

## COUNTRY PROFILE: GERMANY

June 2005

### COUNTRY

**Formal Name:** Federal Republic of Germany (Bundesrepublik Deutschland).

**Short Form:** Germany.

**Term for Citizen(s):** German(s).

**Capital:** Berlin, with a population of about 3.4 million.

**Major Cities:** After Berlin, the most populous cities are Hamburg (1.7 million), Munich (1.2 million), Cologne (964,000), Frankfurt (644,000), Essen (603,000), Dortmund (592,000), Stuttgart (582,000), Düsseldorf (568,000), Bremen (543,000), and Hanover (516,000).

**Independence:** The Day of German Unity commemorates the official reunification of the democratic West Germany and communist German Democratic Republic, or East Germany, on October 3, 1990. The holiday is the equivalent of an independence celebration because it marks the end of the country's Cold War-driven division into two separate states.

**Public Holidays:** Official holidays are New Year's (January 1), Good Friday/Easter Monday (variable dates in March or April), May Day (May 1), Ascension Day (variable date in April or May), Pentecost (variable date in April or May), Day of German Unity (October 3), and Christmas/Boxing Day (December 25–26).

**Flag:** The German flag is a horizontal tricolor consisting of black (top), red (middle), and yellow (bottom) stripes.



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### HISTORICAL BACKGROUND

**Current Challenges:** In 2005 Germany was still grappling with the effects of unification of the democratic Federal Republic of Germany (West Germany) and the communist German Democratic Republic (East Germany) on October 3, 1990. Unification brought together a people separated for more than four decades by the division of Europe into two hostile blocs in the aftermath of World War II. Economically, a division remains between East and West, exacerbated by the decision following unification to substitute the German mark (subsequently replaced by the euro in January 1999) for the East German currency, generally at a 1:1 rate, and the adoption of similar wages and benefits in both parts of the country in spite of unequal productivity. Despite massive investment from the western part of Germany into the new German states of the East—a transfer of wealth that totaled about US\$1.6 trillion from 1991 to 2004—the latter still suffer from extremely high unemployment. Germany's government, run by

a coalition of the Social Democratic Party and the Green Party, has undertaken an economic reform effort aimed at reversing rising unemployment, currently about 11–12 percent nationwide but much higher in the East, by reducing taxes and generous unemployment and other social benefits. The expansion of the European Union (EU) in 2004 into low-wage Eastern Europe, including neighboring Poland and the Czech Republic, poses a fresh challenge to Germany's social-market economy.

**Coping with Division:** In its long history, Germany has rarely been united. For most of the two millennia that central Europe has been inhabited by German-speaking peoples, such as the Eastern Franks, the area now called Germany was divided into hundreds of states, many quite small, including duchies, principalities, free cities, and ecclesiastical states. Not even the Romans united what is now known as Germany under one government; they managed to occupy only its southern and western portions. In A.D. 800 Charlemagne, who had been crowned Roman emperor by Pope Leo III, ruled over a territory that encompassed much of present-day Belgium, France, Germany, the Netherlands, and Switzerland, but within a generation its existence was more symbolic than real.

Medieval Germany was marked by division. As France and England began their centuries-long evolution into united nation-states, Germany was racked by a ceaseless series of wars among local rulers. The Habsburg Dynasty's long monopoly of the crown of the Holy Roman Empire provided only the semblance of German unity. Within the empire, German princes warred against one another as before. The Protestant Reformation deprived Germany of even its religious unity, leaving its population Roman Catholic, Lutheran, and Calvinist. These religious divisions gave military strife an added ferocity in the Thirty Years' War (1618–48), during which Germany was ravaged to a degree not seen again until World War II.

The Peace of Westphalia of 1648 left German-speaking Europe divided into hundreds of states. During the next two centuries, the two largest of these states—Prussia and Austria—jockeyed for dominance. The smaller states sought to retain their independence by allying themselves with one, then the other, depending on local conditions. From the mid-1790s until Prussia, Austria, and Russia defeated Napoleon at the Battle of Leipzig in 1813 and drove him out of German territory, much of the area was occupied by French troops. Napoleon's officials abolished numerous small states, and, as a result, in 1815, after the Congress of Vienna, German territory consisted of about 40 states.

During the next half-century, pressures for German unification grew. Scholars, bureaucrats, students, journalists, and businessmen agitated for a united Germany that would bring with it uniform laws and a single currency and that would replace the benighted absolutism of petty German states with democracy. The revolutions of 1848 seemed at first likely to realize this dream of unity and freedom, but the monarch who was offered the crown of a united Germany, King Friedrich Wilhelm IV of Prussia, rejected it. The king, like the other rulers of Germany's kingdoms, opposed German unity because he saw it as a threat to his power.

Despite the opposition of conservative forces, German unification came just over two decades later, in 1871, following the Franco-Prussian War, when Germany was unified and transformed into an empire under Emperor Wilhelm I, king of Prussia. Unification was brought about not by

revolutionary or liberal forces but rather by a conservative Prussian aristocrat, Otto von Bismarck. Sensing the power of nationalism, Bismarck sought to use it for his own aims, the preservation of a feudal social order and the triumph of his country, Prussia, in the long contest with Austria for preeminence in Germany. By a series of masterful diplomatic maneuvers and three brief and dazzlingly successful military campaigns, Bismarck achieved a united Germany without Austria. He brought together the so-called "small Germany," consisting of Prussia and the remaining German states, some of which had been subdued by Prussian armies before they became part of a Germany ruled by a Prussian emperor.

Although united Germany had a parliament, the Reichstag, elected through universal male suffrage, supreme power rested with the emperor and his ministers, who were not responsible to the Reichstag. The Reichstag could contest the government's decisions, but in the end the emperor could largely govern as he saw fit. Supporting the emperor were the nobility, large rural landowners, business and financial elites, the civil service, the Protestant clergy, and the military. The military, which had made unification possible, enjoyed tremendous prestige. These groups were pitted against the Roman Catholic Center Party, the Socialist Party, and a variety of liberal and regional political groups opposed to Prussia's hegemony over Germany. In the long term, Bismarck and his successors were not able to subjugate this opposition. By 1912 the Socialists had come to have the largest number of representatives in the Reichstag. They and the Center Party made governing increasingly difficult for the empire's conservative leadership.

**The World Wars:** In World War I (1914–18), Germany's aims were annexationist in nature and foresaw an enlarged Germany, with Belgium and Poland as vassal states and with colonies in Africa. However, Germany's military strategy, involving a two-front war in France and Belgium in the west and Russia in the east, ultimately failed. Germany's defeat in 1918 meant the end of the German Empire. The Treaty of Versailles, the peace settlement negotiated by the victors (Britain, France, and the United States) in 1919, imposed punitive conditions on Germany, including the loss of territory, financial reparations, and a diminished military. These conditions set the stage for World War II.

A republic, the Weimar Republic (1919–33), was established with a constitution that provided for a parliamentary democracy in which the government was ultimately responsible to the people. The new republic's first president and prime minister were convinced democrats, and Germany seemed ready at last to join the community of democratic nations. But the Weimar Republic ultimately disappointed those who had hoped it would introduce democracy to Germany. By mid-1933 it had been destroyed by Adolf Hitler, its declared enemy since his first days in the public arena. Hitler was a psychopath who sensed and exploited the worries and resentments of many Germans, knew when to act, and possessed a sure instinct for power. His greatest weapon in his quest for political power, however, was the disdain many Germans felt for the new republic.

Many Germans held the Weimar Republic responsible for Germany's defeat in World War I. At the war's end, no foreign troops stood on German soil, and military victory still seemed likely. Instead of victory, however, in the view of many, the republic's Socialist politicians arranged a humiliating peace. Many Germans also were affronted by the spectacle of parliamentary politics. The republic's numerous small parties made forming stable and coherent coalition governments

very difficult. Frequent elections failed to yield effective governments. Government policies also often failed to solve pressing social and economic problems.

A modest economic recovery from 1924 to 1929 gave the Weimar Republic a brief respite. The severe social stress engendered by the Great Depression, however, swelled the vote received by extreme antidemocratic parties in the election of 1930 and the two elections of 1932. The government ruled by emergency decree. In January 1933, leading conservative politicians formed a new government with Hitler as chancellor. They intended to harness him and his party (the National Socialist German Workers' Party, or Nazis), now the country's largest, to realize their own aim of replacing the republic with an authoritarian government. Within a few months, however, Hitler had outmaneuvered them and established a totalitarian regime. Only in 1945 did a military alliance of dozens of nations succeed in deposing him, and only after his regime and the nation it ruled had committed crimes of unparalleled enormity known as the Holocaust.

**The Post-War Era and Unification:** In the aftermath of World War II (1939–45) and following occupation by the victorious powers (the United States, the Soviet Union, Britain, and France), Germany came to consist of two states. One, East Germany, never attained real legitimacy in the eyes of its citizens, fell farther and farther behind economically, and had to use force to prevent its population from fleeing to the West. The other, West Germany, was resoundingly successful. Within two decades of defeat, it had become one of the world's richest nations, with a prosperity that extended to all segments of the population. The economy performed so successfully that eventually several million foreigners came to West Germany to work as well. West German and foreign workers alike were protected from need arising from sickness, accidents, and old age by an extensive, mostly nongovernment welfare system. In 1990 German unification overcame the geographic separation of the two German states, including an infamous wall between West Berlin and East Berlin, but economic integration still has not been achieved satisfactorily. In the first decade of the twenty-first century, the forces of globalization are posing a renewed challenge to the social-market economy in place throughout the nation.

## GEOGRAPHY

**Location:** Germany is located in the heart of Europe, at the crossroads between west and east, north and south. The northern border is formed by the North Sea and the Baltic Sea, separated by a brief border with Denmark. In the west, Germany borders on the Netherlands, Belgium, Luxembourg, and France. In the south, Germany borders on Switzerland and Austria. In the east, Germany borders on Poland and the Czech Republic.

**Size:** Germany has an area of 357,022 square kilometers. The longest distance from north to south is 876 kilometers; from east to west, the longest distance is 640 kilometers. One-third of the country's territory belonged to the former East Germany.



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**Land Boundaries:** Germany shares land boundaries with Austria (784 kilometers), Belgium (167 kilometers), the Czech Republic (646 kilometers), Denmark (68 kilometers), France (451 kilometers), Luxembourg (138 kilometers), the Netherlands (577 kilometers), Poland (456 kilometers), and Switzerland (334 kilometers).

**Disputed Territory:** In November 1990, Germany and Poland settled a protracted historical dispute by signing a treaty confirming the Oder-Neisse line as a permanent border.

**Length of Coastline:** Germany's coastline along the North Sea and Baltic Sea measures 2,389 kilometers.

**Maritime Claims:** Germany claims a territorial sea of 12 nautical miles and an exclusive economic zone of 200 nautical miles.

**Topography:** Germany is divided into four distinct topographic regions. From north to south, they are the Northern Lowlands, the Central Uplands, the Alpine Foreland, and the Alps. From the north, a plain dotted with lakes, moors, marshes, and heaths retreats from the sea and reaches inland, where it becomes a landscape of hills crisscrossed by streams, rivers, and valleys. These hills lead upward, gradually forming high plateaus and woodlands and eventually climaxing in spectacular mountain ranges. As of the turn of the century, about 34 percent of the country's area was arable, and about 30 percent was covered by forests.

**Principal Rivers:** Germany's principal rivers, ordered by length, are the Rhine, Elbe, Danube, Main, Weser, Saale, Ems, Neckar, and Havel. The Rhine River, which stretches 1,320 kilometers from Switzerland through Germany and the Netherlands to the North Sea, is a major north-south transportation route. The next most commercially significant river is the Elbe, which flows 1,165 kilometers from the Czech Republic through Germany to the North Sea. The Danube flows 2,848 kilometers east from the Black Forest region of Germany to the Romanian coast on the Black Sea.

**Climate:** The northwestern and coastal areas of Germany have a maritime climate caused by warm westerly winds from the North Sea; the climate is characterized by warm summers and mild, cloudy winters. Farther inland, the climate is continental, marked by greater diurnal and seasonal variations in temperature, with warmer summers and colder winters. The alpine regions in the extreme south and, to a lesser degree, some areas of the Central Uplands have a so-called mountain climate. This climate is characterized by lower temperatures because of higher elevations and greater precipitation caused by air becoming moisture-laden as it rises over higher terrain.

Overall, Germany's climate is moderate and is generally without sustained periods of cold or heat. The yearly mean temperature for the country is about 9° C. During January, the coldest month, the average temperature is approximately 1.6° C in the north and -2° C in the south. In July, the warmest month, the situation reverses, and it is cooler in the north than in the south. The northern coastal region has July temperatures averaging between 16° C and 18° C; at some locations in the south, the average is 19.4° C or slightly higher.

**Natural Resources:** In general, Germany does not possess extensive natural resources, so it depends on imports to acquire them. However, coal is an exception. In fact, Germany has the largest coal reserves in the European Union: an estimated 72.8 billion short tons as of October 2001.

**Land Use:** As of January 2003, Germany's land use was as follows: settlement and transportation infrastructure, 12.3 percent; agriculture, 53.5 percent; forests, 29.5 percent; water, 2.3 percent; and miscellaneous, 2.4 percent.

**Environmental Factors:** The Federal Ministry of the Environment, Nature Conservation, and Nuclear Safety is responsible for environmental protection. The ministry has taken a very strict approach toward environmental protection. For example, in 2000 the government and the nuclear power industry agreed to phase out all nuclear power plants by 2021. As a result of changing the mix of energy sources and other measures, from 1991 until 2002 Germany was able to reduce greenhouse gas emissions by 19 percent. The closure of many coal-burning power plants in the eastern states contributed to Germany's success. However, Germany is facing a new threat from airborne particulates, known as *Feinstaub*. Water pollution also remains a challenge, reflecting diverse causes ranging from dams to the use of fertilizers for farming. At the end of 2004, only 14 percent of surface water "probably" met the government's environmental goals, while uncertainty existed about the status of an additional 26 percent. About 47 percent of groundwater met the standards. Germany ratified the Kyoto Protocol on climate change on May 31, 2002.

**Time Zone:** Germany is in the Central European Time (CET) zone, which is normally one hour ahead of Greenwich Mean Time (GMT). In the summer, CET is two hours ahead of GMT.

## SOCIETY

**Population:** As of 2003, Germany's population was 82.5 million, and it was growing very slowly, at a rate of approximately 0.02 percent per year. However, the World Bank projects that Germany's population will decline to about 80.3 million by 2015. Average population density is about 230 people per square kilometer, but population distribution is very uneven. In the former West Germany, population density is 267 people per square kilometer, compared with 140 people per square kilometer in the former East Germany. Berlin and the industrialized Ruhr Valley are densely populated, while much of the Brandenburg and Mecklenburg-Western Pomerania regions in the East are thinly populated. These disparities have been exacerbated by migration from East to West, as former Easterners have sought better employment opportunities. About 61 percent of the population lives in towns with 2,000 to 100,000 inhabitants; 30 percent, in cities with more than 100,000 inhabitants; and the remainder, in villages with fewer than 2,000 inhabitants.

Germany's population includes 7.3 million foreigners, including 2 million Turks and many refugees from the developing world. Many Turks came to Germany as guest workers during the economic boom from the mid-1950s to the end of 1973. Since 1970, about 3.2 million foreigners have become German citizens. With the introduction of a new citizenship law in 2000, many children of foreign parents became eligible for German citizenship for the first time. Between

1988 and 1993, more than 1.4 million refugees, many from the former Soviet Union, sought asylum in Germany, but only 57,000 were granted their wish. Although the right to asylum remains intact for legitimate victims of political persecution, restrictions on the countries of origin and entry introduced in 1993 have steadily reduced the number of those seeking asylum to a 20-year low of 50,500 in 2003. A new immigration law that took effect on January 1, 2005, promotes a more open immigration policy, particularly for highly skilled workers. The law also extends the right to asylum to the victims of genital mutilation and sexual abuse and political persecution by non-European Union groups. Germany's net migration rate is about 2.2 migrants per 1,000 people.

**Demography:** In 2004 population distribution by age was as follows: 0–14 years: 14.7 percent; 15–64 years: 67 percent; and 65 years and older: 18.3 percent. The elderly are growing as a percentage of the population; by 2030, those more than 60 years old are expected to reach 30 percent of the general population, up from 23 percent currently. In 2004 the birthrate was 8.5 per 1,000 people, and the fertility rate was 1.4 children born per woman, some of the lowest rates in the world. However, the population has remained stable, as rising life expectancy and immigration have offset low birth and fertility rates. In 2004 the infant mortality rate was low at 4.7 per 1,000 live births. Meanwhile, the death rate was relatively high at 10.4 per 1,000 people, but life expectancy was well above average globally. Life expectancy was 78.5 years for the total population, including 75.6 years for men and 81.7 years for women.

**Ethnic Groups:** Ethnic Germans constitute 91.5 percent of the population. Turks, many of them guest workers and their children, constitute 2.4 percent of the population, and various others account for the remainder. Germany officially recognizes four ethnic minorities: the Danes, the Friesians, the Sinti and Roma, and the Sorbs. The Danish minority, which numbers about 50,000, lives primarily in the northern state of Schleswig-Holstein. The Friesians live along the North Sea coast. The approximately 70,000 Sinti and Roma live throughout Germany. Some 20,000 Lower Sorbs live in the state of Brandenburg, while some 40,000 Upper Sorbs live in the state of Saxony. The Framework Convention for the Protection of National Minorities has protected these four groups since Germany ratified the Council of Europe convention in 1997.

**Languages:** German is the predominant language, but some Turkish immigrants speak their native language. In addition, the four officially recognized national minorities have their own languages: Danish, North and Sater Friesian, Romany, and Lower and Upper Sorbian. The European Charter for Regional or Minority Languages promotes the languages of the four national minorities.

**Religion:** Religious affiliation is as follows: Roman Catholics, 33 percent; Protestants, 33 percent; Muslims, 3 percent; and Jews, 0.1 percent. Roman Catholics are more numerous in southern Germany.

**Education and Literacy:** The literacy rate in Germany is officially pegged at 99 percent, where literacy is defined as the ability of those 15 years old or older to read and write. However, an interest group specializing in literacy estimates that 4 million Germans are functionally illiterate, meaning that they cannot read or write well enough to hold a job or support themselves. Many of them are immigrants. The Organisation for Economic Co-operation and Development (OECD)'s

Program for International Student Assessment (PISA) tests schoolchildren from all 30 OECD countries and 11 other nations every three years. According to the most recent results from 2003, German students scored about average in mathematics and reading and slightly above average in problem solving.

The federal government shares control over education with the states. However, the federal government has primary responsibility for the vocational training system. Kindergarten is available to every child between the ages of three and six. Everyone is required to attend school beginning at the end of their sixth year and must remain in some form of school or training for 12 years. Anyone who leaves school after nine years is required to complete a three-year vocational training program.

Primary school begins at age six and generally lasts for four years (six in Brandenburg and Berlin). Following primary school, the first stage of secondary general education begins. In the fifth and sixth grades, teachers evaluate pupils and recommend a path for their continuing education, but the parents' wishes are taken into account.

There are four options for secondary school. One option is secondary general school. Upon completion of secondary general school, pupils receive a certificate that entitles them to attend a vocational training program. A second option is intermediate school, which provides more complete education during grades 5–10 and prepares pupils for a wider range of secondary education opportunities. A third option is college-preparatory high school, which lasts for nine years, including the upper stage, which normally extends from grade 11 through 13 and provides the most demanding and in-depth education available. In order to be admitted to a university, high-school students must take a rigorous exam called *das Abitur* that tests them on four to five subjects. However, holders of diplomas from vocational upper secondary schools and technical high schools also are eligible to attend a university. A fourth option is the comprehensive school, which combines several of the paths described above. Finally, special schools accommodate disabled or special-education students. About 70 percent of secondary-school graduates receive three years of vocational training, consisting of a combination of theoretical knowledge gained in the classroom and practical experience gained in the workplace as apprentices. This combination is known as the dual system. Others may attend academic vocational schools full-time for three years.

The alternative to some form of vocational training is university study. Most German universities are public and do not charge tuition to students pursuing a first degree on a timely basis. However, the introduction of limited fees is being discussed. A few relatively new private universities charge tuition, but they lag behind the public universities in research, the range of academic disciplines, and, arguably, public acceptance. Germany has more than 90 universities that award doctoral degrees and 190 technical colleges that specialize in such disciplines as engineering, information technology, and business administration but are not eligible to award doctorates. In 1998 a reform to the higher education system introduced a distinction between bachelor's and master's degrees. Many German universities suffer from overcrowding, and students sometimes have difficulty making steady progress toward their degrees. Some subjects, particularly medicine, are subject to limited enrollment. The percentage of Germans with



university degrees (19.3 percent) is much lower than in the United States (33.2 percent), Britain (37.5 percent), Australia (36.3 percent), and Finland (36.3 percent).

**Health:** Germany does well in international health care comparisons. In 2004 Germany ranked thirtieth in the world in life expectancy (78 years), it had a very low infant mortality rate (4.7 per 1,000 live births), and it was tied for eighth place in the number of practicing physicians per 1,000 people (3.3). In 2001 total spending on health amounted to 10.8 percent of gross domestic product.

Germany has three mandatory health benefits, which are co-financed by employer and employee: health insurance, accident insurance, and long-term care insurance. The health care reform law that took effect on January 1, 2004, aimed at reducing health insurance costs and required payroll deductions. Costs were to be reduced by introducing more competition into the health care system and requiring higher co-payments by the insured. Related savings were estimated at US\$12 billion in 2004 and US\$26 billion in 2005. In conjunction with the cost reductions, payroll contributions were expected to decline below 14 percent in 2004 and below 13 percent in 2005.

In 2002 the top diagnosis for male patients released from the hospital was chronic heart disease, followed by alcohol-related disorders and hernias. For women, the top diagnoses related to pregnancies, breast cancer, and heart weakness. At the end of 2004, some 44,000 Germans, or less than 0.1 percent of the population, were infected with human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS). During 2004, there were 2,000 new infections. Since the beginning of the HIV/AIDS epidemic, 23,500 Germans have died from the disease, including 700 in 2003. Widespread smoking has a deleterious impact on health. According to a 2003 survey, 37 percent of adult males and 28 percent of adult females in Germany were smokers.

**Welfare:** Three non-health-related social benefits are pension insurance, unemployment insurance, and social assistance. Each of these long-entrenched and very generous benefits has been pared back modestly under the Agenda 2010 reform program, which takes into account Germany's aging population and stubbornly high unemployment. New policies introduced in 2005 under a related initiative known as Hartz IV limit unemployment payments to 12 months in most cases. Those more than 55 years of age may receive support for 18 months. The unemployed face pressure to accept job opportunities presented to them. In 2003 the average pension in western Germany was US\$1,188 for men and US\$780 per month for women. In eastern Germany, the average pension was US\$1,248 for men and US\$1,005 for women. The current payroll deduction for pensions is 19.5 percent. This deduction is expected to rise, but it is capped at 20 percent until 2020 and 22 percent until 2030. The standard retirement age is 65, and early retirements are discouraged. Monetary and material social assistance is available for those who cannot support themselves. At the end of 2001, 2.7 million Germans received such assistance.

## ECONOMY

**Overview:** Germany has a social-market economy that combines free enterprise and competition with a high level of social services. The economy is the world's third largest, when measured at market exchange rates, and the fifth largest, when using purchasing power parity. Reflecting a social compact between employers and employees, workers' representatives share power with executives in corporate boardrooms in a system known as co-determination, or *Mitbestimmung*.

The performance of the German economy is a study in contradictions, with indisputable strengths in exports and manufacturing, but also troubling weaknesses in the labor market and federal budget. Exports are responsible for one-third of total economic output, and at the prevailing dollar-euro exchange rate, no country exports more merchandise. In 2003 Germany edged out the United States in merchandise exports (US\$748 billion for Germany vs. US\$724 billion for the United States, according to the World Bank) and accounted for 10 percent of total world trade. In the same year, illustrating the competitiveness of its export sector, Germany posted a trade surplus. German manufacturing excels in the production of automobiles, machine tools, and chemical products.

By contrast, weak domestic demand has suppressed overall economic output, which rose by 1.7 percent in 2004 after two years of zero growth but was slowing again in 2005. In the spring of 2005, leading German economic institutes forecast growth of 0.7 percent during the year. Most ominously, in March 2005 Germany's seasonally adjusted unemployment rate increased to 12 percent, a post-war record. The unemployed totaled nearly 5.2 million people, an amount not seen since the Weimar Republic. After peaking in March, however, unemployment moderated to 11.3 percent, or 4.7 million people, in June 2005. Unemployment is linked to lagging economic development in the former East Germany, strict regulations, rigid labor market conditions, and the impact of globalization. Regarding globalization, competition from cheap labor in countries like China and India is only part of the story. The private sector needs to look no farther than Eastern Europe, particularly the neighboring countries of Poland and the Czech Republic, for an attractive investment climate and extremely low labor costs. The fall of the Iron Curtain, which accompanied German reunification, and the expansion of the European Union (EU) into Eastern Europe on May 1, 2004, have placed the livelihoods of many German workers in jeopardy.

Germany is seeking to ease labor market rigidities through a reform program known as Agenda 2010. This program is designed to reduce the overly generous and costly benefits associated with jobs (and therefore impeding the creation of new ones). These benefits include short working hours and long vacations, unemployment insurance, pension rights, paid sick leave, and comprehensive health insurance. Agenda 2010 also reduces the marginal tax rate to a maximum of 42 percent in the highest tax bracket and 15 percent in the lowest tax bracket.

Unemployment approaches 20 percent in the new states in the East, where 14 years of massive investment from the West have failed to produce prosperity. This enormous inter-German transfer of wealth, which totaled US\$1.6 trillion cumulatively from 1991 to 2004, or about US\$130 billion per year, has exceeded the growth rate of the states in the West and thus has eaten away at the substance of the West's economy. Furthermore, the combined impact of slow economic growth, tax cuts, and the internal wealth transfer has had a negative impact on

Germany's budget deficit, which has exceeded the 3 percent of gross domestic product limit established by the EU's Stability and Growth Pact each year since 2002.

**Gross Domestic Product (GDP):** In 2004 Germany's GDP was nearly US\$2.2 trillion. Per capita GDP was US\$31,992, at current exchange rates. Using purchasing power parity, per capita gross national income was US\$26,220 in 2002, putting Germany in twentieth place in the world. In 2003 services constituted 70 percent of GDP; industry and construction, 29 percent; and agriculture, the remaining 1 percent.

**Government Budget:** Since 2002, Germany has run a budget deficit in excess of 3 percent of gross domestic product (GDP), in violation of the European Union's Stability and Growth Pact. In 2004 the budget deficit was about 3.7 percent of GDP. However, some forecasters expect the deficit to decline below 3 percent of GDP in 2006.

**Inflation:** Inflation is under control. In 2003 consumer price inflation was only 1.1 percent.

**Agriculture, Forestry, and Fishing:** In 2003 agriculture, forestry, and fishing accounted for only 1.1 percent of Germany's gross domestic product (GDP) and employed only 2.5 percent of the population, down from 4 percent in 1991. Much of the reduction in employment occurred in the eastern states, where the number of agricultural workers declined by as much as 75 percent following reunification. However, agriculture is extremely productive, and Germany is able to cover 90 percent of its nutritional needs with domestic production. In fact, Germany is the third largest agricultural producer in the European Union (EU) after France and Italy. Germany's principal agricultural products are potatoes, wheat, barley, sugar beets, fruit, and cabbages. From 1999 to 2003, the number of agricultural holdings declined by 11 percent to 421,400, reflecting a general trend toward consolidation. As of May 2004, Germany had a total of 448,000 cattle and 726,000 pigs, both figures down about 3 percent from the previous year.

The current administration favors subsidies for sustainable land management and organic farming rather than for production. German efforts to encourage the adoption of this approach across Europe by amending the EU's current Common Agricultural Policy have met with resistance from countries like France, where farmers depend on production subsidies.

**Mining and Minerals:** Coal is Germany's most important energy resource, although government policy is to reduce subsidies for coal extraction. Coal production has declined since 1989 as a result of environmental policy and the closing of inefficient mines in the former East Germany. As of October 2001, recoverable coal reserves were estimated at 72.8 billion short tons, the largest amount of any country in the then 15-member European Union (EU). The two main grades of coal in Germany are "hard coal" and lignite, which is also called "brown coal." Unfavorable geological conditions make the mining of hard coal economically uncompetitive, but a slight increase has occurred in lignite production since 1999. Despite its considerable reserves, environmental restrictions have led Germany to become a net importer of coal. Non-energy-related mining recovers potash for fertilizer and rock salt for edible salt and the chemical industry.

As of January 2004, proven oil reserves were 442 million barrels, a modest amount by international standards but still the fourth largest reserves in the EU. More than half of

Germany's domestic oil production is attributable to the offshore Mittelplate field along the western coast of the German state Schleswig-Holstein.

Also as of January 2004, proven natural gas reserves were 10.8 trillion cubic feet, the third largest in the EU. Nearly 90 percent of Germany's natural gas production takes place in the state of Lower Saxony. In 2002 Germany imported 2.4 trillion cubic feet of natural gas, or 75 percent of its requirements. The most important source of natural gas imports is Russia, with a 40.8 percent share, followed by Norway at 31.5 percent, and the Netherlands at 22.3 percent.

**Industry and Manufacturing:** Industry and construction accounted for 29 percent of gross domestic product (GDP) in 2003, a comparatively large share even without taking into account related services. Germany excels in the production of automobiles, machine tools, and chemicals. With the manufacture of 5.5 million vehicles in 2003, Germany was the world's third largest producer of automobiles after the United States and Japan, although China was threatening to displace Germany in the world rankings as early as 2005. In 2004 Germany enjoyed the second largest world market share in machine tools after Japan. German-based multinationals such as Daimler-Chrysler, BMW, BASF, Bayer, and Siemens are marquee names throughout the world. What is less well known is the vital role of small- to medium-sized manufacturing firms, which specialize in niche products and are often owned by management. These firms employ two-thirds of the German workforce.

**Energy:** In 2002 Germany was the world's fifth largest consumer of energy, and two-thirds of its primary energy was imported. In the same year, Germany was Europe's largest consumer of electricity; electricity consumption that year totaled 512.9 billion kilowatt-hours.

Government policy emphasizes conservation and the development of renewable sources of energy, such as solar, wind, biomass, hydro, and geothermal. As a result of energy-saving measures, energy efficiency (the amount of energy required to produce a unit of gross domestic product) has been improving since the beginning of the 1970s. The government has set the goal of meeting half of the country's energy demands from renewable sources by 2050. In 2000 the government and the nuclear power industry agreed to phase out all nuclear power plants by 2021. However, renewables currently play a more modest role in energy consumption. In 2002 energy consumption was met by the following sources: oil (40 percent), coal (23 percent), natural gas (22 percent), nuclear (11 percent), hydro (2 percent), and other renewables (2 percent).

**Services:** Services constituted 70 percent of gross domestic product (GDP) in 2003. The subcomponents of services are financial, renting, and business activities (30.5 percent); trade, hotels and restaurants, and transport (18 percent); and other service activities (21.7 percent).

**Banking and Finance:** By tradition, Germany's financial system is bank-oriented rather than stock market-oriented. The process of disintermediation, whereby businesses and individuals arrange financing by directly accessing the financial markets versus seeking loans from banks acting as intermediaries, has not fully taken hold in Germany. One of the reasons that banks are so important in German finance is that they have never been subject to a legal separation of commercial and investment banking. Instead, under a system known as universal banking, banks have offered a wide range of services from lending to securities trading to insurance. Another reason for the strong influence of banks is that there is no prohibition of interlocking ownership

between banks and their client companies. However, in January 2002 the government moved to discourage this practice and promote more rational capital allocation by eliminating the capital gains tax on the sale of corporate holdings from one company to another.

At the end of 2000, 2,713 out of 2,931 German financial institutions (92.6 percent) were universal banks, including 354 commercial banks, 1,798 credit cooperatives, and 561 savings banks. The non-universal banks specialized in such activities as mortgage banking and investments. The list of the six largest German banks illustrates the diversity of bank structure and ownership. Of the top six banks, ranked by total assets as of year-end 2002, four are private, but the fifth largest is public, and the sixth largest is a cooperative.

Despite the central role of banks in finance, stock markets are competing for influence. The Deutsche Börse (German stock exchange), a private corporation, is responsible for managing Germany's eight stock markets, by far the largest of which is the Frankfurt Stock Exchange, which handles 90 percent of all securities trading in Germany. The leading stock index on the Frankfurt exchange is the DAX, which, like the New York Stock Exchange's Dow Jones Industrial Average, is composed of 30 blue-chip companies. The other German stock exchanges are located in Berlin, Bremen, Düsseldorf, Hamburg, Hanover, Munich, and Stuttgart. Xetra is Germany's electronic trading platform. As of the end of 2004, the total market capitalization of the German stock markets was nearly US\$1.1 trillion, representing about 45 percent of gross domestic product (GDP). The shares of some 684 companies trade on the exchanges.

Recent stock market volatility has discouraged the development of an equity or shareholder culture, where individuals view stocks and mutual funds as promising alternatives to bank savings accounts or bonds as investments. In fact, by mid-2004 only 16.4 percent of the German population owned stock, down from 21 percent in early 2001. One failed experiment in the evolution of an equity culture was the Neuer Markt (New Market) exchange, which was intended to serve as the German equivalent to the United States' technology-laden NASDAQ market. The Neuer Markt, which opened in 1997 during a euphoric period for technology investors, was designed to handle the initial public offerings of nascent German technology companies. By the fall of 2002, it had all but collapsed, having lost 96 percent of its value since the market peak. In September 2002, Deutsche Börse announced that it would shut down the niche exchange by the end of 2003. Although the Neuer Markt experience does not tell the whole story about German capital markets, the continued reliance on bank financing has negative implications for the creation of new companies and, in turn, jobs. So too, in the view of some observers, does resistance to restructuring of failing small-to-medium sized companies by foreign-run private equity and hedge funds.

**Tourism:** Domestic and international tourism generates about 8 percent of gross domestic product (GDP) and 2.8 million jobs. Following commerce, tourism is the second largest component of the services sector. In 2004 Germany registered 45 million overnight stays by international tourists, 9 percent higher than in the previous year and an all-time record. In 2003 Germany ranked ninth in the world in international arrivals, with 18.4 million international tourists, versus 75 million in top-ranked France. In the same year, Germany registered a net outflow in the balance of payments related to tourism, as visitors spent US\$24.6 million, while German tourists outside the country spent US\$68.3 million. Tourism is a factor in Germany's net

deficit in the trade of services. Two-thirds of all major trade fairs are held in Germany, and each year they attract 9 to 10 million business travelers, about 20 percent of whom are foreigners. The four most important trade fairs take place in Hanover, Frankfurt, Cologne, and Düsseldorf. Germany's sponsorship of the soccer World Cup in 2006 presents an opportunity for the tourism sector.

**Labor:** The most recent comprehensive profile of the German workforce is for 2002. In that year, employment totaled 36.5 million. The breakdown by economic sector was as follows: agriculture, forestry, and fishing (923,000, or 2.5 percent); production industries (11.7 million, or 32.0 percent); distribution trade, hotel and restaurant industry, and transport (8.4 million, or 22.9 percent); and other services (15.6 million, or 42.7 percent). The breakdown by occupation was as follows: self-employed, unpaid family workers (4.1 million, or 11.1 percent); public officials (2.2 million, or 6.1 percent); and salaried employees, wage earners (30.2 million, or 82.8 percent). Germany has no legal minimum wage, except in construction, but the government is considering introducing one.

In March 2005, Germany's seasonally adjusted unemployment rate increased to 12 percent, or nearly 5.2 million people. Both statistics represented post-war records. Unemployment approached 20 percent in some states in the East, where high wages are not matched by productivity. However, by June 2005 overall unemployment had declined to 11.3 percent, or 4.7 million people.

**Foreign Economic Relations:** Germany's foreign economic relations are consistent with the policy of the European Union (EU) to expand trade among the 25 member states and also with the goal of global trade liberalization through the latest Doha Round of the World Trade Organization (WTO). Germany uses its position as the world's leading merchandise exporter—a fact that partially reflects the strength of the euro—to compensate for subdued domestic demand. German companies derive one-third of their revenues from foreign trade. Therefore, Germany is committed to reducing trade restrictions, whether involving tariffs or non-tariff barriers, and improving the transparency of foreign markets, including access to public works projects. The fact that Germany has exceeded the EU's Stability and Growth Pact's 3 percent limit on the budget deficit as a percentage of gross domestic product every year since 2002 has been an irritant in relations with the rest of the EU.

In 2003 Germany conducted slightly more than half of its trade within the then 15-member EU, followed by, in order of volume, developing countries, Eastern Europe (including countries like Poland that subsequently joined the EU), the United States and Canada, non-EU Europe (Switzerland, Norway, Liechtenstein, and Iceland), and Japan. Increasing emphasis is being placed on trade with Russia and China. The 2005 Hanover trade fair devoted much of its attention to Germany's growing economic and trade ties to Russia, particularly in the area of energy. Germany is Russia's top trade partner. In 2002 China overtook Japan as Germany's top trade partner in Asia, and Germany is investing heavily in that rapidly rising economic power. Chancellor Gerhard Schröder has given the economic relationship with China priority over human rights concerns, and he even has advocated lifting the EU's ban on the export of weapons to China.

**Imports:** In 2003 Germany imported US\$601.4 billion of merchandise, while imports of goods and services totaled US\$773.4 billion. Principal merchandise imports were motor vehicles (US\$64.4 billion), chemical products (US\$63.2 billion), machinery (US\$41.8 billion), mineral oil and gas (US\$39.9 billion), and computers (US\$30.5 billion). Germany's main import partners were France (9.0 percent), the Netherlands (7.8 percent), the United States (7.3 percent), Italy (6.1 percent), the United Kingdom (6.1 percent), Belgium (4.9 percent), China (3.8 percent), and Austria (3.8 percent).

**Exports:** In 2003 Germany exported US\$748.4 billion of merchandise, while exports of goods and services totaled US\$873.3 billion. Principal merchandise exports were motor vehicles (US\$145.5 billion), machinery (US\$103.0 billion), chemical products (US\$92.9 billion), electrical devices (US\$36.2 billion), and telecommunications technology (US\$35.1 billion). Germany's main export partners were France (10.6 percent), the United States (9.3 percent), the United Kingdom (8.4 percent), Italy (7.4 percent), the Netherlands (6.2 percent), Austria (5.3 percent), Belgium (5.0 percent), and Spain (4.9 percent).

**Trade Balance:** In 2003 Germany posted a merchandise trade surplus of US\$147 billion.

**Balance of Payments:** In 2003 the current account balance was a positive US\$54.9 billion, or 2.2 percent of gross domestic product.

**External Debt:** In 2002 total public debt was about US\$1.5 trillion, or 60.8 percent of gross domestic product.

**Foreign Investment:** In 2003 net foreign direct investment was inbound US\$11 billion.

**Foreign Aid:** In 2004 Germany provided US\$7.5 billion of foreign aid, corresponding to about 0.3 percent of gross domestic product. Germany provides foreign aid to roughly 70 nations. The majority of the aid is bilateral, as opposed to multilateral.

**Currency and Exchange Rate:** Germany's currency is the euro. As of June 22, 2005, one US dollar was equivalent to 0.8253 euros. Because Germany has adopted the euro, the Bundesbank, which had been responsible for conducting monetary policy and maintaining a stable German mark, has ceded much of its previous influence to the European Central Bank.

**Fiscal Year:** Calendar year.

## TRANSPORTATION AND TELECOMMUNICATIONS

**Overview:** Germany has a very modern transportation and telecommunications network. The country is known for its high-speed autobahns, efficient railroads, and busy ports. Telecommunications reform has introduced competition into the formerly monopolistic system.

**Roads:** Germany's road network is second only to that of the United States. It has a total length of 230,800 kilometers, including limited-access, high-speed autobahns (11,800 kilometers),

federal highways (41,200 kilometers), ordinary roads (86,800 kilometers), and district roads (91,000 kilometers). In general, the network is modern, reflecting improvements to the antiquated roads in the East under the reconstruction program called Aufbau Ost (reconstruction of the East), which led to the construction or upgrade of 13,200 kilometers of federal highways or trunk roads by the end of 2001.

**Railroads:** Germany's railroads, which total 44,400 kilometers in length, are well known for their efficiency. In 1994, four years after German reunification, the private Deutsche Bahn AG assumed control of the former Deutsche Bundesbahn in the West and the former Reichsbahn in the East. By the end of 2001, Germany had built or upgraded 5,800 kilometers of railroad lines in the new states in the East under the Aufbau Ost program. German trains carry passengers, freight, cars, and even trucks on special flatcars. In 1991 the railroads in the West began to introduce high-speed inter-city service. High-speed trains can travel as fast as 250 kilometers/hour. In addition, in 2005 Deutsche Bahn plans to build a magnetic levitation train service between Berlin and Hamburg using German-made technology known as "Maglev."

**Ports:** Germany's busiest port is Hamburg, which ranks ninth in the world in container traffic. The second largest port is Bremen/Bremerhaven, which ranks twenty-first in the world in container traffic. Hamburg, Bremen/Bremerhaven, and Wilhelmshaven are North Sea ports, while Luebeck and Rostock are Baltic Sea ports. The inland port along the Rhine and Ruhr Rivers in Duisburg is the world's leading inland port.

**Inland Waterways:** Germany's inland waterways are about 7,450 kilometers in length. Natural rivers account for about 39 percent of the network, dams control 38 percent, and canals constitute 23 percent. The Rhine River carries about two-thirds of inland waterways traffic.

**Civil Aviation and Airports:** Germany has 18 international airports. The largest airport is Frankfurt am Main. The German government is in the process of upgrading Berlin's airport system, which reflects the city's former Cold War division. The centerpiece of the plan is the construction of a new international airport, to be called Berlin-Brandenburg, by 2012. Berlin's Tegel and Tempelhof airports will be closed between 2008 and 2010. Other major airports are located in Cologne, Dresden, Hamburg, Munich, and Stuttgart. Germany's largest air carrier is Lufthansa, which is owned by a publicly traded corporation.

**Pipelines:** Germany uses an extensive pipeline network, consisting of eight major pipelines connected to local distribution grids, to import natural gas. Several of these pipelines serve other European countries as well. In 2002 Germany imported 75 percent of its natural gas requirements. Germany obtains most of its imported natural gas from Russia, Norway, and the Netherlands. Russia's influence as a natural gas supplier will increase if the Russian oil giant Gazprom follows through with plans to construct a 3,017-kilometer pipeline, called the Northern European Gas Pipeline.

**Telecommunications:** Regulatory reform culminating in the Telecommunications Act of 1998 eliminated the monopoly status of Deutsche Telekom AG and Deutsche Post AG and introduced competition into the telecommunications industry. Oversight responsibility lies with the Federal



Ministry for Economics, which monitors the activities of the two previous monopolies and new market entrants.

In 2003 Germany had 54.4 million telephone lines, or 659.4 per 1,000 people, and 64.8 million cellular phones, or 786.2 per 1,000 people. Cell phone penetration of 78.3 percent far exceeds that of the United States, where penetration is only 47.7 percent. Each customer has a single number under which he/she can be reached at home or on the move. As of February 2005, Germany had 47.3 million Internet users, representing 56 percent penetration. In 2004 Internet hosts totaled 2.7 million. As of the end of 2001, individuals or businesses owned 27 million personal computers, corresponding to about one for every three Germans.

In 2003 Germans had 51.4 million televisions, or 623.6 per 1,000 people. The Association of Public Broadcasting Corporations, known as ARD, is responsible for the “first” German television channel, and ZDF (Second German Television) provides an alternative. ARD also sponsors a third regional channel, including, for example, Westdeutscher Rundfunk (West German Broadcasting) and Norddeutscher Rundfunk (North German Broadcasting). The number of VHF radio receivers was estimated at 225 million, which corresponds to 45 million households with an average of five receivers. ARD manages Deutsche Welle, the only federal public radio station in Germany. ARD and ZDF charge fees: access to public radio and television costs US\$19.57 per month, while access to public radio alone costs US\$6.45 per month. In 1984 public television began to compete with the private sector for the first time when two privately funded television stations, Mainz-based SAT.1 and Cologne-based RTL, went on the air. Various media companies have established other television channels available via cable, satellite, and even terrestrial (over-the-air) frequencies. The private networks do not charge fees but rather depend on advertising for their revenues. In 2003 Germany had 276 private radio stations with a total of more than a half-million listeners.

## GOVERNMENT AND POLITICS

**Overview:** Germany is a federal democracy, with rights guaranteed by the Basic Law, or constitution. The federal government shares power with 16 states.

**Branches of Government:** The dual executive consists of a chancellor, who is head of government, and a president, who is head of state. The chancellor is the leader of the party or coalition of parties holding a majority of seats in the lower house of parliament. The president is usually one of the senior leaders of the largest party in the lower house of parliament but is nonetheless expected to be non-partisan after assuming office. A cabinet officer, often from a smaller coalition party, serves as vice chancellor. The Basic Law grants most executive authority to the federal chancellor; the presidency is primarily a ceremonial post, and its occupant represents the Federal Republic in international relations. The president is selected every five years by secret ballot at a Federal Convention composed of members of the lower house of parliament and delegates chosen by state legislatures. A president may serve no more than two five-year terms. Currently, the chancellor and president come from different parties. Chancellor Gerhard Schröder, who took office in September 2002, is a member of the Social Democratic

Party, while President Horst Köhler, who took office in July 2004, is a member of the Christian Democratic Union.

Two federal legislative bodies form the national parliament: the Bundesrat (Federal Council, or upper house), consisting of 69 members appointed by state governments in proportion to the population; and the Bundestag (Federal Diet, or lower house), the main legislative body, consisting of 601 popularly elected members. The Bundestag is responsible for passing federal laws, which are then implemented by the government. The chancellor, who is elected by the Bundestag, functions as prime minister in the cabinet. The chancellor's authority emanates from the provisions of the Basic Law, which invests the chancellor with central executive authority, and from his or her status as leader of the majority party or coalition in the Bundestag. The Basic Law limits parliament's control over the chancellor and the cabinet. Unlike most parliamentary legislatures, the Bundestag cannot remove the chancellor simply with a vote of no-confidence. The Basic Law allows only for a "constructive vote of no-confidence." That is, the Bundestag can remove a chancellor only when it simultaneously agrees on a successor. This stipulation is currently a source of controversy because Chancellor Schröder has called for a vote of no-confidence to trigger an early national election. President Köhler must decide whether such a step is constitutional.

Germany has an independent judiciary, with most judges appointed for life. The Federal Constitutional Court resolves issues relating to the Basic Law and conflicts between the branches of government. Germany has five types of courts: ordinary courts for criminal and civil matters, labor courts for employment disputes, administrative courts to provide protection against administrative acts, social courts for social security cases, and fiscal courts for tax-related disputes. Ordinary courts are organized hierarchically in four tiers—local courts, regional courts, state courts, and the Federal Supreme Court.

**Constitution:** Germany's constitution, known as the Basic Law (Grundgesetz), was enacted on May 23, 1949. The Basic Law recognizes fundamental human rights, such as the freedoms of speech and the press, the right of equality before the law, and the right of asylum. These basic rights are legally binding and apply equally to the three branches of government: executive, legislative, and judicial. Any individual who believes that his or her rights have been violated can file a complaint with the Federal Constitutional Court.

In addition to codifying human rights, the Basic Law stipulates the structure of the German government, including the Bundestag (lower house of parliament), the Bundesrat (upper house of parliament), the president (chief of state), the executive branch and administration, the independent judiciary, the financial system, and the relationship of the states to the federal government. The Basic Law requires that Germany work toward a unified Europe under the aegis of the European Union (EU). It also specifies the requirements for a declaration of war.

In May 2005, Germany's Bundestag and Bundesrat ratified the EU constitution.

**Administrative Divisions:** Administratively, Germany is divided into 16 states (*Länder*; sing., *Land*), including five that belonged to the former East Germany until reunification in 1990. The states are as follows, with new states labeled as such: Baden Württemberg, Bavaria, Berlin,

Brandenburg (new), Bremen, Hamburg, Hesse, Mecklenburg-Western Pomerania (new), Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, Saarland, Saxony (new), Saxony-Anhalt (new), Schleswig-Holstein, and Thuringia (new). The unification of West Berlin and East Berlin did not add a new state.

**Provincial and Local Government:** Germany's 16 states enjoy limited autonomy, particularly in the areas of law, education, the environment, media, police, social assistance, and other local issues, within a federal system. Each state has its own elected parliament (Landtag or Bürgerschaft). Depending on size, states are subdivided into up to three levels of local government—districts; *Landkreise* (sing., *Landkreis*), or counties; and *Gemeinden* (sing., *Gemeinde*), or municipal government authorities.

**Judicial and Legal System:** The legal system is based on principles of Roman law, and courts rely on a comprehensive system of legal codes rather than on precedents from prior cases as in the Anglo-Saxon tradition. The Basic Law (constitution) is the primary basis of the legal system, but the laws of the European Union and the international community also are taken into consideration. Defendants enjoy the presumption of innocence, the right to an attorney, and the right to appeal. Trial by jury is the norm, but judges hear some cases. Germany is less litigious than the United States. In fact, Germany has only about 100,000 attorneys.

**Electoral System:** Germany's electoral system combines indirect election of the chancellor (head of government) and president (head of state) with direct elections for the Bundestag (lower house of parliament). Bundestag representatives are selected by a combination of majority vote and proportional representation. Each voter casts two ballots: the first for a candidate in his or her jurisdiction and the second for a national party list of candidates. Each method determines approximately half the seats. The chancellor is elected indirectly because his or her name appears first on a party list. Any German 18 years or older, including those living overseas, is eligible to vote. Popular elections are held every four years, but federal, state, and local elections are staggered throughout the year, not held simultaneously as in the United States. Parliamentary elections were last held in September 2002. The next parliamentary elections are scheduled for September 2006, but following his party's electoral defeat in North Rhine-Westphalia, Germany's most populous state, on May 22, 2005, Chancellor Schröder called for early national elections in the fall of 2005, one year ahead of schedule.

**Politics and Political Parties:** Political parties are explicitly recognized in the Basic Law, and they receive government subsidies. The current German administration is a coalition of the Social Democratic Party (SPD) and the Green Party. The opposition parties represented in the Bundestag are the Christian Democratic Union/Christian Social Union (CDU/CSU) and the Free Democratic Party (FDP). The CDU's territory covers all of Germany outside Bavaria, while the CSU is the CDU's Bavarian sister party. Reflecting slight adjustments since the last elections in September 2002, which were very closely contested, the ruling coalition holds 304 out of a total of 601 seats. The left-of-center SPD dominates the coalition with 249 representatives, including Chancellor Gerhard Schröder, but the environmentally oriented Green Party exerts influence out of proportion to its modest 55 seats. The most prominent Green Party representative is Joschka Fischer, who serves as vice chancellor and foreign minister. The moderate-to-conservative

CDU/CSU, led by Angela Merkel, holds 247 seats. The business-oriented FDP is led by Guido Westerwelle and has 47 seats. Three representatives have no party affiliation.

In order to win representation in the Bundestag or a state parliament, a party is required to obtain at least 5 percent of the vote. This minimum threshold is designed to prevent extremist parties on the left and right from exercising power. On the federal level, the “5 percent rule” has been successful in marginalizing extremist parties, but it has failed to prevent these parties from gaining representation in certain state parliaments in the new eastern states. For example, in the Brandenburg Landtag (Brandenburg state parliament), representation is as follows, reflecting the results of the latest election on September 19, 2004: SPD (33 seats), CDU (20 seats), the far-left Party of Democratic Socialism or PDS (29 seats), and the far-right German People’s Union or DVU (6 seats). Following the election, the SPD and CDU took the unusual step of forming a ruling coalition to limit the influence of the PDS and DVU.

**Mass Media:** The mass media in Germany take advantage of the guarantee of freedom of the press under Article 5 of the Basic Law (constitution). They do not face any censorship. The federal government’s involvement with the mass media is restricted to the Press and Information Office, which serves as a liaison between government, particularly the chancellor, and almost 1,200 accredited journalists. Some of these journalists are affiliated with Germany’s largest press agency, Deutsche Presse-Agentur.

On average, Germans listen to radio for 3.5 hours, watch television for three hours, and read a newspaper for 36 minutes each day. In 2002 daily newspaper circulation was 23.2 million copies. The newspaper with the largest circulation is *Bild*, a tabloid. The most influential broadsheets are the *Frankfurter Allgemeine Zeitung*, *Die Welt*, *Süddeutsche Zeitung*, *Frankfurter Rundschau*, *Handelsblatt*, and the weekly *Die Zeit*. Two popular news magazines are *Der Spiegel* and *Focus*. Glossy magazines include *Stern* and *Bunte*. The two main television stations are ARD and ZDF. Public television and radio are financed by fees, while their private counterparts depend on advertising for revenue.

**Foreign Relations:** Germany’s role has been changing in the post-Cold War era. Previously bound to a close trans-Atlantic relationship with the United States, in 2003 Germany resisted pressure from the United States to participate in Operation Iraqi Freedom. Germany also distanced itself from the United States by supporting the Kyoto Protocol on climate change and the International Criminal Court. These steps reflected, in part, Germany’s belief in the primacy of the United Nations (UN) in settling international disputes. Germany also is seeking a permanent seat on the UN Security Council as a means of asserting a more independent international role. Germany is a member of the North Atlantic Treaty Organization (NATO). In general, Germany advocates the solidification and expansion of the European Union, although it has not committed to admitting Turkey into the organization. Germany often joins forces with France on foreign policy issues. Germany gives priority to economics over human rights in its relationship with China. The country also is pursuing deeper economic and political ties to Russia. Germany helped spearhead the Group of 8 (G-8) decision in June 2005 to cancel US\$55 billion of debt owed by the countries of sub-Saharan Africa.

**Membership in International Organizations:** Germany is a member of the African Development Bank, Asian Development Bank, Australia Group, Bank for International Settlements, Council of the Baltic Sea States, Caribbean Development Bank, Council of Europe, Euro-Atlantic Partnership Council, European Bank for Reconstruction and Development, European Investment Bank, European Monetary Union, European Organization for Nuclear Research, European Space Agency, European Union, Food and Agriculture Organization, Group of 5, Group of 7, Group of 8, Group of 10, Inter-American Development Bank, International Atomic Energy Agency, International Bank for Reconstruction and Development, International Chamber of Commerce, International Civil Aviation Organization, International Confederation of Free Trade Unions, International Criminal Court, International Criminal Police Organization, International Development Association, International Energy Agency, International Finance Corporation, International Fund for International Development, International Hydrographic Organization, International Labour Organization, International Maritime Organization, International Monetary Fund, International Olympic Committee, International Organization for Migration, International Organization for Standardization, International Red Cross and Red Crescent Movement, International Telecommunication Union, Multilateral Investment Geographic Agency, Nonaligned Movement (guest), North Atlantic Treaty Organization, Nuclear Energy Agency, Nuclear Suppliers Group, Organisation for Economic Co-operation and Development, Organisation for the Prohibition of Chemical Weapons, Organization for Security and Cooperation in Europe, Paris Club, Permanent Court of Arbitration, United Nations (UN), UN Conference on Trade and Development, UN Educational, Scientific, and Cultural Organization, UN High Commissioner for Refugees, UN Industrial Development Organization, UN Monitoring, Verification, and Inspection Commission, Universal Postal Union, West African Development Bank (nonregional), Western European Union, World Customs Organization, World Health Organization, World Intellectual Property Organization, World Meteorological Organization, World Tourism Organization, World Trade Organization, and Zangger Committee.

**Major International Treaties:** In the area of arms control, Germany is a party to the Biological Weapons Convention, Chemical Weapons Convention, Fissile Material Cut-off Treaty, Limited Test Ban Treaty, Nuclear Non-Proliferation Treaty, Ottawa Convention on Land Mines, and Treaty on Conventional Armed Forces in Europe. Regarding the environment, Germany is a party to the conventions on Air Pollution, Air Pollution-Nitrogen Oxides, Air Pollution-Sulphur 85, Air Pollution-Sulphur 94, Air Pollution-Volatile Organic Compounds, Antarctic-Environmental Protocol, Antarctic Treaty, Biodiversity, Climate Change-Kyoto Protocol, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Marine Dumping, Nuclear Test Ban, Ozone Layer Protection, Ship Pollution, Tropical Timber 83, Tropical Timber 94, Wetlands, and Whaling. Germany has signed, but not ratified, the convention on Air Pollution-Persistent Organic Pollutants. In the area of human rights, Germany is a party to the Convention against Torture and other Cruel, Inhumane, and Degrading Treatment or Punishment, Convention on the Elimination of all Forms of Discrimination against Women, Convention on the Elimination of all Forms of Racial Discrimination, Convention on the Rights of the Child, International Convention on the Protection of the Rights of all Migrant Workers, International Covenant on Civil and Political Rights, and International Covenant on Economic, Social, and Cultural Rights. Germany also has ratified the Rome Statute of the International Criminal Court.

## NATIONAL SECURITY

**Armed Forces Overview:** Germany is a member of the North Atlantic Treaty Organization (NATO). In 1999 Germany participated in an armed conflict for the first time since World War II during NATO's intervention in Kosovo. Previously, Germany made a token military contribution to Operation Desert Storm in 1991 (by deploying an air squadron to Turkey) but later refused to participate in Operation Iraqi Freedom in 2003. However, Germany's military has participated in many United Nations (UN)-sanctioned peacekeeping operations, including those in Afghanistan, Bosnia, Djibouti, Macedonia, and the former Yugoslavia.

Germany's military consists of 284,500 active-duty personnel and 358,650 reserves. The active-duty troops, who normally serve for nine months, are assigned to the various services as follows: army (191,350), navy (25,650), and air force (67,500). The reserves, who are enlisted personnel up to age 45 and commissioned and non-commissioned officers up to age 60, are assigned as follows: army (297,300), navy (11,500), and air force (49,850).

Reflecting the realities of the post-Cold War era, German Defense Minister Peter Struck is redirecting Germany's military away from territorial defense toward readiness to participate in multilateral operations under the aegis of the UN, NATO, the European Union, and the Organization for Security and Cooperation in Europe. He articulated this new vision for the military in an official document issued in May 2003 called *Defense Policy Guidelines*. As part of this transformation, troop strength will be reduced by about 35,000 to about 250,000.

**Foreign Military Relations:** Under the doctrine introduced by the 2003 *Defense Policy Guidelines*, Germany continues to give priority to the transatlantic partnership with the United States through the North Atlantic Treaty Organization. However, Germany is giving increasing attention to coordinating its policies with the European Union through the Common European Security and Defense Policy.

**External Threat:** According to German Defense Minister Peter Struck, Germany does not face a conventional threat to its territory. In his own words, "At present, and in the foreseeable future, a conventional threat to the German territory is not recognizable."

**Defense Budget:** In 2003 Germany's defense budget totaled US\$35 billion, or 1.5 percent of gross domestic product. Germany's defense minister advocates a US\$30 billion cut in defense expenditures over a five to seven-year period, in keeping with the military's transformation into an international peacekeeping and intervention force.

**Major Military Units:** Germany's army command consists of a Germany/Netherlands headquarters corps, a Germany/United States headquarters corps, five divisions (including two armored infantry), one air-mobile division, one special operations division, one support command (forming), one SIGINT/ELINT brigade, and two logistics brigades. The navy is organized into submarine, frigate, patrol boat, mine countermeasures, and naval aviation commands. The air force command consists of four air divisions, eight fighter wings, one reconnaissance wing, six surface-to-air missile wings, and two tactical air control regiments. The air force also has a transport command and training forces.

**Major Military Equipment:** Germany's army is equipped with 2,398 main battle tanks, 523 reconnaissance vehicles, 2,122 armored infantry fighting vehicles, and 909 armored personnel carriers. In addition, the army has 1,682 artillery pieces, 1,915 antitank guided weapons, 1,509 air defense guns, 143 surface-to-air missiles, 18 surveillance vehicles, 525 attack and support helicopters, and various unmanned aerial vehicles. The navy is equipped with 12 submarines, 13 principal surface combatants, 20 patrol and coastal combatants, 23 mine warfare vessels, 38 support vessels, 20 special purpose vessels, and 4 research and survey vessels. Naval aviation has 65 combat aircraft and 22 armed helicopters. The air force is equipped with 384 combat aircraft but no combat helicopters.

**Military Service:** Germany has nine months of compulsory military service for men at age 18.

**Paramilitary Forces:** In May 2005 the paramilitary German Federal Border Guard was renamed the "Federal Police" to reflect new responsibilities for domestic security that combine law enforcement and intelligence. The organization not only is responsible for protecting the country's borders but also participates in United Nations peacekeeping missions and supports intelligence-gathering activities. Border Security Troop 9 is a special unit that was created for preventing hostage incidents, assassinations, and organized crime. Former German Foreign Minister Hans-Dietrich Genscher established the unit after the terrorist attack on Israeli athletes at the Olympic Games in Munich in 1972.

**Foreign Military Forces:** Several foreign militaries are stationed in Germany under the North Atlantic Treaty Organization (NATO) umbrella. They include 69,790 U.S. troops, 22,000 British troops, 3,200 French troops, and 2,600 Dutch troops.

**Military Forces Abroad:** Germany has deployed troops to several multinational peacekeeping operations, including those in Afghanistan, Bosnia, Djibouti, Montenegro, Sierra Leone, and Uzbekistan. The largest contingents were in Montenegro (3,900) and Afghanistan (1,909).

**Police:** The states are responsible for managing Germany's police, which are divided into the following units: the general police (for crime prevention and response), the emergency police (for natural disasters and major accidents), and the water police (for waterways). The public prosecutor's office is responsible for handling criminal prosecutions, and the general police are subordinate to it. The Federal Border Guard is a national police force that has jurisdiction over security on the borders, on the railroads, and at airports. Despite isolated reports of abuses of police detainees, Germany's police generally respect individual human rights.

**Internal Threat:** Germany's Federal Office for the Protection of the Constitution identified 24 Islamic organizations operating in Germany that posed a security risk or promoted extremism at the end of 2004. Members and followers of these organizations totaled approximately 31,800, about 1 percent of Muslims living in Germany. The Turkish organization Islamic Society Milli Görüs has the largest following, numbering 26,500. However, only a small hard core of fanatics is considered to be capable of terrorism. The primary targets are believed to be American, British, Israeli, and Jewish facilities, although the facilities of other nations also are endangered. Potential targets include embassies, consulates, nuclear power plants, dams, airports, sewage plants, subways, skyscrapers, sports stadiums, and churches, according to Interior Minister Otto

Schily. The fact that Germany refused to participate in Operation Iraqi Freedom may mitigate the risk of terrorism by extremist Islamic groups somewhat. However, German authorities are not complacent.

Germany also faces an internal threat from right-wing and left-wing extremists. At the end of 2004, there were 168 right-wing extremist organizations with 40,700 members, according to the Federal Office for the Protection of the Constitution. Neo-Nazis totaled about 3,800. A hard core of right-wing extremists capable of violence is estimated at about 10,000. Three political parties are associated with right-wing extremism: the Republicans, the German People's Union, and the National Democratic Party of Germany. The far-right German People's Union holds six seats in the Brandenburg state parliament and one seat in the Bremen state parliament. At the end of 2004, the far left, which has revolutionary Marxist and anarchist factions, had about 30,800 adherents. Only about 1,000 out of 65,800 members of the Party of Democratic Socialism support a communist platform. Approximately 5,500 far-left extremists are deemed to be capable of violence.

**Terrorism:** Following al Qaeda's September 11, 2001, terrorist attack against the United States, Germans were surprised to learn that Muhammad Atta, the mastermind of the strike, and several accomplices previously had been living in Hamburg. Since then, Germany has been a reliable partner in the U.S.-led war on terrorism, according to the U.S. Department of State. In February 2003, a Hamburg court convicted Mounir el Motassadeq, a Moroccan associate of Atta, of aiding and abetting the conspiracy and sentenced him to the maximum available term of 15 years. However, in March 2004, the German Supreme Court overturned this conviction, which was the first in the world related to the 9/11 incident, for lack of evidence and remanded the case for retrial. The labored process of this criminal prosecution illustrates how German courts have a very high standard of proof, which has made it difficult for authorities to convict or deport terrorist suspects. Still, the German judicial system has achieved some victories, including the deportation to Turkey of Islamic extremist Metin Kaplan, the so-called "caliph of Cologne," in October 2004, following a long legal battle.

**Human Rights:** Fundamental human rights are enshrined in Germany's Basic Law, or constitution. These rights encompass the freedoms of speech and the press, the right of equality before the law, and the right of asylum. Freedom of speech is not universal. Statements promoting racial hatred or Nazism are prohibited, as are statements denying the Holocaust. Efforts to enforce these bans extend to all modes of communication, including CDs and the Internet.

Although Germany endorses religious freedom and the separation of church and state, majority religions, such as Protestantism and Catholicism, enjoy a privileged status. In fact, the government recognizes them as legal corporations and collects taxes for them. Some minority religions fare less well. For example, the government views the Church of Scientology as a cult and a threat to democracy rather than as a legitimate religion and openly discriminates against its members. For similar reasons, Reverend Sun Myung Moon of the Unification Church has been denied entry to the country. Several states have banned the wearing of Islamic headscarves in the public schools, and a federal court has upheld the ban on appeal.