad ranges of the population were becoming increasingly critical about the security and identity implications.

The latter issue sparked a debate on the different role of identity in both societies. While British participants referred to the notion of a 'thick identity' of 'Britishness' that should provide guidance for the integration of immigrants, German partici-

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participants felt it would be difficult to replicate this concept and come up with an idea of 'Germanness'. Some British participants wondered how anyone could integrate in Germany if the receiving society was unable to offer at least a minimum notion of identity. The absence of nationhood was seen by some as an almost pathological feature of German society, lacking the integrating forces of collective narratives. Some British participants encouraged Germany to drop unwarranted reluctance to impose certain requirements on immigrants. On the other hand, participants largely agreed that integration was also a two-way process, implying change not only for immigrants but also for the receiving society.

The conference noted that the German method of integration was not the only system facing difficulties. A number of participants referred to anecdotal evidence of the mounting inadequacies of all varieties of integration models across the EU. It was argued that both the British approach of 'laissez-faire' and the German concept of a two-tier citizenship providing 'Gastarbeiter' status to immigrants were facing specific challenges. However, the complacent French attitude of more or less ignoring these types of problem and relying on the assumed uniting power of French civilisation was perceived as even more inadequate.

All participants agreed that, regardless of different integration models, language proficiency was the most important issue. The fact that many immigrants in Germany were failing to learn fluent German was identified as particularly worrying. Reference was made to the significant proportion of third-generation Turkish immigrants with serious language barriers. The dynastic perpetuation of that problem explained much of Germany's integration shortcomings. Some outspoken voices related this to the disappointing performance of the German education system, highlighted by the Pisa results. They also regretted that it was almost a political taboo to mention this problem in Germany and start resolving it.

It was argued that the current perception of non-Christian religions being per se either hostile or at least problematic for the purposes of integration was flawed. The discussion made very clear that, for example, endorsing a moderate form of Islam (which subscribes to the principle of state secularism), would not only be useful but even urgently necessary in order to integrate Europe's growing Muslim population. For Germany, this could imply radical change, possibly involving Is-

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Islamic teaching in schools, public finance for mosques and an equivalent of the church tax being collected by the government from Muslim citizens and distributed to Muslim organisations embedded in German society.

Conclusion

Lord Radice, who has attended many Königswinter Conferences, delivered the winding-up speech of this year's gathering. Rather than repeating summaries of the thematic sessions, he concentrated on what he referred to as the most prominent 'coffee topics' of the conference. He noted that everybody was profoundly concerned about the state of the German economy. Secondly, both British and German participants regretted the defensiveness with which the UK's political elite was assuming its European role. Thirdly, France and the French referendum on the Constitution had been the 'uninvited third' at all British-German coffee tables.

Lord Radice pointed out that the conference had reminded everybody that translating the immense challenges of change into political action required a co-operative approach. Be it the economy, foreign and security policy, research and education or the management of diversity – no European government would be able to accomplish these tasks on its own.

Looking at Europe's three major powers, Germany shared a special connection to France via monetary union. France and Great Britain were linked through the tradition of the Entente Cordiale and a shared outlook on global security affairs. What role did the British-German relationship play? Well, it took a third leg to forge two axes into one triangle.

Working on that third leg, the UK has the task of bringing transatlanticism back to the EU, thereby taming Gaullist reflexes of playing futile games in balance of power. Furthermore, the UK will have to assist not only the EU but particularly Germany in becoming aware of its global role and responsibilities. In order to do so, Great Britain has to engage more constructively in European affairs. Germany, on the other hand, should reconsider the wisdom of trailing off on an exclusively Franco-German course at the expense of the transatlantic relationship. It will have to learn to adopt a strategic orientation. But above all, it needs to un-

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dergo a massive transformation. In material terms, Germany has to overhaul its economy and free it from structural rigidities and inefficient state involvement. Germany has to normalise as a nation and endorse its nationhood constructively as a source of strength which will be required in the face of the challenges at hand. In short, Great Britain could need a dose of German idealism, while Germany would do well to learn from British pragmatism.

— Indeed, the tasks of addressing the economic challenge, of defining and strengthening the EU's role in global security affairs, of rejuvenating Europe's bases for innovation and of adopting more effective approaches to cultural diversity are immense. They will require political leadership of the highest calibre. And they will require Great Britain, France and Germany to learn from each other and to assume that responsibility together.

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