



# GERMANY AND CENTRAL EUROPE: DRIFTING APART?



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# Chapter 1

## Introduction – Germany and the Central and Eastern European Countries Revisited

*András Hettyey*

The present volume's aim is to give an overview on the political and economic relations between Germany and Central Eastern Europe (CEE). Our study volume was inspired by a similar undertaking of the Friedrich-Ebert-Stiftung and the Latvian Institute of International Affairs in 2011–2012, to which the editor of the present volume was a contributor. Back then, eight country chapters were dedicated to analyse the relationship between Germany and the Baltic and Visegrád countries, along with an introduction by Kai-Olaf Lang (Stiftung Wissenschaft und Politik). Edited by Andris Spruds, the study volume *Friendship in the Making: Transforming Relations between Germany and the Baltic–Visegrad Countries* was published in Riga in 2012, giving valuable insights to scholars, diplomats and the public at large interested in the foreign policies of Germany and the countries of the region.

Much has changed since 2012, when the aforementioned study volume was published. From Brexit to Trump, from the migration crisis to the war in Ukraine, from Nord Stream 2 to the re-invigorated EU enlargement policy, the strategic environment changed significantly. Also, in light of the past couple of years, it seems as though the goals and interests of the CEE countries and Germany would increasingly diverge. The handling of the migration crisis and the mandatory resettlement quota, the sanctions regime against Russia, differing views on energy policy – these are just a few topics where Germany and (some) CEE countries pursue different interests and, therefore, policy goals. Therefore, an interesting paradox arises. After decades of separation before 1990, Germany and most CEE states are now finally common members of institutions such as the EU, NATO and OSCE, working together in various fields. Other CEE countries also feel the “gravitational pull” of these institutions. Yet rather than converging in their foreign policy goals, Germany and the CEE countries seem to be drifting apart. It was with this in mind, that the idea for the present volume took shape.

Some researchers have predicted just such a development. “Without the goal of accession as a disciplining factor, relations between Germany and the Visegrád countries should continue to loosen after enlargement” wrote Vladimir Handl as early as 2003 (BAUN 2005, 381). This school of thought sees the eastern enlargement of 2004 as an end of an era. To put it simply, before the CEE countries joined the European Union, Germany had huge leverage over their foreign policy through the conditionality of the enlargement process. Since 2004, however, the ‘cost of non-compliance’ with Germany has significantly

decreased and diverging interests and opinions have increasingly come to the fore. In terms of the well-known structure–agency problem, this argumentation is much closer to the ‘structure’ end-point than to the ‘agency’ end-point, meaning, that the role of personalities like Orbán, Kaczynski and Merkel seems to be only secondary in explaining the widening rift between Germany and the CEE states: the German–CEE relationship would have been more confrontational after 2004 regardless of the politicians in power and, crucially, will continue to be in the future.

Yet, as we will see in the forthcoming chapters, not all countries have seen a drifting apart in their relationships with Germany. Some, such as Slovenia or Slovakia, still enjoy relatively problem-free relations with Germany, while the same cannot be said of Hungary or Poland. In short, there is considerable variation between the examined countries – although theoretically all can afford to oppose Berlin in some issue areas or others. How can we account for this development? Are the personalities of the various Prime Ministers and Foreign Ministers the crucial variable? Put differently: Is agency the key in the relationship of Germany and the CEE countries? If so, we should expect significant changes in the relationships between Germany and the states of the region whenever elections put different, new parties in power in one country or another.

With these initial assumptions as starting points, the main research question of the chapters were, obviously, the following: Do we really see a drifting apart in the relations between Germany and the CEE countries in recent years or is this just a fleeting impression? Did the leverage of Berlin indeed decrease in the CEE countries? If so, should this be seen as something normal/inevitable, or is it heralding a new era of more confident CEE countries, diverging interests and occasional tensions between Germany and the region? Are CEE countries even on a look-out for new partners, substituting Germany?

As to the structure of the papers, the contributors were asked to apply a similar structure in their papers. After short introductions, the first part of the articles sketch, in a chronological manner, the bilateral political relations since 1989, including questions such as converging/diverging interests in the bilateral context, unresolved disputes and problematic issues and public opinion and domestic rhetoric towards Germany. In the second part, the economic relations since 1989 are presented, including commercial relations (high/low exposure vis-à-vis Germany); trends in commercial relations (is Germany’s share increasing or decreasing, especially since accession to the EU?), German foreign direct investments (FDI) and company ownership structure and the trends of German FDI activity since 1989. In the third part, institutional relations are examined. Do the CEE countries and Germany have converging or diverging interests in the multilateral (especially EU, but also NATO, OSCE, etc.) context? Which issue areas constitute options for cooperation and where are underlying differences in perceptions and solutions? In the concluding part, the contributors were asked to draw conclusions and to try to reflect on the pertinent research questions.

The countries studied are only partly the same as in the project of 2012. In this volume, the country chapters include Poland, the Czech Republic, Slovakia and Hungary as well as Austria, Slovenia, Croatia and Serbia. In other words, we are leaving out the Baltic countries but include three pivotal states of the former Yugoslavia along with Austria. The reason for this is that the present study volume was written and edited in the framework of a research project called PEACE (Partnership in East-Central Europe), organised by the Center for

Strategic and Defense Studies (CSDS) of the National University of Public Service located in Budapest. The area of interest of the PEACE project is, ultimately, the countries bordering Hungary (plus Poland and the Czech Republic). Therefore, several other post-communist countries are also left out of the volume, like Macedonia, Bulgaria, Moldova or, for that matter, Russia.

We argue that the covered eight countries offer a good, though by no means exhausting, cross section of Central and Eastern Europe. Let us start with the common features. Six out of seven countries are members of the European Union (Serbia is the exception). All have acceded in the past 25 years: Austria in 1995, Poland, the Czech Republic, Hungary and Slovenia in 2004, and Croatia in 2013. (As for Serbia, it has been granted official candidate status in 2012. Negotiations have started in 2014 and are still ongoing.) Five countries are also members of NATO: Poland, the Czech Republic and Hungary have joined in 1999, Slovenia in 2004 and Croatia in 2009. Only Austria and Serbia remain outside the alliance. All countries are also members of the Organization for Security and Co-operation in Europe (OSCE). Austria, Poland and the Czech Republic share a common border with Germany. With the exception of Poland, all countries are relatively small, both in terms of size and population as well as GDP. All have close economic ties with Germany and are important targets of German foreign direct investment.

Table 1.  
*The eight case study countries*

	EU member	NATO member	Neighbour of Germany
<b>Austria</b>	✓	X	✓
<b>Slovenia</b>	✓	✓	X
<b>Croatia</b>	✓	✓	X
<b>Serbia</b>	X	X	X
<b>Poland</b>	✓	✓	✓
<b>The Czech Republic</b>	✓	✓	✓
<b>Slovakia</b>	✓	✓	X
<b>Hungary</b>	✓	✓	X

*Source:* Drawn by the author.

Maybe the most important commonality is that all countries are post-communist – with the obvious exception of Austria. Is this really important almost thirty years after the fall of the Berlin Wall, one might ask. We argue that it still is: as we will see in various chapters, the history of the 20<sup>th</sup> century still very much shape their relations with Germany. The CEE countries are relative new-comers in the EU and NATO; in economic terms, they are still lagging behind, trying hard to catch up to the EU average; and exhibit social patterns and features (from extremely low birth rates to hostility towards migration) that, to some extent, set them apart from the non-post-communist European countries. Of course, we do not argue these countries constitute a homogenous bloc. As well as similarities, they have many differences, often pursuing different goals in the EU: witness the difference between rebellious Hungary and rule-following Slovenia as regards the mandatory resettlement

quota, for instance. In short, in many issue areas the interests of the CEE countries widely diverge. Still, the migration crisis has also shown that the post-communist countries still form a distinct group inside the European Union, limiting the options of their decision-makers.

The great outlier is, of course, *Austria*, which is neither post-communist nor a NATO member. We nevertheless find its position worth examining, for three reasons. As a neighbour and important trading partner of both Germany and Hungary, its relationship with Germany is an important factor in the politics of the region, both bilaterally and inside the European Union. Second, Austria has recently positioned itself more forcefully on the international arena, taking a particularly active stance in the migration crisis. Thirdly, we feel that traditional Austrian foreign policy is a somewhat neglected topic in the scientific literature of the CEE countries: on the one hand, it is not 'Central Eastern European enough' to be included in studies of the region. On the other hand, it is not 'big' or 'powerful' enough to be examined by scholars of the region with the same intellectual rigour and frequency as Germany, France or the United States. We sought to remedy this by including Austria in our research project. In his contribution Christopher Walsch sheds light on the six cleavages which tend to unite or divide Austria and Germany, both bilaterally and multilaterally, with the uniting factors in a clear majority.

To a lesser extent, *Serbia* is also a country with a more distinct development path than the other countries. It is neither an EU, nor a NATO member and does not have a common border with Germany. Nevertheless, we find it important to include Serbia, justifying it with three reasons. First, it is thankfully on the way of becoming a member of the European Union in the next decade. Therefore, it is important to get to know the positions of the Serbian foreign policy a bit more thoroughly than is the case today. Once in, it will have an important role to play on the EU's south eastern flank. Secondly, as Hungary's neighbour, significant trading partner and important target country of Hungarian FDI, it is worthwhile to take into account Serbia's somewhat troubled but expanding relationship with Germany. Thirdly, as a country with a communist past, it shares many of the economic, social, political and cultural traits of the other CEE countries included in the project. In many sense, for example their historical heritage, Hungary and Serbia are much closer and relate more easily to one another than Hungary and Germany with their quite distinct development paths over the last decades. In their chapter, aptly entitled *From Confrontation to Unequal Partnership* Marko Savković and Jelena Volić-Hellbusch trace the past and present of the Serb–German relationship with clear implications for the future.

No edited volume on the relationship of the CEE countries and Germany would be complete without *Poland*. Bearing in mind Poland's leading regional role and much recent disagreement between Warsaw and Berlin, Rafał Ulatowski sketches the past twenty-five years of Polish–German relations, concluding that the era of Polish bandwagoning with Germany has firmly closed. As regards the *Czech Republic*, Jana Urbanovska and Zdenek Kriz characterise their country's relationship to Germany as mostly pragmatic: whereas on the strategic issues of European policy and the role of Germany there was often no consensus between Prague and Berlin, on issues of practical cooperation there was usually agreement both between the capitals and across the Czech political spectrum. Vladimír Müller, in his paper on Slovak–German relations, draws a rather positive picture, with the only Eurozone member of the Visegrád countries enjoying a stable, if asymmetric

partnership with Germany. As a country with significant German FDI, *Slovakia* also has strong economic ties with Germany. If the refugee crisis was crucial in the case of the other Visegrád countries and their relationships with Germany, this has been even truer with regards to *Hungary*, where this topic tended to overshadow all other (usually less conflictual) foreign policy areas, such as economic cooperation. Nevertheless, András Hettyey identifies a certain estrangement between the leadership of the two countries, encompassing the press and, to a lesser degree, the public opinion.

Turning to the former Yugoslav republics, Marko Lovec, in his chapter on *Slovenia* and Germany, emphasises, among other aspects, the recent emergence of political forces with anti-German attitudes, yet adds that these have been too weak to significantly change the course of the bilateral relations which remain strong. In his contribution on Croat–German relations, Sandro Knezović starts by sketching Germany’s important contribution to *Croatia’s* independence after the breakup of Yugoslavia. Building on much goodwill, Germany supported Croatia’s belated EU and NATO accession, further cementing the good relationship. With similar interests in the Western Balkans, an important ‘bridge community’ in Croats working in Germany and strong economic relations, this particular relationship seems to exhibit less signs of drifting apart than other cases.

It should come as no surprise that there are some common threads among the chapters. Asymmetry is clearly one of them, with Germany being both more populous and having a bigger GDP than the other eight countries combined. The shadows of the past, or as Lang called it, ‘historisation’ is also an issue which emerges between Germany and some of the countries (notably Poland, the Czech Republic and Serbia) (LANG 2012, 11). Europeanisation, i.e. insertion of the CEE countries in EU and NATO and their subsequent activity in these institutions is another common experience – save for Serbia. (Inter)dependence is also a topic which features highly in our chapters. Yet significant differences also exist, partly due to the simple fact that the eight countries under survey are quite heterogeneous, with distinct features in their size, history, economic structure and identity which all shape their relationship vis-à-vis Germany. As already noted, the diverging perceptions of, and solutions to, the migration crisis is significant for recent German–Polish or German–Hungarian relations but much less so for Serbia or Slovakia. Energy policy, especially Nord Stream 2 is another issue whose salience varies greatly among the eight countries. All this adds up, we hope, to chapters which show both the commonalities and the differences of the CEE countries in their relationship with Germany.

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## Chapter 2

# Austria and Germany: Silent Partners in a Differentiating European Union

*Christopher Walsch*

### 1. Historical Overview

Austria as a country and Austria's relations with Germany are likely to stand out in this volume. In previous state formations the histories of the territories, which today form the two countries, had been closely interconnected. Despite the 19<sup>th</sup> century Prussian Hohenzollern versus Austrian Habsburg competition over leadership, relations had been extraordinarily dense and overall very friendly, be it in politics and the military, the economy, the structure of society, or the development of ideas that guide processes of change in these categories. German as the shared language has always boosted the intensive exchange of all human activities between the two. Germany and Austria–Hungary were allies in World War I. The lost war led to the termination of imperial statehood in both cases. Austria was founded as a democratic republic in 1918, which turned authoritarian in 1934, and eventually failed in 1938, when it became a part of Nazi Germany for seven years. Ever since 1945, which marked the liberation from fascism, the relations between Austria and Germany show an extraordinarily high degree of interconnection and stability, and above all mutual respect for the separate statehoods.<sup>1</sup> This is why the formative post-war decades from 1945 to 1990 are included in the historic outline. Such a *longue durée* perspective helps to better understand the contemporary relations of Austria with her big neighbour.

After World War II the efforts of the second Austrian republic concentrated on building a distinct Austrian nation, separate from the German one (BRUCKMÜLLER 1984; MANTL 1992). This was to happen in the frame of a small, open and neutral state, tailored after the Swiss example. Neutrality became the foreign policy paradigm. A hands-on policy of neutrality (*aktive Neutralitätspolitik*) became the catalyst for attracting international organisations in Vienna, which eventually have made the city a prime global platform in international diplomacy (FREY 2011). The United Nations Organisation (UN) and, later,

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<sup>1</sup> The separate statehood of Austria and Germany has been acknowledged by the population and by all parties represented in the parliament in both countries since 1945. In Austria, the national-liberal right-wing populist party FPÖ (*Freiheitliche Partei Österreichs*) at times cultivated a discourse of recognising Austria as a state separate from Germany, but to identify Austrians as to be a part of the German nation. Since the onset of globalisation (roughly since 1990) FPÖ leaders decided to stress Austrian patriotism, which can be understood as the implicit recognition of an Austrian nation.

the Organisation for Security and Cooperation in Europe (OSCE) is headquartered in Vienna, as well as the Organisation for Petroleum Exporting Countries (OPEC).

Austria's north-western neighbour West Germany also steered an active and integrationist line in the UN and the OSCE (1975 to 1994 named CSCE; C to stand for Conference), but relied in terms of security entirely on the United States and the North Atlantic Treaty Organisation (NATO), founded in 1949, and of which West Germany became a member in 1955. In European affairs, West Germany became a member of the Council of Europe in 1950; Austria in 1956. West Germany was a founding member of the European Communities (EC), which Austria could not join because of its self-declared neutrality (RATHKOLB 1993, 51–53). Instead, Austria was a founding member of the European Free Trade Organisation (EFTA) in 1960, together with the five Nordic countries and Switzerland. Until EC membership, even the economic heavyweight Great Britain (as well as Ireland) was a member of EFTA. Durable and reliable EFTA–EC relations facilitated trade between all West European states. These relations intensified further with the establishment of a common European Economic Area (EEA) in the early 1990s. Austria could join the EEA by 1993. This meant nearly full participation in the newly established Single Market programme of the EC. The fall of the Iron Curtain in 1989, German unification in 1990, the violent conflict in Yugoslavia in 1991, and the end of the Soviet Union in late 1991 all contributed to the fact that the twelve EC countries decided to cooperate in political and judicial affairs, and thus founded the European Union (EU) in 1992.

Austria's definition of neutrality did not mean ideological neutrality. This is why the democratic country with a functioning multi-party system steered a pro-Western course concerning the economy and the development of society. Austria's economy was a successful Keynesian-type mixed economy based on market orientation, which resulted in substantial growth rates during the post-war decades of the "golden age of capitalism" (HOBBSAWM 1994). In monetary affairs, Austria pursued, similar to West Germany, Switzerland, and north European countries, a hard currency policy. This boosted the competitive edge of Austria's international economic relations. Due to the strong interrelations with the West German economy, Austria decided to informally bind the exchange value of the Austrian Schilling to the West German Mark. The exchange rate of seven Schillings to one Mark was stable through all the post-war decades until the introduction of the Euro in 1999 in both countries.<sup>2</sup> This fact proves the extent to which the economies in both countries developed in similar ways.

Major modernisation processes in the Austrian case were state-led. Due to exhaustive deficit spending, the country experienced severe economic crises in the 1980s. As a correction, the political right (Österreichische Volkspartei or ÖVP, Christian-democratic Conservative Party), led by Alois Mock, pushed for austerity and economic liberalisation in order to enter the avenue towards EEA and later EU membership. The initially EU sceptical political left (Sozialdemokratische Partei Österreichs or SPÖ, Social Democratic Party) shifted towards a pro-EU course under the leadership of a pragmatic former banker, Franz Vranitzky. Austria could join the EU in 1995 under a SPÖ–ÖVP coalition government. This government coalition had been in power since 1986 and had had the backing of two thirds of the

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<sup>2</sup> Germany and Austria were two of ten founding members of the Euro, next to France, the Benelux countries, Italy, Spain, Portugal and Finland.

population. Austria joined with a reservation on grounds of neutrality (Neutralitätsvorbehalt), an amendment that on the initiative of Austria was included into the EU-accession treaty, and to which the EU did not object.<sup>3</sup> The text will now turn to the contemporary period and investigate foreign policy paradigms of Austria and Germany, then analyse cleavages in the EU from an Austrian and German perspective, and eventually turn to Austria's bilateral relations with contemporary Germany. The analysis will start with research questions and hypotheses.

## 2. Research Questions and Hypotheses

What were the strategic options for Austria after the fundamental international political changes of 1989–1991? How did the strategic option of joining the European Union alter Austria's relationship with Germany? What is the experience of Austria after more than twenty years of co-operation with Germany in the framework of the European Union? Hypotheses addressing these issues are: Politically, the central component of Austrian international politics, neutrality, was in crisis with the end of the ideological competition; even more so, because the concept of neutrality had domestically been cultivated as the prime component of Austrian political identity. Thus, it was necessary to address such a threatening upcoming vacuum. Economically, in the post-war decades Austria implemented a “third way” mixed economy with the state to own and to manage a number of key economic sectors (iron and steel, banking and finance, housing, health, infrastructure). The neo-liberal wave of the 1980s in economic governance caused severe crises in some of these economic sectors. Joining the European Economic Area, and eventually the European Union, seemed to be the most convincing option in handling economic challenges. A beneficial side effect of it was that the bilateral economic dependency from Germany could be reduced through joining a multilateral organisation as an equal partner.

## 3. Foreign Policy Paradigms of Austria and Germany

The fall of the Iron Curtain initiated a moment of reflection among Austria's foreign policy professionals. Austria submitted her EC application precisely in the year 1989. So, the gear was set to join “the West” and to slowly give up the political identity of forming a bridge between West and East – a notion that was skilfully nourished under the auspices of neutrality. The reflection, however, centred on the notion whether Austria should in the aftermath of the 1989 changes revive a “Danubian mission”, in other words to orient herself towards Central Europe, towards the countries which were formerly part of the Habsburg Empire. This notion was soon abandoned with the rational argument that in the eyes of her Eastern neighbours, the attraction power of Austria was the fact that she is a part of the West and not a country halfway between West and East (Stefan Lehne, as cited in Kiss J. et al. 2003, 62). This grain of realism: to leave the Habsburg past behind and rather to become part and parcel of a deepening and widening European Union has in retrospect turned out

<sup>3</sup> On neutral states in the EU see SCHNEIDER 2000.

to be a successful strategy. Even today there is evidence that the strategy of Austria to be “anchored-in-the-West” holds against all tempting songs of nationalist sirens coming from the more “Danubian” Central and Eastern European part of the EU. The incoming Austrian chancellor Sebastian Kurz (ÖVP), who in December 2017 formed a coalition government with the right-wing populist Freiheitliche Partei Österreichs (FPÖ), decided to make his first diplomatic visits to Brussels, Paris and Berlin.<sup>4</sup> Thus, judged by his first steps, Kurz has rejected to orient Austria in a Central European direction towards the group of the Visegrád Four (V4) states. Still, Kurz wants to see Austria as a “bridge” to the Visegrád states.<sup>5</sup> Clearly, compared to his predecessors at the helm of the ÖVP party and compared to the head of the previous Austrian Government, Christian Kern (SPÖ), Kurz positions his party and government more to the right on the refugee and migration issue. This is in correspondence with V4 positions on this issue. Kurz was received at the Spring 2018 V4 summit, which may give proof of the envisioned “bridge” function. More importantly, Kurz could use this opportunity of dialogue to prepare for the incoming EU Council presidency that Austria holds in the second half of 2018.

The foreign policies of all the Germanys that existed before 1945 had a reputation of being obsessed with Eastern and South Eastern Europe. It was the liberal Friedrich Naumann, who in 1918 in his work *Mitteleuropa* [Central Europe] argued in favour of German economic domination in the area. Later Hitler’s concept of living space (Lebensraum) for the German race turned into outright aggression and transformed Central and Eastern Europe into “Bloodlands” (SNYDER 2010). Millions died on the battlefields, millions of innocent civilians were murdered; as a consequence, millions of Germans were forcefully displaced from their homelands in 1945. These tragedies had a profound cathartic effect on all post 1945 German governments. Ever since the end of Nazism, Germany has acted as a prudent, even reluctant power vis-à-vis her neighbours. With unification Germany’s power has risen, but the prudence in foreign policy remained.<sup>6</sup> Being partners in the rules-based multilateral regime of the European Union today safeguards the interests of today’s democratic Germany, of her neighbours, be they big or small, and of the small EU member states, be they neighbours of Germany or located further away. A related observation is that Germany in the globalising world rather focuses on her global roles. Ever since unification in 1990, she has exercised modesty in the region of Central, Eastern, and South-East Europe and always acted in concert with her EU and NATO partners.<sup>7</sup> In these regions Germany left her dark past behind and operates in concert with her Western alliance partners as a mainstream multilaterally oriented power. Austria as a small state

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<sup>4</sup> In Austria’s new government, the chancellery with the Christian Democrat Sebastian Kurz as head of government took over the agenda of EU affairs from the foreign ministry. This means that the right-wing populist FPÖ has little or no influence over Austria’s EU policies, despite the fact that FPÖ was entitled to nominate the foreign minister in the coalition government.

<sup>5</sup> On the occasion of the formation of the Kurz Government, the new chancellor communicated to several media (e.g. to Der Standard, Vienna, or Die Zeit, Hamburg) that he wishes Austria to take the role of a bridge between diverging member states, in particular between western and eastern EU member states.

<sup>6</sup> In EU affairs, the only exception to this may be Germany’s handling of the Euro crisis. However, Germany never acted alone and enjoyed the backing of all northern EU countries that adopted the Euro.

<sup>7</sup> The only somewhat greater difference of the German position vis-à-vis the one over her western partners was the timing of the recognition of the new states of Slovenia and Croatia in late 1991, early 1992.

profits greatly from this order and from Germany's political culture of prudence, as do all other smaller EU states.<sup>8</sup>

#### 4. Institutional Relations: Six European Cleavages and their Austro–German Dimension

The historic outline has already provided an idea that preconditions in both countries indicate that within the European Union both may often find themselves on the same side when it comes to debates over controversial issues among EU partners. This can be investigated along six cleavages, which have the power to divide the EU as a whole, but which also have the power to encourage country or party group formations to form coalitions or to co-operate more closely within the EU.

First, Germany and Austria were and are so-called “old” member states, which have looked back on similar trajectories of political and economic governance for many decades.<sup>9</sup> Hence, they did not undergo the profound transformation processes that the formerly communist countries and societies, which form the newer member states, had to undergo.<sup>10</sup> Second, both countries have high gross domestic products, which makes them net contributors to the EU cohesion budget. The average income of a person working in Austria or Germany is roughly two to three times higher compared to incomes of persons in all other countries under consideration in this volume. The income gap has started to become smaller since the EU accession of ECE countries, albeit at a very slow pace. This is why a cleavage between net contributors and net recipients of EU cohesion money will continue to exist. Third, in the ongoing refugee and migration crisis both countries are recipient countries and thus share the same challenges. The similar experience determinates their positions how to move on in this policy field. All three cleavages indicate that an East–West divide exists within the European Union (WALSCH 2018) with Germany and Austria to hold common features and share common interests as a part of the West. A fourth cleavage – governance of the common currency Euro – gives evidence of a North–South divide: Austria and Germany adopted the Euro and have steered a pro-austerity line in handling the Euro crisis. In the Central European region, this policy area is of concern in particular for the two small countries of Slovenia and Slovakia whose governments acted along the same lines as the ones of Germany and Austria.<sup>11</sup> Italy, Spain, Portugal and Greece,

<sup>8</sup> A good overview on German Foreign Policy is provided in the journal *Aus Politik und Zeitgeschichte*, published by the Federal Agency for Civic Education (Bundeszentrale für politische Bildung 2016).

<sup>9</sup> The statements about the cleavages that will be mentioned apply for the territories that formerly belonged to West Germany. The picture is a bit more diverse when looking at post 1990 united Germany. The statements do not apply when looking at former East Germany only.

<sup>10</sup> A number of governments of EU member states, which joined in 2004, are keen to point out that after more than ten years of EU membership the demarcation of “old” versus “new” member states shall be erased from the discourse of politicians. This actually happened. From an analyst's perspective, however, the long-standing historic legacies of different EU member states point to similarities and differences, e.g. in political culture or in wealth, that give evidence of and legitimise the categorisation into “old” and “new” EU member state.

<sup>11</sup> Also the Central European EU countries that have not adopted the Euro are supportive of the position of Germany and the northern EU countries.

but also France would have preferred more spending and more solidarity on behalf of the Euro countries with sound finances.

The fifth cleavage will be dealt with in more detail. It is ideological and gaining in importance: the power of nationalist and Eurosceptic parties. They are clearly beyond the mainstream of the traditional mix of Christian Democrats, Social Democrats and Liberals who for decades in a very consensus-oriented political culture settled European affairs through the art of finding compromises. From the beginnings of the EC and the EU until recently, most members of the European Council, of the various EU Councils of Ministers, of the European Commission, and of the broad majority of members of the European Parliament have belonged to one of these three parties.<sup>12</sup> Representatives of these traditional parties see populists as aliens and consider nationalists anti-European. As a consequence, severe conflicts arise when populists or nationalists come to power. Three examples demonstrate whether a party is part of the in-group or the out-group: Austria in 2000, Greece in 2014 and Poland since 2015. Two more examples demonstrate that there is a very fine line between in- and out-group: this is Hungary since 2010 and Austria since December 2017. The examples: In the year 2000 Austria experienced conflicts with her EU partners when the Christian Democrats formed a coalition with the right-wing nationalist FPÖ. The EU14 stigmatised Austria and placed sanctions against her, which after an impartial investigation had to be removed half a year later (GEHLER 2003).<sup>13</sup> In 2014, the Greek left-wing populist Syriza Government's Finance Minister, Yanis Varoufakis, violated unwritten rules of conduct in the Eurogroup meetings and was in return stigmatised by his finance minister colleagues. The head of the Greek Government eventually decided to replace him by someone else whose conduct was more conforming to the Eurogroup. The current Polish Government, formed by the Polish Law and Justice party and elected to power in 2015, is also beyond the above mentioned European mainstream.<sup>14</sup> EU rule of law violations procedures against Poland hit hard; unlike Hungary and Hungary's Fidesz Government, which faces similar difficulties in the EU, but skilfully remains a part of the mainstream European People's Party. Hungary could thus soften the toughest repercussions because it has always been a part of the political party group that has constantly been in power in European institutions. Austria formed a new ÖVP-FPÖ coalition in December

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<sup>12</sup> The names of the parties of these three groups on a European level are: European People's Party (Christian Democrats), Progressive Alliance of Socialists and Democrats (Social Democrats), Alliance of Liberals and Democrats for Europe (Liberals). To a lesser extent even The Greens/European Free Alliance (Green party) can be summoned in this group. Historically the most notable exception is the British Conservative party, which did not come under the roof of the European People's Party, but is a member of the more EU sceptical European Conservatives and Reformists Party (Conservatives).

<sup>13</sup> Domestically the most powerful driving force behind the EU conduct was Austrian President Thomas Klestil (ÖVP), who opposed the ambitions of his party colleague Wolfgang Schäussel to form an ÖVP-FPÖ Government. Legally, the President was obliged to entrust the new government. On the same day Klestil activated his contacts and warned EU partners of the new Austrian Government, notably French President Jacques Chirac. On an international and ideological level, decisions at a Socialist International meeting in Stockholm in January 2000 united Social Democrats of EU countries in their stance against the newly formed Austrian Government, including the Social Democrats of Germany and German Chancellor Gerhard Schröder.

<sup>14</sup> The Polish Peace and Justice party is, like the British Conservatives, part of the European Conservatives and Reformists.



2017. This time the EU remained silent, but everyone observed that ÖVP's Sebastian Kurz was skilful enough to move EU affairs into his responsibility and away from FPÖ, who was entitled to nominate the Foreign Minister. Applying the ideological cleavage to the relationship of Austria with Germany, one can safely say that despite FPÖ calamities the governments in both countries have without doubt always fallen on the same, pro-European side (more details in the section on political relations).

The sixth and last cleavage concerns the size of a country within the European Union. In this respect Germany is different from Austria and all countries in East-Central Europe with the exception of Poland. Big countries tend to dominate the EU, in particular when the impression arises, that France and Germany come to arrangements smaller EU states feel excluded from. Voting rules have changed with the implementation of the Treaty of Lisbon and now favour smaller countries less than before. No fixed alliances exist among big EU member states purely because of size, nor do they exist among small member states simply for that reason. One can conclude that the big EU countries do not turn against the small ones on purpose. Size has rather a psychological meaning. Two examples shall demonstrate this. During the EU14 sanctions in 2000, Austrians were unhappy to observe that just a few years earlier such EU punishment was not applied to the big member state Italy under the first Berlusconi Government, which included the then neo-fascist Alleanza Nazionale in a coalition government. The other cases in point are the Irish referenda concerning the adoption of the Lisbon Treaty. Would pressure on behalf of the EU been exercised in the same way had this been France or Germany? Size matters also in economic governance. The size of industrial companies is of concern in Austro-German relations and will be discussed in the section on economic relations.

## 5. Bilateral Political Relations since 1989

By circumstance the governments of Austria and Germany happened to be of opposing ideological orientations throughout the last three and a half decades. When the Christian Democrat Helmut Kohl was German Chancellor, his Austrian counterpart was the Social Democrat Franz Vranitzky. When the Austrian Christian Democrat Wolfgang Schüssel could for the first time in three decades secure government leadership for his party, his German counterpart was the Social Democrat Gerhard Schröder. Austria's Social Democrats were again at the helm of subsequent coalition governments from 2006 onwards. Their German counterpart became the Christian Democrat Angela Merkel. Similarly, also the foreign ministers of both countries – with the position held by the minor coalition partner – were always from different ideological backgrounds: Christian Democrats from Austria dealt with foreign ministers from Germany being Liberals, from the Green party, and Social Democrats. Only since 2018 there is more ideological overlap with the Christian Democrat Sebastian Kurz as Austria's new Chancellor and Merkel to remain in her position. One can safely state that the differences had little or no impact on the relations between the two countries. On the contrary, the absence of ideological competition has given proof of the professional handling of relations.

Another governmental factor originates in the political system the two countries have in common. They are both organised as federal states. From an Austrian perspective Bavaria



stands out for it is the only German federal state with which she shares a border. On Austria's side, seen from east to west, the federal states of Upper Austria (Oberösterreich), Salzburg, Tyrol (Tirol), and Vorarlberg are the neighbours of Bavaria. As to party politics in the altogether five units the "party chemistry" is very similar: Christian Democrats have been in power in single majority or as the lead partner in coalition governments in all these federal states at all times since 1945.<sup>15</sup> Such ideological overlap has always facilitated relations with each other.

On the national and bilateral level only one ideological constellation since 1945 downgraded the very special political relationship between the two to a somewhat dry co-existence. This was the time 2000 to 2005 (in particular in 2000 and in 2003). Commentators were right to point out that the Social Democrat – Green party German coalition government of the day took a firm line on Austria's ÖVP–FPÖ coalition, whereas the German Christian Democrats, albeit in opposition, were more accommodating about Austria's government. In 2003, when Germany and France violated the Stability and Growth Pact and the two EU giants subsequently vetoed an EU Council Decision to punish such violation, Austria's Chancellor Wolfgang Schüssel hit back, playing the skilful David against Goliath, and to ride on the small versus big EU member state cleavage. Schüssel put himself at the helm of the small countries in the EU and reminded France and Germany that EU rules and regulations apply also to big countries and not only to small ones, and that the two countries' behaviour in the EU Council is unacceptable.<sup>16</sup> Moreover, 2003 to 2005 were years when Austria's economy did much better than Germany's, a circumstance the Schüssel Government did not forget to highlight regularly to the media (implicitly addressed to his German vis-à-vis Schröder). Schüssel enjoyed help from Christian conservative Bavaria. "Austria is the better Germany." Bavaria's head of government Edmund Stoiber once quipped, adding: "And Bavaria is the better Austria." One may prudently conclude that, due to many shared cultural traits and due to the above mentioned similar "party chemistry" in many Austrian as well as southern German federal states, relations have always been very cordial when Christian Democrats were in power on the German side.

Topics of concern in bilateral political relations have been traffic, energy production, education, secret service information and human rights and refugee policies.<sup>17</sup> Again, due to common obligations and rights as members of the European Union, these topics must also be seen in this specific dimension. Traffic: Austria is a small and alpine country. She is surrounded by population rich economic powerhouses: Germany in the north, Italy in the south, and Hungary and Slovakia in the east where subsidiaries of German multinational companies are in operation. A recurring point of contention was the transit route through the Tyrol via the Brenner Pass to Italy. Subsequent Austrian and Tyrolian governments tried to limit transit traffic, but in vain. The German and Italian EU partners rightfully claimed equal access to Austrian transportation routes. Austria's efforts to redirect freight transportation

<sup>15</sup> The federal state of Salzburg was an exception in the period 2004–2013 when Social Democrats governed.

<sup>16</sup> Some observers would argue that with this sharp reaction Schüssel wanted to settle the "EU sanctions" bill of the year 2000, in which German Chancellor Schröder and French President Chirac were decisive actors in their stance against Austria.

<sup>17</sup> The selection of topics is based on annual reports of the Austrian Foreign Ministry over the last twenty-five years (Bundesministerium für Europa, Integration und Äußeres 1995–2016).

to the railway system had limited success because it is slower, more complicated and more expensive compared to transportation on the Brenner motorway. An eventual success for Austria was the definitive decision in favour of a railway base tunnel below the Brenner Pass in 2010, to stretch from Innsbruck in the north to Franzensfeste/Forzezza in the south, to be operative in 2026. Up to 50% of this investment of 8.6 billion Euro will be financed by the “Connecting Europe Facility” programme of the European Union. Austria and Italy finance the remaining 50% equally. Both countries will need to find a smart strategy that freight traffic will indeed be set on rail on favourable and non-discriminative conditions for all actors involved.<sup>18</sup>

Another traffic concern for Germany is the toll for Austrian motorways on short transit passages. This is a one kilometre long motorway passage from the German (Bavarian) border to Kufstein in the Tyrol, where those German (Bavarian) holidaymakers destined for the Kitzbühel ski and alpine region get off from the motorway. Austria rejected German (Bavarian) requests to make this extraordinarily short motorway passage toll-free. This very small issue produced considerable tensions and could have been solved in much smoother ways.<sup>19</sup> A similar case concerns a 15 kilometre stretch in the very west of the country (Vorarlberg), where motorists coming from Germany and heading for Switzerland are obliged to pay the respective weekly/monthly/yearly toll. Since 2014, Germany wishes to introduce a motorway toll for all cars not registered in the country. Austria and the Netherlands consider this step discriminative under EU rules and regulations and submitted legal action against Germany at the European Court of Justice. The decision on this act (C-591/17 Österreich–Deutschland) is pending. Other EU neighbours of Germany may support the Austrian and Dutch efforts. Earlier the European Commission stated that the German motorway toll is by and large in line with European legislation and suggested minor corrections. Germany will proceed along these lines with a modified version, although for administrative reasons the toll will most likely be introduced only in 2020 or 2021. Concurrently the European Commission is working on a European motorway toll system, which again may have the potential to alter the German plans in this subject. Finally, an ongoing issue between the two countries – again the neighbour Bavaria is concerned – are the landing routes for air traffic for Salzburg airport, which is situated west of the city and close to the border of Bavaria.

As for energy, nuclear power plants in Germany were a point of concern for Austria, which steers a firm anti-nuclear policy (which brought the country in conflict with her neighbours the Czech Republic and Slovakia, and recently Hungary). In the aftermath of the Fukushima nuclear disaster, Germany decided on nuclear-free energy production in 2012. This decision came to the content of Austria, which is keen to establish a wider

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<sup>18</sup> The best report on the Brenner Base Tunnel so far is: Rechnungshof Österreich (2017, February): Bericht des Rechnungshofes. Bahnprojekt Brenner Basistunnel (Vienna). In the early planning phases in the first decade of the 2000s, the costs were estimated at 4.5 billion Euro. By 2017 they nearly doubled to 8.6 billion Euro (page 11).

<sup>19</sup> The case produced also tensions within Austria, because the Tyrolean Government and the town of Kufstein were strongly in favour of the Bavarian requests. It was the Austrian federal administration, which is in charge of administering motorways, which blocked any compromise.

nuclear-free zone in West Central Europe and parts of southern and south-eastern Europe.<sup>20</sup> In the field of higher education, Germany has steered very restrictive entry policies for the study of medicine. Only top students could manage to take the hurdle of being accepted as a student of medicine. Based on the EU principle of non-discrimination, Austria experienced a massive inflow of prospective students of medicine originating from Germany, ever since the country has been a member of the European Union. The reason for this is that at that time university education in Austria was open to all students who passed their A-level exams and university studies were tuition free or near tuition free.<sup>21</sup> Moreover the study of medicine is the most expensive subject of study. The argument on behalf of Austria was that Austrian taxpayers finance German students, who are unable to pass the entry exam at German universities, and that graduated doctors then return to Germany, leaving Austria with patients and too few doctors behind. In the first decade of the 2000s, the issue kept the Austrian and German governments as well as the European Commission's Directorate for Education busy. The compromise that became acceptable for all three parties is a de facto positive discrimination of students originating from Austria. The compromise states that Austrian universities have the obligation to secure the education of doctors, who will eventually work in Austria. Overall, the dispute made the study of medicine more competitive for all students.<sup>22</sup>

A scandal that was revealed in June 2018 and that has shaken the relations between the two countries is that the German "Federal Intelligence Service" (Bundesnachrichtendienst) overactively spied in Austria from 1999 to 2006, maybe even up to 2013.<sup>23</sup> Austria is likely to urge the German Government to receive full investigation into that issue. Under critique was in particular the spying of foreign embassies accredited in Austria or at the UN in Vienna. Secondly, a clearly illegal economic espionage happened against leading Austrian enterprises that compete against German companies on global markets. Thirdly, and somewhat less controversial, were the spying activities against Muslim institutions in Austria, because some of this information was ordered by Austrian authorities.

Germany and Austria share similar views on human rights and refugee policies. In the cold war past, both West Germany and Austria were destination countries for refugees fleeing communism: Hungarians in 1956, Czechs and Slovaks in 1968, and Poles in 1981 and 1982. In the recent past three cases stand out, of which the first one is of national importance for Germany, and in the other two the overlap of opinion and approaches was nearly 100%. The first case is Austria's role in handling the German–German refugee crisis

<sup>20</sup> Austria's neighbour Switzerland made a similar decision as Germany in the aftermath of Fukushima. Austria's neighbour Slovenia and Croatia wish to move out of nuclear energy production. Austria's neighbour Italy held referenda in the 1980s and 2000s in this respect. In both events a majority of Italians rejected nuclear energy production.

<sup>21</sup> The ÖVP–FPÖ Government introduced a low tuition fee in 2000. When SPÖ returned to power in 2006, tuition fees were abolished.

<sup>22</sup> It made the study of medicine also more expensive, because since the 2000s Austria implemented legislation that made universities more autonomous from the state. This led to an expansion of universities, more offerings and more competition. In many cases tuition fees were introduced.

<sup>23</sup> A list was published by the investigative Austrian weekly "Profil" (Profil 25/2018, 18 June 2018, cover story: „Abgehört. Deutschland und die USA überwachten jahrelang Tausende Telefonanschlüsse und Mailadressen in Österreich“).

as a transit country in 1989. Austria provided all help in making the transfer to West Germany smooth and safe when Hungary opened her Western borders for escaping East Germans on September 11, 1989. More than 10,000 East Germans made use of this escape and transit route. In the months before, Austria provided shelter and assistance to occasional fleeing East Germans, who all wanted to move on to West Germany. The biggest group were participants of the “Pan-European Picnic” on August 23, 1989. This picnic was held near Sopron, close to the border of Hungary with Austria. At the end of this afternoon event nearly 700 East Germans could flee to Austria. The second case is the handling of the civilian dimension of the Yugoslav crises and wars. Austria and Germany had similar political positions on the conflict. Both sympathised with the political changes towards multi-party democracy in the Yugoslav republics and their quest for independence. Thus, Austria and Germany generously received refugees from the violent conflict and provided assistance to those in need. 60,000 of 115,000 who fled to Austria remained in the country.

Austria and Germany steered the same line at the height of the most recent refugee crisis, but more nationalistic policies in both countries since 2017 have made the issue controversial, and relations are even in crisis on this matter in June and July 2018. In order to prevent a human catastrophe in south-east Europe in early September 2015, Germany made use of the sovereignty clause (in German *Selbsteintrittsrecht*) under the Dublin III regulation on the handling of asylum for persons fleeing Syria. Austria applied the clause in individual cases. Both countries have been destination countries and have faced similar challenges in this respect. Both countries have gradually stiffened their refugee policies since 2016. The main controversy between Austria and Germany since is how to apply the Dublin III regulation, which states that the country of entry into the European Union is in charge of processing the individual asylum case. Two major countries of entry, Greece and Hungary, have been weak points in applying this rule. Based on two judgements of the European Court for Human Rights and a subsequent ruling of the European Court of Justice, asylum seekers could not be sent back to Greece. The situation has ameliorated and since mid-2016 the European Commission has recommended to apply the rule again to Greece. Hungary does not take back the “Dublin cases” because of a hard anti-asylum and anti-immigration policy of the right-wing Orbán Government. By Spring 2017, Germany decided to temporarily not send back asylum seekers to Hungary, based on subsequent reports from the United Nations Refugee Agency (UNHCR) about inhuman conditions of treatment of asylum seekers in that country. The Greek and Hungarian circumstances contributed to the fact that Austria did not have to expect masses of asylum seekers that were rejected at the border between Austria and Germany. In the meantime both countries advocated a European approach concerning the reform efforts of EU asylum and refugee policies. A step in that direction was reached at a European Council meeting on 28 June 2018, thereby stiffening considerably the policies of asylum and migration (European Council 2018). Political pressure from the Bavarian Christian Democrats under its leader Horst Seehofer, who serves as the Interior Minister of Germany, brought a nationalistic turn into German politics after that summit. Seehofer judged that the measures taken by EU leaders at the June 2018 European Council did not go far enough. Within the German Government, he has been successful that Germany will from now on steer a hard line on the application of the controversial Dublin III regulation and is ready to intern unclear cases in, similar to the Hungarian practice, closed containers, and to send all Dublin cases

back to where they entered the country, which is the border between Germany and Austria. A chain reaction is that Austria could consider similar policies to her Dublin cases on the same grounds at the border with Italy, Slovenia, and even Hungary. Solving this controversy, national approaches have now clearly the upper hand. Bi-, tri- and multilateral agreements are currently seen as the only way how to handle the matter. Austria will seek a return to a somewhat more European orientation and reforms to EU asylum and refugee policies. As the president of the Council of the EU in the second half of 2018, Austria will forward proposals in this ongoing issue.

## 6. Economic Relations since 1989

Austria could successfully emancipate herself politically from Germany post 1945. In the economic realm, Austria pursued in the post-war decades a diligent double strategy of import substitution industrialisation and export orientation. Modernisation processes in the state-led basic industries, which were state-owned, e.g. iron-ore exploitation or steel and energy-production, were drivers of modernisation. State-owned companies offered supplies for various domestic demands. On this basis a competitive market-oriented industry could develop, e.g. in machinery, processed goods in light industries and chemistry, to serve domestic and international demand. The 1980s and 1990s saw painful adaptations to more market orientation in the state-own industries, e.g. through privatisations. Tens of thousands of workers were set free and had to adapt to the new situation. The opening of borders in Central Europe post-1990 brought new chances in particular for the trade and the banking sector. Entering the EEA and the European Union's Single Market fully opened all industrial sectors and, what was new and unprecedented, the agricultural sector. More important than anything else, a societal consensus (represented by ÖVP as the political right and SPÖ as the political left) could be maintained on how to handle Austria's transition to more competition, and the subsequent steps to be taken.<sup>24</sup> On the political right the Industrial League (*Industriellenvereinigung*) and Chamber of Commerce (*Österreichische Wirtschaftskammer*) were the driving forces behind the opening. On the political left, Austria's centralised trade union (*Österreichischer Gewerkschaftsbund*) also adapted to the changes. Combined, with ÖVP and SPÖ as their political representations, these institutions form a specifically consensus-oriented social partnership (*Sozialpartnerschaft*), which provided stability, continuity where possible and social peace in times of change. The SPÖ–ÖVP governments of the 1990s also reformed higher education, which adapted to upcoming economic chances and challenges. Based on the German experience, technical colleges (*Fachhochschulen*) supplemented universities in specialised higher education. Technical colleges put a particular focus on applying theory into practice. Students must undergo vocational training in companies, which are often leaders in their fields and which compete on European and global markets. Similarly to German and Swiss traditions,

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<sup>24</sup> Also the opposition party FPÖ was in favour of Austria's adaptations to the European Union and overall supported reform processes. The opposition Green Party (*Die Grünen*) was more sceptical. Due to the consensus orientation in Austria's parliament, both opposition parties could co-shape the process of change in the new legislation which was decided upon in respective parliamentary committees.

Austria was able to maintain her extraordinarily high standards for apprenticeship (*Lehre*) in all relevant economic sectors. By the first two decades of the 21<sup>st</sup> century, graduates of technical colleges and highly specialised skilled labour (who started as apprentices) form the backbone of cutting-edge market players of Austria's industry.<sup>25</sup>

The aim, that the EU's common market should be understood as a huge chance for Austria's economy, united the actors coming from opposing ideological orientations. A beneficial additional consideration for Austrian decision-makers was that EEA and EU membership can help diversifying Austria's export and will help reducing Austria's economic dependency from (West) Germany. West Germany, and from 1990 united Germany was better prepared for the EU's common market because of the repeatedly re-elected pro-market Christian Democrat governments under chancellor Kohl from 1982 onwards (despite the burden of tackling the economic hardships of former East Germany after unification). The newly established Single Market under the auspices of EU integration encouraged economic development in both countries from the 1990s onwards. It spurred competition domestically and led to considerable growth in the exchange of goods, services, capital and people.

Interestingly enough, despite the implicit effort to reduce dependencies from Germany, Austria's economic relations became more and more inter-related and intensified since Austria's accession to the EU. Under the impression of globalisation, the interdependence has constantly grown: with Germany, with the EU, with global partners. Mutual trade and investment figures have reached high points in many subsequent years since. Again, this applies not only to Austria and Germany, but also to Austria and various EU states and Austria's global exchanges. Austrian overall exports and imports roughly tripled since the country acceded the European Union, but the relative share of Germany in Austria's trade and services with her big neighbour has declined by some 5% since Austria entered the EU in 1995. Still, Germany is Austria's prime partner with figures of more than 30% of Austria's overall exports and imports. Like with nearly all countries in the world, Germany's exports to Austria outscore her imports from Austria concerning goods. Austria has balanced the trade deficit for decades by a successful service industry (e.g. income in the field of tourism). The overall current account between the two is balanced.<sup>26</sup> A new phenomenon for Austria is that Germans come to work in Austria in masses since the 2000s and are today the biggest group of non-Austrians in the country.<sup>27</sup> This can be interpreted as a sign of maturity. Austria's economy is on a par with the German one from a labour perspective. Overall, the sheer fact that Austria's industry is able to export her produce to world-class prime markets like Germany, the United States, Italy and Switzerland, demonstrate her global competitiveness, and can be read as a sign of her robust condition (GNAN-KRONBERGER 2017; OECD 2017). As to foreign direct investment (FDI), Austria's outward

<sup>25</sup> For an overview of Austria's economic development since 1945 see SANDGRUBER 1995, 439–528, reforms under the impression of EU accession in PFAFFERMAYR 2003, and the European and German context in EICHENGREEN 2007. Austria's higher education reforms are analysed in LEIDENFROST 2003.

<sup>26</sup> The figures are as following: Austria's exports of goods to Germany amounts to 40 billion Euro, the imports to 50 billion Euro; Austria's exports of services amounts to 22 billion Euro, the imports to 13 billion Euro (Wirtschaftskammer Österreich 2018).

<sup>27</sup> In all post-war decades labour migration was rather one-sided with Austrians who decided to work in (West) Germany and only few Germans to decide to work in Austria, where salaries were 10 to 20% lower.



investment is a bit higher than inward investment. By 2015, the overall stock of Austrian capital abroad is roughly 50% of the annual Gross Domestic Product (GDP) of the country. Austrian capital invests in the old EU15, in the newer EU member states and other countries in the east and south-east of the continent, and in the rest of the world in three roughly equal shares. The overall stock of inward investment makes roughly 40% of the annual GDP. Nearly two thirds of foreign capital comes in from the old EU15, nearly none from the new EU member states and other countries in the east and south-east of the continent, and roughly one third from the rest of the world. Under the impression of interdependence and globalisation both types have constantly grown since 1990, starting at 3 to 5% and figuring at 40 and 50% of GDP today. Outward investment is growing a bit faster, which gives proof of the fact that Austria is capital-rich and Austrian capital is seeking opportunities in foreign countries. Germany does not rank as prominently in FDI as in trade, but is among the top five countries in both categories, inward and outward investment. Overall one can observe strong FDI mutual connections with the old EU15 countries as well as the one-sided exposure of Austria's capital to the newer EU member states and east and south-east Europe as an investor (all figures from Bundesministerium für Wissenschaft, Forschung und Wirtschaft 2016 and from OECD 2017).

Differences between the two economies exist and shall be briefly reviewed. There are three major differences. The first one is the size of companies. Germany's industrial base is dominated by multinational companies. They are financially capable to maintain big legal departments. Their lobbies exercise decisive influence in issues of economic governance in the Single Market. Austria's industrial base is rather organised in mid-size companies (roughly 20 to 100 employees), which are often highly specialised and able to serve small niches in global markets.<sup>28</sup> Such smaller companies do not have the capability to finance lobbying as MNCs do, so it is the government's duty to take this role, and exercise fine balancing acts concerning economic governance. The second difference is that Austria's agricultural sector differs enormously from the German one, because of the small size of most Austrian agricultural producers and because of their particular exposure in alpine regions. German farms are much bigger and operate in plains. Austria has a very high share of organic food production, Germany a rather low one (20 against 5%). Hence, in EU agricultural policies the interests are rather diverging. The third difference is Austria's exposure as a transit country between industrial centres situated outside the country. Different from the alpine transit country Switzerland, Austria is unable to toll EU traffic, but must use the EU as a platform and a source of financing that serves the interests of the local population along transit routes and the interests of Austria and her neighbours alike. The case of the Brenner transit route was discussed in this respect.

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<sup>28</sup> One must add that also in Germany a considerable share of such medium-size companies (called *Mittelstand* in German) exists, which have a reputation of being drivers of innovation and modernisation, be it Germany or in Austria. One should also add that *Mittelstand* companies in both countries often interconnect with MNCs in various ways and thus profit from each other greatly.

## 7. Conclusions and Outlook: Are Germany and Austria Diverging?

All in all, both countries enjoy a great overlap in their societal, economic, and political structures, which makes them silent partners in a differentiating European Union. However, power is distributed unevenly, with Germany to be nearly ten times bigger than Austria. It has been the consensus-orientation of political elite from left and right and the proactive orientation towards European integration in both countries that has made co-operation functioning in the more controversial topics such as refugee policies, traffic and agriculture, which were discussed above. In foreign policy, Austria has a separate agenda from her big neighbour due to neutrality and the status of Vienna in international diplomacy. Austria's regional foreign policy focus on Central Europe, on the integration of south-east Europe into the EU, and on her traditional good relations with Russia (despite the Russia–Ukraine conflict and EU sanctions against Russia) do not stand in the way of German interests; on the contrary, interests overlap to a great extent. Evidence over the past 70 years and evidence since 1990, since the outbreak of the economic or refugee crises in 2008 and 2015 has shown that the answer to the question whether Germany and Austria are diverging, is a clear No. Somewhat naively, but also with a portion of realism, one may state that relations between Austria and Germany are a European near best-case scenario. Clearly, one can observe how the Austrian and German society Europeanise and more and more relate to each other and their European partners, how much the economies interconnect, and how co-operative and co-ordinated political decision-making has become under the EU umbrella. One should add that Austria is not an exception in this matter. Similar stories of convergence could be told about Germany and other neighbours of hers.

Austria and Germany share similar features in the European Union. They are both stable democracies with knowledge driven, innovative economies. Their societies have similar standards of living and form politics along similar structures and processes. Both have massive inflows of labour from East-Central European EU states, both are exporters of capital in the other direction. Both support the steady integration of Central, East, and South-East Europe into European structures. For example, both countries are highly engaged in the developing macro-regional EU Strategy for the Danube Region.<sup>29</sup> Both tolerate some diverging trends in that same region, but eventually stick to the 'rightfulness' of Western standards in European affairs. Both understand the EU not only as a greater market, but also as a club that shares the same values. Both will not compromise on nationalist attacks on the rule of law, open society, media pluralism, and limitations to the political and economic freedoms in the EU.

Because of her small size, Austria is potentially vulnerable and will support a political order based on multilateralism and tolerance. Austria has skilfully used the chances of economic globalisation. She has made the experience that full integration in the economic and monetary union of the EU has greatly supported her interests over the past twenty years. Austria will continue to build on this experience. This is why Austria will continue to develop further a pro-integrationist orientation in European affairs. Whether Austria will re-develop her foreign policy paradigm "neutrality" is to be seen. In the first two

<sup>29</sup> Both countries also engage in the macro-regional EU strategy for the Alps. In other words, both do not hesitate to co-operate more closely with each other in European formats when the necessity or chance arises.



decades of the 2000s, the impression arose that neutrality slowly fades into the past and is timidly replaced by a new “European” orientation and identity. This is demonstrated by Austria’s participation in the recently (December 2017) founded Permanent Structured Cooperation in European defence affairs. On the other hand, rising tensions between the West and Russia give the concept of neutrality a new meaning, and Austria could play a role as neutral interlocutor in frozen conflicts in the post-Soviet space (e.g. in Ukraine–Russia relations). Austria and Vienna will try to maintain their roles as diplomatic platforms in UN and OSCE related affairs.

Seen from Germany’s foreign policy identity, all moves of Austria coincided with the European interests of Germany. She does not stand in the way of the political options of Austria. Germany definitely supports even stronger bonds with her small southern neighbour and cultural relative. Austria may be advised to intensify relations with her direct neighbour Bavaria, so as to tackle better common challenges. This is currently particularly true for the handling of asylum and migration issues. Despite some differences concerning the industrial base and agriculture, both Austria and Bavaria have the chance to maintain and solidify their roles as leading and prospering regions in a differentiating European Union.

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## **Chapter 3**

# **Slovenia's Relationship with Germany: Danke Deutschland**

*Marko Lovec*

### **1. Introduction**

Germany has been the most important partner of Slovenia, supporting its independence and transition into a market economy and liberal democracy. In the 1990s, the main objective and source of legitimacy of Slovenian elites was joining the EU and NATO. The collapse of the communist regimes in Eastern Europe was a huge opportunity for Germany, enabling it to reunite and to take advantage of changed geopolitics to expand its influence. However, facing shadows from the past – always present in the bilateral relations with Slovenia but never coming to the fore – and conflicting interests, it needed to work ‘through Europe’. Thus, the interests of Slovenia and Germany coincided.

In economic terms, Germany has been the most important trade and investment partner of Slovenia which has become a supplier for its industry, e.g. in the automotive sector. The Eurozone crisis, which has hit Slovenia hard, revealed structural imbalances between the two countries, such as too low interest rates and the low price competitiveness of Slovenia, characterising the relations between the north and south in the EU. This created some tensions with the EU's policy that was being increasingly related with Germany's policy. At the time, Slovenia tried to establish ties with fast growing economies outside the EU, and considered moving closer to the Visegrád countries. Nevertheless, subsequent governments remained determined to implement structural reforms, which, eventually, brought export-led growth, although at a price of high public debt levels, stagnating incomes and less secure jobs.

Another break in the relations came with the European migrant and refugee crisis of 2015 during which Slovenia faced a huge influx. Particularly, some parts of the centre-right side of the political spectrum were critical towards the German ‘open doors’ policy. The wave of nationalism and populism produced by Brexit and the victory of Donald Trump at the US elections provided them with additional impetus. In this context, Germany's stance on protecting the liberal international order, together with the return of economic growth was important in preventing Slovenia from sliding further in the direction of illiberal democracies in Europe's East.

## **2. Bilateral Political Relations: Danke Deutschland**

### **2.1. Establishment of bilateral relations**

For West Germany, Yugoslavia was a ‘special country’ (NEČAK 2017) as its communist regime, compared to the Soviet Union and its satellites, had a ‘softer face’ and was diplomatically more open towards the West. When Yugoslavia started to fall apart, Germany, as all the other powers, at least seemingly, wanted to keep the country together. Slovenian politicians who during the struggle for independence got in touch with the political establishment of Germany were told that they cannot hope for support.

Slovenia declared independence in June 1991 followed by an attempt of the Yugoslav national army to regain control. At the time, violent conflicts already escalated elsewhere in Yugoslavia. Since an ethnically homogenous group (Slovenes) populated the Slovenian territory, Slovenia was able to get out of the conflict relatively easily. In December 1991, Germany together with Iceland and Sweden decided to recognise Slovenia (PETRIČ 2010, 160). While Iceland was the first Western country to actually recognise Slovenia, German recognition, which took place in January 1992, was the most important. In January, the diplomatic relations between the two countries were formally established. German recognition was a signal that Yugoslavia was history. It influenced the recognition of Slovenia by the European Community, soon followed by the recognition of the United States, Russia and China and the acceptance into the United Nations in May 1992.

By recognising Slovenia, Germany grew in the eyes of Slovenians, acquiring important political capital. For many observers of foreign relations and diplomacy, this was a beginning of friendly relations, perhaps the friendliest of all bilateral relations between Slovenia and any of its partners. According to Petrič (PETRIČ 2010, 160), the relation was not a ‘special one’ e.g. in the sense of patronage, as Germany would not want to risk its relations with other EU members and NATO by putting Slovenia before the interests of others. However, Germany helped Slovenia extensively in its transition into democracy and market economy through advice and various development programmes and political support for joining the EU and NATO.

### **2.2. Open issues**

Slovenia has not had any major unresolved bilateral issues with any of the Central European countries (PETRIČ 2010, 162) except, perhaps, for Austria, where a substantial number of Slovenians live and where the question of lack of respect for certain minority rights occasionally emerged.

In Slovenia, there has been a minority of ethnic Germans known as “Kočevars” some of which have lived there for generations. Following the collapse of the Nazi regime and the victory of the Communist party, many fled or were expelled with only few remaining after 1946. In contrast with the Italian and Hungarian minority (and in line with the position of members of ex-Yugoslav ethnic groups), Germans were not recognised as an official minority in Slovenia. Moreover, the de-nationalisation process in which those who were

expropriated after the Second World War were returned their properties – many of whom were of German origin or became German citizens –, went only slowly.

Another issue was war reparations (TRAMPUŠ 2015). As much as 100,000 Slovenians, that is 7% of the total population at the time, died during the occupation and the Second World War. At the Paris Peace Conference, it was agreed that as a part of the damage incurred by Yugoslavia, Slovenia would receive 3.5 billion in U.S. Dollars (plus interest rates) in compensation. In reality, less than 1% of that amount was paid. In 1994, the National Assembly of Slovenia adopted a decision calling upon the Slovenian Government to re-assess the war damage, prepare a claim and enter into negotiations with Germany. However, Germany refused to discuss the issue and the Slovenian Government was hesitant in putting pressure on it.

After its reunification, German focus turned towards Eastern Europe where it became an important actor. The Slovenian foreign policy declaration of 1999 – the first of two since 1991 – identified Germany as one of the most important countries in Europe, next to France and the U.K. (National Assembly of the Republic of Slovenia 1999). In practice, however, relations with Germany have been the most important. In 2001, German Chancellor Gerhard Schröder paid a visit to Slovenia which was the first high-level visit from the German side. The visit took place at the tenth anniversary of Slovenian independence, highlighting the capital Germany earned through the recognition of Slovenia.

### **2.3. EU accession**

The accession of Slovenia to the EU in 2004 brought certain changes to the bilateral relations such as greater complexity of cooperation, with new topics and institutional settings. Since then, Slovenia no longer referred to the reparations issue, at least not openly.

Political cooperation now also took place on a party level. In 2004, the centre-left government, led by the Liberal-Democratic party of Slovenia (Liberalna demokracija Slovenije – LDS), formed by reformists from the past communist regime, which has been in power throughout most of the transition period, lost the election to a coalition of centre-right parties, known as the “Slovenian spring”, led by the Slovenian Democratic Party (Slovenska demokratska stranka – SDS) under Janez Janša, that built their programme on breaking linkages with the former regime in ideological and personal terms. Political parties started to develop ties with sister parties in other European countries, especially those in Germany. Following their entrance to the European Parliament, the government coalition parties became members of the European People's Party – EPP.

Slovenia, a frontrunner amongst the new member states, was now preparing to adopt the Euro and enter into Schengen in 2007 and to become the first new member state to preside the Council of the EU in 2008. In 2006, Slovenian Foreign Minister Dimitrij Rupel, who also served under the past centre-left government coalition, stated publicly that bilateral relations with Germany “were so excellent that they could hardly have been better” (GAUBE 2006). At the occasion of adopting the Euro in 2007, German Chancellor Angela Merkel visited Slovenia.

## 2.4. EU crises

What followed was a rather rocky era, characterised by the global economic and financial crisis and the Eurozone crisis which have severely affected Slovenia as a small and open economy and created substantial political turbulence at home.

The savings policy, attributed to the increasingly powerful role of Germany in the Eurozone, created some tension with Germany. It motivated the not very successful attempts to find new friends among fast growing and emerging economies in Europe and Asia, especially during the centre-left government of Borut Pahor (2008–2012). However, both Pahor and Janez Janša, who succeeded Pahor as Prime Minister (2012–2013), accepted structural reforms as a right way and chose Germany as the place of their first foreign visit. In 2011, during the visit of Chancellor Merkel in Slovenia, the two partners adopted declarations on the deepening of cooperation in the areas of joint interest (Ministry of Foreign Affairs of Slovenia 2011). On EU affairs, which were increasingly influenced by diverging views and tensions within the Union, Pahor's government had set as a priority for Slovenia to stay attached to the 'Franco–German train' and remain in the core of the EU at any cost.

The new radical left party United Left, which entered parliament during the 2014 elections in the context of the Eurozone crisis, exerted pressure to put the issue of German war reparations back on the agenda. The 2014 elections were, however, won by a progressive liberal party of law professor Miro Cerar (later renamed into Modern Centre Party, *Stranka modernega centra* – SMC), with a pro-European, progressive liberal and thus pro-German programme. The new Slovenian foreign policy declaration of 2015 reaffirmed the Euro-Atlantic orientation and the importance of Germany (National Assembly of the Republic of Slovenia 2015). Among the few changes made was introducing geopolitics as a new doctrine noting the geostrategic position of Slovenia in terms of transit and transport corridors, as well as the conflict with Croatia over the maritime border in the Piran bay, which was supposed to be ruled by the Court of Arbitration until Croatia decided to step out of the process unilaterally in 2015, arguing that the procedure was compromised by the Slovenian side.

For Trampuš (TRAMPUŠ 2015), *Danke Deutschland* was in fact the only foreign policy doctrine Slovenia had had since its independence. This was both a cause and a consequence of the public perception of Germany in Slovenia. According to a poll by daily *Delo* of July 2015, in spite of only a slow return of growth after several years of crisis, 14% of the respondents saw the role of Germany in the EU as very positive, 25% as positive, 30% as neither positive nor negative, 13% as negative and 8% as very negative. The same poll confirmed the support of Slovenians for a politically stronger EU in terms of a federation (POTIČ 2015).

The European migrant and refugee crisis has substantially affected Slovenia, which became a main point of entry into the Schengen area after Hungary closed its border with Croatia in September 2015 (BUČAR et al. 2017). The crisis resulted in criticisms of the German Government and German policy, especially by the centre-right opposition. However, following the closure of the Western Balkan Route, the situation improved. The economic indicators also improved and the attachment to German economic motor boosted Slovenian exports. Moreover, once the Court of Arbitration finally reached its decision on the Piran

bay in 2017 (in 2015, the tribunal decided to continue with the procedure in spite of the Croatian withdrawal), Germany – together with some northern European countries and against many others who decided to stay ‘neutral’ – stated openly that the decision should be implemented, thus once again earning gratitude from the Slovenian side.

### **3. Economic Relations: Buying Cars, Selling Parts**

#### **3.1. Transition into market economy**

With the disintegration of Slovenia and, to a lesser extent, the collapse of the Eastern bloc, Slovenia lost the markets for its products. The idea was to compensate for this by opening towards Western Europe. In 1991, Germany was already the most important trade partner of Slovenia. Slovenian exports to Germany accounted for 1 billion U.S. Dollars. Slovenia even had a small surplus in bilateral trade with Germany. However, as noted by the Bank of Slovenia at the time, the structure of the trade was about to change very quickly which required a swift accommodation of the Slovenian economy (Bank of Slovenia 1992, 10–11).

Against some difficulties in the early 1990s and crises in individual low technology and labour intensive sectors, based on its relatively well skilled labour force and good technological education, Slovenia was able to enter the product chains of the neighbourhood countries and regions such as South Germany, Northern Italy and Austria.<sup>1</sup> The relatively widespread fluency of the German language and a heritage from the pre-communist period also helped. Slovenia was able to take advantage of its geostrategic position in terms of transit and trade and of its natural environment and relatively good public infrastructure, which enabled the development of services such as tourism.

#### **3.2. Fixing of exchange rates**

Before entering the EU in 2004, Slovenia had a surplus in its bilateral trade with Germany. After tying its currency to the Euro to fulfil the criteria for entering the European Monetary Union, the terms of trade, however, deteriorated, resulting in a growing trade deficit, not just with Germany but also with the rest of the Eurozone countries. On the other hand, based on rational expectations of investors, already before the enlargement, a number of positive changes in terms of investments and availability of financial resources materialised. The declining interest rates following the adoption of the Euro fuelled domestic spending resulting in a trade deficit and a number of bubbles in real estate and finance.

In 2006, the Slovenian–German Chamber of Commerce was established in Ljubljana to promote business cooperation. Bilateral cooperation in the area of business was also facilitated through the National Chamber of Commerce, chambers of individual industrial sectors, business clubs and other similar associations and entities. The bilateral trade was

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<sup>1</sup> These represented a historical milieu of Slovenian early industrialisation, foundations for which were set by the Austro–Hungarian Empire which had built railways and supported education and development of administrative capacities.



especially strong in the automotive sector where Slovenian firms produced parts or products for personal cars and other motor vehicles for personal transport, tractors, trucks and working vehicles, as well as in electronic devices, kitchenware and machinery. The importance of the automotive sector was demonstrated by the publication of a comprehensive specialised German–Slovenian automotive technical dictionary which is one of a few of its kind.

Germany has also been one of the most important sources of foreign investments. In 2006, it ranked third, after Austria and France (GAUBE 2006). Following 2004, with the new centre-right government coming to power, the economic policy became more supportive of foreign investments in terms of setting the lists of state owned companies and assets for sale and offering incentives for greenfield investments.<sup>2</sup>

### **3.3. The economic and financial crises of 2009–2014**

The economic and financial crisis resulted in capital flight, bursting bubbles in individual sectors and gave a final blow to those which were already in poor shape. In order to keep the economy running, the government continued to spend, which resulted in a growing public deficit and debt. Since Slovenia gave up sovereignty over monetary matters by entering the Eurozone, it could not devalue in monetary terms but had to deal with structural imbalances by increasing price-competitiveness. Introducing savings measures to devalue in fiscal terms amidst the crisis, however, resulted in a secondary recession in 2012. Moreover, as a small and open economy, Slovenia was exposed to pressures by the foreign financial markets. Due to the crisis in the financial sector, interest rates remained high which extended the crisis (LOVEC–CRNČEC 2014). The change in the policy of the European Central Bank (ECB) saved Slovenia from defaulting in 2013.

Alenka Bratušek, who led a sort of technical government in 2013 and was the last in the line of Prime Ministers to implement the painful pro-cyclical reforms, visited Chancellor Merkel to get a confirmation that Slovenia is on the right way, promising some additional savings, privatisation and restructuring of the banking sector. Germany was satisfied but wanted to see results. During her visit, an investor conference was organised. This was a slow beginning of return to an export led growth in which Germany played an important role. However, Slovenian public debt which used to be one of the lowest in the Eurozone remained high, as did interest payments. A number of state assets were sold to the Bank Asset Management Company (also known as the ‘bad bank’) and to foreign investors at a discounted price. Wages declined or stagnated and jobs became much less secure.

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<sup>2</sup> Due to the doctrine of economic gradualism (i.e. slow transition from regulated economy towards a free market), the scope of foreign investments in Slovenia has been rather small, explaining fluctuations and changes in position of individual partner countries over the years. During the economic and financial crisis, many argued that the doctrine of economic gradualism was responsible for the low level of investments, lack of price competitiveness and weak position of Slovenian companies in terms of value added in the supply chains as, for example, compared with other Central and East European countries such as the Czech Republic, Hungary and Slovakia, which were doing much better at the time.

### 3.4. Recent numbers and trends

According to the Public Agency for Entrepreneurship, Internationalization, Foreign Investments and Technology (Spirit Slovenia 2017), between 2011 and 2016, exports to Germany went from €4.4 billion to €5.2 billion, and imports from €4.2 billion to €4.6 billion, meaning that the Slovenian surplus increased from €200 to €500 million. Slovenia was actually one of the few countries in the Eurozone with a surplus in trade with Germany. However, Slovenian GDP and productivity were still 20% behind the EU average and 60% behind Germany.

While Germany has been the most important trade partner of Slovenia, with its share in trade constantly around 20% and growing in the recent years, Slovenia was only the 38<sup>th</sup> most important trade partner of Germany, demonstrating a clear asymmetry in the mutual dependency between the two.

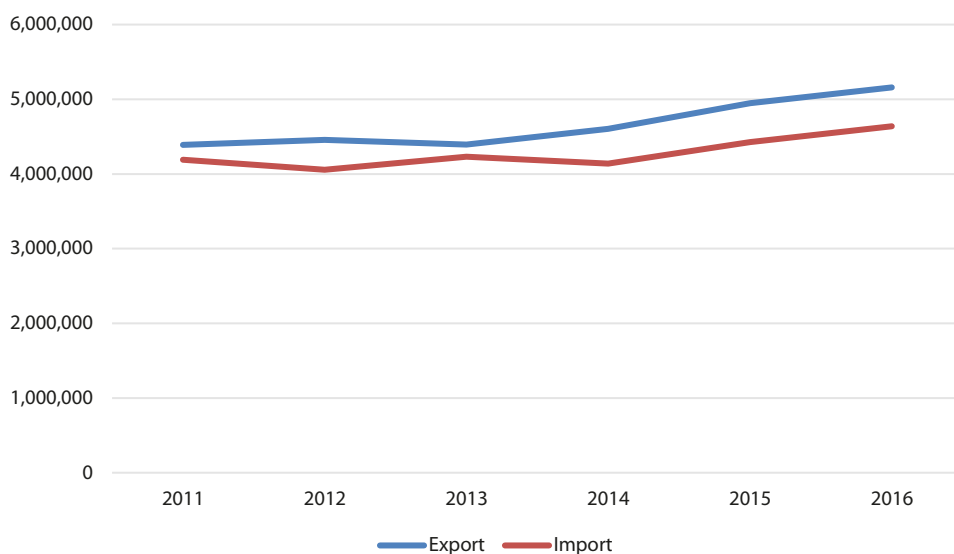


Figure 1.  
Slovenian trade with Germany (€1,000)

Source: Spirit Slovenia 2017

In 2016, 5,321 Slovenian companies exported to Germany and 17,393 companies imported from Germany. The automotive sector was very important – Slovenian companies working within this sector were providing parts for the German car manufacturer giants. Strategically important business deals related to the automotive sector were also made by the Slovenian port operator Luka Koper which cooperated with BMW and Daimler (KOCBEK 2017).

Table 1.  
Slovenian trade with Germany by product groups (2017)

Export			Import		
Product groups	%	€1,000	Product groups	%	€1,000
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	23%	1,288,354	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	17%	902,001
Electrical machinery and equipment and parts thereof, sound or video reproducing and reproducing apparatus and parts and accessories of such articles	19%	1,090,921	Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof	13%	665,915
Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof	13%	732,471	Electrical machinery and equipment and parts thereof, sound or video reproducing and reproducing apparatus and parts and accessories of such articles	12%	636,028
Aluminium and aluminium products	6%	340,164	Plastics and articles of plastics, rubber and articles of rubber and rubber	9%	450,011
Pharmaceutical products	4%	253,762	Iron and steel	5%	245,988
Plastics and articles of plastics, rubber and articles of rubber and rubber	4%	231,623	Pharmaceutical products	4%	215,697

Source: SORS 2018

In the last decade, a number of strategic investments and partnerships have been discussed between Slovenia and Germany, especially regarding the outdated railway network and the Luka Koper port, providing for the shortest access of sea cargo from Asia to Central Europe. German investors have been competing with Chinese, East European and others, but the domestic lobby groups in Slovenia have usually turned out to be the largest obstacle.

In 2016, the value of German foreign direct investment (FDI) stock was about €4 billion, accounting for 10% of total FDI stock, which placed Germany first among places of residence of foreign investors (Bank of Slovenia 2017).<sup>3</sup> In Slovenia, there were over 600 companies with German capital, most of which have performed well. In 2016, they directly employed 46,000 people and created revenues of €7 billion (KOCBEK 2017). The most important investments in the recent period were the one of Fraport into Ljubljana Airport, the purchase of the Adria Airways national carrier by the German investment fund 4K investment and the takeover of Letrika, a producer of electronic and electrical equipment

<sup>3</sup> The estimates differ as many German companies were present in Slovenia via Austrian affiliates which the Central Bank, according to its methodology, treated as an Austrian investment.

by Mahle Company. As evident from these cases, German investments basically followed the pattern of bilateral trade.

German businesses in Slovenia highlighted good conditions for research and development and a highly qualified labour force among the positive aspects of the business environment. According to the President of the Slovenian–German Chamber of Commerce, Gertrud Rantzen, the quality of the Slovenian labour force positioned Slovenia at the top of the CEE countries (Slovenian Press Agency 2017). Among the weaknesses, inflexible labour law, the cost of labour, the tax system and taxes were mentioned. Surveys demonstrated positive trends in the predictability of economic policy and the quality of the education system. Among CEE countries, Slovenia was traditionally in the top 5 of locations for doing business for German companies. In 2017, it placed second (the same as in 2011), behind the Czech Republic.

The economic crisis resulted in economic emigration. According to the Statistical Office of Slovenia, emigration, which was 4,000 a year in the period 2008–2011 doubled in the following years. By 2016, 51,928 people moved out of Slovenia. Germany, which used to be the main destination country for Slovenians was replaced by Austria where 2,000 people went each year (DERNOVŠEK 2016). In a county with no more than 2 million inhabitants, emigration of especially young and better educated persons was interpreted as a national disaster. In 2015, according to the Slovenian Embassy in Germany, 27,000 Slovenians lived in Germany. In the period 2005–2010, the number of Slovenians in Germany was in decline. In contrast, between 2010 and 2015 it increased by 35%.

## 4. Institutional Relations: A Good European but Where is Europe?

### 4.1. Euro-Atlantic integration

Following its independence, the main interest of Slovenia was to be recognised by the international community and join the Euro-Atlantic organisations such as the EU, NATO and OSCE. As a small country by definition, and having no or limited historical experience of foreign policy and diplomatic relations of its own, Slovenia sought support from multilateral organisations and international norms as a strategic opportunity and pragmatic choice (BOJINOVIĆ FENKO – ŠABIČ 2014; 2017).<sup>4</sup> Thus, its interests were aligned with those of Germany which was, albeit for different reasons, also a big supporter of multilateralism and of a strong role of common institutions and norms in international politics.

When pressured to choose between the U.S. and Germany, however, Slovenia chose the former. When German Chancellor Schröder decided to oppose the U.S. intervention in

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<sup>4</sup> As a frontrunner among the transition countries from Eastern Europe and thus ready to be used as an example for the others, and as a country which was committed towards its Euro-Atlantic partners but also kept good relations with Russia and China, Slovenia found its place in the international relations. It became non-permanent member of the Security Council in the mid-1990s and hosted a bilateral meeting between newly elected presidents of the U.S. and Russia, George W. Bush and Vladimir Putin in 2001. In the early period, Slovenia aimed to specialise in issues related with internationalisation of norms and institutions such as human rights and humanitarian issues, e.g. demining, and supported the rehabilitation of wounded children from the Middle East.

Iraq, the centre-left government, led by the Liberal-Democratic party of Slovenia, against the substantial opposition of public opinion at home, signed the Vilnius Statement, thus joining the other East European countries supporting the U.S., which in the U.S. rhetoric became known as the ‘New Europe’, as opposed to the ‘old European’ countries such as Germany and France.

The presidency of the EU Council, which Slovenia assumed with great pride in January 2008 as the first of the new member states, was carried out in cooperation with Portugal and Germany. The half-year period was characterised by issues such as the energy union, the EU constitutional treaty, relations with Russia and the Western Balkans. The Western Balkans has been particularly important for Slovenia for its proximity and past linkages. After turning away from the post-Yugoslavian space in the early period of independence, Slovenia later on realised the geostrategic importance of this region (BOJINOVIĆ FENKO – ŠABIČ 2014) where Germany also played an important role. Trying to live up to its new role, Slovenia followed the policy of Germany and became one of the first countries in the EU to recognise the independence of Kosovo – in spite of negative implications this had for its relations with Serbia, being one of its main non-EU trade partners.

In the security field, Slovenia has been involved in international operations in Afghanistan and Iraq, mainly with military instructors and often in close cooperation with Germany or under German command. The bulk of Slovenian forces was engaged in operations in the Western Balkans, e.g. in Kosovo (Ministry of Defence 2018), which was also one of the priority areas for Germany.

## 4.2. Alternative partnerships

The global and financial crisis and the Eurozone crisis weakened Slovenian capabilities, forcing it to focus all the available resources on staying solvent. The government of Borut Pahor (2008–2012) was committed to the European idea but at the same time sought opportunities in cooperation with fast growing and emerging economies, albeit at the expense of turning a blind eye to the human rights issues, with Libya being a notable example.<sup>5</sup> In 2012, during the vote on Palestine in the UN General Assembly, Slovenia abstained (as did Germany), against wide public support (BOJINOVIĆ FENKO – LOVEC 2015).

During the economic and financial crisis, the idea of joining the Visegrád 4, which seemed to grow in strength both economically and politically, was discussed. In the 1990s and up to the economic and financial crisis, Slovenian elites and citizens believed they were ‘too advanced’ to take part. The centre-right government of Janša was in power only in 2012–2013 and did not have enough time to move closer to the V4. The centre-left government of Cerar (2014–2018) preferred alliance with small countries in the core of the EU.

When Cerar’s government took over in 2014, Slovenia was under the close watch of its Euro-Atlantic partners for its good relations with Moscow – one of its most important non-EU trade partners – Slovenia had hoped to benefit from the South Stream pipeline

<sup>5</sup> The Libyan episode was especially telling since the government did not see the deal completed as the Arab Spring broke out in the Middle East and North African region sweeping the autocratic rules. Pahor’s government running out of money and ideas and unwilling to engage in serious cuts, collapsed.

project which was supposed to cross its territory. The project was, however, put on halt by the European Commission for violating the rules of the energy market. Germany was interested in the conflicting North Stream project. Even though Slovenia did not contest the sanctions against Russia, it was not a big supporter either. Moreover, in 2016, Slovenia was one of the first EU member states where Putin set foot following the annexation of Crimea. The government argued that the reason for the invitation was the 100<sup>th</sup> anniversary of a Russian chapel built at the site where an avalanche killed Russian prisoners of war during the First World War but this could not hide the fact that the event legitimised Putin's regime. According to unofficial information from Slovenian officials, the visit was discussed with the U.S. and German partners beforehand.

Slovenia has also participated in the "One belt one road" (OBOR) initiative by China. When some interest groups in Germany pushed for a close monitoring of the Chinese investments in the EU and sanctions against dumping based on state economy, Slovenia, like many other East European countries, was not particularly enthusiastic about it. In the end, there was no agreement on EU level on more substantial measures.

In the fight against the Asad regime in Syria, Slovenia provided support to the Kurds, just like Germany. In the negotiations over the Transatlantic Trade and Investment Partnership (TTIP), Germany turned out to be the strongest opponent of the U.S., with the SPD partners in the government coalition in Germany drawing red lines on the trade dispute settlement mechanism, food safety and other issues. Against the supportive stance of the main coalition party SMC, the Slovenian public opinion was very critical towards the TTIP (the relation between those against and those in favour was 4:1), just like in Germany.

### 4.3. Fast changing external environment

Following the suppression of the opposition after the failed coup in Turkey, tensions between the Erdogan regime and Germany increased. Tensions were already heated due to attempts of the Erdogan regime to use the migrant and refugee crisis as a leverage against Europe and the EU's criticism of political affairs in Turkey. The governments of Germany and of some other Northern EU member states with Turkish minorities pushed for the termination of the accession process with Turkey. In contrast, Slovenia, with a very small Turkish minority, and being one of the biggest supporters of the Turkish accession to the EU, argued for keeping the doors open (LOVEC 2016a; 2017).<sup>6</sup>

The U.K. vote to leave and the victory of Donald Trump at the U.S. elections challenged the perception of the EU and of the liberal international order as being taken for granted. In Slovenia, a pro-EU country and small and open economy, the disintegration trends and economic nationalism resulted in pessimism. The government supported some of the ideas put forward by David Cameron such as business friendlier environment and democratic control in the Eurozone, but was also averse to proposals on migration policy and the U.K.'s veto on the Eurozone matters (while Germany seemed to share some of the U.K.'s views on migration and business environment) (ŠELO ŠABIĆ et al. 2018). Both government and

<sup>6</sup> President of the National Assembly Milan Brglez criticised the decision by the European Parliament to terminate the accession negotiations process.

public opinion in Slovenia supported an ‘ever closer union’, something which was against the ideas of Cameron, while Merkel, seeing no real political support for a federation, pushed for flexible cooperation, also known as ‘multi-speed Europe’. As regards the election of Trump, the only positive thing seemed to be the fact that his wife Melania was a Slovenian, although not a particularly proud one.

The idea of a multi-speed Europe was received negatively in Slovenia. The idea was underlying the Commission President Juncker’s *White Book* on the future of the EU. It was a response to divisions between north and south and north and east in the EU and Brexit (ŠELO ŠABIČ et al. 2018). On the one hand, the idea that member states would be able to decide in which policies to participate was appealing, for it would strengthen the flexibility, accountability and, perhaps, also effectiveness of the decision-making. On the other hand, however, unity would be weakened further and the bigger member states would gain in strength due to the weakening of the common institutions. Moreover, there was no guarantee that the increased accountability would translate into positive developments in the second or third tier countries; to the contrary, with less institutional and other opportunities available and with the weakening of the EU as such, there would be more cause for nationalism and for ‘alternative partnerships’.

## **5. Specific Issues: Macron before Macron**

The new post-EU accession era in the relations between Slovenia and Germany was defined by two major crises: the Eurozone crisis and the migrant and refugee crisis. During both of these crises, Slovenia was a collateral in a conflict between Germany and camps opposing its policy – Southern members in the case of the Eurozone crisis and the East European countries in the case of the migrant crisis. The external pressure facilitated some anti-EU and anti-German sentiments on the centre-right and centre-left. The mainstream reaction was, however, a call for stability and more Europe.

### **5.1. The Eurozone crisis**

As already explained, the causes of the economic and financial crisis in Slovenia were in part domestic (institutional quality) and in part external (too low interest rates). What was particular about the Slovenian situation was that Slovenia – as many other East European countries – has been supporting the ‘German’ savings policy. Such position was not completely irrational as Slovenia was in fact in relative terms (relative to GDP) exposed the most to a potential Greek default. Moreover, as a small and open economy, Slovenia was exposed to changes in the external environment and to the speculation of financial markets. Throughout the crisis period, Slovenia supported further economic integration in terms of a fiscal and banking union as well as the strengthening of democratic control over the decision-making in the Euro group where smaller members often found themselves pushed aside.

In 2013, Slovenia was saved from defaulting by the changed ECB policy. After the government of Janez Janša fell apart in 2013 because of allegations of corruption, a technical



government led by Bratušek took over. During the years of crisis, debt accumulated in state owned banks which required urgent capitalisation.<sup>7</sup> After Bratušek did her short term, it was time for elections and for a new political government to take over. Janša, leader of SDS, who was imprisoned in 2014 during the elections campaign for corruption (his verdict was later repealed by the Constitutional Court) found himself without support from the EPP in the judicial process against him, which meant that the ties with the EPP and especially its German part were broken. The elections were won by a newcomer, Cerar, a law professor, and his party, which had a liberal progressive pro EU programme, similar to the big coalition in Germany. When Macron won the elections in France, many compared this landslide victory to the one of Cerar.<sup>8</sup>

## 5.2. The migrant and refugee crisis

In September 2015, after Hungary closed down its border with Serbia, Slovenia faced the first wave of migrants and refugees. Initially, police forces tried to stop migrants on the border, but the pressure of a growing number of people became too strong. In October, when Hungary closed down its border with Croatia, the situation was repeated, although in more dramatic proportions.<sup>9</sup> When target countries in Europe, including neighbouring Austria, started to curb their intake, the government panicked over Slovenia potentially turning into a migrant pocket which would in a matter of days result in a security and humanitarian crisis. Thus, in October, the government decided to give military forces police authorities and started to set a razor wire fence on the border with Croatia (BUČAR et al. 2017; LOVEC 2016b). The securitisation of the migration issue by the government, which was supposed to calm the population and offset the growing pressures by the centre-right opposition, had the opposite effect, creating an atmosphere of fear.

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<sup>7</sup> Under pressure from the European Commission (which had to approve state support) Slovenia had to haircut subordinated bond and shareholders, restructure and privatise its banks. Slovenia did those things before the new banking regulation became binding. The scope of the haircut and the fire sale privatisation soon became a source of controversies since they were not based on proper analyses. Thus, Slovenia seemed to serve as an example for other larger countries where the resolution of the banking sector would be needed, such as Italy (LOVEC 2018).

<sup>8</sup> Another newcomer to the parliament was the United Left, a party similar to Syriza of Greece or Podemos in Spain. Being a strong critic of the German policy on the Eurozone, the United Left in fact had linkages with German Die Linke. After Syriza won the elections in Greece and began to negotiate on restructuring of its debt, Slovenian Finance Minister at the time, Dušan Mramor, was – as later revealed by Greek Finance Minister at the time, Janis Varufakis – the one to say out loud at one of the Eurozone meetings that Eurozone should prepare for a “plan B”, i.e. Grexit, if Greece was not to accept the savings programme, thus basically saying what German Finance Minister Wolfgang Schäuble wanted to, but could not. Soon, however, both Varufakis and Mramor resigned.

<sup>9</sup> At first, Slovenia once again tried to establish Schengen controls. However, Croatia decided to pass the migrants onwards as soon as possible, and prevented Slovenian authorities from keeping migrants at the Croatian side of the border. The number of people entering Slovenia each day reached up to 12,500. With its small police force, Slovenia could hardly match security and humanitarian needs of such a number of people. While the number of incidents was relatively small, tensions emerged every time migrants felt they were not being allowed to proceed onwards.



German Chancellor Merkel commented on the reaction of her Slovenian colleague Cerar by saying: “See, what they had to do because there is no agreement on the distribution of burdens”, thus showing some understanding for his actions. It seemed as if Slovenia was used as a weak link to legitimise a return to ‘fortress Europe’. Germany was formally against closing down borders anywhere on the Western Balkan Route, as this would result in a local humanitarian and security crisis that could even spur into a regional conflict. However, at the time, Germany already started to limit the intake. Austria on the other hand, became more openly opposed to taking in new migrants. Austria, together with Slovenia and the other Western Balkan countries, with the support of a number of other EU member states, especially the Visegrád 4, and the European Commission, started to coordinate control over transit and measures to close down the route, which improved the management of the crisis on the ground and contributed to successful implementation of the EU–Turkey agreement that was supported by Germany (BUČAR et al. 2017).

The closure of the corridor in March 2016 saved the Cerar Government. Already in November 2015, when the Dutch Government leaked a plan of a ‘mini-Schengen’, leaving Slovenia out, the opposition argued Cerar should resign if this was to materialise. Later on, the centre-right opposition, especially Janša’s SDS, which was criticising directly Merkel’s policy, started to campaign against immigration and planned to hold rallies in ‘protection of the homeland’.

In contrast with Some East European member states, Slovenia did decide to accept its relocation quota, which was still relatively small (around 560 asylum seekers) and started implementing it. However, similarly to a number of other member states, Slovenia was opposed to the so called ‘automatic distribution key’,<sup>10</sup> which was supported by Germany. In spite of most of the people not seeing a single migrant and in spite of a very small number of them deciding to ask for asylum in Slovenia, the securitisation of the issue and the frustrations accumulated during the past crises supported reactionary politics.

## 6. Conclusions and Outlook

In the 1990s, Slovenia and Germany found out that they share many interests: the EU’s enlargement towards the East was a huge economic and political opportunity for both of them. Both needed the umbrella of joint norms, institutions and policies – Slovenia to avoid the reefs of transition and Germany to avoid the shadows from the past. Both came out of this period victorious – Slovenia as a frontrunner among transition countries, as an excellent pupil in the EU and ready to engage in a more active role and Germany as the only remaining great power in Europe. For Slovenia and Germany, however, this new era came with a price. Monetary union was in fact a political one without sound foundations in economics. Structural reforms, which should have been implemented over decades, preferably in times of high growth rates, were now concentrated in a couple of years of negative growth, resulting in huge political pressures. Moreover, the world around was changing very quickly with powers such as Russia trying to defend their geopolitical

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<sup>10</sup> According to the automatic distribution key, member states would not vote on each of the allocations since the latter would be pre-determined by a formula, known as the distribution key.

position and emerging economies such as China challenging the liberal democratic order, not to mention the split with the U.S. and U.K. in the Euro-Atlantic sphere.

Slovenia sought alternative partnerships through a pragmatic foreign policy but discovered several times that it depended more on the liberal democratic order – strong multilateral institutions and norms, stable environment for trade and investments – than the big proponents of such an order, for example Germany. This is not to say that the decisions to move closer to the smaller North European countries in support of the German policy was easy. The governments in Slovenia often realised that this brings significant costs in the short run. Moreover, the populist voices, challenging the liberal-democratic pro-EU stance have been strengthening on the left and right side of the political spectrum.

The period following 2004 has also been turbulent for the German–Slovenian relations. Following the Slovenian accession to the EU, the bilateral relations have strengthened further and were – as explained above – often described as ‘excellent’. The Eurozone crisis and the migrant and refugee crisis which have significantly affected Slovenia have done some damage, at least in the short term. Germany has been blamed for both of these crises. Some of the old and new political forces which have started to build on an anti-German attitude have, however, been too weak to really change the course of the bilateral relations. Moreover, increasing awareness of the growing global instability and dependence of Slovenia on the EU has, in many ways, brought Ljubljana even closer to Berlin. Germany was often seen as a warrant for the survival of the European integrations and peace and security in Europe.

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# Chapter 4

## Germany and Central Europe Drifting Apart? The Case of Croatia

*Sandro Knezović*

### 1. Introduction

Germany plays an important role in the Croatian political discourse since the very early stage of its independence in the early 1990s. It was a very prominent advocate of the recognition of Croatia's independence and among the first to officially recognise the country's statehood, prior to the joint European Commission (EC) recognition. While being a generous provider of humanitarian aid in the Homeland War period and a strong supporter of Croatia's European Union (EU) and North Atlantic Treaty Organisation (NATO) bid, it used extensively the possibilities provided by conditionality mechanisms and its role of one of the strongest members of both organisations to influence political and economic developments in Croatia and to maximise its influence in the post-Cold War period in Southeast Europe. An outspoken and sizeable Croatian community in Germany on the one hand and a necessity of post-unification Germany to regain political relevance in the post-Cold War era on the other significantly contributed to all of this.

The economic relations followed the trends of political ones, making Germany the most important foreign investor in Croatia and one of the most important trade partners. The increasing number of German tourists was very significant for the overall growth of this branch of the economy and provided significant assets for covering the large current account deficit. Remittances from Germany represented an important category in Croatian macroeconomic tables and charts as well, increasing the relevance of the former for the economy of the latter.

However, bilateral relations had their own ups and downs, being far from eternally harmonic. There were different disputes that burdened the relations between the two, especially related to policies in Southeast Europe. Furthermore, the accession of Croatia to the EU and NATO changed the wider context for relations, since it removed conditionality as a mechanism of influence over the acceding state. It resulted in Croatia undertaking regional initiatives, like Intermarium, that happened to oppose German interests in the Eastern European flank.

This paper will attempt to analyse German–Croatian relations in the context of the changing political environment characterised by various aforementioned elements. It will try to measure the institutional connectedness: the level of convergence of national policies of the two countries with broader joint EU policies, their position towards emerging global

challenges and geostrategic repositioning in the wider international arena, as well as the image of one another.

## **2. Bilateral Political Relations since 1989**

For Croatia, the essence of close relations with Germany in the contemporary international affairs goes back to the early 1990s and the period of formation of the modern Croatian state in a very complex international environment. The late 1980s and early 1990s brought many changes in Europe, including the dissolution of the former Soviet Union and Yugoslav federation that influenced dramatically the strategic landscape of the continent. In early 1991, the crisis in former Yugoslavia erupted, bringing along a high probability for an armed conflict. Regardless, the attitude of the German Government was actually along the lines of other Western powers, a combination of increasing concern and declarative optimism. The Kohl Government had many preoccupations that were more important than the precedent crisis – German reunification, the fall of the entire Warsaw Pact and the dissolution of the USSR in particular, as well as the Gulf War and all its consequences. This is the reason why it treated the militaristic rhetoric of nationalist parties in the region as an attempt to fortify their positions for the unavoidable negotiations about the future of the state. The resolution of the two north-western republics of former Yugoslavia (Slovenia and Croatia) to declare independence of the increasingly dysfunctional federation have received the same treatment. In that period, focused on maintaining a harmonious approach with other Western allies, Germany treated the crisis as one of an intra-state modernisation and democratisation process. This approach, dedicated to the preservation of the Yugoslav federation, prevented it from foreseeing the danger of growing Serbian nationalism that was hiding behind the concept of Yugoslav state unitarism. Therefore, different modalities related to the concept of a confederative state, acceptable to other Yugoslav republics, were never seriously taken into consideration by the German decision-makers at that time.

It was only after the first blood-shed, in late May 1991, that a joint statement of German Chancellor Kohl and French President Mitterrand ceased to mention a dedication to the concept of Yugoslav unity. This represented a first step in a gradual distancing from the policy pursued up to then, based predominantly on the information on the ground provided by German parliamentarians who were less eager to support the idea of maintaining a dysfunctional state by force. The changed attitude of the parliamentarians was best manifested by the adoption of a parliamentary resolution advocating the right of peoples in former Yugoslavia to autonomously decide their own political future.<sup>1</sup> However imperfect and burdened with some contradictions, the declaration represented a stepping-stone for a new German policy towards the crisis in former Yugoslavia. Highlighting the importance of principles of non-use of coercive measures in parallel with the abovementioned principle of self-determination, it represented a prelude for a moral support to Croatia and Slovenia in their efforts to declare independence. This had affected the German Government and

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<sup>1</sup> For the details about the parliamentary debate in the German Bundestag on this matter see the official stenogram (Deutscher Bundestag 1991).

indirectly the European political elite, raising awareness concerning the importance of the crisis in former Yugoslavia for the wider European political space.

The intensification of armed assaults of the former Yugoslav Army on Croatia only speeded up the process of wider international recognition of Croatia's sovereignty, despite very strong propaganda from Belgrade. However, only the siege and destruction of the ancient town of Dubrovnik that started in October 1991 have added enough symbolism and emotional energy to the proponents of the idea to provide effective countermeasures to Serbian aggression. This had dramatically strengthened the German argument about the right of self-determination of nations and the unsustainability of the Yugoslav federal state. This development in mid-December gradually led to the acceptance by the entire EC of the German position on the international recognition of any former Yugoslav republic meeting certain criteria that should have taken place on 15 January 1992.

However, Germany decided to unilaterally recognise Slovenia and Croatia on 23 December 1991, hence departing from the previous position that gave priority to the EC common stand and sparking fierce criticism among its European partners. There were several reasons for such an unprecedented German move: 1. Recently unified Germany was sending the message that it is back as a decisive player in the international arena; 2. It had certain economic interests in the two most developed western republics; 3. The influence of the active Croatian diaspora in Germany.

In the period that followed, Germany was significantly less outspoken when it came to issues related to the military conflict in Croatia, as well as to the one in Bosnia and Herzegovina (BiH), and all their consequences. As Ramet and Coffin put it, "Germany's passivity was rather a product of two major factors, reinforced by two minor factors. The major factors were a strong preference for multilateralism in international crisis management and the widespread consensus in policy circles that Article 24 of the German Basic Law barred the country from providing military forces in any capacity outside of NATO area. This latter consideration inevitably pushed Germany to the side-lines" (RAMET-COFFIN 2001, 53).

Nevertheless, due to the firm German support to the Croatian statehood almost from the beginning of the conflict, in the first half of the 1990s, the image of Germany in Croatia was extremely positive, sometimes even irrationally so.<sup>2</sup> An important role in that regard was played by the Croatian diaspora who had an important role not only in lobbying for German recognition of Croatian sovereignty, but also in portraying a desirable image of a functional society and a future potential model for the development of the Croatian state.<sup>3</sup> The new leverage of the united Germany in European affairs, that was increasingly mirrored in the developments in Southeast Europe, backed by its economic strength and a leading role in the process of European economic integration, was fundamental for the image of Germany in the wider Croatian society. The decades in which German tourists were spending their

<sup>2</sup> Along the line of strong national sentiment in the midst of the Homeland War, there were even songs composed to express gratitude to German support in the early 1990s.

<sup>3</sup> The estimation of the German authorities on Croats living in Germany differs from those of the Croatian Embassy in Berlin. German statistics show there are about 231,198 Croats in Germany. However, the Croatian Embassy in Berlin estimates there are more than 350,000 Croats living in Germany. For details see the Registry of Croatian Entities Abroad s. a.



vacation period on the Croatian coast created a sort of collective memory for both sides, which significantly helped in tightening societal bonds between the two states. All these developments helped to create a kind of 'harmonic relation' between them in the first few years after the international recognition of Croatian sovereignty.

However, it is not only bilateral issues that are decisive in the relationship between the two countries. The crisis in the former Yugoslav space became one of the toughest challenge for the newly formed European Union, as well as for Germany as its most influential member. The war in Bosnia and Herzegovina appeared to be the most complicated issue with many overlapping interests of regional and European players. Croatia's policy towards Bosnia and Herzegovina under President Tudjman's administration sparked a lot of criticism in the transatlantic community, Germany included, putting the country in a rather unfavourable international situation. Also, their estimation about the lack of political will for post-conflict regional co-operation and the unsatisfactory level of collaboration with the International Criminal Tribunal for the former Yugoslavia (ICTY) have complicated Croatia's position in the wider regional framework and in particular its bilateral relations with Germany, as one of the major proponents of regional consolidation based on criteria defined in a multilateral framework. Hence, the desired fast-track EU and NATO accession processes in the post-conflict period, that should have enabled Croatia to narrow the gap with the Central European countries, if not to catch up with their pace of reforms, did not occur. Instead, the country was blocked in its efforts to speed-up its accession processes and remained cemented in a rather unfavourable political construct called 'the Western Balkans'.

Only after the elections in early 2000, when a coalition of six opposition parties led by the centre-left Social Democratic Party (SDP) and the centre-right Croatian Social-Liberal Party (HSL) swept the parliamentary elections and dethroned the Croatian Democratic Union (HDZ), while their candidate also won the presidential ballots, has Croatia started implementing a real transitional reform process and improving bilateral relations with the countries of the transatlantic community, Germany in particular. This opened new perspectives for integration into the Euro-Atlantic community, a process that has been frozen for a long time owing to the lack of political will of the previous regime and its negative image abroad. One of the crucial preconditions for a new start was a structural change in the political system, i.e. reductions of the unnecessarily strong position of the president and the improvement of the position of parliament in it.

From that period onwards, especially after the introduction of the Stabilisation and Association Process (SAP),<sup>4</sup> Croatia started its steady pace of reforms in an attempt to meet the EU and NATO membership criteria. Since the reunited Germany recognised the potential EU enlargement process not only as a tool for consolidation, but also as an extension of its foreign policy interest and relevance, it offered generous political, material and expert assistance to Croatia. Hence, after a period of stagnation, the relations between the two countries started displaying a visible upward trend and Germany became one of the most outspoken proponents of Croatian accession to NATO and the EU in particular. Since Croatia was much more developed and better in meeting membership criteria than the other countries of the SAP, Germany regarded its accession to the EU and NATO as a positive example to the rest of the region and a contribution to its long-term consolidation.

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<sup>4</sup> For the details on the Stabilisation and Association Process, please see European Commission s. a.

On the other hand, being burdened by very cumbersome transitional issues and growing enlargement fatigue en route to membership, Croatia did its best to maximise the profit of support of one of the most influential EU member state. Being aware of the fact that not only meeting the criteria, but also fostering relations with influential member states, counts for the final decision to sign the accession treaty, Croatia treated bilateral relations with Germany as strategic for reaching its most important foreign policy goals.

Croatian accession to NATO in 2009 and integration into the EU in 2013 represented a confirmation of the country's mature stage of democratic consolidation and opened a new framework for co-operation between Croatia and other EU and NATO member states, Germany included.

### 3. Economic Relations since 1989

Germany is the most powerful economy in the EU. Its 16% of the population creates more than 20% of the entire GDP of the EU. Therefore, it is obvious that economic trends in Germany significantly influence the general macroeconomic EU data. Additionally, Germany is the single biggest exporter in the EU, amounting to almost a third of the overall EU's exports. Due to the volume of its economy and its high value of export, Germany is also one of the biggest importers in the EU, having almost 20% of share in its overall imports.<sup>5</sup>

On the other hand, in European terms, Croatia is a relatively small economy and a market of less than 5 million citizens, dependant on export markets. While the average share of commodity exports is 30% of the GDP and is hence still relatively low in comparison to the EU average, together with services export it has a significant share in the GDP – above 50%. Due to that, the overall commodity goods and services export had the biggest impact on the growth of the economy over the course of the last few years. Therefore, the importance of export markets, in particular of those of volume and size like the German, is absolutely clear.

Germany is one of the most important foreign trade partners for Croatia. More specifically, it is among the top five export markets for Croatian commodities and the most important one for Croatian services, almost two times more valuable than the second most important partner, Italy. Of course, the biggest revenue comes from the touristic sector which generates very valuable income, in which German tourists have traditionally had the biggest share for many decades.

The positive impact of Croatia's accession to the EU is visible in the growth of its trade in the period after the accession. Since the Croatian economy is very dependent on the growth of exports and on sizeable export markets, these figures are more than indicative for the overall change of business environment and the trade exchange between the two sides after the Croatian accession to the EU.

Furthermore, the correlation between the trends in the German economy and the Croatian exports to the German market is noticeable. Namely, when the German economy was shrinking, so were the Croatian exports to Germany and the other way around. Similar

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<sup>5</sup> For general information on German macroeconomic parameters see OECD Data 2018.

trends, if not the same, have been visible with the number of German tourists visiting the Croatian coast.

Table 1.  
*Correlation between the trends in the German economy  
and the Croatian exports to the German market*

	German GDP growth	Croatian exports to Germany (% growth)	Overnight stays of German tourists (% growth)
<b>2008</b>	1.1	14.0	1.2
<b>2009</b>	-5.6	-19.6	4.3
<b>2010</b>	4.1	11.5	0.2
<b>2011</b>	3.7	4.8	8.8
<b>2012</b>	0.5	1.5	11.7
<b>2013</b>	0.5	-0.7	3.5
<b>2014</b>	1.6	19.2	2.2
<b>2015</b>	1.7	12.2	6.9
<b>2016</b>	1.9	10.4	8.3

*Source:* The State Bureau of Statistics of the Republic of Croatia

This table clearly shows the practical example of connectedness of the growth of the German economy and the growth of its aggregate demand, which is in the end closely related to the growth of the value of imports of commodities and services. Therefore, the growth of big economies brings profit to the small ones as well, especially the export oriented, whose GDP significantly depends on the capacity to increase exports. Therefore, it is almost entirely impossible to analyse the growth or decline of the Croatian GDP without taking into account the trends in its most important foreign trade partners, where Germany still holds the first place. This is fairly relevant to Croatia due to the fact that the export of commodities and services amounts to up to one third of the aggregate demand (domestic and foreign) and hence significantly influences the trends of GDP and the entire economy.

As any other developing market economy, Croatia is in need for foreign direct investment. Germany also plays an important role in that regard. Among foreign direct investors in Croatia, Germany ranks third, after the Netherlands and Austria. In addition to major investments by German businesses including DAX-listed companies, numerous small and medium-sized German companies have set up subsidiaries in Croatia (German Federal Foreign Office s. a.). Furthermore, if we take a look at the longer period of almost 25 years (between 1993 and 2016), Germany ranks first with a share of 9.5% (Croatian Chamber of Economy 2018). The development of co-operation between the two sides is fostered by the institutions specifically designed for that purpose, like the German–Croatian Industrial and Trade Chamber that is providing assistance in the field of market entry, taxes and regulations, public relations, event management, translation and others.<sup>6</sup>

It is also worth mentioning that there is a growing economic co-operation between Croatia and some German federal states, like Bavaria and Baden-Württemberg, especially

<sup>6</sup> For details see German–Croatian Industrial and Trade Chamber s. a.

in the framework of the EU Strategy for the Danube Region.<sup>7</sup> Since the economy of scale sometimes simply disqualifies Croatia in comparative economic terms and production capacities from the list of potential partners at the federal level, there are numerous examples of economic co-operation with some German federal states, especially those where there is a visible Croatian community.

Hence, it is clear that a small economy like Croatia very much depends on big export markets, especially those where there are no political barriers for increased co-operation. In that regard, it is clear that access to the German market, as well as to other attractive markets in the EU and beyond, will remain crucial for the sustainable growth of the Croatian economy. If we add to that the enormous importance of the tourist sector for the Croatian current account balance and the role of German tourists in that field, the biggest European economy is likely to remain very important for Croatia.<sup>8</sup>

#### 4. Institutional Relations since 1989

The institutional relations between Croatia and Germany have undergone different stages, from the stormy period of dissolution of the former Yugoslav federation to the partner-like relationship in the EU and NATO, after Croatia's accession to the transatlantic structures.

After gaining sovereignty in the early 1990s, Croatia opted for membership in the transatlantic structures, showing an intention to abide by 'Western values' and change the society accordingly. This was, however, easier said than done, especially due to the fact that Croatia was both post-socialist and post-conflict with heavy burdens on the transitional process. Hence, the first twenty years of modern Croatian sovereignty was marked by enduring efforts to institutionalise its relations with the transatlantic community by becoming a full-fledged member of the EU and NATO. Therefore, the institutional relations with Germany in the EU and NATO can be fully measured only for the period after the membership (2009 for NATO and 2013 for the EU). Even for the relations between the two countries within the OSCE, which Croatia joined immediately after the international recognition of its sovereignty in 1992, it has to be taken into account that it had a mission of the OSCE deployed in the country until 2007 and an office operating until 2012.<sup>9</sup> The mission was closed in 2007 upon the decision of the OSCE Permanent Council, based on the conclusion that Croatia met all fundamental criteria set in the mission's mandate – media reform, electoral legislation reform, police reform and the creation of a framework for sustainable development of the civil society. The Office was created to monitor the war crime trials taking place in Croatia and was closed in 2012. This is telling of the fact that the OSCE mission was more of a multilateral tool for the oversight of democratic reforms in post-conflict Croatia than a multilateral forum for the development of institutional ties between it and any other participating state, Germany included.

<sup>7</sup> For details see European Commission 2016.

<sup>8</sup> Illustratively, in 2016, almost 2.3 million German tourists visited Croatia and made more than 17 million overnight stays. For details see Ministry of Tourism of the Republic of Croatia 2016, 26.

<sup>9</sup> For details see OSCE Mission in Croatia 2018.

Hence, while being more of a subject to debates and policies in the OSCE, Croatia was not primarily aiming at fostering bilateral relations within the OSCE, but rather at using the OSCE to justify its position and prove its democratic maturity in the wider political context. So, basically, the country was dedicated to showing its capacity to support the developing European positions and policies in different areas and align to them. In essence, these positions were created by the most dominant member states, where Germany plays a very significant role, so accordingly one would assume that the institutional relations between the two sides showed no significant setbacks and dissonances.

Overall, it would be rational to conclude that Croatia, in its pre-accession phase, has concentrated all its efforts on the finalisation of its accession processes to the EU and NATO and paid particular attention not to cause any harm to it by destabilising bilateral relations with one of the most influential member states like Germany. If we add to that the fresh memory of German support from the early 1990s, the impact of the economic exchange between the two countries, the impact of the Croatian community in Germany and the role of tourism in bridging the gap between the two sides and fostering direct exchanges, it is apparent that the institutional relations were predominantly harmonic, mirroring 'the situation on the ground'. Of course, a very relevant mechanism at the German disposal at that time was conditionality. Especially in the final phase of accession, Germany has taken the lead in defining the concrete criteria for a number of negotiating chapters as a response to a growing fatigue at the community level towards any further enlargement (HILLION 2010, 6).

However, after the strength of conditionality at Germany's disposal has weakened with Croatia's accession to the EU, some bilateral issues started popping up, changing slightly the image of harmonic relations between Germany and Croatia. The most important issue is a difference in approach to the long-term consolidation of Bosnia and Herzegovina. While Croatia has a constitutional obligation to ensure the preservation of the Croatian national corpus in BiH as a constitutive political actor, Germany argues in favour of a concept of civic state where citizens, regardless of national, religious and cultural background, are the pillars of the BiH political system, not the constitutional peoples. The difference between the pre-accession and the period of today is that Croatian policy towards BiH, while having to be in line with broader European policies, is not part of a conditionality mechanism. Instead, it is a matter of compromise among EU member states. So, while there is an evident difference in capacity to exert political influence in any particular case of European policy between Germany and Croatia, it is still evident that this is the issue of a specific Croatian interest. Therefore, it is likely that the country would do its best to punch above its weight in the European decision-making procedures to be able to safeguard the constitutional position of Croats in BiH.

Another issue worth mentioning is the policy initiative called Intermarium (The Three Seas Initiative),<sup>10</sup> initiated by Croatia and Poland, which is viewed with suspicion in Germany as a project that could potentially weaken the cohesion within the EU, but also weaken the German influence on its eastern neighbours. The initiative itself is framed

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<sup>10</sup> The Three Seas Initiative – also known as the Baltic, Adriatic, Black Sea (BABS) Initiative – gathers the following states: Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

with the idea to foster co-operation between the participating states in the areas of energy infrastructure primarily, but with the possibility to develop joint projects in the area of transport, economy, etc. However, it carries along a certain geopolitical dimension, i.e. the potential to be a buffer zone between two big players – Germany and Russia. This has been recognised by the United States (U.S.) and therefore Washington supported the initiative at the highest level – President Trump’s visit to Poland in 2017 was a clear sign of that.

However, regardless of these minor differences in the approach to particular issues, one can conclude that the Croatian–German bilateral relations, with certain ups and downs, have been relatively close and steady in the entire period in focus of our research. Germany has always been, and is likely to remain, a model of functional democracy and growing economy naturally attractive to Croatia. There are multiple interests that are likely to keep this relation relatively close – not only the narrative of close relations from the past, but also forward-looking political, economic and cultural ones. Potential hurdles could be related to Croatian attempts to position itself between the U.S. and the EU which have increasingly diverging interests over the last one or two years, and German attempts to apply some political models – like the one of civic state in BiH – to rapidly consolidate dysfunctional states in Southeast Europe without taking into consideration country-specific elements derived from the existing political context. However, this is unlikely to overshadow a wide range of evidence of close co-operation between the two sides in different bilateral and multilateral frameworks.

## 5. Policy-field Specific Relations

There are different policy-fields where Croatia’s policies and its activities in the wider EU context mirror close relations with Germany. Namely, the two states share the attitude towards further EU and NATO enlargement in the Western Balkans. Both processes, regardless of the existent enlargement fatigue, are viewed as the most appropriate tool for the consolidation of the region. Of course, both countries are insisting on firm conditionality for that goal to be achieved. The candidate states have to undergo a thorough democratic reform process in order to meet the demanding criteria for membership and Germany and Croatia are undertaking concrete measures to provide assistance to that. Germany is the main promoter of the so-called Berlin Process<sup>11</sup> which has been designed to reiterate the EU’s commitment to membership perspectives of the SAP states laid down in the Thessaloniki Agenda from 2003.<sup>12</sup> Croatia on its part, as the newest EU member state connected to that group of countries, has a particular interest and responsibility to support the accession process by sharing recent experience and knowledge, hence contributing to the long-term stabilisation of the region. Therefore, it is using its comparative advantages – no language barrier, common history, geographic proximity and similarity of transitional difficulties – to encourage and foster necessary reform processes in the region.

Croatia is investing a lot of efforts into aligning to the highest possible level with the Common Foreign and Security Policy (CFSP) of the EU. Accordingly, from the very

<sup>11</sup> For details see Civil Society Forum of the Western Balkans 2018.

<sup>12</sup> For details see European Commission 2003.

beginning of the Ukrainian crisis, Croatia clearly supported joint EU policies towards Russia, including the sanctions. Croatia also decided to show solidarity with the U.K. in the aftermath of the Skripal spy-poisoning scandal, following the reactions of the majority of countries from the transatlantic community, and expelled one Russian diplomat. However, there is an overall impression that Croatia made this move in order to show its willingness to contribute to CFSP coherence in crisis situation rather than to really line up with the U.K. In practical terms, Croatia's foreign trade with Russia is fairly low, so the consequences of reciprocity in the sanction period are not hurting the national economy to an unbearable extent. Unlike other countries of the region, there is no significant Russian FDI in the country and hence no decisive political influence over its decision-making process in general. In other words, Russia's leverage in Croatia is far lower than in countries of its surrounding and hence aligning strongly with the EU policies vis-à-vis Russia does not come at a political price that is too high.

While being an EU member since 2013, Croatia is still to become a member of the Schengen Area. The incumbent and current government were both very dedicated to meeting all technical criteria for the membership and the process is in its final stages, while political considerations at the EU level following the migrant crisis and some remaining bilateral issues with neighbouring members could slightly slow down the process. The Croatian Government has defined joining the Schengen Area and the Eurozone in the upcoming period as two very important goals of its European policy. Hence, Croatia still firmly sticks to the idea of free movement within the European Union and is doing its utmost to join the treaty as soon as possible. It has shown an excellent capacity to withdraw the large amount of EU funds available for that aim, boosting its capabilities to take all responsibilities of the Schengen membership, and is therefore expected to join in 2019.<sup>13</sup> In that regard, it has received concrete reassurances of the highest representatives of the EC<sup>14</sup> and support of the German officials. For Croatia, this is of recognisable importance due to the fact that its south-eastern borders represent also an EU external border towards the SAP countries and it is extremely difficult to control it without being able to use the capacities of the Schengen Area. Border management is of fundamental importance in this context, especially due to the fact that there are numerous potential threats to the EU stemming from the region – organised crime, terrorism, illegal migration, among others.

As for the migration policy at the EU level, it is clear that “contemporary challenges seek for a common and comprehensive EU policy, and there is an obvious track record of developments in that direction, but the single policy document still does not exist. The issue of solidarity among member states and with those in need for refuge and immigration, as one of the basic principles of functional immigration policy (laid down in Article 80 of the TFEU) is frequently questioned, especially in times of crisis when member states should take the share of burden of a common policy. That was clearly displayed with the crisis in 2015–2016 when EC quota proposal sparked many tense debates and mutual accusations” (KNEZOVIC–GROŠINIĆ 2017, 7). In practical terms, it was clear that the crisis stimulated EU member states to depart from declarative statements about solidarity at the community level and lock themselves in their national clusters, trying to defend their national interests.

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<sup>13</sup> For details see Schengen Visa Info 2017.

<sup>14</sup> For details see Gulf Times 2017.



So, Croatia found itself on the immigrants' route, surrounded by EU member states that were erecting physical barriers to prevent the flow of immigrants (Hungary built a heavy border barrier and Slovenia erected the barbed wire fence) and the SAP states (like Serbia) with strained bilateral relations dating back to the conflict period in the early 1990s, channelling the flow of immigrants to Croatia. Furthermore, one should not forget the fact that only recently before the crisis, Croatia was dealing with the migration policy as with only one of many to align to in its final accession phase. Suddenly, it found itself in the situation of the newest member state of the EU on the immigrants' route, forced to deal with the issue in a very volatile and non-cooperative regional set-up. Regardless of the aforementioned challenges, it maintained its humanitarian approach to the challenge during the 2015–2016 crisis, refraining from erecting physical borders and maximising efforts to facilitate the transit to Western European countries. In that regard, there were clear displays of bilateral co-operation between Croatia as a transit state and Germany as a destination state in order to, together with other states in between, facilitate the easier flow of the immigrants. In line with that, Croatia did not object significantly to the concept of immigrant quotas and reallocation scheme proposed by the EC. On the contrary, as an EU member state willing to share a burden of what is supposed to become a common migration policy of the EU, it already started implementing the EU relocation scheme in 2016.<sup>15</sup>

Taking the aforementioned examples into account, one may conclude that the concrete field-specific examples confirm relatively close relations between Croatia and Germany. While there are some differences in approaches to respective issues, depending on the momentum of analysis and political background governing structures at the national level, fundamentally the two states share views and interests in many cases. Hence, regardless of a few aforementioned examples of minor discrepancies, it is unlikely that unexpected changes will take place in that regard.

## 6. Conclusions

The bilateral relations between Croatia and Germany have been relatively close and steady during the last three decades, regardless of existing discords over some important issues. It started at the very early stage of Croatia's fight for the international recognition of its sovereignty and against the occupation by the former Yugoslav People's Army (JNA) and Serb paramilitary forces. The Croatian diaspora in Germany played a big role in this context, as well as the societal consequences of the traditional orientation of German tourists towards the Croatian coastline as one of their favourite destinations. These bonds represented a solid backbone for the development of economic co-operation between the two sides and support of Germany towards Croatia's EU and NATO accession processes. The united Germany in the post-Cold War period represented a strategic partner for Croatia in its bid to join the institutions of the transatlantic community. On the other hand, Germany needs a reliable ally in its attempts to steer the European policies towards the wider Southeast Europe and contribute to its long-term consolidation in the increasingly volatile geostrategic framework marked by numerous unconventional threats.

<sup>15</sup> For details see Reuters 2016.



However, the accession to the EU and NATO has deprived Germany of the privilege to use the conditionality mechanism in Croatia's pre-accession phase to influence its reform processes and policy orientations. From this time onwards, we are witnessing a 'more autonomous' formulation of Croatian foreign policy in the newly created regional frameworks (Intermarium) and attempts to fine-tune its strategic balance between Washington and Brussels, depending on the issue at stake. Also, Croatia is insisting on protecting the constitutional position of the Croat national corpus in BiH and practically opposing the German ideas of re-constructing BiH as a civil state. While these examples prove the increasing 'autonomy' of Croatian European policies, they actually do not blur the general picture of close relations and a high percentage of convergence of national interests and policies of Croatia and Germany in the European framework and beyond. This said, one should not disregard the obvious difference in relevance and leverage between the two, which is relevant indeed in defining positions and policy-making in the EU context.

In conclusion, Germany not only has a strong symbolic importance for contemporary Croatian policy-making, with its role in the 1990s and 'bridge communities' like Croatian guest workers in Germany and German tourists in Croatia, but a very concrete political and economic leverage in European and global terms. On top of that, fundamentally, the two countries share basic ideological and functional views about the future of the region of Southeast Europe, the EU and beyond, and therefore minor ad hoc differences are unlikely to avert the existing trends in the relations between the two.

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# Chapter 5

## From Confrontation to Unequal Partnership: Germany and its Policy towards Serbia

*Jelena Volić-Hellbusch – Marko Savković*

### 1. Introduction

The aim of this paper is to understand how the relationship between Germany and Serbia has changed over the course of more than 25 years, constituting the end of the 20<sup>th</sup> and the beginning of 21<sup>st</sup> century. We argue that Berlin's tacit support of the political changes of 2012 has gradually given Serbia access and clout that is perhaps unrivalled in Serbian history. To understand how the two countries got to this point, we have analysed foreign, development and economic policy, giving special emphasis to those events we consider to be "formative" (bringing about a change or announcing a new stage in the given relationship). Ultimately, we ask how thought through, coherent and legitimate – from the point of view of Serbia as recipient – were the policies being pursued.

The relationship between Serbia and Germany is first and foremost unequal at all levels: one is a big country, with over 80 million inhabitants, the other a small one, with just over 7 million. One is a powerful economy, while the other is a developing one. Germany is a Central European country, considered to be the backbone of the European Union (EU), while the other is situated at Europe's unstable periphery, only a candidate for membership. Finally, the first is a great (again, European) culture, speaking the language of Goethe, while the other belongs to a small culture that has shrunk further as the 20<sup>th</sup> century came to a close. Moving to the realm of politics, Germany has reached unification, while Serbia as a political entity has gone through successive dissolutions. The greatest discrepancy, however, Serbia and Germany show with regard to interpreting their own relations through history. While the Serbs "see themselves" as victims of history, Germany's establishment is the one that has acted and continues to act today, by proposing new initiatives, formats for cooperation, along with policy demands that produce very concrete consequences.<sup>1</sup> These factors, all taken together, have made mutual understanding difficult.

Due to weakness and neglect of historiography, Serbia is incapable of making its own perception of history relevant in a European context. Serbia is still not able to develop its own, integral historical consciousness. On the other hand, the economic and political might of Germany and the role it has in international affairs means it will focus on those partners

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<sup>1</sup> It should be said, and will be elaborated further, that the civil society is more and more the actor providing advice within this process.

it finds relevant, partly ignoring historical relations with others. In turn this enables creative freedom, with historical facts now being interpreted in accordance with short-term interests. This is a phenomenon seen not only in the practice of German–Serbian relations, but also in relations between Germany as a power, and other less relevant countries belonging to the European cultural circle. Such a relationship has allowed for the reawakening of supposedly forgotten prejudices and a rise of resentment in countries that came out from the 20<sup>th</sup> century – objectively or subjectively – as victims.

In our analysis of how relations between the two countries evolved over 25 years of history, we start with considering formative events, move on to dominant perceptions, then present policy mechanisms and initiatives utilised by Germany. Methodologically, we set the priorities on identifying the main “bone of contention” in the relations of the two countries today, further pointing out and focusing on two of Germany’s key interests and finally conclude with an estimation of policy legitimacy, coherence and continuity.

## 2. Formative Events in the Relationship of the Two Countries

Over the past two centuries, the Serbian state and society have encountered grave challenges: numerous conflicts, frequent changes of borders and political and social upheaval. In the 19<sup>th</sup> and first half of the 20<sup>th</sup> century, the Serbian elite felt as part of a European social and spiritual space, and was striving towards European liberal and democratic principles, values and ideals. Not only through acceptance of political ideals and models (TRGOVČEVIĆ 2003, 32–41), but also through its own work in the fields of science, art and literature, it overcame existing political and cultural borders and barriers of deep-entrenched historical and religious prejudice, thus keeping in with dominant European social and cultural movements.

During the 20<sup>th</sup> century, relations between Germany and Serbia were by and large defined by conflict, the two countries going into war three times albeit not knowing of such traumatic experiences for decades before. In both the Great War (WWI) and Second World War (WWII) Germany was the one that invaded Serbia (Kingdom of Yugoslavia in 1941). Although initially the German army defeated their Serbian opponents, ultimately the German state was defeated, while Serbia found itself on the side of victors. Historical analysis of relations between Germans and Serbs cannot avoid discussion of war(s) and consequences of resulting antagonism. The scope and character of the conflict and its implications has inevitably left a deep imprint in the consciousness and collective memory of both nations, Serbia in particular (PETRANOVIĆ 1992, 739). WWII, which for Serbia started when German aviation mercilessly bombed Belgrade on 6 April 1941, with the German Wehrmacht being the chief occupation force that conducted unprecedented reprisals against the civil population,<sup>2</sup> has resulted in strong animosity and deep-rooted mistrust in Serbia towards Germans (known under the somewhat derogatory nickname “Švabe”, Schwaben).

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<sup>2</sup> Out of these, the one that has stayed the longest with the Serbs’ collective memory is most definitely the “100 for 1” policy of reprisal, where, starting soon after the beginning of the German occupation, the Wehrmacht – aided by local collaborators – shot the civilian population in a well-organised (and documented) way. For one of the most disturbing, and moving recollections (in Serbian), written on the 70th anniversary of the massacre in Šumarice (Kragujevac), see GLIGORIJEVIĆ 2011.

Following the end of WWII, as it quickly recuperated, the German economy became one of former Yugoslavia's most important trading partners. However, in the period immediately following 1945, relations were to a significant degree conditioned by the Cold War, and the existence of two separate and ideologically opposed German states since 1949. A peace treaty was never signed, rather Yugoslavia ended the state of war by announcing it unilaterally in 1951 (MILOSEVIC 2010), with the goal of establishing official relations. However, when Socialist Yugoslavia recognised the German Democratic Republic, Bonn activated the so-called Hallstein Doctrine, breaking diplomatic relations in October 1957 (Deutsche Welle 2007). Nevertheless, economic cooperation continued: Germany's need for foreign workers opened the door for many Yugoslav citizens, leading to the renewal of diplomatic relations in 1968. Real normalisation of relations between the two countries was reached in 1973, following successful negotiations between Josip Broz Tito and Willy Brandt ending in the signing of the Brioni Agreement<sup>3</sup> (ĆIRKOVIĆ 2011).

As the 20<sup>th</sup> century came to a close, the intellectual and political elite of former Yugoslavia proved unprepared to face the radical change of the constellation of powers following the fall of the Berlin Wall and the end of the Cold War in 1989. New circumstances led to a situation where the interests of Yugoslavia, its former republics and that of the great powers diverged. In the 1990s Serbia found itself participating in successive wars (from 1991 to 1995 and in 1998–1999) as its international isolation grew. Such a course of events resulted in a series of negative consequences for the state, the social stability and the economic development.

The dissolution of Yugoslavia most certainly represented the first low point in recent relations between Germany and Serbia. The German Government was the one to insist on the recognition of Croatia and Slovenia in late 1991, as the war was raging on. Here the role played by German Foreign Minister at the time, Hans-Dietrich Genscher, is often considered to be of paramount importance. "Loved by the Croats, hated by the Serbs", Genscher insisted on the right of self-determination for both Croats and the Slovenes (RATHFELDER 2016). The nascent countries' diplomatic offensive was greatly aided by Belgrade's instrumentalisation of the Yugoslav People's Army, whose indiscriminate shelling of Dubrovnik and Vukovar turned the public opinion decisively against Milosevic and his allies. Thus Erich Rathfelder concludes: "The role Genscher played in this conflict is certainly being exaggerated on both the Croatian and the Serbian side. A faster reaction from the West could have prevented much of the hostilities. However, if Serbian politicians today claim that recognition of Croatia had triggered the war in Yugoslavia, one must ask the question: who and how started the war [...] Genscher certainly did not destroy

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<sup>3</sup> This "gentleman's agreement" (labelled as such by Vladimir Ivanovic, due to the fact that no original form in writing has ever been disclosed to the public) resolved some of the most pressing issues surrounding the relationship between Yugoslavia and West Germany, namely the upkeep of military and civilian cemeteries, cooperation on the prosecution of political extremists in Brandt's country who were Yugoslav émigrés, possibility for West Germans to invest more in the Yugoslav economy and the rights of Yugoslav citizens working in West Germany (*gastarbeiters*). Two issues were resolved implicitly, by not being elaborated at all – the issue of restitution (Germany accepting that it had to pay for what it did in WWII in some way) and the Danube Germans.

Yugoslavia” (RATHFELDER 2016). Ivan Ivanji<sup>4</sup> recalls: “Genscher approached his Yugoslav counterpart [at the time], Budimir Loncar, suggesting if Yugoslavia is going to break apart, it should be done peacefully, as it was the case with the Soviet Union [which was just going through a mostly peaceful disintegration]. He first came to Belgrade, where he talked to [Ante] Markovic, [Slobodan] Milosevic and [Budimir] Loncar and then flew to Zagreb and Ljubljana [...] but his airplane was intercepted by aircrafts of the Yugoslav Air Force and escorted out of Yugoslav airspace. He then had to land in Graz, [Milan] Kucan and [Franjo] Tudjman were there too; furious, he gave up being a peace broker” (Radio Television of Serbia 2016).

In the spring of 1999, a new generation of German political leaders would initiate one of the most controversial foreign and security policy decisions made post-WWII. Berlin decided to join the NATO bombing campaign in order to pressure Serbia (at the time Federal Republic of Yugoslavia) and Milosevic as its President to cease hostilities in Kosovo, and accept the West-brokered ceasefire, which would imply some kind of international presence. This was the second low point. The German Government making this decision was composed of left-wing parties, the Social Democrats (led by Gerhard Schröder) and the Alliance 90/The Greens (with Joschka Fischer as leader and Foreign Minister). After 78 days of targeted strikes, which left – by accounts of the Humanitarian Law Centre – 758 people dead (Humanitarian Law Centre 2012), and with the agreement signed in Kumanovo hostilities ceased as the Yugoslav (Serbian) forces prepared to leave Kosovo. German forces were among those who entered it on 11 June 1999, as part of NATO’s KFOR (Kosovo Force); Berlin is still contributing to KFOR, almost 20 years later, with some 200 soldiers.

Milosevic’s ousting from power in October 2000 meant a break with the practices of the 1990s within the society, as well as in international relations. Changes helped place Serbia once again on the map of global and European politics, announcing the long-awaited start of normalisation and (foreign) policy alignment with the new geopolitical reality, as well as with rules and values of the international community, which was at the time dominated by “the West”. Comparing international relations with a natural environment in which there is too much upheaval (famous for his metaphors, late Prime Minister Zoran Djindjic used the expression “storms”) and too little moral thinking and consideration, Djindjic said how for “one state’s incapability to orientate itself you cannot blame its surroundings” (KOVACEVIC 2018, 180–182). He continued by emphasising how, if “we” (as Serbian nation and society) want to be more successful than we were in the past (20<sup>th</sup>) century, we must, by analysing global trends, try and understand how our environment has been changing, which would then inevitably lead to a redefinition of our relationship towards ourselves and our environment. His warning is still valid today: the post-2008 global economic crisis and recession, coupled with the Eurozone crisis has led to new changes in the international (global, European and regional) context Serbia is facing. Without support from the EU, and in particular Germany as one of its key members, it would face new difficulties in its

<sup>4</sup> Ivan Ivanji (1929) is a Jewish–Serbian author of many internationally renowned novels. He was held in Auschwitz and Buchenwald during 1944 and 1945. He was Secretary General of the Yugoslav Writers’ Union from 1982 to 1988. His most recent book is a fictionalised account of his pre-World War II experiences in the town of Zrenjanin (Betschkerek) in the Banat.



political and economic development; which is why cooperation with Berlin must be one of the priorities for Belgrade, as it strives towards EU membership.

### 3. Dominant Perceptions of Germany and Its Policies

There is awareness that cooperation with Germany is of crucial importance for Serbia: as we shall see, it is today firmly in the elites' narrative. However, on the path towards improvement of relations stand certain obstacles, political and historical by character. European integration and German companies' investments are not the only points of reference for this relationship; history has a role to play too, one that should not be so easily dismissed. Observed from this latter perspective, the two countries share deep historical antagonism(s). Researched in Serbia, but not in Germany due to lack of interest, these are now growing in importance, as understanding of conflicting interpretations of the past has actually comprised an important dimension of post-WWII reconciliation. Let us observe for a moment the Franco–German rapprochement, today considered a cornerstone of European integration: where were Paris and Berlin in 1945, and where only 20 years later? As we witness the “grand return” of history to mainstream discussions on the future of Europe (NOUGAYREDE 2018) we need to consider how positive it would be to reach common interpretations of events and problems. Here we would have to concentrate our attention, first and foremost, on Germany's role in the break-up of former Yugoslavia, as well as its establishment's point of view taken in the two decades of searching for solutions in the post-Yugoslav space.

The first and most dominant perception would be that of Germany as a “respected enemy”; one that has fought against Serbia “three times” – first in the Great War, then in WWII, and finally in 1999 when its air force participated in the NATO bombing campaign. In a revealing interview, Predrag Markovic, an influential historian and politician,<sup>5</sup> endorses such views by saying how “the Germans” have provided more help in (to) Bosnia and Herzegovina and Kosovo, then in (to) Serbia; adding how “since 1991 not a single decision [by Germany] was made in favour of the Serbs”. He went back to the events of 1941, stressing that the German military government permitted refugees from the so-called Independent State of Croatia to enter Serbia (thus completing the ethnic cleansing that was going on at the time). “They say”, goes on Markovic, “we are providing help, and here you are angry with us for breaking-up your country” (sic!). Germany has not showed a single friendly gesture towards Serbia. They have provided assistance to other countries in the region, and I find the argument somewhat humiliating. Assistance cannot match all the destruction and damages” (ANOJČIĆ 2013). Markovic is joined by political analyst Miodrag Radojevic, who believes there is a stereotype where we [the Serbs] respect and think highly of the Germans, but do not have an emotional attachment of any kind: “In two world wars we were bombed by German aircraft, and then again in 1999. They caused the breakup of Yugoslavia and were first to recognize Slovenia and Croatia. Even Chancellor Merkel's visit [in August 2011] is best remembered by her ultimatum that Serbia will not progress in European integration unless it recognizes Kosovo” (ANOJČIĆ 2013). Radojevic concludes

<sup>5</sup> Vice President of the Socialist Party of Serbia, which is part of the ruling coalition.



his point by repeating a common speculation that Germany has not forgotten defeats in two world wars, which is why it is “vengeful” towards Serbia.

Sociologist Milan Nikolic shares a more balanced view. He believes that Serbs today see Germany as “someone” who “disciplines, conditions and punishes” (ANOJČIĆ 2013). At the same time, citizens are not informed of the scale of assistance that is being provided. Here we have another generalisation: Germans as holders of expertise and efficient managers, and Serbs as spiteful, conflict-prone and disorganised.

Berlin’s tacit support to the political changes of 2012 – when the Democratic Party lost power to the Serbian Progressive Party – gradually gave this country access and clout that is perhaps unrivalled in Serbian history. Once it became clear that the Boris Tadic-led Democratic Party will not “deliver”<sup>6</sup> on Kosovo, the political machine under the control of CDU started its approach to the Progressives. Following the Progressive Party’s consolidation of power in March 2014 (by winning the Belgrade local elections), the two countries established a “special partnership” of their own. Without much thought, Germany had become a “role model” for the Serbian political elite to follow; but what they considered was not its vibrant media scene, civil society, political culture or pluralism; rather, certain aspects of its economic model, translated into flagship initiatives. For instance, changes in approach to vocational training, by introducing aspects of the German “dual education” system, have become one of the government’s main “vehicles” for wider reform of the education.<sup>7</sup> Germany’s (rational) support to Serbia developing alternative sources of energy has been translated into state subsidies for selected businessmen. The model image of Germany is also supported by the incumbent Prime Minister, Ana Brnabic (“For many people in Serbia, Germany is an example of ideal state”, Deutsche Welle 2017), who – to her credit – apart from economic prowess, has included “respect for human rights and the rights of minorities as well as the values of a modern society” (Deutsche Welle 2017) in her reasoning.

However, in the words of Ivan Ivanji, one of the foremost living authorities on Germany in Serbia, “too much flattery to Germany and German politicians, from Adenauer to Merkel, may be counterproductive, as at times it looks almost comical” (Kurir 2017). One of the most recent points of contention concerns the monument to Danube Germans, who – as active collaborators of Nazi regime in occupied Vojvodina (and Serbia) – were taken prisoners, kept in inhumane conditions (with many dying) and expelled post-1945. Under Prime Minister Vucic, the descendants’ long-standing initiative to mark one of the places of their suffering was accepted and a monument was inaugurated on 6 May 2017, in the village of Backi Jarak. There, under the command of the new Yugoslav Government a camp was created in which, from December 1944 until 16 April 1946, 6,500 people, mostly women

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<sup>6</sup> “Deliver” – the term most frequently used within the policy community – translates to some sort of agreement that in exchange for continuing and eventually completing its European integration, the political leaders of Serbia would be prepared slowly to relinquish the last instances of its sovereignty in Kosovo.

<sup>7</sup> Examples where “dual education” is presented as a sort of a panacea for Serbia’s ills are numerous. For instance: “Vucic: Dual education is the most important topic for the future, 150,000 young people are neither getting their education or working” (Blic 2016); or “Vucic: Dual education for meaningful and thorough change of Serbia” (Radio Television of Serbia 2017). It should also be said that apart from Germany, Austria and Switzerland – both with significant investments in Serbia – are also supporting and advising the government’s actions in this regard.

and children, died. Upon unveiling it, German Ambassador Axel Dittmann conveyed the gratitude of the German Chancellor to Serbia's Prime Minister, without whom "erecting the monument would have not been possible" (N1 2017a).

#### **4. Policy Mechanisms and Initiatives Utilised by Germany**

For a number of reasons, the key framework for the policy relationship between Germany and Serbia has been the European integration process. It remains and will remain the common denominator, that constant, which, with multilateralism, today forms the backbone of Germany's foreign policy. Development and strengthening democracy, peace and security, coexistence and cooperation with neighbours, overcoming the past and consequences of the events from the near past, along with creating preconditions for reunification were among the reasons why Germany decided in 1949 to tie its fortunes to Europe's. Reasons for Serbia to do the same are more or less identical.

Germany pursues its interests in Serbia through a number of policy mechanisms and initiatives. First and foremost, there are state visits and meetings at the highest level. For instance, President Vucic has met Chancellor Merkel 12 times over the course of six years (Blic 2018); which means that he has met his German counterpart on more occasions than any political leader in Serbia's history.

Then there are negotiations leading to the country's accession to the EU; taking place, chapter-by-chapter, in Brussels, but discussed when necessary at (European) Council meetings. This framework is set to become even more important with the mechanisms announced in the new Western Balkans Strategy: "detailed action plans" and "advisory missions"; existing – "operational cooperation on migration"; "investment framework" (European Commission 2018, 10–12); and planned – as the Commission starts working on six of its "flagship initiatives" which should give it an upper hand in vying for influence in the region.

Furthermore, there are programs led by the German Agency for International Cooperation – GIZ. Originally a government agency, since 2013 a federal enterprise and "implementing partner" of the German Government, GIZ employs some 150 people in Serbia, working on 23 projects, worth 84 million Euros. The Agency's portfolio in Serbia ranges from education, over energy (with specific emphasis on renewable sources), water supply and sanitation to "government and civil society" which includes administration, judiciary, and European integration in general. These programs are of great importance, as they require significant "buy-in" from the state, granting access to the implementing agency itself (in this case GIZ) and keeping Serbia and its elites engaged within what is undoubtedly a framework for reform.

In the fourth place, Germany was instrumental in launching what is today called "the Berlin Process", back in 2014. Following the European Council summit that was held in Thessaloniki in 2003, it was planned that a separate EU–Western Balkans meeting would take place annually. This, however, never came to be and as the years passed, the "European perspective" seemed ever more distant. Understanding the risks that may come out of neglecting the region, official Berlin – aided by a community of experts and friends of the enlargement – came up with a format which was meant, from the beginning, not as

a “substitute”, but a “facilitating mechanism”, “encouragement” for regional cooperation and ultimately, integration into the EU (NIKOLIC et al. 2015, 20). Here Germany did not work alone, though; several countries interested in the region, for example Austria, France, Italy and the United Kingdom (U.K.), and to an extent Slovenia and Croatia, provided support. Concluding this year, the Process will amount to five conferences (Berlin in 2014; Vienna in 2015; Paris in 2016; Trieste in 2017 ending with London in July 2018). The highest levels of decision-makers attended each of them, be it heads of state or foreign ministers. In Trieste last year, Angela Merkel was joined by her French and Italian counterparts, Emmanuel Macron and Paolo Gentiloni, sending – again – messages of encouragement. Finally, economic and civil society fora, timed to coincide with the main event, augment the Berlin Process. However, what will happen with the Process after London is anyone’s guess; no country has applied for taking over the helm from the U.K. It is said in the aforementioned Strategy that, following the Western Balkans summit in Sofia in May 2018, “cooperation [...] would be supported by increased participation of the Western Balkans in informal Councils as well as regular Ministerial level contacts” (European Commission 2018, 9). Where does this then leave the Berlin Process, remains unclear.

Of particular interest and importance must also be the role played by the European Parliament’s Special Rapporteur for Serbia, Member of the European Parliament (MEP) David McAllister. Born in Berlin to a British father who was an official in the British Army, raised bilingually in German and English, McAllister started his rise in CDU’s ranks as a member of the Lower Saxony Parliament from 1998 to 2014. On 1 July 2010, he was elected Prime Minister of Lower Saxony, an office that he held until 2013. As a regional chair of CDU in Lower Saxony, he was the party’s lead candidate in the European Parliament elections in 2014, becoming a MEP. Furthermore, he was elected vice president in two important party groupings: the International Democratic Union (IDU) and the European People’s Party; the latter of particular importance for Serbia’s Progressives. In the European Parliament, McAllister is Chair of the Committee on Foreign Affairs, and member of delegations for relations with both the United States and NATO. Trusted by Chancellor Merkel, he has occupied the symbolically important – and influential – position of Special Rapporteur, underlining Germany’s special relationship and interest for Serbia. Next to the reports prepared by the European Commission through its local delegations, rapporteurs’ insights are one of the indicators of a country’s success in meeting accession criteria and conditions, but also, to the general disposition towards its leadership. Both the opposition and parts of the civil society criticised McAllister for leniency and apparent lack of criticism directed at the government (N1 2018b).

Another important tool for Germany (and Serbia) to use could be policies pursued by individual states. One such example concerns the state of Baden-Württemberg, an industrial powerhouse, and the Autonomous Province of Vojvodina. Initiated in 2007, it never met its full potential; the reason why being a perfect illustration of the complexities surrounding the relationship between Belgrade and Berlin. When learning of the initiative, President Tadic insisted that he himself should sign the agreement formalising it; thus causing an issue of order of precedence that has not been resolved until today. Every few years – and for the last time in March 2018 – a delegation would come to visit Serbia, but without any practical outcome. What would be exchanged instead were many good wishes for increased cooperation. As of 2015, no actual framework for cooperation was established and even

then, Vojvodina's Secretary for Regional Cooperation was only speaking of setting up teams that would initiate concrete projects (AP Vojvodina 2015). Three years and one change of government later, the Committee for Agriculture of the Vojvodina Assembly will finally visit Baden-Württemberg in June 2018, while the province itself will be the "special guest" at the International Danube Festival in Ulm (RTV Pannon 2018).

There is support to programs bringing together "next generation leaders", helping them to get a more prominent role in Serbia's society while strengthening their ties to Germany. One outstanding example, certainly engaging some of the best and brightest young minds concerns the work of the Foundation Zoran Djindjic, which, for over a decade now, has been implementing a program of internships in major German companies – in cooperation and with financial support of the German Government. Starting with the 2017 budget, the Foundation's activities have been financed by the Government of Serbia (Istinomer 2016).

Finally, when it comes to the interests of Germany, a consensus seems to be forming. Serbia (and to a lesser extent, Bosnia and Macedonia) is to become one of the "workshops" for Germany, providing cheap(er) but adequately qualified labour; in the words of Dusan Reljic, an "elongation of its production cycle" (RELJIC 2017). Numbers substantiate his claim. As of 2017, Germany has become the leading exporter to Serbia; and second in terms of imports (Ekapija 2017). This is a culmination of a trend that, according to Serbia's Chamber of Commerce started in 2011. The value of goods imported from Germany to Serbia reached approximately 2 billion Euros in 2017, with 1.6 billion Euros of goods exported (Statistical Office of the Republic of Serbia 2018). German companies (or, companies with German nationals as majority shareholders) with production and retail sites in Serbia employ little over 30,000 people in what is in many ways a scarce labour market. The German–Serbian Chamber of Commerce (AHK) lists over 300 companies as its members. Therefore, it comes as no surprise that German companies are seen as "most desirable investors" in Serbia, according to an AHK's survey conducted in April 2017. When asked why, citizens list "a well-developed economy and industry", "reliability", "quality of product", "efficiency" and "accuracy" (N1 2017b). One notable example concerns the growth of the automotive industry, initiated by FIAT's takeover of "Zastava automobili" Kragujevac plant in 2008. In several mid-size cities that are also important regional centres, investors such as Drexelmaier have all but drained the available labour market of qualified workers by offering comparatively better pay; with locals running small and medium enterprises (SMEs) left to complain: "These are [...] foreign companies encouraged and subsidized from our country to invest here and of course this leaves small business owners, employers in a unfavourable position. The big ones are being favoured over the small" (N1 2018a). The company's director in Serbia replied that they have not been receiving subsidies since 2012, and how, despite that, they were able to double their workforce.

## **5. The "Kosovo Issue" as the Main Bone of Contention in Foreign Policy**

Following the approach taken by the West, throughout the past decade Germany has considered the following as key conditions for Serbia's European integration process:

1. delivering those indicted for war crimes to the International Tribunal in the Hague;

2. reconciliation and building of good neighbourly relations between the countries of former Yugoslavia; and 3. internal reforms, alignment of legislation, establishing the rule of law, fight against corruption and crime. The first two conditions were necessary steps in the process through which Serbia, seen by Germany and most of the international public as the main culprit behind the wars of the 1990s, had to go through in order to meet the EU's expectations and enable full democratisation of its state and its society. In setting these conditions, Germany was led by its own historical experience.

These good neighbourly relations within the region of the Western Balkans include, among others, the resolution of the "Kosovo Issue", which a prevailing majority of analysts today understand as a key obstacle on Serbia's path towards European integration. Berlin's official point of view is that Kosovo's independence is an undeniable – and irreversible – fact, especially since the opinion issued by the International Court of Justice on 22 July 2010, in which it is claimed that Kosovo's independence is in line with international law. Nevertheless, Serbia has persisted on what its consecutive leaders insist is the defence of its territorial integrity and sovereignty. In doing so, they have continued to enlist the support of Russia and China, two permanent United Nations' Security Council (UNSC) members who insist that Kosovo's independence did in fact constitute a breach of international law. Here is one aspect of Serbia's foreign policy where the two countries frequently collide, as Germany, together with other permanent members of the UNSC, is a supporter and promoter of Kosovo's independence.<sup>8</sup>

As of 2018 and after several years of stalemate, the "final settlement" has come down to one known possible outcome, and two more or less unknown. First would be the "two Germanys" model, first proposed by Wolfgang Ischinger at the negotiations that were leading up to Kosovo's (unilateral declaration of) independence. An agreement akin to the one reached in 1972 would exclude formal recognition, but stipulate exchange of diplomatic representatives and opening of diplomatic missions; Serbia would not object to Kosovo's membership in the United Nations and other international organisations. In turn, Serbs in Kosovo would be granted personal autonomy through the "Association/Community of Serb Municipalities", first agreed on back in 2013 as part of the Brussels Agreement.

However, as both sides seem to be less enthusiastic about implementing what was agreed five years ago, another option – dreaded by Germany – has taken centre stage; and that is the partition of Kosovo followed by an exchange of territories with Serbia. Numerous reasons have contributed to this option resurfacing: the failure of integration of the Kosovo Serbs; that the North Kosovo region was never under Pristina's control to begin with; protracted efforts at increasing the number of the so-called "recognisers" of Kosovo's independence; the lack of capacity – or willingness – of the Kosovo elite for effective governance; shifting balance of power with Russia, Turkey and China being more assertive in the region of the Western Balkans; and a general perception that the idea of a multi-ethnic state in Kosovo is failing. For Germany, this option is unacceptable as, in the words of

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<sup>8</sup> For instance, Germany is among the most respected members of the international community calling for Kosovo's membership in various international organisations while Serbia tries to oppose this. UNESCO and Interpol membership for Kosovo constitutes one such example. However, to the best of our knowledge, to avoid the risk of alienating Belgrade, Germany does not exert direct pressure on Serbia itself to cease its opposition.

Christian Hellbach, Coordinator for South East Europe and Turkey in the German Foreign Ministry, “what would start in Kosovo [as partition] would end in Bosnia” (HELLBACH 2018).

And lastly, there is the third option, Serbia’s position being ignored altogether, with “the West” placing all its authority behind Pristina. This would undoubtedly end Serbia’s EU membership bid, alienate the country from the West and Germany in particular, and push it closer into the orbit of third powers we have mentioned, with the potential for renewed conflict increasing.

## **6. Conclusion: An Estimate of Policy Legitimacy, Coherence and Continuity**

Wars fought in the area of former Yugoslavia have contributed to a negative perception of Germans in Serbia, and to a lesser degree, Serbs in Germany. Apart from mainstream politics, media reporting played a role in this as well, reinforcing existing stereotypes. One of the most persistent concerns is Germany’s alleged decisive role in the dissolution of former Yugoslavia. Furthermore, German foreign policy is often interpreted as hegemonic, even firmly anti-Serbian. There remains a strong, and to a degree justified, impression that Germany, in every historically critical moment acted against Serb interests.

Reasons for the lack of trust we find in recent history. As Yugoslavia disintegrated, Germany did not act neutrally, as a mediator between warring parties. It never saw official Belgrade, or its Serbian leadership as sincere in its calls for “saving” the country through an (internal) military intervention. In providing support to Slovenia and Croatia, which strived towards independence, Germany for a time even went against views upheld by its closest allies – the United States, France and Great Britain. The timing of Germany’s recognition seriously undermined the efforts of the peace conference chaired by Lord Carrington and Cyrus Vance; though it was, once again, Milosevic who ended it (KOSTIC 2007). It would be, however, naïve to presume that Yugoslavia could have somehow be saved and led towards peaceful transition if only Germany had acted differently. A well-prepared conflict was under way; faced with the indiscriminate crushing of the armed rebellion and with repeated rejections of peace overtures, Germany accepted the “internationalisation” option, asserting itself in the international arena.

Berlin participated in the international embargo against Serbia (from 30 May 1992 until 2 October 1996) and contributed with its contingent to UNPROFOR in Bosnia and Herzegovina. German aircraft flew sorties in the 1999 bombing campaign and supported Kosovo Albanians in their quest for independence. For Germany therefore, the Kosovo War marked a turning point in its own right, as it was for the first time since 1949 that German troops took an active role in a conflict abroad. Germany has been a supporter and promoter of an independent Kosovo, an issue of greatest importance – symbolic and real – for Belgrade. Its troops were the ones that intervened when, on 27 September 2011 and 1 June 2012, local Serbs aided by various organisations<sup>9</sup> attempted to erect barricades in response to the Kosovo Police Service taking over one of the two administrative crossings with Serbia.

<sup>9</sup> These organisations were predominantly inspired by the ideology of nationalism and had strong ties to organised crime elements present in the north of Kosovo.



Finally, over the now almost two decades since the democratic changes, Germany has remained one of the countries insisting on Serbia meeting strict conditions in order to progress towards European integration, championing the EU's "conditionality policy". It was Berlin that stopped all talk of Serbia being granted candidate status in December 2011, despite the positive opinion of the European Commission. And it was Berlin again in September 2012 setting additional conditions for candidacy, reacting to Belgrade's unwillingness – or inability – to grant concessions over Kosovo. In Serbia's public opinion such a German policy was rationalised by its traditionally close relations with Croats and the Slovenes; but also, alleged revanchism for being defeated "by Serbian arms" (PETRANOVIĆ 1992, 740) in both the Great War and WWII. This is followed by what amounts to conspiracy theories, seeing Berlin's enormous economic clout as a new tool for the continuation of policies defeated in previous global conflicts. Nevertheless, following its significant political investment in the successive Progressive governments of Aleksandar Vucic, and Serbia's commendable approach to the migrant crisis in the summer of 2015, Germany today is indeed one of Serbia's closest partners in foreign policy.

For the time being, the Kosovo issue remains the greatest point of contention between the two countries. This however does not prevent cooperation in other areas; German–Polish relations were much more controversial, and yet have been to a large extent normalised, with facilitation and framework provided by the European integration process. Finally, Germany ended up being one of the strongest advocates for Poland's – and the entire Visegrád Group's – accession to the EU. There is a stream of thinking calling for applying similar logic to relations between Belgrade and Pristina; if only the political elite of Serbia would accept what many have called the "reality on the ground". This being unlikely, relations between Germany and Serbia are facing their toughest test yet.

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## Chapter 6

# Polish–German Relations between 1989–2016: Bandwagoning and Its Limits

*Rafał Ulatowski*

The collapse of the bipolar world order in 1989–1990 has opened a new window of opportunity for the improvement of Polish–German relations. The first visit of Chancellor Helmut Kohl to Poland in November 1989 marked a new beginning. Not only was it highly symbolic, but many bilateral agreements were signed which marked the beginning of a new political and legal basis for these relations. It was also a clear first step. The fact that Chancellor Kohl had to interrupt his visit to Poland due to the fall of the Berlin Wall confirmed that. The issue of German unification was back on the agenda, and the future of European politics lay open.

As Kenneth Waltz writes in *Theory of International Politics*, weak states can choose one of two strategies in their relations with strong states: bandwagoning or balancing. Bandwagoning is a strategy that is opposed to balancing. Waltz argues that the weak state will choose this strategy when there are no prospects of successful balancing (WALTZ 1979). While balancing means to ally oneself with a weaker power, bandwagoning means to ally oneself with the stronger power. As Stephen Walt writes, weak states ‘are more likely to opt for the winning side’ (WALT 1985, 17). As Randall L. Schweller suggests, the goal of a weak state may be to profit from this. This strategy may be a useful tool for strengthening the weaker party (SCHWELLER 1994). The discussion around balancing and bandwagoning also features in international political economy. As E. Heginbotham and R. J. Samuels argue, while relatively economically strong countries compete for the leading position in the technological race, those without a developed scientific and technical base will probably bond with a stronger partner (HEGINBOTHAM–SAMUELS 1998). A literature analysis concerning bandwagoning suggests that in the early 1990s, Germany was the ideal choice for Poland to partner up with. An alliance with the United States and Germany would strengthen Poland’s international standing and support internal reforms.

The aim of this chapter is to evaluate the initiation, development and limits of Poland bandwagoning with Germany in the last quarter of the century. I will argue that bandwagoning was characteristic of Polish policy toward Germany up until Poland’s accession to the EU. Since then, both countries have clashed on numerous issues.

This chapter is structured as follows. Firstly, I will evaluate the historical, legal and geopolitical background of the establishment of ‘new’ Polish–German relations in 1989–1990; secondly, I will analyse Polish–German political relations; and in the third part I will consider economic issues. In the final part, the role of relations with Russia in the context of energy security will be analysed.

## 1. Towards 'New' Polish–German Relations

One crucial element of the 'new' beginning in Polish–German relations was the signature of two treaties. The first one was the Treaty between the Federal Republic of Germany and the Republic of Poland on the confirmation of the border between them, which was signed on 14 November 1990; the second being the Treaty between the Republic of Poland and the Federal Republic of Germany on Good Neighbourliness and Friendly Cooperation, signed on 17 June 1991. The Treaty on Good Neighbourliness was intended to bring about a new era in bilateral relations.

The signing of the German–Polish Border Treaty was extremely important. During Germany's unification process in 1989–1990, Chancellor Helmut Kohl's position as regards the German–Polish border was ambiguous. There was concern that the reunification of Germany might re-open the border issue. The diplomatic efforts of Poland led to four great powers (the USSR, the USA, the United Kingdom and France) supporting the border status quo. The Border Treaty ended the contention of the German Government on the border issue (BARCZ 1994). On the other hand, the Treaty on Good Neighbourliness would open a new era in Polish–German relations. Four thematic issues are distinguishable in the structure of the treaty. The first one concerns provisions on the principles of bilateral relations. The second thematic issue is devoted to the establishment of a system of political consultations. The third includes very important regulations regarding the issues of the German minority in Poland and people of Polish descent in Germany. The fourth thematic issue covers areas of bilateral cooperation. This part is very detailed. Out of the long list of areas of cooperation, we should especially focus on the economic and financial one, which in the following decades would be of great interest (JANICKI et al. 1992).

Polish–German (FRG) relations were weighed down by historical conflicts and 40 years of belonging to opposing political alliances. The first efforts to improve bilateral relations, undertaken in the 1950s and 1960s, brought little success. The first signs of improvement came in the 1970s with the new eastern policy of Chancellor Willy Brandt and then Helmut Schmidt. But the process was hampered due to belonging to opposite political blocs, as well as the dramatic deterioration of the economic situation in Poland in the 1980s. The attempts of 40 years to improve relations did not result in much (BINGEN 1998).

After the start of democratic reforms in Poland in 1989, a new foreign policy was formulated. The goal became to integrate with the institutions of Western Europe and the Euro-Atlantic area, especially to accede to NATO and join the European Union (EU). The accession to the EU would strengthen democratic principles in the political system, increase security, consolidate the market economy, and improve Poland's international standing (SKUBISZEWSKI 1994). Germany was seen as the most important partner since it was regarded as the most powerful country in Europe, whose support or lack thereof might decide the success or failure of Polish foreign policy (KUŹNIAR 2008, 64–65). For Poland, integration with the EU was a question of Polish–German relations. As Foreign Minister Krzysztof Skubiszewski indicated, improvement of relations with Germany was his primary goal (BARTOSZEWSKI 2009, 10). The Polish Ambassador in Berlin, Janusz Reiter (1990–1995), suggested that for Poland, much like for France, European policy was primarily an issue of relations with Germany (REITER 1996, 109). The term coined by Polish Foreign Minister Krzysztof Skubiszewski, the "Polish–German community of

interest” (MALINOWSKI–MILDENBERGER 2001), may indicate how important the relations were. Poland’s diplomatic goal was to build this community.

Germany also wanted to improve relations with Poland. It did not want to remain an external border of the EU and was interested in the extension of the “western European zone of stability [...] toward east” (SCHMIDT 1996, 212). Partnership with countries in Central and Eastern Europe was one of Germany’s defined foreign policy priorities in the early 1990s. Three terms should describe these relations: stability, cooperation and integration. The EU’s enlargement was considered to be in Germany’s national interest (Weißbuch 1994). There was also a strong economic interest in strengthening relations with central European countries. These presented new markets for German products, investment opportunities for German companies, and a possible supply of cheap natural resources and semi-finished products (HAFTENDORN 1997, 142). It is important to note that Germany gave special attention to relations with Poland, which played a key role in German attempts to reshape this part of Europe (LIPPERT 1996, 127–128).

## 2. Political Relations between Germany and Poland

Political relations between Poland and Germany in the last quarter of the century may be divided into four periods. The first one was about “creating the political and treaty foundations of good neighbourliness (1989–1992)”. The second period was “the first stage of implementing the treaty on good neighbourliness (1993–1998)”. The third was “the stage of disruptions in the implementation of the good neighbourhood policy (1998–2007)”, and the fourth period may be called “the pragmatic stage in the implementation of the good neighbourhood policy (2007–2016)” (POPLAWSKI, Dariusz 2016). The 1990s were a time of great optimism in Polish–German relations. The language was determined by a group of politicians, journalists, scholars and activists who worked on improving Polish–German relations and who, in the 1990s, saw the chance for their ‘plans’ to come to fruition. The 1990s (the first and second periods) brought about the improvement of bilateral relations, including relationships between the people. A variety of public initiatives, including the establishment of a German–Polish Youth Office and partnerships between Polish and German cities began to form a part of bilateral relations.

But reconciliation proved to be limited. Already in the mid-1990s, some participants in the reconciliation process held the belief that things were not going well. Klaus Bachmann wrote in 1994 about the “kitsch of reconciliation” (BACHMANN 1994). Artur Hajnicz declared that “instead of a deep close-up, there was a blast of distrust” (HAJNICZ 1995, 45). This was a new and critical view of the development of Polish–German relations. It contrasted radically with the assurances given by political leaders that there was an excellent atmosphere in Polish–German relations.

In the 1990s, the interest of both governments was centred around the issue of Polish accession to the EU and NATO. Germany’s role was especially important in Poland’s attempts to join the EU. It proved to be a successful promoter of a double strategy: the simultaneous deepening and enlargement of the EU (HILZ 2016, 117). There was a popular phrase going around which said that “the road from Warsaw to Brussels passes through Berlin”. It was not only geographically but also politically correct. But Poland’s accession

to the EU brought about a new era in Polish–German relations. The early 21<sup>st</sup> century saw Poland and Germany holding different views as regards some of the most important issues in international politics.

Firstly, there was Germany’s opposition towards intervention in Iraq led by the United States. In contrast, Poland supported it. The German position concerning the conflict put Poland in an uncomfortable place. Poland sees in the United States the main guarantor of its security and its most important military ally (ZAJĄC 2009). The disagreement between Germany and the United States forced Poland to support one of the two – a situation it wished to avoid (WIĘC 2011).

Another example of the growing differences between German and Polish governments was the decision, taken in 2005 by the government of Gerhard Schröder, to build the Nord Stream pipeline together with Russia. Germany saw it as a commercial project which was important both in terms of European energy security and developing a closer relationship between Germany, the EU and Russia. On the other hand, Poland regarded the project as a deepening of the EU’s energy dependence on Russia, which handed it a powerful means to influence European affairs. After Russia halted the delivery of gas through Ukraine during the winter of 2008–2009, German politicians started to pay more attention to energy security. However, the project was continued. The Nord Stream raises the question of Russia’s future role in Europe and how this potential role is to be interpreted. Poland sees Russia mostly as a threat, while Germany sees it as an opportunity (OCHMANN 2011).

The third issue that Poland and Germany were divided on in the first decade was the issue of reforming the EU. For a long time, Poland opposed proposals that strengthened the largest Member States and that were supported by Germany (KOSZEL 2010). The fourth issue was related to German historical policy. The concept of “Centre Against Expulsions” which was promoted by BdV and personalised by the CDU politician Erika Steinbach opened once more the discussion about the Second World War and the period directly following its end (RUCHNIEWICZ 2011). As this short review demonstrates, in the first decade of the 21<sup>st</sup> century there was already a clear marked shift from the 1990s. In the relevant literature, the term “partnership from long distance” was coined (WOLFF-POWĘSKA 2004).

At the end of the first decade of the 21<sup>st</sup> century, Polish and German politicians put more effort into reducing tensions. The international situation had also changed, and the global financial crisis shifted the German interest toward the Eurozone. Polish and German interests were once again similar. During his speech in Berlin in 2011, Polish Foreign Minister Radek Sikorski even argued that he feared “German power less than German inactivity” (SIKORSKI 2011). At the time, the countries were only divided on energy and climate policy (GAWLIKOWSKA-FYK et al. 2017). Germany was working on transforming the European energy system to one based on renewable energy sources, while Poland was more sceptical and expected exemptions for its energy system that, traditionally, had been based on local coal reserves.

Since 2015, relations have deteriorated once again as Chancellor Angela Merkel has overhauled the German migration policy and opened the borders to migrants. This step did not enjoy the sympathy of the Polish Government in Warsaw, neither before nor after the election in 2015. Despite that, the PO–PSL Government accepted the quotas in the last months of its tenure. But the new government is not willing to support this policy and it refused the mandatory EU quotas for refugees that were promoted by Germany. The two

countries have differing views on major European policies (energy, climate protection, immigration and the rule of law). However, they share similar perspectives on the Euro crisis as well as on relations with Russia in the context of the Ukrainian crisis (MALINOWSKI 2016).

### 3. Economic Relations between Germany and Poland

The development of economic relations with Germany has been very important for Polish foreign policy since the early 1990s. In the joint 1989 Kohl–Mazowiecki declaration, it was stated that “the special importance of their economic and financial cooperation is a factor that strengthens and enlivens their overall relationship. They will therefore continue their efforts to create favourable conditions for the further development of this cooperation” (Die Bundesregierung 1989). As Minister Krzysztof Skubiszewski argued: “We attach great importance to Polish–German cooperation in all areas, and first of all in the economic, technological and financial sphere. Greater involvement of German capital in Poland, especially investments of large corporations, is desirable” (SKUBISZEWSKI 1997, 327).

The first steps of the development of economic relations were focused on the management of Poland’s debt and the stabilisation of its economy. Poland had been unable to fully pay back its foreign debt since the 1980s. This was due to an economic strategy implemented in the 1970s when Poland financed its growth with foreign credits and the import of foreign technologies. Although that helped to modernise the structure of the economy, it did not improve the competitiveness of Polish exporters enough, leaving the country unable to pay back its foreign debt (OLSZAŃSKI 2002, 24–25).

At the end of 1989, Poland’s foreign debt had reached 40.3 billion USD, out of which foreign governments held 27.7 billion USD and foreign banks held 9.2 billion USD (SACHS–LIPTON 1990, 57). Germany proved to be a crucial partner for Poland in solving its problem with debt. By the end of 1990, Germany became Poland’s largest creditor in the Paris Club (public creditors) with a share of 23.9% (7.7 billion USD). Simultaneously, the German mark (DM) was the second most significant currency in the structure of Poland’s total debt, second only to the US Dollar. The end of the year saw Polish debt in German currency rise to a value of 16.5 billion DM. Poland’s goal was to achieve a substantial reduction of foreign debt – up to 80%. During negotiations with seventeen creditors united in the Paris Club from March to April 1991, a reduction of the net present value (NPV) by 50% was achieved. The agreement was signed on 21 April 1991. It also allowed a higher debt reduction as well as the conversion of 10% of the debt into a fund for the realisation of bilaterally agreed targets. The agreement covered all of Poland’s commitments to the Paris Agreements (1982–1984, 1985, 1986–1988, 1989–1990) and the obligations arising from the loans it received before 1 January 1984. Negotiations with the London Club uniting private creditors lasted longer than intended by the Polish side. At first, the British Barclays Bank presided over the London Club. This role was taken over by Dresdner Bank in September 1993 (SULIMIERSKI 1991; SULIMIERSKI 1994). Its position was in line with the stand of the German Government, which was one of the advocates of the agreement between Poland and its loan holders (TOMALA 1995). With a share of 24%, German banks were Poland’s largest creditor in the London Club (SULIMIERSKI 1993, 142). An agreement was concluded in 1994. Germany was thus the largest Polish creditor in both the Paris and London Clubs. The *Agreement between the Government of the Federal Republic*



*of Germany and the Government of the Republic of Poland on the Reduction and Restructuring of the External Debt of the Republic of Poland* was signed in Warsaw on 25 March 1992.

The second problem related to Poland's debt with Germany was a so-called Jumbo credit. The agreement concerning this credit was signed in 1975 and it was an element in the Polish–German rapprochement of the 1970s (DAVIS 1999, 89–92). Despite favourable terms of credit, Poland was unable to repay it in the next decade and it became a problem in bilateral relations. On 7 November 1989, Chancellor Helmut Kohl and Prime Minister Tadeusz Mazowiecki came to an agreement on restructuring this debt. The German Government cancelled overdue payment obligations to the value of 760 million DM, while the remaining Polish liabilities (570 million DM) were credited, in Polish Złoty, to the account of the Foundation for German–Polish Cooperation (Die Bundesregierung 1989; ŁODZIŃSKI 1997). However, due to Germany's position in the world economy, its involvement in Polish economic reforms was significantly larger than simply participating in the restructuring of Polish foreign debt. Important was also the 'German share' of funds provided by the European Communities, the International Monetary Fund, the World Bank, etc. (SZELAŃGOWSKA 2004, 69–71).

All of the above directs the analysis towards the issue of German financial assistance (aid) towards Poland's economic transformation. This was first raised by Federal Chancellor Kohl when he addressed the European Parliament on 22 November 1989 concerning the "[...] hour of European solidarity" (KOHL 1989, 1134) towards the countries of eastern and central Europe. 'International aid' is a transfer of resources on the international stage which is not a consequence of market forces. It is a donation made by governments or by international organisations (KOŁODZIEJCZYK-MIECIEK 2002, 235). The structure of German assistance for the Polish reform process reflected a strategic German assumption that aid provided can only be a "help for self-help" (Weißbuch 1994, 33). Germany was unwilling to go beyond the standard level, which was usually agreed on a multilateral basis, and in the performance of the 'aid' great attention was paid to the interests of German industry (export promotion). Therefore, the solution to the problem of Polish debt and the extent of its reduction and restructuring, as well as the guarantees from the Federal Government for export credits played a significant role.

Table 1.

*German support for the reform process in Poland, 1990–1998 (in million DM)*

Guarantees from the Federal Government for export credits (Hermes)	3,882.8
Untied financial loans	422
Guarantee for investments	1,302.1
Credit Guarantee on the basis of the Agreement of 25 March 1992	4,534.5
Agreement on Jumbo loan	1,364.4
Debt relief in the Paris Club	4,534.5
Interest rate subsidies	137.6
Humanitarian aid	21.4
Technical aid	481.7
Transferrable balance with the interest expenses	2,886
German share of EU benefits	2,379
<b>Total</b>	<b>21,946</b>

Source: KOŁODZIEJCZYK-MIECIEK 2002, 255.

The successful development of economic relations would not be possible without a solid legal basis. Since 1989, Poland and Germany have signed numerous bilateral agreements regulating economic relations. The most important two are:

- A. Agreement between the Polish People's Republic and the Federal Republic of Germany on the promotion and mutual protection of investments from 10 November 1989 (Umowa między Polską Rzeczpospolitą Ludową a Republiką Federalną Niemiec w sprawie popierania i wzajemnej ochrony inwestycji z 10 listopada 1989 roku 1991);
- B. Agreement between the Republic of Poland and the Federal Republic of Germany on the avoidance of double taxation in respect of income tax and assets from 14 May 2003 (Umowa między Polską Rzeczpospolitą a Republiką Federalną Niemiec w sprawie unikania podwójnego opodatkowania w zakresie podatku od dochodów i od majątku z 14 maja 2003 roku 2004).

An issue that was critically important for the successful development of Polish–German economic relations was the successful implementation of economic reforms. At the end of 1989, the ‘Balcerowicz program’ (named after Finance Minister Leszek Balcerowicz) was adopted and came into force on 1 January 1990. This ‘shock therapy’ (BALCEROWICZ 1994) foresaw an immediate and complete shift of the economic system towards a market economy. Although the program of reforms included strong neoliberal elements, the model of a social market economy, was seen as a reference point for the Polish reforms (KLEER 2002).

Apart from bilateral steps to develop economic relations, the international aspect has to be factored in as well. The process of European integration was an important catalyst for the development of Polish–German economic relations. The first decisions were taken by the European Economic Community in November 1989. Cooperation under the PHARE program was initiated, Poland was included in the Generalised System of Preferences, and quantitative restrictions on imports from Poland were abolished starting on 1 January 1990. The Europe Agreement of 16 December 1991 provided a basis for comprehensive cooperation between Poland and the EC. It set a trend. Within ten years, it established a free trade area for industrial products between the EC and Poland. This was set up during two consecutive five-year phases. The opening up of the market was asymmetric – first the EC–EU opened up its own market, followed by Poland later. Over the next few years, more agreements were signed that liberalised trade for unprocessed and processed agricultural and fishery products (KAWECKA-WYŻYKOWSKA – SYNOWIEC 2004). On 1 May 2004, Poland became an EU Member State and therefore also a member of the common market. EU accession was the next step in the economic integration of the two states (OLSZYŃSKI 2009).

German–Polish economic relations took on a more European dimension during the 1990s and the early 21<sup>st</sup> century. The bilateral component today is very restricted. German business circles assisted the Federal Government in its efforts to promote the eastward enlargement of the EU. They pointed to “Germany’s high self-interest in the EU accession of the CEECs” (Internationale Politik 1998).

The analysis of the bilateral economic relations data will be based on two factors: firstly trade and secondly foreign direct investments (FDI). In contrast to trade, FDI between Poland and Germany are highly unbalanced. This is due to the lack of capital in Poland, especially during the first years of reform in the 1990s.



Table 2.

*Number of foreign and German companies registered in Poland in selected years*

Year	Total	From Germany
1993	7,935	2,943
2004	15,816	5,543
2015	25,961	5,837

Source: GUS 2004, 136; GUS 2005a, 32, 35; GUS 2016, 58.

Table 3.

*The main countries of origin of (accumulated) investments in Poland (share in %)*

Year	1.	Share	2.	Share	3.	Share
1993	Germany	22.92	Italy	19.33	USA	16.44
2004	The Netherlands	31.9	Germany	15.3	France	12.9
2015	The Netherlands	18.6	Germany	17.47	France	14.32

Source: GUS 2004, 171–175; GUS 2005b, 585; GUS 2016, 58.

Since the early 1990s, Germany has been a leading source of foreign investment for Poland. It is the largest source in terms of the number of foreign companies investing in Poland and in second place in terms of the value of investment. The list of German companies investing in Poland covers small, medium and even the largest German companies. The scale of this investment plays an important role in the development of Polish–German trade. Polish investments in Germany are still relatively small, although they have been increasing rapidly in the last decade. Germany is the seventh most significant destination for Polish foreign investments and the country's most important trade partner. Although the role of Germany as an export market is smaller today than in mid-1990s, it is still dominant. Back then, the German market was where Polish companies looked to first. The geographical proximity, traditional trade links and absorptivity of the German market were crucial. On the other hand, Poland is still a foremost trade partner for Germany. The rising standard of living is an engine of growth for the Polish share in German trade. Today, Germany is the most important economic partner of Poland, the same as with other members of the Visegrád Group. In the last twenty-five years, the investment and trade connections developed Poland's economic dependence on Germany (POPŁAWSKI, Konrad 2016).

Table 4.

*German foreign investments in Poland, the Czech Republic, Slovakia and Hungary, in million Euro*

	Poland	Slovakia	The Czech Republic	Hungary
2007	18,924	6,759	21,629	17,185
2015	28,069	7,468	26,370	14,942

Source: Deutsche Bundesbank 2009, 31; Deutsche Bundesbank 2017, 14–15.

Table 5.

*Outward position of Polish direct investment at the end of 2016, in million Euro*

Position	Country	Value
1.	Luxembourg	9,996.0
2.	Cyprus	3,385.1
3.	Switzerland	2,055.7
4.	The Czech Republic	1,918.2
5.	The Netherlands	1,840.4
6.	Hungary	1,288.9
7.	Germany	1,235.6

*Source:* NBP 2016.

Table 6.

*Foreign trade turnover of Poland and its major partners*

Specification	Value in million USD	First partner		Second partner		Third partner	
		Country	Share in %	Country	Share in %	Country	Share in %
Imports in 1990	9,527.7	Germany	20.1	USSR	19.8	Italy	7.5
Exports in 1990	14,321.6	Germany	25.1	USSR	15.3	The United Kingdom	7.1
Imports in 2000	48,940.2	Germany	23.9	Russia	9.4	Italy	8.3
Exports in 2000	31,651.3	Germany	34.9	Italy	6.3	France	5.2
Imports in 2016	200,672.4	Germany	23.3	China	12	Russia	5.8
Exports in 2016	205,047.7	Germany	27.4	The United Kingdom	6.7	The Czech Republic	6.6

*Source:* GUS 2017, 43.

Table 7.

*Poland's role in German trade (in 1,000 DM for 1990; and in EUR 1,000 and % for 2001 and onwards)*

	Import	Export	Poland's share in imports	Poland's share in exports
1990	550,628	642,785	0.94	0.73
2007	772,511	969,049	3.12	3.72
2017	1,034,323	1,279,066	4.93	4.65

*Source:* Statistisches Bundesamt 1991, 21, 24; Statistisches Bundesamt 2008, 36, 39; Statistisches Bundesamt 2018, 26, 45. The shares have been calculated by the author.

#### 4. Relations with Russia and Energy Security

As presented above, there has been a positive development in German–Polish relations in the last quarter of the century. One of the few areas where both countries have constantly clashed are their relations with Russia and the very closely related issue of energy security. Paradoxically, since 2015 Polish–German relations have deteriorated as a result of Polish opposition towards Germany’s migration policy and German opposition towards the judiciary reforms introduced in Poland, while the Polish and the German positions toward Russia have converged (SIDDI 2016).

During the 1990s and early 2000s, German politicians strongly believed that it was possible to develop positive relations with Russia. President Boris Yeltsin, and then President Putin, were approached with great hopes (RAHR 2010). Despite Poland’s accession to the EU and NATO, for Germany relations with Russia took priority over its relations with Poland. Russia’s status as a great power, and above all its potential as a vast market and its huge reserves of natural resources, (especially natural gas and crude oil), ensured that Russia remained very attractive for the German political and economic elites (SZABO 2014). The Polish Government, on the other hand, saw Russia mainly as a threat – both in military and economic terms. That is why all successive Polish governments worked in favour of Polish accession to NATO and the EU. Upset by the expansion of the EU (to Poland and nine other CEE countries), Russia put an embargo on Polish meat in October 2005, provoking a trade conflict that constricted negotiations on the new Partnership and Cooperation Agreement between the EU and Russia (MAASS 2017, 120–123).

After the end of the first decade of the 21<sup>st</sup> century, EU–Russian relations began to deteriorate (HAUKKALA 2015). This change was provoked by the growing assertiveness of Russian foreign policy. Russian policy towards Georgia, Ukraine and Syria has reduced the number of German politicians who consider themselves optimistic about the common future of Europe and Russia. This group is commonly known as *Russlandversteher*, which can be translated as “people understanding Russia”, but in fact, it means “people finding an explanation for Russian activities and who are friends of Russia”. Politicians of the SPD have traditionally argued in favour of close cooperation with Russia, due to the Willy Brandt’s tradition of *Ostpolitik* of the 1970s. Today, the current Federal President Frank-Walter Steinmeier is probably the most prominent representative of this group. But even in the SPD, opposition towards Russia is growing. A symbol of this change is the current Foreign Minister, Heiko Maas, who has been surprisingly critical of Russia’s current policy and has clearly expressed his hope that it will change (BOTA et al. 2018). He joined Chancellor Angela Merkel, who took a clear position towards Russia in the aftermath of its intervention in Ukraine, coordinated EU policy towards Russia, and supported sanctions. In this sense, the stance of the German Government overlaps with that of the Polish Government. One of the elements limiting Germany’s ability to act against Russia is its dependence on Russian energy resources, which has increased since the 1970s (DYSON 2016).

The change in the German rhetoric has had no impact on its energy relations with Russia. Poland and Germany face substantially different challenges for their energy security, and they have developed different energy policies. Polish governments have focused mainly on improving the security and competitiveness of the gas supply to Poland. They see Polish dependence on Russian gas in a negative light. For decades, Polish imports of natural gas

were almost completely dependent on Gazprom. The country's lack of technical capability to import gas from other suppliers resulted in Poles paying much higher gas prices than those paid by Germans. Occasionally, the gas supply was even cut off, particularly as Russian–Ukrainian conflicts over transit fees evolved into a traditional ritual during the winter months. As a result, numerous conceptions arose for developing Poland's infrastructure to achieve a better connection to the global gas market. Apart from the interconnector linking the Polish gas network with those of Germany or the Czech Republic, the most important investment has been the LNG terminal in Świnoujście in the northwest of the country, which allows Poland to import liquefied natural gas. Although the LNG terminal has not enabled Poland to completely refrain from supplies from Russia, it has opened up a new chapter in the history of the gas industry in Poland, integrating the country into the global market (SZULECKI et al. 2016).

In contrast, the German Government has long emphasised the role of renewables, and has invested heavily in an energy partnership with Russia. The issue of energy security was neglected by German governments for decades. It was seen as a part of economic policy, and successive governments emphasised the role of markets. Only when Ukrainian–Russian conflicts over fees for gas transport became “normal” did the security dimension of energy start to be taken into account. The most visible example of the German–Russian energy partnership is the Nord Stream Pipeline project which begun in 2005. It connects the Russian gas pipeline network with Germany directly, bypassing countries such as Ukraine, Poland, the Czech Republic and Slovakia, thereby making it possible for Russia to cut supply to those countries without disrupting its supply to Western Europe. The project has been highly criticised in the CEE, but is equally strongly supported by German business groups and the government. The effect of the Nord Stream will be to transform Germany into a trading hub for Russian gas in Europe (GÖTZ 2006). Although the project was initiated on the German side by Gerhard Schröder, it has been implemented and expanded (Nord Stream 2) during the chancellorship of Angela Merkel. The constant refrain of her governments has been that the project is purely “economic” in nature. Only in April 2018 did Angela Merkel admit that the Nord Stream Pipeline also has a “political” and “strategic” dimension (RETTMAN 2018). But that admission changed nothing in Germany's strategic position towards Russia. The fact that the supply of energy from the Soviet Union was not stopped even in the most difficult moments of the Cold War serves as a key argument in favour of building long-term relations between Germany and Russia in the energy sector, as well as in other areas (SIDDI 2016). And today, German politicians are simply not interested in putting their mutually beneficial cooperation with Russia in the energy sector at risk (STULBERG 2015).

## 5. Conclusions

Germany became Poland's most important political and economic partner in the early 1990s. It was a crucial partner during the latter's efforts to join the EU and NATO. The closeness of both countries' interests allowed Poland to quickly realise its foreign policy goals. In this, Germany proved to be an effective leader and that leadership was welcomed by Poland. In the mid-1990s, Germany was the final destination for over 38% of Polish exports, and the country accounted for a quarter of all imports. At the time, Germany was also the most

important source of FDI for Poland, both in terms of the number of German companies present in Poland as well as in terms of the value of their investment. ‘Bandwagoning’ is the best term to describe Polish policy towards Germany during this period. It was an advantageous foreign policy strategy for the country.

However, by the early 2000s the ‘community of interests’ had not been achieved. Despite the general commitment of both countries to the EU and NATO, Poland and Germany have clashed on numerous occasions over critical issues in international relations, including the Iraq conflict, a new EU treaty and especially the issue of EU energy security. On specific occasions, the political goals of both countries have differed. Although recently politicians of both countries have made more efforts to improve relations, and a pragmatic cooperation was developed, the eruption of the migration crisis has once more contributed to the deterioration of bilateral relations. The German government’s support of mandatory quotas, along with its radical change in migration policy, did not bring about an improvement in bilateral relations.

Although on many occasions German politicians expressed themselves disappointed with the lack of Polish support for Germany, both countries have not managed to develop an effective consultation instrument that allows the achievement of compromise. In the past two decades, Poland has not blindly followed German policy. It has sometimes opposed Germany and on numerous occasions it participated in coalitions trying to balance German power. Bandwagoning in Polish–German relations is now a part of history.

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# Chapter 7

## Germany and the Czech Republic: An Asymmetric Relationship in Search of a Strategy

*Jana Urbanovská – Zdeněk Kříž*

### 1. Introduction: Czech–German Relations between Conflict and Cooperation

Given that the two are immediate neighbours, the relations between the Czech Republic and Germany have always necessarily been close. Beyond the shared border, there are a number of factors influencing the proverbial “contact and contention”<sup>1</sup> between the Czechs and the Germans: cultural and social proximity, membership of a single economic area and the connected closeness of their economic cultures as well as an industrial-technological compatibility, and, of course, a shared past with all its bright and dark chapters. The fall of the Iron Curtain in 1989 created a unique constellation for the development of Czech–German relations, one based on the compatibility of fundamental values and strategic interests: a belonging to the West; and an interest in the development of multilateral institutions and in strengthening international law. Thanks to the Czech Republic’s integration into the North Atlantic Treaty Organisation (NATO) and the European Union (EU), which Germany greatly facilitated, the two countries also share a normative and institutional framework that aids their mutual cooperation and gives a multilateral dimension to their bilateral relations (HANDL 2009, 19).

However, mutual relations are also characterised by factors that encumber their development to a greater or lesser extent. First, among these is a political-power asymmetry, a striking feature of the relations between the Czech Republic and Germany. Although this asymmetry has been somewhat relativised by the Czech accession to the EU, the Czech Republic remains a small country with limited potential for power politics, while Germany is Europe’s No. 1 power. This means that for the Czech Republic Germany is much more important than the Czech Republic is for Germany. In 2011, the Czech foreign policy concept described Germany for the first time not just as an important neighbour, but also as a “strategic partner” (MFA CR 2011, 15), which was fully in keeping with the importance of Germany for the Czech Republic. The Czech–German strategic dialogue, agreed upon four years later, finds it difficult to hide the fact that the Czechs are not a strategic partner for the Germans. In Germany’s foreign policy concept, the Czech Republic figures as

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<sup>1</sup> ‘Contact and contention’ (*stýkáni a potýkáni*) was how the celebrated nineteenth-century historian František Palacký famously described Czech–German relations.

a regional and second-tier partner; what is more, with its difficult-to-read, polyphonic and clumsy policy towards Germany and towards European issues, the country often contrives to make its position worse.

The asymmetry in the positions of Germany and the Czech Republic is also apparent from the public opinion in the two countries. A recent comparative survey has shown that in evaluating their mutual relations, the Germans are much more reticent than the Czechs, and they give less attention to these relations than their eastern neighbours. Czech–German relations were described as mostly or very good by 43% of Germans; as mostly or very bad by 15%; and 42% of the respondents said “don’t know”, testifying to an indifference and lack of strong emotions towards the Czechs (STEM 2017).

Another factor that has long influenced Czech–German relations concerns the baggage of the past. The “Munich complex” and the memory of the loyalty of most Sudeten Germans to Hitler’s Nazi regime, have settled into the “genetic code” of Czech politics (HANDL 2002, 22). Although the 1997 Czech–German Declaration on Mutual Relations and their Future Development managed to deal with the overwhelming bulk of this historical baggage, questions of the past have maintained a greater or lesser emotional charge, manifest primarily in domestic political struggles on both sides of the border. Despite this, there has been an unquestionable trend of historical normalisation, which gradually took this most difficult issue of Czech–German affairs away from the politicians’ agenda, thus substantially unburdening Czech–German relations.

Last but not least, throughout the period observed, Czech–German relations were characterised by pragmatic, depoliticised and decentralised cooperation across a number of sectors. Whereas on the strategic issues of European policy and the role of Germany in this policy there was no consensus among Czech political leaders, on issues of practical cooperation with Germany there was agreement across the political spectrum. In the border regions and elsewhere, a very dense network of contacts was established, erasing the importance of the border between the two countries.

## **2. Bilateral Political Relations since 1989**

### **2.1. From 1989 to 1992: Hope for a new quality of mutual relations**

The end of the Cold War provided an opportunity for a fundamental transformation in the geopolitical positions of the two countries. Reunited, Germany became Europe’s greatest power and an important player worldwide. Thanks to the fall of the Iron Curtain, Germany ceased to play the role of a buffer zone between the West and the Eastern Bloc and moved from a disadvantageous position on the periphery into a comfortable position at the centre of Europe. Czechoslovakia, too, freed itself from its role of buffer state and – with its Velvet Revolution – started its ‘return to Europe’. For the first time in modern history, the two countries were given a unique opportunity to put their mutual relations on a qualitatively new and stable basis (HANDL et al. 1997, 167).

In the early 1990s, Czechoslovakia’s policy towards Germany was marked by activism. This was apparent from, for instance, President Václav Havel’s first presidential visit leading to Germany or his full and unqualified support for German reunification – Czechoslovakia

did not even attempt to make use of the international negotiations between the two German states and the four victorious powers to resolve any of the disputed issues in Czechoslovak–German relations before the achievement of unification. These accommodating steps – “blank cheques” granted by Czechoslovak policy to Germany (KUNŠTÁT 1998) – soon strengthened the understanding of Czechoslovakia as a partner who did not think in national but rather in European terms (HANDL 2004, 72–73).

As part of this atmosphere of optimism in mutual relations, the Czechoslovak Government attempted to achieve a new quality in the treaties between the two countries and to insure itself against possible reversals in German policy – this despite its trust in Bonn’s policies. However, the resulting 1992 treaty on good neighbourly relations and friendly cooperation failed to bring a breakthrough, due to the differing views of the two parties. On the question of the Munich Agreement, which the Czechoslovak side sought to have annulled from the outset (*ex tunc*), the new treaty merely confirmed the 1973 Treaty of Prague. Nor did the 1992 treaty move forward on the matter of the border between the two countries – a question that aroused significant emotion and apprehension among the Czechs – and it also avoided addressing claims to property rights. It confirmed, at least, the continuity of Czechoslovak statehood, thus recognising the legitimacy of Edvard Beneš’s exile government in London, which had been questioned by the Sudeten German Homeland Association (*Sudetendeutsche Landsmannschaft*) (HANDL 1995, 41). In consequence of the negotiations of the 1992 treaty, a defensive approach gradually came to dominate the Czech policy; it was reactive by definition, and, rather unfortunately, oriented almost exclusively to the *Sudetendeutsche Landsmannschaft*. Thus, paradoxically, this pressure group (one that was of secondary importance from German and European viewpoints) exerted greater influence over Czech–German relations than the German Federal Government or the governments of Germany’s states. Despite the inability of the two sides to close the issues of the past, the 1992 treaty was broad in scope, and helped to develop practical, depoliticised and decentralised cooperation across various sectors, nationally, regionally and locally (HANDL 2004, 73–74).

## **2.2. From 1992 to 1997: In the name of the legacy of the past**

During this period, the development of Czech–German relations was not entirely satisfactory. The disintegration of Czechoslovakia significantly weakened the Czechs’ position *vis-à-vis* Germany and increased the power asymmetry between the two neighbours. A rational approach prevailed in the Czech policy, understanding Germany as the main foreign partner, whose political and economic support the Czech Republic needed not only for its internal process of post-communist transformation, but also for its integration into Western multilateral organisations. At the same time, there was a noticeable tendency for the Czech Government to apply a conception of balancing German influence with other influences, and sometimes even a tendency to bypass Germany, rather than use cooperation with that country to build a “bridge into Europe” (HANDL 2004, 74).

Questions of the past continued to dominate the political agenda of Czech–German relations. Due to the incompatibility between the Czech and German views, these questions continued to represent the thorniest issue in mutual affairs. During this period, the matter

went so far that the Czech–German relationship was essentially reduced to the issue of the Sudeten Germans, strengthening feelings of mistrust and alienation among both partners. It seemed that the Sudeten German question and its dissatisfactory resolution could even negatively impact the process of the Czech integration into NATO and the EU. The Czech public opinion increasingly feared Germany, and opinions were voiced that the country was following a strategic plan, continuing upon the expansionist policy of the Greater German Reich. Although such a scenario was unlikely, the fact that the possibility was voiced pointed to the continued misgivings about Germany’s position in Europe and uncertainty about the future course of German policy (HANDL et al. 1998, 170).

With the signing of the Czech–German Declaration in 1997, the main purpose of which was to re-evaluate the perspectives for the understanding of Czech–German relations in connection with questions of the past, the Sudeten German question finally ceased to be an issue of foremost importance. The German side acknowledged its responsibility for its role in the historical development that led to the 1938 Munich Agreement, and expressed regret that, with the Nazi crimes, the Germans caused much suffering and many grievances to the Czech population. They also acknowledged that Nazi policy had created conditions for the post-war flight, expulsion and forced displacement. The Czech side, likewise, expressed regret over the post-war expulsion and forced displacement of Sudeten Germans from Czechoslovakia, in which the principle of collective guilt had been applied, and accepted that the process had been accompanied by a number of excesses which were never punished. Both sides agreed in the declaration that the wrongs that had been committed belonged to the past, and for that reason the two parties would not further encumber their relations with the political and legal issues of the past. It was nevertheless emphasised that each party remained bound by its own legal system and respected the differing legal views of its partner (MFA CR 2004, Articles II–IV). Last but not least, the declaration gave rise to the Czech–German Future Fund and the Czech–German Discussion Forum, which became the main pillars upon which Czech–German relations were developed.

### **2.3. From 1997 to 2004: Heading towards NATO and the EU**

Due to the signing of the Czech–German Declaration, the historical agenda was finally shifted from the political to a moral level. In March 1999, to signify its accommodating attitude, the Czech side expressed some distance from the Beneš Decrees by describing the effect “of some Czechoslovak post-war laws” as “extinct” (HANDL 2004, 77). To reciprocate, the German Government factually and formally refused to support the property claims made by Sudeten Germans against the Czech Republic. Compensation for victims of Nazi persecution and forced labour, and the involvement of the Sudeten Germans in projects funded by the Czech–German Future Fund, were of fundamental importance (HANDL 2009, 30).

With the controversial questions of the past settled, both countries turned their attention to other issues. Foremost on the agenda was the integration of the Czech Republic into the key multilateral structures. Although joining NATO and the EU had been set as the main goals of Czech foreign policy back in the early 1990s, it was only in the period from 1997 onwards that Czech accession to the two organisations could become the main subject in

Czech–German affairs. The development of mutual relations was strongly supported by the ideological closeness of the social-democratic governments on both sides of the border. For the rest of the decade and into the early 2000s, Czech–German relations therefore developed much more positively than previously (KRATOCHVÍL–SYCHRA 2012, 31).

The limitations of the Czech–German dealing with the past and the potential ability of the Sudeten German question to encumber mutual relations once again were nonetheless on display in a crisis that took place in spring 2002. The utterances of the then Prime Minister, Miloš Zeman, about the Sudeten Germans (he called them Hitler’s “fifth column”), voiced in response to provocative pre-election rhetoric in Bavaria, Austria and Hungary, led to the unprecedented cancellation of a visit to Prague by the German Chancellor, Gerhard Schröder. As the situation escalated, some of the deeper characteristics of the Czech position towards Germany – but also vice-versa – came to the surface. First of all, it was revealed that the Czechs had an insufficient understanding of the complexity of German politics – there was a tendency to confuse Bavarian, Sudeten German and official federal levels of policy-making. The passivity of the Czech side (e.g. its reluctance to make at least a symbolic gesture of reconciliation towards the Sudeten Germans) and the absence of a Czech voice in the German media and public discourse went hand in hand with ignorance of post-war developments in Germany. The response by the German side, meanwhile, recalled the lack of public interest in and empathy towards the Czech Republic – the importance of the “Munich complex” for Czech politics and the general public was appreciated only to a limited extent and the Sudetendeutsche Landsmannschaft was given sufficient opportunity to dominate German public opinion with its critical views. The crisis of 2002 was, then, a result of a combination of a political miscalculation, misperceptions and asymmetric responses, unfolding against a background of domestic election campaigns (HANDL 2002, 24–26; PICK 2002).

A temporary distancing between the Czech and German sides was also caused by the 2003 Iraqi crisis, when the two sides found themselves in opposite camps due to their differing views as to whether military intervention ought to be undertaken in Iraq. The famous ‘letter of the eight’ caused controversy in Germany: it was welcomed by the right-conservative segment of the political spectrum and criticised by the liberal left, who warned against further “provocations”. The Czech Republic was nonetheless understood as a country whose transatlantic orientation was not particularly profound, and as such could be won over for a joint European defence policy (HUDALLA 2004, 237).

#### **2.4. From 2004 until the present: In need of a strategy**

With the accession of the Czech Republic to the EU, the trend of Europeanisation in Czech–German affairs reached its peak: European issues became the main topic in the relationship between the Czech Republic and Germany. After 2004, Germany as a separate topic practically disappeared from the Czech political agenda, appearing rather in the broader context of multilateral security and integration policy. This was also reflected in the policy statements of governments that successively held power since the Czech accession to the EU: they either did not address bilateral relations including those with Germany or

mentioned Germany only in connection with practically-oriented, non-political cooperation (HANDL 2009, 21).

Paradoxically, under a constellation that favoured more balanced, partnership relations, the existing clear orientation of the Czech foreign policy towards Europe and hence also towards Germany weakened somewhat. On the one hand, the continuing depoliticising of the links between the two countries was apparent; and the practical aspects of cooperation had run smoothly since the early 1990s, irrespective of what government held power at any given time. On the other hand, political relations were much more unstable and subject to frequent change, depending on the political climate on both sides of the border (KRATOCHVÍL–SYCHRA 2012, 31).

In an attempt to overcome an evident strategic deficit in Czech–German relations, in 2015 Czech Prime Minister Bohuslav Sobotka initiated a so-called Czech–German strategic dialogue. A form of intergovernmental cooperation, its central axis consisted of nine working groups, largely made up of representatives from Czech and German ministries. Other actors were also involved in planning and implementing specific joint activities, including federal states such as Bavaria and Saxony, non-profit organisations, and the Czech–German Future Fund and the Czech–German Discussion Forum as representatives of the civil society.

The very fact that the strategic dialogue was established can be viewed as a success of the Czech policy towards Germany and as a manifestation of a very pro-active stance, not least because the German side had originally viewed the idea of creating the strategic dialogue with restraint. Indeed, in the end it is the Czech Republic, as Germany's junior partner, which profits more from the strategic dialogue. It also needs noting that Germany does not ordinarily enter into strategic dialogues with countries whose position of power is comparable to that of the Czech Republic. Czech diplomacy managed to build the strategic dialogue on certain specific points (neighbourly ties, economic interdependence, and a shared overarching motive of overcoming divided European mentalities), in response to which the German side accepted the idea of the dialogue (Interview with a diplomat of the Ministry of Foreign Affairs of the Czech Republic, 7 April 2017). It is a good advertisement for the Czech–German strategic dialogue that it is being considered as inspiration for other countries that find themselves in a position similar to that of the Czech Republic (even though it would mean that the Czechs would lose their special model of bilateral relations with Germany if other such dialogues were created with them). Despite its name, the Czech–German strategic dialogue has been criticised as insufficiently strategic. According to Benjamin Tallis, it has substantial potential, but largely covers issues of practical, tactical cooperation; arguably, truly strategic content is lacking. The main responsibility for this, of course, lies with the Czech side; it is up to them to demonstrate to their German partners that the Czech–German strategic dialogue matters and can provide results that are strategic in the true sense of the word (TALLIS 2016).

Last but not least, we need to note the continuing historical normalisation of mutual relations, an important element in bilateral Czech–German affairs. After the path-breaking visit of Bavaria's Prime Minister Horst Seehofer to Prague in 2010, the hitherto frozen political relations between Munich and Prague gradually improved. Three years later, the historical first visit to Bavaria of a Czech Prime Minister (Petr Nečas) confirmed the ongoing "thaw" as far as the Sudeten German question was concerned. On the issue of reconciliation



with the Sudeten Germans, then, an active attempt by the Czech Government to improve mutual relations won through, finding response from the Bavarian side. One of the most recent events signalling the successful normalisation of relations as far as dealing with the past is concerned was the official participation of the Minister for Culture Daniel Herman as the first member of the Czech Government to attend a congress of the Sudetendeutsche Landsmannschaft in Nuremberg in May 2016, where he expressed regret over the excesses that had accompanied the post-war displacement of Germans from Czechoslovakia (KDU–ČSL 2016).

### 3. Economic Relations since 1989

In the mutual relations between the Czech Republic and Germany, economic links have been a constant presence and are absolutely crucial, in particular for the Czech side. Until a communist regime ruled Czechoslovakia, the development of mutual economic relations was hindered by political issues, but since 1989 there has been a dramatic increase in the intensity of economic cooperation and Germany has clearly become the Czech Republic's most important economic partner. The solidity of mutual economic links is due to the Czech Republic's integration into German and Western European economic structures. A traditional analysis of economic relations describes the Czech and German economies as very similar: both are part of the European economic area; both have a strongly developed industrial sector where they create a substantial part of their domestic product; both specialise in the same branches of industry; and currently both achieve significant trade surpluses. Although European economies are highly integrated overall, the interconnection of the Czech and German economies is such that the Czech Republic is sometimes hyperbolically described as Germany's 17<sup>th</sup> federal state (KRPEC–HODULÁK 2018).

From the early 1990s, German economic circles appreciated the Czech Republic's liberal economic and legal environment, skilled and cheap labour, good level of technological development, dense infrastructure, geographical proximity, macro-economic and political stability, relatively balanced regional development and kindred culture and consumption patterns (HANDL et al. 1997, 168). As a result, Germany contributes a large share of foreign investment into the Czech Republic; in particular in industry, machinery and electrical engineering, services and banking. Although the German share of foreign capital investment in the Czech Republic decreased from a staggering 82.0% in 1992 to 36.2% in 1994 (CVEV 1995, 54, 131) the position of German investors remained unshakeable throughout the period observed.

At present, the share of German capital in the Czech Republic is estimated at 21.9% (Euro 2016; ČNB 2018). However, a substantial imbalance remains between the number of companies operating in each partner country. Whereas the number of German companies active in the Czech Republic increased from ca. 1,200 to 3,500–4,000 after the Czech accession to the EU, in Germany there are at present only about 150 companies in which Czechs have more than a 50% equity interest (BusinessInfo 2018; Euro 2016; PICK 2002). These numbers suggest a problematic trend in profit outflow, which in the EU context places the Czech Republic among the countries with the greatest outflows of money abroad (PERGLER 2016). It has been shown that virtually all growth in the Czech economy



since 1995 has been due to the expansion of foreign-owned companies, whereas the size of the economy in domestic ownership has remained the same (expressed in real values) (Government of the CR 2016, 3).

Beyond the area of foreign investment, Germany has also been the Czech Republic's most important economic partner as far as the volume of foreign trade is concerned: it increased continuously from 1989 to 2004. Since the Czech accession to the EU, the position of Germany expressed in relative terms has started to decrease: whereas in 2000 Germany's share of Czech exports was 40.0% and of imports it was 32.0%, in 2011 these figures decreased to 32.1 and 25.6% respectively (BusinessInfo 2012). Nonetheless, currently the volume of trade between the Czech Republic and Germany has broken records for the eighth year in a row, reaching 87.9 billion Euros in 2017. The Czech Republic has maintained its place as Germany's 10<sup>th</sup> biggest trading partner and was the 12<sup>th</sup> export and 7<sup>th</sup> import destination. Czech exports to Germany reached 46.3 billion Euros and grew faster than imports from Germany. In 2017, the Czech Republic's positive trade balance with Germany broke the previous record of 2016, growing by 12.2% to 4.6 billion Euros (EHLER 2018).

The commodity structure of Czech–German trade has remained relatively stable. Three items remain crucial: motor vehicles, machinery and electrical goods, together accounting for 58.4% of Czech exports to Germany and 48.9% of German imports into the Czech Republic (EHLER 2018). Undoubtedly, the automotive industry has remained the driving force of Czech–German economic cooperation. But, on the other hand, this strengthens concerns over the increasingly one-sided dependency of the Czech economy on this one branch of industry, and ultimately, on the German economy (ŠITNER–KUČERA 2017). Given that mutual trade relations and the economic conditions in Germany are fundamental factors influencing the Czech Republic's macroeconomic situation, the country would be subject to substantial vulnerability and risk should these indicators evolve negatively. Indeed, this was previously confirmed by changes in the Czech economy after 2008, in connection with the global economic crisis and the subsequent crisis of the Eurozone (KRATOCHVÍL–SYCHRA 2012, 40, 44; ČTK 2017).

## **4. Institutional Relations since 1989**

### **4.1. Czech–German relations and the EU: Key factors shaping the framework**

Ever since the end of World War II, European integration has been a key aspect of German policy and the country's foremost national interest. Similarly, after the fall of the Iron Curtain, accession to the EU as a full member became a Czech national priority. Czech and German politics are both involved in the successful continuation of the European integration process, to which neither country has any real alternative. In European policy, the Czech Republic and Germany share a number of interests, of which the most essential – supporting democracy, developing multilateral institutions, maintaining security and sustaining political, economic and social stability and prosperity in Central Europe – were behind the strong German support granted to the Czech Republic during its integration into the EU. Although the priority given to the eastern enlargement of the EU on the list of German policy objectives varied, Germany remained the main advocate throughout of the Central

and Eastern European post-communist countries' accession to the EU (KRATOCHVÍL–SYCHRA 2012, 36). The extraordinary importance of Germany for the Czech European policy was also manifest in connection with the Czech presidency of the Council of the European Union in 2009, when Germany provided strong support to its eastern partner.

With the EU accession, Czech–German relations multi-lateralised and there was an 'upgrading' of the Czech Republic's position, thus partially mitigating the asymmetry between the respective power potentials of the two countries. The institutional and normative homogenisation of Central Europe, to which the German strategy of 'milieu shaping' had contributed, completed the transformation process that had been occurring in the Czech Republic and other post-communist countries of the region since 1989 (HANDL 2009, 31). However, this also meant that the disciplining effect of the efforts to integrate into the EU, which had informed the Czech European policy during the accession process, disappeared, leaving the Czech foreign policy without a unified strategy and vision that would be of similar importance to that of the process of integration into the EU.

The evolution of Czech–German relations in the EU context has confirmed that the existence of fundamental interests shared by both does not guarantee in itself a corresponding degree of political proximity (HANDL 2009, 31). Perhaps the main reason for this paradox has been an internal-political differentiation among the Czechs in their approach to the EU. Whereas Germany's European policy has long been characterised by the broad "permissive consensus", the Czech Republic has manifested precisely the opposite throughout nearly the entire period observed – i.e. an absence of political consensus in strategic matters of European policy. In consequence, almost any change of government has been accompanied by fluctuations in the approach to European issues, making European policy alternatively a source of alienation or of a bond between the Czech Republic and Germany.

The broader cleavages in the Czech society, as concerned with European policy and the role of Germany, stem from the positions Czech political leaders take towards their nation state and the issue of sharing sovereignty. A "nation-state movement" in politics defines the nation state as the fundamental building block, and considers any limitations on its power and autonomy via supranational sharing of sovereignty undesirable. The advocates of this approach insist that the intergovernmental model of European integration must be maintained and are sceptical of deeper European integration, or reject it outright. This has long been characteristic of the Czech political right, which somewhat paradoxically finds itself in one camp alongside the Communist Party that criticises the EU as a capitalist structure dominated by Germany. The second, "nation-federation movement" also places primary emphasis on the nation state but does not reject the strengthening of the supranational model of European integration, accepting also a prospective political union – in contrast to the "nation-state movement", this is compatible with the German approach towards European integration. This movement mainly recruits its supporters from the ranks of the Social Democrats, the Christian Democrats and the Greens (HANDL 2012).

Beyond the internal-political differentiation, the institutional incoherence of the Czech foreign policy has long played an important role, with negative effects for Czech–German relations. The coordination among Czech foreign policy actors is wobbly and their powers are not interpreted unambiguously. The former president Václav Klaus provides a notorious example: he often – and especially in European matters – acted out of keeping with the

government's position. With his anti-EU and anti-German rhetoric, he also left considerable marks on the Czech public debate about the EU, becoming a key figure in the growing Euroscepticism.

As the Czech political landscape is divided and its key constitutional actors are not united on foreign policy issues, no cohesive political line on Europe can be defined in the Czech Republic. The country's split relations with Germany and its role in the EU are closely connected with this. Whereas the "big issues" of European policy such as the reform of primary law and the future direction of the EU have been dominated by the ideological differences noted above, the Czech–German cooperation across various sectors of European policy has been largely characterised by a pragmatic, ad hoc approach to resolving particular issues. The proximity of Czech and German positions largely depended on the matter being negotiated, and the extent to which it was in agreement with Czech and German national interests (BELLING 2016, 80).

#### **4.2. Czech–German relations and NATO: Gradual convergence of Czech and German strategic thinking**

The Czech Republic and Germany agree on the North Atlantic Treaty Organisation as the central guarantor of security and defence, and their active involvement in this alliance as the foundation of their security and defence policies. After the fall of the Iron Curtain, Germany was among the strongest advocates of Czech integration into NATO. Germany had not just economic but also security reasons for promoting the shift of EU and NATO borders further to the east. In doing so it grasped the historical opportunity to secure for itself a central and not a frontier position, in which it had to live for decades (HANDL 1995, 44). The Czech–German border is the longest each country has with any of its neighbours within the EU, and this is an important premise for creating a joint security policy. One can also note a certain moral or symbolic dimension to this support: as the former state secretary of the Federal Ministry of Defence, Walther Stützle, argued, "[to] leave Václav Havel's country standing outside the doors of the Atlantic Alliance [...] would be to contradict history" (STÜTZLE 2001, 17).

Germany's intense support during the Czech preparations for NATO accession helped to overcome potential fears of Germany's military power and its use for political ends. The main topics of cooperation included democratisation, modernisation and civil control of the armed forces. Through this cooperation, a systematic policy transfer was undertaken – this was largely a unidirectional transfer of political and institutional models and military-technical standards that apply in the armies of NATO member countries. Germany was also interested in offering its eastern neighbour a specific German model – "Modell Bundeswehr". The overwhelming majority of operations and measures were funded by the German side, even at a time when the Czech Republic already was a NATO member. A shift towards the normal NATO model including national financing in the early 2000s helped to make the official contacts between the Czechs and Germans more matter-of-fact and emphasised the principle of mutual benefit (HANDL 2010, 127–128).

An important chapter of Czech–German cooperation under the heading of NATO was linked with the Provincial Reconstruction Team (PRT) in Feyzabad, Afghanistan,

in 2005–2007, part of the International Security Assistance Force. This was the first example of direct military cooperation between the Czech Republic and Germany abroad, as well as the first deployment of Czech soldiers under German command, a matter of substantial symbolic significance. The cooperation of Czech and German soldiers in Afghanistan marked the peak of Czech–German military collaboration to date. The greatest benefit of the co-action of Czech and German service personnel in the PRT in Feyzabad was the increased interoperability of the Czech and German sides, facilitating further the Czech–German military cooperation. Despite the positive evaluations of this chapter of the Czech–German military collaboration it needs noting that it was an exception rather than the rule; both sides still had to wait for several more years before the arrival of large-scale projects implying true partnership (Interview with Ondřej Vlk, Ministry of Defence of the Czech Republic, Prague, 14 April 2016).

In 2012–2013, the idea of a “backbone power” started to take shape as one of Germany’s most important initiatives in the field of European security. It referred to “Anlehnungsmacht Deutschland”, a characterisation of Germany’s role within NATO (DAUSEND–BITTNER 2012). On Germany’s initiative, this later evolved into the Framework Nations Concept, officially adopted at a NATO summit in Wales in September 2014. Briefly put, what this means in practice is that militarily powerful and large NATO member countries serve as centres for groups of smaller countries which they lead. At the Wales Summit, the Czech Republic joined a group of ten allies who were interested in cooperating with Germany as the framework nation on specific projects of military cooperation. The Czech Republic was particularly motivated by the fact that in doing so it would achieve the greater military involvement of Germany in Central Europe, where Germany’s military engagement was previously only hesitant. Thus, the Framework Nations Concept can be viewed as an interesting and important opportunity for the Czech Republic, permitting the country to remain a relevant actor in European security architecture and an ally to Germany within the framework of NATO (KUFČÁK 2014, 2).

#### **4.3. Czech–German relations and the Visegrád Four: In the role of the most bearable of all trouble-makers**

Since the early 1990s, the multilateral aspect of the relations between the Czech Republic and Germany has also developed in the context of the so called Visegrád Four (V4), associating the Czech Republic, Poland, Slovakia and Hungary. Germany’s foreign policy vis-à-vis this group was based on two broad paradigms. The first was a constructivist approach, based on a sense of historical responsibility and having as its aim to preserve peace on the European continent; the second was a rationalist promotion of political and economic stability in Central and Eastern Europe (GAWRICH–STEPANOV 2014, 3). It needs noting, however, that the relations between Germany and the V4 as a whole remained secondary; in many sectors, Germany approached cooperation with the V4 countries primarily on a bilateral basis. This was due not just to their differing power potentials, internal political developments and the divided positions of the V4 countries in the EU, but, more broadly, to Germany’s unwillingness to create in the EU permanent blocs that would limit the options for the flexible building of issue-related coalitions (HANDL 2014).

Germany's differentiated approach to the V4 countries was influenced by a range of factors: geographic and geostrategic, economic, security and historical. The last-mentioned in particular dominated the mutual agenda for a significant portion of the 1990s and occasionally also resonated in the early 2000s. Historical questions tended to unite, rather than divide, Germany and Hungary, and they did not pose a fundamental issue for German–Slovak relations; but the opposite was true for relations between Germany on the one side and the Czech Republic and Poland on the other. The ways of dealing with the past were very different in these two countries. The difference was primarily due to a strong feeling of guilt in Germany over the sorely tried Poland, and, by contrast, a weak feeling of guilt or even indifference towards the Czechs. The post-war displacement of Germans was also an important factor: whereas Germans displaced from Poland were scattered throughout Germany, Germans displaced from Czechoslovakia concentrated themselves in Bavaria, where their representatives became a powerful political force, influencing national politics to the detriment of the eastern neighbour. On the other hand, in Czech–German relations the question of the border did not play as important a role as it did in Polish–German relations: in the post-war period, the Czech–German border was not questioned internationally or by German governments (HANDL 2003, 17).

In the context of European policy, the quality of relations between Germany and the V4 countries was subject to change, depending on the internal developments of this policy and external processes. When the V4 countries joined the EU, they did so as “hawkish Atlanticists, mistrustful of German power and drawn to the UK's views on EU economic governance” (SIMECKA 2013, 1) – this despite the enormous support given to them by Germany during the accession process. However, the Eurozone crisis caused a shift in the V4 countries in terms of their perception of German power, and they sided with Germany. Like other V4 countries, the Czech Republic followed German austerity policy and the quality of mutual relations with Germany improved sharply. This was supported in Czech politics by the formation of the most pro-European government for the last many years (SIMECKA 2013, 1–2). Similarly, the Ukrainian crisis and the threat of Russian aggression helped to cement defensive cooperation between Germany and the V4 countries. The Czech Republic did not fall behind its V4 partners and offered its limited – but in terms of political legitimacy not insignificant – military capacities for a number of multilateral projects led by Germany (for more detail, see KŘÍŽ et al. 2018).

While the Eurozone and the Ukrainian crises raised expectations that a stable central European coalition led by Germany could be created, the next crisis, which affected the European Union in 2015 in connection with a wave of migration, thwarted or at least restrained such hopes. The V4 countries were among the leading critics of the solution to the crisis promoted by German Chancellor Angela Merkel. This open dispute transformed recent allies of Germany into loud opponents and caused the largest East–West split of the decade (BLUSZ–ZERKA 2016). In the V4 context, Germany saw the Czech Republic as a better, more reasonable country, and the Czechs sought to play a bridging role between Germany and other V4 countries. However, the sustainability of this role was undermined by illiberal tendencies in Hungary and Poland, which called the very purpose of continued cooperation between V4 countries into question. For the Czech Republic, this opened alternative scenarios, in which the country would turn away from V4 politics and instead align itself strategically with Germany (KRATOCHVÍL 2016). A lesson learned by Germany

from the migration crisis was that it is better to structure relations with the V4 countries bilaterally. Despite the differences of opinion, the V4 countries have remained relevant to Germany's European policy (LANG 2017).

## **5. Czech–German Defence Cooperation as a Case of Policy Field-specific Relations: Towards a Strategic and Natural Partnership**

Defence cooperation between two countries, which is directly connected with such sensitive aspects of power as state sovereignty and the use of force, can be seen as an important indicator of the quality of mutual relations. For a long time, Czech–German defence cooperation did not occupy a prominent position in their mutual relations. Pragmatic rather than strategic cooperation was traditionally preferred. This was due chiefly to the structural differences and the lack of compatibility in the security and strategic cultures of the two countries. The pervasive historical sensitivity of the Czech–German defence cooperation – especially as seen by the Czech general public – also played a non-negligible role. However, following on from the processes unfolding in the European security architecture, the fundamental starting points of Czech and German security policy were gradually brought into accord and a mutual security and defence cooperation developed.

Despite agreement in the fundamental set-up of Czech and German interests in the field of security and defence, persistent differences in the understanding of mutual cooperation can be noted. From Germany's perspective, the ultimate goal of military cooperation is to strengthen European security and defence capacities and to push European integration in this area forward. Germany views future developments in Europe through the prism of European integration, and its efforts to increase its international political influence goes hand in hand with this, because a stronger Europe equals a stronger Germany. Naturally, then, Germany advocates such steps as are compatible with an overall security architecture as understood by the country. The Czech Republic, by contrast, emphasises self-sufficiency, clearly feeling a need to maintain a degree of autonomy. Unlike Germany, the country does not consider the European framework the primary one; it tends to think in terms of a transatlantic framework, and more recently also in regional terms. This difference can create frustration on the Czech side, stemming from the awareness that adaptation cannot be expected from Germany. Germany plays the role of the backbone of European security forces, and the Czech Republic has neither the power nor the security forces structure to play such a role. From the Czech perspective, it is nevertheless important that Germany ranks the Czech Republic among the solid partners with which it wants to develop further cooperation (Interview with a defence attaché at the Czech Embassy in Berlin, 14 April 2016).

With the inclusion of security and defence policy into the framework of the Czech–German strategic dialogue, defence cooperation was raised to a new level both qualitatively and quantitatively. The Czech Republic and Germany mutually confirmed that this domain was among the key subjects of their relations and had a promising future. An important benefit of the strategic dialogue was that it induced the German side to show a greater interest in the Czech Republic's potential in the area of defence. Unlike in police cooperation, where multiple consequential projects have been developed between the early 1990s and



the present, continuity was lacking in defence cooperation (Interview with Ondřej Vlk, Ministry of Defence of the Czech Republic, Prague, 14 April 2016).

Given the developments in the international security environment and the growing role of Germany in solving the challenges created by these developments, the strategic potential of the Czech–German defence cooperation is becoming increasingly prominent. We believe that the intensification of this cooperation is one of the most important trends in Czech–German affairs, both bilaterally and multilaterally, throughout the period observed. The updated Defence Strategy of the Czech Republic, adopted in March 2017, emphasises defence cooperation with Germany as one of the two pillars of regional defence cooperation (alongside the V4), and, with reference to the mutual economic ties and the importance of Germany in NATO and the EU, describes the country as a natural partner to the Czech Republic (MoD CR 2017, 11). This is the first time Germany has been named in this way in a Czech government strategy document concerned with security and defence policy. Given the historical background, the choice of such a description testifies to an important shift in the understanding of mutual relations, as well as to an active approach taken by the Czech side (Interview with a representative of the Ministry of Defence of the Czech Republic, Prague, 12 April 2018). The peak of the Czech–German defence cooperation to date came with the Letter of Intent concerning the affiliation of the 4<sup>th</sup> Rapid Deployment Brigade of the Czech Army to the 10<sup>th</sup> Armoured Division of the Bundeswehr signed in February 2017 – a bilateral agreement that aims to build up coordinated units intended for shared defence operations. Although in practice the affiliation consists largely of joint training and the exchange of experiences, it has elicited much emotion among the Czech political opposition, as well as in some media and sections of the general public, which point to persisting limits to the understanding of a defence partnership between Czechs and Germans as “natural”.

## **6. Conclusions and Outlook: Are Germany and the Czech Republic Drifting Apart?**

The Czech Republic and Germany are natural partners in Central Europe. The compatibility of their strategic interests and fundamental values after 1989 created a firm foundation for the development of mutual relations. Germany’s multi-faceted interest in having the Czech Republic successfully integrated into the European and transatlantic frameworks led to intense cooperation between the two countries and Germany’s support for the Czech Republic in political, economic and social spheres. Throughout the period observed, Czech–German cooperation was characterised by close, practically oriented, depoliticised and decentralised cooperation, which developed successfully in various areas and at all levels of governance. Very intense economic links were a constant feature of Czech–German relations, thanks to the integration of the Czech Republic in the German economic area and the two countries’ interlocked economies. Gradually, there was also a rapprochement over the historical agenda, which had previously been very controversial and politically explosive. Bilaterally and multilaterally in NATO and the EU, the Czech Republic and Germany have in recent years come remarkably close in the area of defence cooperation, which is of not just practical but also symbolic importance: Germany, an erstwhile enemy,

is now understood not just as a strategic but also a natural partner for cooperation in security and defence issues.

The opening of the Czech–German strategic dialogue in 2015 can be understood as another milestone in the rapprochement of the two countries. Although it might seem that the description ‘strategic’ is overly ambitious, we can highlight areas where a strategic importance can be ascertained, as for example the cooperation in the area of security and defence or the deepening of cooperation in applied research and development following the so-called Fourth Industrial Revolution, crucial for the future development of the relations between the Czech and German economy. From a long-term perspective, the socialisation effect that accompanies the strategic dialogue also seems important, and can provide a strong pillar of Czech–German relations for the future.

On the one hand, Czech membership of the EU has made the country’s mutual relations with Germany stronger; but on the other, the ‘dual multi-lateralisation’ of Czech–German relations (HANDL 2009), initiated by the Czech accession to NATO and the EU, has not in itself secured political proximity between the two sides. This has been most noticeable in the area of European policy, even if this is an area where Germany evidently suggests itself as a key and strategic partner to the Czech Republic. Although it is in the Czech Republic’s broad interests to cooperate with Germany and ‘upload’ its interests and preferences to this partner (EBERLE–HANDL 2016), a drifting apart has been noticeable in the field of European policy. Since the Czech Republic’s accession to the EU, its relationship with the EU as such and especially its position on EU institutional issues and Eurozone developments has become a cleavage splitting the Czech political spectrum, affecting also Czech–German affairs. The Czech Republic looked like a ‘European state without Europeans’ (HANDL 2013, 102), which clearly had a limiting influence on its relations with Germany. An insufficient sense of EU solidarity was most conspicuous during the migration crisis, when the Czech side loudly opposed the crisis management model promoted by Germany.

Given that the bilateral Czech–German agenda is closely linked with European policy, one of the main reasons for the drifting apart of the two countries can be sought in the lack of unity of the Czech political leadership and in the absence of a long-term strategy towards the EU that is able to command support across the Czech political spectrum. With the Czech policy characterised by a largely reactive approach, the country cannot expect to be a truly strategic partner to Germany. In formulating its strategy towards Germany, the Czech Republic ought to bear in mind the asymmetry that is an inevitable characteristic of its relationship with its western neighbour, even if this asymmetry has been relativised somewhat by ‘dual multi-lateralisation’. Whereas, for the Czechs, the maintaining of close ties with Germany as the regional power is a must, the position Germany has enables it to consider multiple vectors of interests and choose among various partners. This means that the Czech side must be proactive and come up with impulses that push mutual cooperation forward. General conditions are favourable for an active approach to be taken by the Czech Republic: although Germany is the strongest European power, it needs partners to promote its interests in the multilateral structures that are the key locus of its foreign policy. It would be to its disadvantage if the Czech Republic were unable to exploit this fact sufficiently and failed to prevent any further drifting apart.



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# Chapter 8

## Germany and Central Europe: Drifting Apart? The Case of Slovakia

*Vladimír Müller*

### 1. Introduction

Slovakia and Germany are long-term political and economic partners who together are members of the EU, Eurozone, Schengen Area, NATO, OECD and the WTO. In the past, Slovakia and Germany witnessed a number of significant shifts in mutual relations related to the government changes in Slovakia. During the era of Prime Minister Mečiar, mutual relations were cautious and cold due to his authoritarian inclination and Slovak economic transformation problems. Later, after the change of government, mutual relations improved and Germany often acted as a defender of Slovak national interests when it came to EU and NATO enlargement.

The economies of both states are deeply interconnected so both states usually share the same interests in the field of EU policies. However, the relationship is asymmetric – Slovakia is significantly dependent on Germany whereas Germany is not reliant on Slovakia. Slovak political elites always have accepted Germany as the natural leading power within EU and even the most visible mutual disagreements in fields like migration policy, economic sanctions against Russia and Nord Stream 2 have partially influenced but not changed this course.

### 2. Bilateral Political Relations since 1989

Since the German reunification in 1990, Germany has become a new actor in European and global politics which began to shape and significantly influence processes of new political configuration on the European continent. From a geopolitical perspective Germany could for the first time in its history find itself not in a position of front state encircled by enemies, but rather in a secure position of a state that could no longer be threatened by traditional conventional threats. In terms of European politics, Germany was mostly seen as a political guarantor that supervises stabilisation processes in Central and East European countries through facilitation of democratic transition and support for accession in Euro-Atlantic structures.

The fall of the Iron Curtain accompanied with the loss of Soviet and communist influence in Central and Eastern European countries created an unprecedented situation. For Czechoslovakia these changes meant not only the beginning of the transition process from a centrally planned and state-owned economy to market economy and democratic

society, but also the launching of the dissolution of the common state and the creation of two new independent countries on the map of Europe. During the first years (1990–1992) of transition both the Czech Republic as well as Slovakia were exposed to many negative trends that accompanied the transition process. The transition was connected with unavoidable economic recession and high unemployment. However, Slovakia was lucky enough to be part of Czechoslovakia during the first wave of transition reforms which slightly softened the economic recession problems.

In general, the consequences were much harder for Slovakia than for the Czech Republic. The loss of former Soviet markets, especially in the area of heavy industry, contributed significantly to a new phenomenon – rising unemployment which in 1993 rose to almost 13%. Moreover, it took Slovakia almost 10 years to recover from economic depression and achieve the same level of GDP as in 1989.

During the Mečiar era (1993–1998) Slovakia had to cope with several difficult challenges including the establishment of the fundamental institutions of an independent state. At the beginning, Mečiar’s government pursued former federal economic policies but diverted from the original reformist strategy in several important aspects. This period could be well characterised by the conduct of irresponsible and populist politics characterised by corruption, clientelism, growing international isolationism, unsystematic interventions, expansionary fiscal policy and disregard for the rules of liberal democracy (MIKLOŠ 2014).

According to Leško, Mečiar was also known for his conflictual political behaviour which complicated Slovak bilateral relations on international scene. A vivid example of such an activity was the conflict between Slovakia and Germany in 1995 concerning the Slovak name for the German state. The German side asked to make official the variant “Spolková Republika Nemecko” rather than “Nemecka Spolková Republika” because the latter evoke the name from the Cold War era. However, Mečiar refused to accommodate the German request and reacted in an irritated way by asking whether the Germans needed Slovaks to change grammar rules as a way of displaying political loyalty. However, in the end the Slovak side agreed to accept the German variant but the only outcome of the conflict was a significant delay in signing bilateral treaties and the unwillingness of Chancellor Helmut Kohl to meet the Slovak PM for another year despite Slovak requests (LEŠKO 1996).

The political situation in Slovakia significantly changed after the 1998 parliamentary election which brought to existence a broad coalition of centre-right and left (but first of all anti-Mečiar) parties under the Prime Minister Mikuláš Dzurinda. His major political goal was to overcome international isolation of Slovakia by its integration to the EU and NATO. However, the domestic situation was far from ideal as the new leadership had to face enormous challenges at home. The country was politically and economically isolated. The unemployment was at its peak above 20%, the state was not able to pay back its obligations and was borrowing at interest rates higher than 25%. Insolvency and corruption were very common, the judiciary was dysfunctional, and the three largest state owned banks were at the verge of collapse. The price paid for the distortions of the economy was high.<sup>1</sup> But after four hard years, the First Dzurinda Cabinet (1998–2002) managed to restore

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<sup>1</sup> The restructuring of the three largest state-owned banks, which were largely insolvent at that time, cost an amount equivalent to 12% of the country’s GDP. There was no alternative, however, as the banks would otherwise have collapsed, bringing the entire economy down with them (MIKLOŠ 2014).

macroeconomic balances, improve the business environment and attract foreign investments that took stakes in some of the natural monopolies (MIKLOŠ 2014).

The Second Dzurinda Government (2002–2006) which brought to power a homogenous centre-right government was the most pro-reform oriented government in the history of Slovakia. It used this historically unique window of opportunity to implement more radical changes and structural reforms than other transition countries. These reforms could be labelled as second wave reforms and the most visible were implemented in the beginning of 2004. These measures manifested themselves mostly in the simplification of tax regimes<sup>2</sup> among which the most visible was the introduction of the 19% flat tax rate (personal income, corporate income, allowance and value added) which replaced the previous old tax regime.

The tax reform was such a visible reform tool that it also influenced the German pre-election debate in 2005. Before the election, the Christian Democratic Union included its flat tax proposal in its election manifesto. In August 2005, Angela Merkel announced that should the CDU be able to form a government, she would appoint a prominent flat tax advocate, Professor Paul Kirchhof, as Finance Minister. Following this announcement, the SPD launched an effective counter campaign claiming that the introduction of flat tax reform would favour the rich. Based on this counterattack Merkel decided to distance herself from Kirchhof's proposal, but this increased the CDU's popularity only slightly. Moreover, the Slovak tax reform was also criticised by German Chancellor Gerhard Schröder, French Finance Minister Nicolas Sarkozy, and Swedish Prime Minister Hans Göran Persson. They claimed that lowering the taxes in some new EU member states leads to "unfair tax competition" or "tax dumping". The criticism was twofold. Firstly they claimed that tax reforms would lead to shortfalls in the budgets of new member states which will have to be later compensated from EU funds. Secondly, they argued that such a tax decrease would encourage the influx of investment from old to new member states (MIKLOŠ 2014).

In July 2014, the newly elected Slovak President Andrej Kiska visited his German counterpart Joachim Gauck. The result of the meeting reaffirmed that the mutual relations are at an excellent level. However, it has to be noted that the official visit happened just before the start of the refugee crisis. The Slovak President emphasised that Slovakia considers Germany a strategic partner in the political and economic area. Moreover Germany is by far the most important trading partner of Slovakia and at the same time a key investor. The visit in Berlin ended the Slovak President's first round of visits after meetings held in Budapest (a meeting of V4 Presidents with the German President), Prague, Warsaw, Vienna and Berlin. The Slovak President's roadmap in the context of the German visit only emphasised that Germany plays an undisputable role in the Slovak foreign policy.

However, the most interesting shift in bilateral Slovak–German relations could be observed during the refugee crisis. In a sense, the Slovak Government opted for a common position with the Visegrád countries which were at odds with the official German position. The Visegrád rejection of European proposals for the mandatory resettlement and relocation

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<sup>2</sup> These reforms included the repeal of almost all tax exceptions, special rates and tax regimes, almost all deductible items, double taxation wherever possible, elimination of the tax system's distortion elements, introduction of a single value-added tax rate with no exceptions and the introduction of a flat income tax. The Parliament passed the new tax legislation in the autumn of 2003 and the new system went into effect on 1 January 2004 (MIKLOŠ 2014).

mechanism left the Visegrád countries isolated in the European Union. The Slovak position was different from the German one and addressed the importance of solving the roots of the crisis, not the consequences, as well as a stronger external border protection. Going back to 2015, Germany was surprised that more countries did not share its idea and point of view. The refugee crisis showed that the Slovak–German relations mirror a much larger phenomenon and that is the question of German leadership in the European Union and its perception among the rest of the EU member states. When Germany acts, it is doomed, when it does not act it is criticised for the absence of leadership. Germany showed leadership in the Ukrainian crisis and the migration crisis, but did not show leadership in other EU issues. German leadership is needed but it should be inclusive, coordinative and based on compromise.

In August 2017, Slovak Minister of Foreign Affairs Miroslav Lajčák and his German counterpart Sigmar Gabriel signed a Memorandum on systematic interstate cooperation or so called “structural dialogue”, which facilitates the systematic and regular contact on every level of state administration. It allows closer contact between Slovak and German ministries, parliaments, Bundesländer and Slovak self-governing regions and between cities and municipalities. Germany has signed this kind of memorandum only with a few selected countries which are Germany’s most important foreign partners (MFEA of the Slovak Republic 2017).

In 2017, the bilateral relations between Slovakia and Germany are excellent and with the exception of the solution to the refugee problem there are currently no diverging interests or bilateral disputes. Both states are cooperating in the public as well as private sector without any specific problematic issues. Currently, there is no element that could disturb this development and if something should damage mutual relations it would be only an intentional deception from one of the sides.

### **3. Economic Relations since 1989**

After the fall of the Iron Curtain in 1989, Czechoslovakia opened its market to foreign investors. One of the first German companies that immediately entered the Czechoslovak market was Volkswagen. The company strategy was probably not counting with the fact that Czechoslovakia will dissolve very soon into two independent countries, however, this circumstance did not affect the strategic decision of the company to invest in Slovakia. Volkswagen established its subsidiary company in Bratislava already in 1991 under the name Volkswagen Bratislava, s.r. o. and launched its car production already in 1992. After 25 years of its presence on the Slovak market, in 2015, Volkswagen achieved the highest turnover<sup>3</sup> of all companies present in Slovakia with 394,474 produced cars (year 2014) and almost 10,000 employees. At the moment, the Bratislava plant is currently used for the production of the Volkswagen Touareg, Audi Q7, Volkswagen up!, Škoda Citigo, Seat Mii as

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<sup>3</sup> 7.23 billion Euros.



well as for the body of the Porsche Cayenne.<sup>4</sup> Another big German company that entered the Slovak market was Siemens.

However, the Slovak business environment was far from being optimal, especially during Mečiar's era (1993–1998). Foreign companies often reported bad experiences with the lack of qualified working labour, insufficiently developed infrastructure (with the exception of Western Slovakia), high taxation, difficult access to capital as well as the instability of legal environment, a high level of bureaucracy and lack of transparency. German investors were struggling with similar problems. The intention to focus on long-term investment objectives was often put off by a high level of administrative complications. These limitations influenced the lack of foreign investment as many of them were dependent on easy access to critical infrastructure, as well as tax and tariff benefits. Moreover, Slovakia was always in a permanent competition with other Central and Eastern European countries that also tried to attract investments to their countries.

For example in the year 1997, the amount of foreign direct investments in Slovakia amounted to 5.4 billion SKK (€179.3 million). The following year 1998 it reached to 17.9 billion SKK (€594.2 million). If measured per capita and compared with the neighbouring countries in the region foreign direct investments were at that time 7 times lower than in Hungary, 4 times lower than in Slovenia, 2.5 times lower than in the Czech Republic and 2 times lower than in Poland (ŽITŇANSKÝ 1999). The biggest foreign investors in Slovakia were Great Britain, Poland, Germany, the United States and the Czech Republic.

The situation began to change only after the Slovak parliamentary election in 1998. The new Dzurinda Government changed its approach towards the philosophy and execution of economic policies. The main challenge became the stabilisation of the economy at the macro level, as well as the decrease of the deficit in public finances. The government slowly managed to improve the quality of business environment through the introduction of several important laws which led to the creation of a more favourable investment climate. The government also offered benefits to foreign investors and launched activities that would attract larger amounts of foreign direct investments. The attractiveness of the Slovak business environment has increased also after the abolition of laws prohibiting the privatisation of the banking sector, energy, gas and several other industries that were labelled as strategic. The government privatised several banks and selected parts of monopolies. There were no restrictions on foreign capital participation in the privatisation of natural monopolies and these privatisations were managed through international tenders.

These changes manifested themselves in a massive influx of German foreign direct investments and a rise of bilateral economic relations once Slovakia gained its independence. The pre-accession era of German–Slovak bilateral economic relations can hardly be compared with the post-accession economic boom in mutual economic relations. Once the investments could receive political guarantees within the common framework

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<sup>4</sup> The company has its plants not only in Bratislava, but also in Martin and Košice. In Martin, Volkswagen produces differential gears, flanges, flanged shafts, brake drums and brake wheels. The components can be found in various models of Volkswagen, Audi, Škoda, Seat and Porsche. Approximately 7% of the products from Martin are used in the Bratislava plant of Volkswagen Slovakia. The plant in Košice is responsible for preparing the cars of the Volkswagen brand for the Russian market since 2004 (Our factories 2017).

of the European Union, Germany started massively to invest in the region. Many Slovak companies have been taken over by German investors.

One of the institutions aiming to support closer economic ties between German and Slovak companies is the Slovak German Business Chamber (DSIHK – Deutsch–Slowakische Industrie und Handelskammer). Currently, there are more than 430 member companies which employ around 122,000 people in Slovakia only and their yearly turnout constitutes €27 billion which is cca. 30% of the Slovak GDP. Among the premium members of DSIHK are companies such as BASF, Kaufland Slovenská republika, v.o.s., Lidl Slovenská republika v.o.s., Fritz, Kerkosand, Giese & Partner, Deutsche Messe, Slovak Telekom, Západoslovenská energetika a.s., Metro Cash & Carry SR, s.r.o., PWC, Middle Cap, Schaeffler, LuK, FAG, DHL, Deutsche Bahn, Schenker, Continental, HDO and Reutter and Witzenmann (DSIHK 2017). However, due to the complicated ownership relations, it is almost impossible to determine the exact number of companies under the control of German entrepreneurs. Various companies are controlled through subsidiary corporations registered in third countries. The total amount of companies controlled by German businessmen is estimated to be 2,400 (BERACKA 2017).

Table 1.

*German companies in Slovakia among companies with highest yearly turnover*

	Company name	Year	Turnover	Profit
1.	Volkswagen Slovakia, a.s. Automobile industry	2015	7,227,454,000 €	127,459,000 €
2.	Lidl Slovenská republika, v.o.s. Retail business	2015	977,047,000 €	84,843,000 €
3.	Kaufland Slovenská republika v.o.s. Retail business	2015	924,985,573 €	40,178,592 €
4.	Continental Matador Rubber, s.r.o. Chemistry and plastic	2015	890,611,000 €	170,448,000 €
5.	ZSE Energia, a.s. Energy and mining	2015	793,411,000 €	12,471,000 €
6.	Slovak Telekom, a.s. Telecommunication	2015	707,056,000 €	69,744,000 €
7.	Stredoslovenská energetika, a.s. Energy and mining	2015	682,282,000 €	65,646,000 €
8.	SAS Automotive s.r.o. Automobilový priemysel	2015	611,495,043 €	8,489,822 €
9.	Schaeffler Kysuce, spol. s r.o. Engineering	2015	523,569,000 €	11,885,000 €
10.	Continental Matador Truck Tires s.r.o. Chemistry and plastic	2015	521,403,000 €	89,329,000 €
11.	Schaeffler Skalica, spol. s r.o. Engineering	2015	474,271,000 €	10,850,000 €
12.	BILLA s.r.o. Retail business	2015	472,455,000 €	4,081,000 €

Source: FinStat 2017.

The amount of German direct investment stock in Slovakia in 2016 was €2.16 billion. Germany is the 7<sup>th</sup> biggest investor in Slovakia. However, this value of German direct investment stock is at the lowest level since 2001. Following the German investments flows to Slovakia during the last ten years, there is no evident trend of constant development; the flows change irregularly. However, there is a big statistical difference according to different sources. Whereas according to the National Bank of Slovakia, the German direct investment stock is €2.16 billion, according to the German Central Bank, the German direct investment stock in Slovakia is much higher, at the level of approximately €7.5 billion (DSIHK 2018).

Slovakia is rather a small Central European country, but in terms of the intensity of business relations, it has a bigger importance for Germany than BRIC countries like Brazil or India. Information technology, electrical engineering components and electronics, automotive accessories and equipment, devices are traditionally the most important import items from Germany.

The value of Slovak–German trade is slowly increasing every year since the economic crisis. In 2017, Slovak export to Germany reached €14.84 billion and the import from Germany to Slovakia was at the level of €13.36 billion. Slovakia is the 21<sup>st</sup> most important trading partner of Germany with the share of less than 1.5% of the total German foreign trade. On the other hand, Germany is the most important trading partner for Slovakia with the share of cca. 20% in Slovak foreign trade (DESTATIS 2018).

Considering the previous figures, the importance of the Slovak economy for Germany seems to be negligible. However, some of the German products are produced only in Slovakia (higher class SUV cars) and their production cannot be replaced easily. Nevertheless, considering the size of the Slovak economy and the geographic distance, the economic relations between Germany and Slovakia are very good and use much of the possible potential of mutual economic cooperation. The economic dimension of the Slovak–German relations is the best functioning component of mutual relations.

#### **4. Institutional Relations since 1989**

Mečiar's cabinet officially presented its desire to join Euro-Atlantic structures in the mid-nineties. The official application to join the European Union was submitted at the European Council meeting in Cannes in 1995. However, due to many undemocratic phenomena and illiberal tendencies, the Slovak application was firmly rejected in 1997. On the international scene, Slovakia was isolated even more due to its internal illiberal developments. The consequences included the already mentioned exclusion from the EU accession negotiations, as well as from the first post-Cold War enlargement of the North Atlantic Treaty Organization (NATO). Moreover, Slovakia was not invited to join the Organization for Economic Cooperation and Development (OECD). This experience was even bitterer if compared with the fact that all of Slovakia's V4 neighbours (the Czech Republic, Hungary and Poland) reached significant achievements with regards to their integration to Euro-Atlantic structures.

However, the successful foreign policy of the First Dzurinda Government (1998–2006) led to the invitation of accession negotiations into the EU as well as NATO and in quite a short time Slovakia managed to catch up with the progress made by its regional partners.

The Slovak entry into the European Union in 2004 was seen as a crucial geopolitical and foreign political project, but also as a huge modernisation tool for this country enjoying overwhelming cross-political and domestic support. Nowadays, 80% of Slovaks feel they are EU citizens (Standard Eurobarometer 89 2018). The EU support in Slovakia is still majoritarian, but polarised and the consensus is diffused. The Slovak EU position can be partly characterised by a vague anchoring of western liberal values which still, after 25 years of existence of the Slovak Republic, are not sufficiently absorbed by the whole population. It seemed to be tested especially after the experience with Russian hybrid warfare which began after the Russian annexation of Crimea. On social media, there have appeared a lot of “alternative” explanations and opinions questioning the interpretation of the Ukrainian crisis. Subsequently, they started to question not only Ukraine but U.S. policy and EU functioning, as well. Nowadays, it is possible to find all kinds of disinformation, propaganda and “alternative news” to almost every aspect of international relations. Their presence is common in the Slovak cyber space and they have considerable influence on the public opinion about the EU.

Slovakia is a showcase of a country that benefited greatly from joining the European Economic Area and the adoption of the common European currency (2009). Its key benefits stemming from the European integration can be most easily expressed in economic terms. Its sound economic management, implementation of structural reforms, as well as closer integration with the EU led to progressive strengthening of economic growth since overcoming the economic crisis. Therefore Slovakia has a major interest in maintaining crucial elements of EU integration like the Single Market, the Schengen area and the European Monetary Union. As a country whose economy is based mainly on export, Slovakia fully endorses the efforts of the European Commission to sign new trade agreements with third countries. Besides, the top political representatives of Slovakia also repeatedly expressed the interest to be part of the planned future “core” of the European Union. Slovakia and Germany share the same interests within these policy areas and cooperate closely to move the European integration in selected areas forward.

However, sometimes even sharing the same goals can cause discord when there are different opinions about the methods how they should be achieved. In 2010, during the beginning of the sovereign debt crisis in Europe, Slovakia refused to provide €800 million as the part of the loan from Eurozone countries to Greece. The Slovak Parliament rejected the loan to Greece despite the diplomatic pressure from Germany and the European Commission. Slovakia was the only Eurozone country which did not participate in the first money package to Greece. However, later on, Slovakia has become an active member in the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) and currently, the Slovak Government agrees with the German stance to resolve the debt issues within the Eurozone mainly by austerity and to provide financial aid only in serious circumstances.

Another important aspect of the Slovak–German relations is the Slovak membership in the Visegrád group. Since joining the EU by all four members of the V4 in 2004, the Visegrád group has become a relatively effective instrument in promoting common interests of its members not only within the EU but outside the EU, as well. The four countries combined represent more than 63 million people and more than \$900 billion of GDP. Therefore the big EU countries preferred many times to discuss important issues

rather with the V4 format than with individual countries. However, during the last years, the positive reputation of the Visegrád group diminished because of the common stance towards immigration issues which was often portrayed as inhumane and not in line with the principle of solidarity. Besides, the undemocratic processes in Hungary and Poland have damaged the V4 reputation even more. In Germany there are two contradictory opinions about the relations with the V4. The first one, endorsed by the Bavarian CSU favours deeper cooperation with V4 countries, the second one presented e.g. by former German Foreign Minister Joschka Fischer is to urge a deeper integration with France and to relegate the V4 countries to an outer ring of partners (The Economist 2018).

## 5. Policy Field-specific Relations

In terms of security cooperation Germany supported the Slovak accession into NATO. Following the Slovak accession, Germany and Slovakia adopted several joint initiatives and missions within NATO, as well as EU. Yet the Slovak–German security cooperation is in many ways a good example of missed opportunities. Germany is currently the lead nation in NATO’s Enhance Forward Presence mission in Lithuania. The operation cannot change the military balance in the Baltics, however, it sends a strong political signal from the allies to the Baltic states and strengthens NATO effectiveness in undertaking collective defence tasks on the Eastern Flank. The decisions to form rotational multinational battalion formations was made at the Warsaw Summit in July 2016. Slovakia is sending 152 troops to the Baltics (Latvia) for the period from the 1<sup>st</sup> of April until the 30<sup>th</sup> of June as a part of a V4 contribution to the NATO assurance measures for the Baltic States in 2017 (SHARKOV 2016). The V4 Ministers of Defence reassured their position as well as re-confirmed the importance of the Enhanced Forward Presence for the more effective deterrence and defence of NATO in a Joint Communiqué in Niepołomice on 2 February 2017 (Joint Communiqué 2017). Yet if Slovak troops were stationed in Lithuania, they would be under German command what would greatly enhance the mutual security cooperation.

Another part of joint security activities is the decision to deploy a Slovak unit of Military Police in cooperation with Germany to the EU naval mission “EUNAVFOR MED Sophia” in the Mediterranean. The deployment of our military police personnel sends a solidarity signal to our South European allies that we are ready to tackle the challenges that concern them the most. Secondly, the Military Police will acquire new experience from a new type of international operation (Vojenská polícia 2017). In the area of energy security there exist probably the most visible disputes in German–Slovak relations, especially when it comes to Nord Stream 2. Slovakia is deeply concerned with this kind of energy projects which are run by individual energy companies and could disrupt current positive developments on gas markets in the CEE countries. By the modification of traditional existing transit routes, they would change not only the incomes from transit fees but the geopolitical reality as well. In this sense, the intention to implement Nord Stream 2 might be politically destabilising for the CEE, but first of all for Ukraine. The project, once implemented, might therefore seem to undermine the common European position towards Ukraine, as well as the ability to shape Russia’s policies towards our Eastern neighbour. Even though the project might increase the energy security of particular countries such as

Germany, it has a serious impact on recent gas market diversification policies of the V4 countries as well as crucial energy, economic and geopolitical consequences for the CEE. Besides, in the case of a total closure of the Brotherhood pipeline, it would cause a loss of €800 million annually in transit fees for Slovakia (The Slovak Spectator 2016).

The recent Russian–Ukraine conflict sparked significant differences in national positions between Germany and Slovakia and also exposed critical verbal statements of the Slovak Prime Minister Robert Fico. Fico remained very critical towards domestic developments in the Ukraine and the introduction of EU sanctions and tends to overlook the Russian political and military interference into Ukrainian domestic affairs. His statements covered various issues, ranging from acknowledgement that as neighbours Slovakia and Ukraine “were unable to establish normal political relations”, through labelling Ukraine as an “unreliable partner” (in relation to the gas crisis), to questioning the abilities of Ukraine to manage difficult challenges arising from rapprochement with the EU<sup>5</sup> (Nový Čas 2014).

Besides this, the Slovak PM also has remained very critical on the introduction of further sector-specific sanctions against Russia<sup>6</sup> which he criticised at several occasions. His last statement regarding the possible introduction of further sanctions came at the beginning of February 2017, when he said that he would never again support further sanctions against Russia (Aktuality.sk 2017). But in practice the administration has avoided taking any steps that would undermine the EU’s unity. Bratislava believes that the EU needs a policy towards Russia that goes beyond sanctions. The government thinks that the solution to the crisis in Ukraine lies both in diplomacy with Moscow and in strengthening Ukraine itself (KOBZOVÁ 2015). Besides, in Slovakia (and in some CEE countries as well) a narrative emerged (supported by several politicians) that small states were forced to adopt sanctions against Russia by the bigger EU states. These statements partially contributed to the rise of tensions between Berlin and Bratislava when it comes to EU Russia policy.

Regarding the main Slovak security discourse, it has been shaped mostly by the verbally opposing statements between the Prime Minister Robert Fico and the President Andrej Kiska. The two politicians do not share the same point of view on many security related challenges. President Kiska can be labelled as a pro-Atlantist and pro EU politician, while Prime Minister Robert Fico is certainly a more pragmatic politician with recent Euro-optimistic, but also several anti-NATO and pro-Russian statements. The current situation and development in Ukraine offers Slovakia both – great political, economic, trade and investment potential on the one hand, but also direct threats to its security (BRAJERČÍKOVÁ–LENČ 2017).

The recent Slovak security discourse also reflected the latest developments on the European and the international scene since the British decision to leave the European Union

<sup>5</sup> In September 2014 Fico stated in his interview for Nový Čas that “we want peace in Ukraine, because it is our neighbour [...] because it is a transit country [...]. It is also good that AA was signed, which gives Ukraine a perspective to bring it closer to the EU. However, I think that Ukraine can hardly handle difficult challenges related to the accession to the Union, because it is before absolute disintegration. And I reject the idea that Ukraine could at some point be a member of NATO, because it could undermine the security in the region” (Nový Čas 2014).

<sup>6</sup> When asked what his solution is to the Russian–Ukrainian conflict, Prime Minister Fico answered: “Negotiate, negotiate, negotiate. I was for it to support agreed fragile truce (in Eastern Ukraine) and postpone third wave of sanctions” (Nový Čas 2014).



and the election of Donald Trump for U.S. President. Slovak political elites are fully aware of the rising U.S. pressure for NATO member countries to raise their military expenditures and spend more on the modernisation of their armed forces. In 2017, both countries shared the same relative amount of military expenditures at the level of 1.2% of GDP (World Bank 2018). Therefore, Germany and Slovakia share the same interest to raise the military expenditures more slowly than the U.S. President demands. In both countries, military spending has never been a high political priority and a significant increase in military spending will be a rather unpopular step for the general public.

Regarding the Schengen area, the Slovak economic growth is drawn mainly by foreign investments for which it offers a business model that is attractive on the ground of its favourable geographic position. E.g. three of the ten biggest exporters based in Slovakia are Asian companies. With respect to the economic interests, any possible reintroduction of national borders within the Schengen area would cause serious negative economic outcomes. Such a scenario would deeply endanger the prospects of the export-based Slovak economy as well as the arrival of foreign direct investments. Therefore, Slovakia is keen on preserving the current model which means keeping the borders open and Schengen in place. Schengen is an absolute priority even at the expense of cohesion funds.

## 6. Conclusion

The policy of President Donald J. Trump has made it inevitable that Germany should become the leading power in the European Union in all aspects. Slovakia is ready to support the German leadership and already does that in many areas of specific European policies. When looking at the mutual relations from a historical perspective, it is evident that there is no burden of historic conflicts. However, the relationship might be labelled as an asymmetric one – Slovakia will never be as important for Germany as vice versa. In general, the relations are very good but there are some sticking points concerning the solution of the refugee crisis, the level of EU sanctions against Russia and finally the Nord Stream 2 project. These issues caused some discords between both partners but have not endangered the quality of their relations. Slovakia sees Germany as the natural leader and does not seek another one within the EU. Currently, there is no element that could disturb this development and if something should damage mutual relations it could be only an intentional deception from one of the sides.

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## **Chapter 9**

# **From a Community of Feelings to Estrangement: Hungary and Germany since 1990**

*András Hettyey*

Hungary and Germany have come a long way since 1990. The aim of this chapter is to review this relationship as it unfolded since the fall of the Berlin wall, the German unification and the Hungarian democratic transformation in 1989–1990. As will be seen, two distinct periods can be clearly identified. In the first, until 2004, the strategic interests of the two countries aligned as Germany supported the Euro-Atlantic integration of Hungary, the main foreign policy goal of the respective governments in Budapest. After Hungary's EU accession in 2004 and especially after 2010, new characteristics and new patterns could be observed in the relationship between Germany and Hungary as the two countries began to clash with ever-increasing frequency, in line with Handl's prediction that relations between Germany and the countries of the region should loosen after the accession. Based on the insights of role theory, we argue that the main reason for this lies in the strikingly differing foreign policy role concepts of Germany and Hungary in the period after 2010. In keeping with the structure of the other papers, in this volume, we firstly review the bilateral political relations since 1990 before turning to the economic relations and, thirdly, to the multilateral arena.

### **1. Bilateral Political Relations since 1990**

After the transformations of 1989–1990, the relationship between Germany and Hungary could not have been better. This 'special relationship' was due to several factors. The decision of the last one-party government in September 1989 to let the East German refugees travel to the West has been a crucial catalyst of the collapse of the Berlin Wall two months later. By 1989, the bilateral economic ties were already strong: Germany was the second biggest trade partner for Hungary. As opposed to Poland or Czechoslovakia, there were no historical 'sore points' in the German–Hungarian relations nor unresolved minority or reparations payment issues. The peaceful democratisation of the country was a model for other former communist Central European countries and was clearly in the interest of Germany. From the start, Germany lent a helping hand in modernising Hungary's economy, through cheap loans, debt cancellation and non-refundable humanitarian assistance. In return, Hungary was an island of stability in a turbulent and problematic region. While Czechoslovakia and the Soviet Union were disintegrating, wars flared up in ex-Yugoslavia, nationalist governments

were formed in Slovakia and Serbia and successive political crises gripped almost all countries, Hungary was the only polity in the region where the first democratically elected government filled out its full mandate. What is more, the same six parties were re-elected to the parliament in 1994, no radical, nationalist or communist parties amongst them. Talking about the stability of the continent, Wolfgang Schäuble, the then chairman of the CDU parliamentary group, gushed in 1993 that Hungary played the same stabilising role in the region as Germany did in Europe.<sup>1</sup> President Göncz Árpád went so far as to say that Hungary and Germany have a ‘community of feelings’ (BILCIK 2012, 164).

Feelings are all well and good, but there were more to the German–Hungarian relations than that. In essence, the two capitals had the same overarching political and economic interests after 1990. In order to acquire great power-allies and modernise the economy, the successive democratic Hungarian governments wanted to enter NATO and the European Union, respectively, as quickly as possible. It was clear from the beginning, that to achieve this aim, the enlisting of Germany’s support was crucial. In other words, Germany was both an important bilateral *and* multilateral partner (KISS J. 2002). For its part, despite the occasional and casual attempts to drag out this process, Bonn was a strong supporter of this Hungarian aim. Overall, at the top level of heads of government, the Kohl era was characterised by the German chancellor’s role of Western patron Number One of the Hungarian accession (KISS J. 2002). Apart from economic considerations, Germany had manifest interests in this: due to its geographic location, the country would have been the first to suffer the negative spillover effects of possible economic crises, migration flows, political instability, civil wars and the activity of transnational criminal networks in Eastern Europe.

Another area of common interest were economic relations. Germany played a large part in the stabilisation of Hungary’s economy after the painful transformations of 1989–1990. Once this has been achieved, and the necessary reforms were under way, bilateral commercial relations and German foreign direct investment (FDI) started to grow significantly to the point, where Germany was by far the biggest trade partner and biggest investor, laying the foundation for good economic relations (see the next chapter). In addition, Hungary gave significant political, military and logistical support during the 1990s to NATO, even before it became a member of the alliance. Due to its geographic location and relatively up-to-date military, Hungary provided NATO with airbases for the pacification of Bosnia and, subsequently, for the Allied Force-operation, i.e. the bombing of Serbia in 1999. Hungarian airfields and logistical support was crucial for both missions. The Hungarian Armed Forces participated with troops in the IFOR/SFOR peacekeeping mission in Bosnia and the KFOR mission in Kosovo, both under the umbrella of NATO. Overall, Hungary clearly demonstrated that it is able to help NATO achieve its goals and both missions were a great boost for Hungary’s NATO accession in 1999. Ronald D. Asmus even went so far as to say that without NATO’s successful Balkans mission, its Eastern enlargement of 1999 would never have happened (ASMUS 2003, 190). Germany was very much impressed with

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<sup>1</sup> „W. Schäuble látogatása a nagykövetségen”, MNL OL, Külügyminisztérium Tük, 28. doboz, 00179, 1993. január 15.

Hungary's positive contribution in solving these conflicts.<sup>2</sup> In addition, it is also noteworthy, that vis-à-vis the various political conflicts in Eastern Europe at the time, Germany and Hungary almost always saw eye to eye and supported the same outcomes and solutions. Hungary was also behind Germany's unsuccessful bid in the 1990s for a permanent UN Security Council seat.<sup>3</sup>

The only important area where significant tensions were apparent was the issue of the Hungarian minorities in the neighbouring countries. Here, Germany's position was constant and clear from the beginning. It cautiously supported Hungarian attempts to put pressure on Romania and Slovakia to improve the situation of the Hungarian minority in their countries. However, it always refrained from giving support to Hungarian demands for autonomy in these countries. This reflected the longstanding German conviction, that individual minority rights are to be upheld but the insistence on collective minority rights (like autonomy) might endanger regional stability and serve as a precedent, causing interminable ethnic disputes in Europe. Moreover, Germany was repeatedly troubled by statements from less-than-diplomatic Hungarian politicians accusing neighbouring countries with the maltreatment of their Hungarian minorities. Once again, Germany's main aim in the region was political stability and anything that might jeopardise this, as for example, feuds over autonomy, was to be discouraged. "Even the token stability of the region is more important to the German government than the effective solving of minority problems" – sighed an exasperated Hungarian diplomat in 2002.<sup>4</sup>

All in all, speaking about the period before Hungary joined NATO in 1999 and the European Union in 2004 one might identify 4 + 2 issue areas, where Hungary and Germany had common interests and where both countries could help the other in achieving these interests. To begin with the four areas which were important for Germany, Bonn was, firstly, very much interested in the political and economic stability of the region. As already mentioned, Hungary, without a doubt 'delivered' in this respect, as opposed to other, more crisis-prone countries in the region: between 1990–2002, Hungary had four prime ministers, while Romania and Bulgaria had seven, Poland and Latvia nine and Lithuania no less than 12.<sup>5</sup> In addition, Hungary's fairly stable economic structures provided a good basis for German investments: despite the occasional legal and administrative hiccups, German investors were enthusiastic about Hungary as a destination. In various polls, German investors cited 'stability' as a major reason why they invested in Hungary, and not the usual suspects like 'cheap workforce' or 'geographic proximity' (KONDÁSZ–ENGERT 2002, 75).

The second area was the topic of German minorities living in Hungary. As repeatedly recognised by German politicians, Hungary treated its 120,000-strong German minority in an exemplary fashion, granting them wide-ranging rights as laid down in the 1992

<sup>2</sup> For example: „Jelentés V. Rűhe német védelmi miniszter magyarországi látogatásáról (1996. 04. 09–11.)”, KKM Irattár, Külügyminisztérium Admin, 109. csomó, 3216-7, 1996. április 26.

<sup>3</sup> For example: „Háttéranyag Orbán Viktor miniszterelnök úr németországi látogatásához (ENSZ)”, KKM Irattár, Külügyminisztérium Admin, 8549, 1998. október 27.

<sup>4</sup> „Konzultáció Berlinben”, KKM Irattár, KKM Irattár, Külügyminisztérium Admin, 2773, 2002. február 4.

<sup>5</sup> And Hungary only had four because the first Prime Minister, Antall József died in 1993, before the end of his tenure. However, his sudden death had not put the government in jeopardy, as his successor finished the term without problems.

German–Hungarian Treaty of Friendship and the 1993 Law on Minorities.<sup>6</sup> This has to be contrasted with the issue of Germans in Poland for example, where this topic has caused considerable friction between Warsaw and Bonn. No such thing would happen in the German–Hungarian relationship. Connected to this was the third favourable condition, namely the fact that there were no disagreements or bad feelings about the common history of the 20<sup>th</sup> century. While the Nazi destruction and subsequent occupation of the Polish and Czechoslovak states cast its long shadow unto German–Polish and German–Czech relations in the 1990s (and, arguably, still today), especially with regards to the reparation issue, no such contentious topic was to be found with Hungary. Once again, Hungary proved to be a much less problematic partner for Germany than others. Fourth, Hungary was a fairly Germanophile country, with strong cultural, linguistic and scientific links to Germany. In other words, Hungary was a promising area for the advancement of German soft power. The German language, especially among the older population, was fairly widely spoken and extensively taught in schools. It is no surprise, that the only German-speaking university outside of the German-speaking countries, the Andrassy Gyula German Speaking University, founded in 2001, is to be found in Budapest. Repeated surveys found that the Hungarian population has a very high opinion of Germany in general and German technology in particular (MÁRKUS G. 2000).

For Hungary, Germany contributed to achieving its goals in two major ways. First, the German federal and state authorities as well as German firms and investors helped with the eminent goal of respective Hungarian governments, namely the economic, social and administrative modernisation of the country. In the years 1989–1993, Germany provided financial help through cheap credits, humanitarian assistance and debt relief, to the tune of 3.5 billion DM.<sup>7</sup> Per capita, this meant 340 DM German assistance for every Hungarian. This compares with 237 DM per capita for Poland and 63 DM for Romania. German firms invested 8.7 billion USD in Hungary in the period of 1990–2002, a share of 33% of all investments in Hungary. In the 1990s, Hungary was way ahead of its rivals in this regard, as well: per capita German investment in Hungary was four times as much as in Poland and 150 times as much as in Russia (DIETZ et al. 2001, 49). German financial and administrative help materialised in other areas, as well. The German state set up a fund for giving cheap loans to Hungarian small and medium enterprises. The Hungarian Army received two major shipments of military equipment in the mid-nineties from the stockpiles of the army of the former German Democratic Republic, free of charge. German experts helped to build and strengthen the capacities of the Hungarian state and local administration, especially in the area of law-enforcement and border control. Hungarian workers had a variety of possibilities to work legally in Germany through avenues specifically tailored for Eastern European states. In 1996, 14,000 Hungarians worked in Germany through such advantageous programs. More dramatically, in the first winter of the democratically elected Antall Government, a serious shortage of coal developed, with potentially grave consequences for the legitimacy of the newly founded Hungarian democracy. At the beginning of 1991,

<sup>6</sup> For example: „A magyar–német kétoldalú kapcsolatok helyzete az egyesülés után, és a bilaterális együttműködés perspektívái”, MNL OL, Külügyminisztérium Admin, 44. doboz, LSZ 109-1, dátum nélkül.

<sup>7</sup> Antwort der Bundesregierung auf die Große Anfrage der Fraktionen der CDU/CSU und F.D.P., Drucksache 12/6162, 1993. november 12.



Germany quickly offered a one-off, non-refundable assistance of 50 million DM, to help Hungary get through its heating season. Further examples might be added.

Secondly, Germany was the most steadfast supporter of the Hungarian EU and NATO integration. Bonn was instrumental in building a consensus inside these two organisations with regard to the accession of the Eastern European states. This is true even if Germany had its periods when, due to domestic or international considerations, it occasionally tried to slow down the very process of Eastern enlargement it set in motion. Russia, an important security and economic partner of Germany, was, for one, very much against NATO's enlargement. Domestic constituencies, like the mighty agricultural and industry lobbies were also less than enthusiastic about the prospect of Hungary, Poland and all the others joining the European Union, threatening their market positions. The German public at large was also far from convinced of the utility of the Eastern enlargement. According to Becker, various polls show that the alleged German pro-enlargement consensus was in reality only a project of the German political and opinion making elite (BECKER 2011, 143). All this meant that the Kohl and Schröder governments had to spend quite a significant amount of time, energy and political clout to convince sceptics inside and outside of Germany. This they did with considerable skill, as the relatively quick NATO accession of Hungary, Poland and the Czech Republic in 1999, and the somewhat less quick Eastern enlargement of the European Union in 2004, showed.

The notion of an almost problem-free German–Hungarian community of feelings (and interests, we might add) started to fray after the turn of the century. At the risk of oversimplifying, we might distinguish between the period of 2002–2010 and 2010–2018. In the first period there repeatedly began to emerge certain points of friction, which was in itself almost a novelty in German–Hungarian relations. In the second, the issues of disagreement became both more frequent and more salient. It is the period of 2002–2010, i.e. the last year of the first Orbán Government (1998–2002) and the two terms of the socialist-liberal governments under Prime Minister Medgyessy Péter (2002–2004) and Gyurcsány Ferenc (2004–2009) to which we now turn. Significantly, this was also the period when Hungary joined the European Union, giving the Hungarian foreign policy much more room to manoeuvre and many more options to choose from than before the accession.

The first tensions developed over the hardly fought Hungarian elections of 2002, when the ruling Fidesz party, amongst other things, accused the Socialists of being in the pocket of the international finance world and therefore being traitors of the nation (Origo 2002). For the German press and the government, this hitherto unknown rhetoric rang alarm bells. Even a report from the Konrad-Adenauer-Foundation, the party foundation of the CDU, (itself a political partner of the Fidesz) highlighted the distressing elements of the campaign of Orbán Viktor's party (WEIGELT 2002, 26–27). No surprise, then, that the Hungarian ambassador to Germany reported home that the occasionally brutal tone of the campaign damaged Hungary's reputation and the overwhelmingly positive image of Hungary in Germany seriously deteriorated.<sup>8</sup>

The next friction developed over the war in Iraq. The socialist-liberal Hungarian government strongly backed the tough line Washington was taking towards Saddam Hussein, even hinting at the possibility of supporting an intervention with or without

<sup>8</sup> „2002. évi nagyköveti beszámoló jelentés”, KKM Irattár, Külügyminisztérium Tük, 839/T, 2002. június 24.

a United Nations Security Council resolution (TÁLAS–PÓTI 2004, 318). Germany, on the other side, was strictly against the plans of the Bush Administration. Budapest was thus in the delicate position of having to take sides between its two most important partners. While the alignment with the USA was perhaps understandable, the signing of the ignominious Letter of Eight by the Hungarian Prime Minister, professing full support for any American measure against Iraq, was characterised as a ‘political mistake’, mostly because this step was taken without prior consultation with Berlin (TÁLAS–PÓTI 2004, 318). Overall, the disagreement over Iraq most certainly damaged the bilateral German–Hungarian relationship. This incident occurring in early 2003, when Hungary’s EU accession was all but sealed, one might also conjecture that this kind of Hungarian positioning would have been unthinkable a couple of years earlier. Yet by 2003, Budapest was in a position where it could afford to distance itself so decidedly from Berlin.

Apart from minor issues, no further serious tensions emerged until 2010, at least on a bilateral level. This was probably also due to the fact, that after 2006, the socialist-liberal government was confronted by a sequence of domestic political problems, consuming much of the energy of the decision-makers. The 2008 economic crisis reinforced this trend, leading to a near paralysation of the government, culminating in the break-up of the coalition in 2008 and the resignation of Prime Minister Gyurcsány in 2009.

After the resounding electoral victory of the Fidesz in early 2010, things rapidly changed. Basically, one might categorise the issues of disagreements into two brackets: first came tensions over the alleged or real endangering of the rule of law in Hungary. These issues shaped the years 2010–2015 (HETTYEY–RÁCZ 2012). After 2015, the main clashing point changed over to the field of migration policy. Armed with a strong electoral mandate and a clear mission to reform the country, the new government set out to finally carry out the real transformation of Hungary – as opposed to the ‘incomplete’ and ‘unsuccessful’ transformation of 1990 (Fidesz 2010). The centrepiece of this ‘revolution in the voting booth’ was a massive program of legislation. The two-thirds majority of Fidesz was, in itself, something rather untypical by German standards. Early on, Chancellor Merkel repeatedly emphasised the necessity of responsibility in using such a significant majority and hoping that the democratic majority will take into account the democratic minority.<sup>9</sup> The first issue of real disagreements emerged was the media law of 2010. The Merkel Government quickly called upon the Commission to investigate whether the law was in compliance with European norms. Due to the pressure from the Commission, the Hungarian Parliament modified the bill, but Berlin was still not satisfied with some elements and also let its criticism be known through Minister of State Werner Hoyer (FDP).<sup>10</sup> This episode already showed elements of the preferred tactic of the successive Merkel governments. First, Berlin opted to ‘multilateralise’ the criticism and, in a sense, ‘hide’ behind the seemingly un-political façade of the Commission. Second, open criticism was usually left to the junior partners in the respective coalitions, who had less close ties to Fidesz, than the CDU–CSU,

<sup>9</sup> For example Index.hu 2010.

<sup>10</sup> Bundestag: Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Katrin Werner, Sevim Dagdelen, Annette Groth, weiterer Abgeordneter und der Fraktion DIE LINKE, Drucksache 17/7468, 2011. november 11.

making it easier for them to stand up to the Hungarian Government. In the Second Merkel Government, this was the liberal FDP, in the third, the social democratic SPD.

Next in line in the disagreements about rule of law issues was a bill mandating a lower retirement age for judges and the alleged violation of the independence of data protection authorities. The new Hungarian Constitution of 2011 came under fire for the curtailment of the competences of the Constitutional Court.<sup>11</sup> After 2012, sectoral taxes on financial institutions, energy service providers, and telecommunications, retail, and advertising companies seriously affected German firms. While not questioning the legality of the extra taxes, the German Government criticised that they were levied without prior consultation. It also should be pointed out that none of the affected major German investors left Hungary because of the taxes, showing that the financial consequences of these measures could be absorbed.

We suggest that the overall tendency of the German criticisms after the 2010 Hungarian elections can be summed up the following way: it was mostly the media, the opposition parties and, in a more cautious fashion, the junior partners in the coalitions who levelled significant criticism against the Orbán Government while the CDU–CSU, Angela Merkel and large parts of her governments did not want to risk an open confrontation with Hungary (NAGY 2012, 5). First, it was maintained that while there might be occasional shortcomings, the rule of law in Hungary is not seriously threatened by the Orbán Government, all the less as Budapest was ready to modify parts of its laws which were criticised by the Commission. Secondly, during the Eurozone crisis, the Fidesz-led government proved to be a valuable ally in the German quest to reform the Mediterranean countries (see below). Thirdly, the 14 Fidesz MEPs made up the sixth-largest national group in the European People Party (EPP) caucus of which the CDU and CSU are themselves parts.

The second area of disagreements, which came to the fore in 2015, was the migration crisis. Once again, the same patterns could be discerned. The German media, opposition parties and the junior partner (this time, the SPD) took swipes at the border fence, the treatment of the migrants/refugees in Hungary and the rhetoric of the government. Under pressure from the press, which showed desperate people camping in squalid conditions in Budapest and even walking on motor highways toward Austria and Germany, and convinced of a humanitarian need to act, Angela Merkel decided to adopt an open-border migration policy and admitted over a million refugees that year – a decision that cost Merkel and the CDU–CSU dearly in upcoming regional and federal elections. Despite the fact that she felt the need to act the way she did partly because of Hungary's perceived or real failure to care for the migrants, Merkel continued her very cautious stance towards Hungary. Privately, she even instructed her party colleagues not to criticise Orbán in public because, in a way, Hungary was indeed contributing to lessen the burden on Germany.<sup>12</sup> The one major exception is the issue of the mandatory quota where the Chancellor repeatedly called for Hungarian solidarity (see below).

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<sup>11</sup> Bundestag: Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Volker Beck (Köln), Manuel Sarrazin, Marieluise Beck (Bremen), weiterer Abgeordneter und der Fraktion BÜNDNIS 90/DIE GRÜNEN, Drucksache 17/8709, 2012. február 15.

<sup>12</sup> Interview with CDU official, March 2016.

## 2. Economic Relations since 1990

Over the years, Germany and German firms have built up a leading position in the Hungarian economy up to a point where one might talk of dependence. Ever since the early 1990s, Germany has been the biggest trade partner for Hungary by far. In 2016, 27.5% of Hungary's export went to Germany. (The second biggest export partner, Romania, had a share of only 5%.) (KSH s. a.) Germany supplied 26.4% of Hungary's imports in the same year. (Austria was second with 6.4%.) (KSH s. a.) However, Germany's share in Hungary's trade used to be even higher than currently. In the early 2000s, it was over 30%. The same applies to foreign direct investments (FDI), where Germany is also by far the biggest player. In 2015, German firms had a share of 25% in the total stock of investments in Hungary (Central Bank of Hungary 2016). American firms were in second place with 18%. Yet, once again, Germany's lead was much higher in the early 2000s, when it had a share of 33%. At the very least, Hungary's dependence on Germany has decreased significantly in the past 15 years as the country was able to diversify its trade partners and investors. Ironically, the EU accession of Hungary meant that Germany's economic position in Hungary weakened – at least somewhat.

The 6,000 German firms in Hungary currently employ no less than 300,000 people or 7% of the total workforce (Kormany.hu 2017). In line with the policies of the second and third Orbán Government which aimed at the reduction of foreign-owned banks in the Hungarian financial sector, German investor DZ Bank sold its share in Takarékbank to the state-owned National Development Bank. Similarly, in 2014 German state-backed lender BayernLB sold its Hungarian MKB unit to the government, ending an ill-fated investment that has cost it a total of 2 billion Euros in losses over the last 20 years. Yet it was not the banking sector that German firms were most interested in anyway, but the automotive sector and it is here where risks loom. 66% of Germany's imports from Hungary and 57% of Germany's exports to Hungary are made up of cars and vehicles, the highest such shares of the V4 countries. This is problematic for two reasons: if German automakers have problems, so will Hungary. When global car market sales collapsed in 2009, the economies of the Czech Republic, Slovakia and Hungary fell into recession, while Poland, which was much less reliant on the automotive sector in its trade, was able to maintain economic growth. Secondly, this trade structure is in the long run associated with the risk of dependence on overly homogeneous production structures, and on failure to develop in the promising IT and telecommunications sector (POPLAWSKI 2016, 25–30). Recently, Prime Minister Orbán also voiced his disapproval over the allegedly low wages German firms were paying their Hungarian workers: how can Germany talk about solidarity when German companies pay 80% less for the same work than they pay their workers in Germany, Orbán asked in 2017, indicating that the Hungarian Government is ready to put pressure on German investors.

## 3. Institutional Relations since 1990

In the period before 2010, Hungary and Germany cooperated on a wide range of issues both in the EU and NATO. Speaking about the latter, Hungary played a significant part in the stabilisation of Bosnia as well as the Allied Force mission against Serbia in 1999,

when Budapest committed two of its airports for the hosting of the NATO warplanes flying sorties over Serbia. Hungary and Germany closely cooperated in Afghanistan as well: in an incident at the very beginning of NATO's ISAF mission a bus carrying German troops was attacked, and a contingent of Hungarian army doctors were the first to arrive on the scene of a bombing in Kabul, starting triage and evacuation procedures there. "The rest of the Hungarian team did a similarly good job at the military hospital. Their professionalism left a legacy of respect and good will that helped cooperation across a broader spectrum" (MARTON-WAGNER 2017, 155). In 2006, Hungary took over a Provincial Reconstruction Team in the north of Afghanistan, in the area of the Regional Command North (RC-N), headed by Germany. This meant that German and Hungarian troops cooperated closely on a wide range of tasks, including planning, reconnaissance, logistics and patrolling. Germany even supplied the Hungarian Army with modern Kevlar helmets when the deteriorating security situation in 2008 made this necessary. German and Hungarian troops also served together under NATO command in Kosovo, Bosnia and various other theatres.

In the first period after Hungary joined the EU in 2004, the efforts were focused on learning the rules of the game in Brussels. This socialisation process took quite a bit of time, and coupled with the aforementioned domestic political and economic problems meant that Budapest was initially rather passive on the European stage. Germany and Hungary were in agreement over many issues including the two core areas of Germany's presidency in 2007, energy policy and the question of the constitution. In the former, being reliant on Russian energy imports, Budapest supported the adoption of the new energy action plan aimed at reducing its own emissions by at least 20% by 2020 (FÜRST 2008, 409–410). In the latter, Hungary was the first member state where the Lisbon Treaty was approved by a national parliament on 17 December 2007 in order to make sure that the enlarged EU remains effective. In her first visit to Budapest in August 2007, Chancellor Merkel expressly thanked Prime Minister Gyurcsány and leader of the opposition Orbán for Hungary's overall support during the German presidency (Index 2007). Significant frictions only emerged when in March 2009, a desperate Gyurcsány pleaded for an EU rescue package for crisis-hit Eastern European countries (i.e. Hungary) to the tune of 160–190 billion Euros. Merkel steadfastly declined a European assistance package to the region as a whole, sticking to the joint loan program of the IMF and EU which was given to Hungary in 2008. "A dedicated bail-out for the ten ex-communist countries that have joined the EU since 2004 is clearly a step too far. Germany will hold federal elections later this year, and voters there are acutely sensitive to suggestions that Germany and other rich nations should bail out weak or profligate members of the European club", commented *The Economist* (The Economist 2009).

As already mentioned, in the first years of the Second Orbán Government (2010–2014), Germany and Hungary had many bilateral disagreements over the domestic rule of law-issues. Yet in the European arena, Hungary proved to be a very valuable ally. These years were characterised by the Eurozone crisis in the southern member states. To put it briefly, the Merkel Government saw the solution of the competitiveness problems of these countries in so-called 'structural reforms', i.e. austerity measures coupled with wage restraint and the cut-back of state expenditures. To stabilise them in the short term, massive financial assistance packages were given to these countries by the European Union and the IMF, but, according to Berlin, in the long term these structural reforms had to be put in place to steer the southern periphery back on a sustainable economic path. Crucially for Berlin,

the Eastern European member states steadfastly supported the necessity of the ‘German medicine’. As Stefan Kornelius writes, Merkel “increasingly found allies in the heads of governments from Central Europe and the Baltic states, who knew what it was like to fall into the abyss, and were becoming more and more annoyed with the southern Europeans who – as the Poles saw it, for instance – were complaining about what was actually still a high standard of living” (KORNELIUS 2013, 228).

Hungary was one of these valuable Eastern allies, although it was in a quite similar position than the southerners: recession, an overblown state sector and exploding private and government debt. After some hesitation, the incoming Orbán Administration decided in 2010 to embark on an austerity course, imbuing the German medicine with conviction. (Also, there was not much of an alternative as Berlin and the Commission made it clear to Orbán in the first weeks of his second term that they will not support his initial plan of running huge budget deficits to kick-start the economy with government spending.) Hungary will reduce the annual budget deficit to under three percent “even if it’s raining cats and dogs” said the prime Minister in August 2011, adding that Hungary will not swerve back to the ‘Greek road” (Mfor.hu 2011). Orbán was as good as his word, as the Second Fidesz Government managed to reign in the budget deficits, reduce the debt burden and revitalise the economy. As former Ambassador to Berlin Czukor József commented, the efforts of the Orbán Government were highly regarded by Berlin as the stabilisation of Hungary meant that it will not be reliant on further European (i. e. German) assistance (CZUKOR 2014). Knowing that Merkel’s third term was overshadowed by the Eurozone crisis and that the bail-out of the southern countries was extremely unpopular in Germany, Hungary’s support and model-like economic policy was extremely valuable for Berlin for it showed that the German medicine, if applied properly, works.

Turning to the third term of the Orbán Government (2014–2018), the migration crisis was the issue of main contention on the European level between Hungary and Germany. Basically, while sharing some similar ideas over the topic, the two governments disagreed strongly over the issue of the mandatory quota for the resettlement of 160,000 refugees as decided by the Interior Ministers in 2015. (Hungary’s quota would be 1,294 persons.) Hungary opposed the idea right from the beginning but was outvoted. Budapest went even so far as to challenge the scheme with Bratislava in front of the European Court of Justice, but the Court dismissed “in their entirety” the actions brought by Slovakia and Hungary, vindicating the EU decision-making process that created the scheme (RANKIN 2017). Based on this ruling, the European Commission initiated legal action against Hungary, along with Poland and the Czech Republic, who similarly rejected taking part in the scheme. (Slovakia eventually complied, taking in some refugees.) (KHAN 2017.) Berlin’s take on this issue was clear and consistent throughout. From the beginning, the government emphasised that solidarity cannot be a one-way street and that “it is the obligation of all member states never to lose sight of the whole – and that includes respecting the values on which the European Union was built” (DONAHUE–DELFs 2018). Merkel also repeatedly stated that it was unacceptable that Greece and Italy should have to carry the burden alone only because they have the geographical location that they do and the refugees land in them (JONES 2017).

Yet there were also other issues of common European interest, where standpoints of the two governments diverged, if not collided. The recurring topic of the EU budget is one example, where Hungary is very much interested in keeping the cohesion funds as large as



possible and Germany is trying to reduce the size of the overall budget (HETTYEY 2013). On a rhetorical level, significant disagreements also emerged over the sanctions against Russia: while repeatedly questioning the usefulness of the measure, Budapest has nevertheless voted for extending them. Hungary is also very much interested in enlarging the EU (and NATO). The current National Security Strategy states that Hungary's goal is for all of its neighbouring states to join (or, at the minimum, enjoy a deep level of cooperation) (Government of Hungary 2012). Germany also supports the accession of the Western Balkans states, yet with a very sceptic public towards the issue, it is usually much more cautious in this question (LIPPERT 2011, 5). In energy policy, Hungary once again follows a very different course from Germany: while the Second Merkel Government decided to concentrate on renewables and phase out nuclear energy by 2022, Budapest is pushing forward with the expansion of the nuclear plant in Paks. Also, Hungary was among the Eastern European states with the lowest share of renewables in their total energy consumption (ANDERSON 2017). Lastly, the Orbán governments also seem to be very sceptical towards the normative dimension of the Common Foreign and Security Policy (CFSP). More than once, Hungary made it clear that countries with rule of law or human rights problems like China, Turkey and Israel should not be criticised by the EU – a notion which flies in the face of Germany's 'civilian power' foreign policy credo.<sup>13</sup>

#### 4. Conclusion

After reviewing the past 25 years of German–Hungarian relations, one can identify two periods. The first was the era before Hungary's accession to the EU in 2004. These years were characterised by a lack of serious disagreements between the two countries owing to an alignment of strategic interests in the Euro-Atlantic integration of Hungary. After Hungary's accession to NATO and EU was sealed, i.e. around 2002, first, albeit only occasional, cracks appeared, as over the Iraq war. Yet it was not until 2010 that these frictions began to show a regularity and depth that pointed to a slow but gradual political estrangement between Germany and Hungary. Apart from the various contentious political issues, clear evidence for this estrangement can be found in a recent poll by the Nézőpont Intézet, which showed that 43% of the German respondents had a bad opinion of Hungary. 57% of the German respondents also had a bad opinion of the political relations between their countries (Nézőpont Intézet 2017). A huge part of the press coverage about the other country is also characterised by a total estrangement to the point of bigotry: Merkel as "Europe's gravedigger" and Hungary as "autocracy" are just two examples from mainstream newspapers (BAYER 2017; DOBBERT 2017). Such language would have been unthinkable prior to 2010.

We identify two causes for this development. The first is that having joined the EU, Hungary simply had more foreign policy options, a greater room for manoeuvre and more allies to choose from. This is very much in line with Handl's expectations that relations between Germany and the Visegrád countries should continue to loosen after enlargement. Put it simply, Hungary could afford to oppose German positions and even endanger some

<sup>13</sup> For example Hirado.hu 2018.



German interests after 2004. This was almost unthinkable before it became clear that Hungary will join the EU. Overall, the cost of non-compliance with German positions lowered significantly once Hungary joined.<sup>14</sup>

This is a necessary but not sufficient explanation for the events, as the estrangement between the two countries really began to show itself only after 2010, that is, six years after Hungary joined the EU. And how come that other countries who similarly joined in 2004 have not developed such sustained disagreements with Berlin? How can we account for the fact that on a bilateral and multilateral level frictions are increasing up to the point where the two governments seemingly disagree even on the meaning and usefulness of words like ‘liberal/illiberal’, ‘migrant/refugee’ or ‘human rights’? How is it that Hungary has become critical of a constituent part of European and German foreign policy, namely its normative nature? I argue that the other factor explaining the ever-increasing frictions between Germany and Hungary is the foreign policy role concept(s) of the second and, especially, the third Orbán Government. In short, role concepts entail ‘the policymakers’ own definitions of the general kinds of decisions, commitments, rules, and actions suitable to their state, and of the functions, if any, their state should perform on a continuing basis in the international system (HOLSTI 1970). Role concepts are therefore essential for understanding a country’s foreign policy, because they reflect the perceptions, values systems and world views of the decision-makers. These role concepts are rooted in the nation’s history, culture and societal characteristics as well as the expectations other states and international institutions have of, in this case, Hungary and Germany. Yet these ‘characteristics’ and ‘expectations’ are interpreted by the decision-makers: they are the ones who define role concepts for the nation. This means, that role concepts might, from time to time, change, as power is being handed over to other politicians who interpret the appropriate role for Hungary or Germany differently than their predecessors.

For Germany, Hanns W. Maull argued convincingly, this role concept is that of a ‘civilian power’ (MAULL 1990). For Hungary, the jury is still out, as no systematic investigation has been conducted on this topic. What would be needed is, in the tradition of Holsti’s groundbreaking method, a thorough examination of the decision-makers’ speeches and public statements since 2010 to identify the various role(s) the government is adhering to. Without such an investigation we can only wager that roles like ‘defender of Europe’ ‘vanguard’ or ‘trailblazer’ might apply. Yet whatever the Hungarian concept is, it is clear that it is very different from Germany’s role concept. In other words, it is not just that current German and Hungarian governments have different interests in one or the other issue areas which might (or might not) be reconciled. No, these conflicting interests are just symptoms of a much deeper cause, namely the estrangement of the two countries brought about by their differing role concepts. It is not just interests that clash: it is also the deeply held worldviews, perceptions and value systems of the decision-makers, their notions of what is right and wrong, what is normal and un-normal, and, ultimately, what is European and not-European.

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<sup>14</sup> I thank Kai-Olaf Lang (SWP) for this comment.

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## Chapter 10

### Germany and the CEE Countries: Ties that Bind

*András Hettyey*

After the eight case studies, it is now time to summarise the findings of the papers. Our closing chapter is structured the following way: first, we overview the eight country chapters one-by-one and highlight key findings and conclusions of our authors. In the second part, we return to the basic research questions guiding this study volume. To recapitulate from the introductory chapter, these were the following: do we really see a drifting apart in the relations between Germany and the CEE countries in recent years or is this just a fleeting impression? Did the leverage of Berlin indeed decrease in the CEE countries? If so, should this be seen as something normal/inevitable, or is it heralding a new era of more confident CEE countries, diverging interests and occasional tensions between Germany and the region? Are CEE countries even on a look-out for new partners, substituting Germany? If so, are all these changes more agency- or more structure-based?

To start with the outlier country, several conclusions can be drawn from the chapter on Austria from Christopher Walsch. Austria and Germany, whom Walsch characterises as ‘silent partners’, share a common language and culture and enjoy stable relations ever since 1945, despite (or because of?) the fact that “after World War II the efforts of the second Austrian republic concentrated on building a distinct Austrian nation, separate from the German one”. The beginning of the end of the Cold War and the dramatic events of 1989–1990 challenged Austria’s traditional foreign policy characterised by its tradition of neutralism. The question was whether the country should aim to become part and parcel of the West (i.e. seek accession to the EU) or revive a “Danubian mission”, in other words to orient herself towards Central Europe. This latter notion was, however, soon abandoned “with the rational argument that in the eyes of her Eastern neighbours the attraction power of Austria was the fact that she is a part of the West and not a country halfway between West and East”. As a nice side effect for Austria, Walsch reminds us, the bilateral economic dependency from Germany was reduced by joining the European Union as an equal partner in 1995.

As to the question of whether structural or agency-related variables are key to understand the relationship of Austria with Germany, Walsch concludes that changing government compositions did not affect the relationship of the two countries. Since 1990, several government changes have happened in both countries, with centre-right and centre-left parties leading the governments, with the odd Green or Liberal foreign minister. (This despite the fact that the governments of Austria and Germany usually happened to be of opposing ideological orientations throughout the last three and a half decades.) The one major exception has been the period after the Austrian elections in 1999, when the social

democrat German Chancellor Schröder was one among many politicians calling for initiating sanctions against the recently formed ÖVP–FPÖ coalition. One may therefore cautiously conclude that, due to many shared cultural traits and to the similar “party chemistry” in many Austrian as well as southern German federal states, relations have perhaps been more cordial when Christian Democrats were in power on the German side.

This relatively problem-free history should not conceal the fact that, on the bilateral political level, there have been several topics of concern, including traffic, energy production, education, secret service information, and human rights and refugee policies, reminding us that significant disagreements among Austria and Germany do emerge from time to time – but these issues do not seem to have caused a permanent rift between Berlin and Vienna, perhaps because of manifold common economic interests. On the economic front, Austrian overall exports and imports to Germany “roughly tripled since the country acceded the European Union, but the relative share of Germany in Austria’s trade and services with her big neighbor has declined by some five percent since Austria entered the EU in 1995”. Still, Germany is Austria’s prime partner with figures of more than 30% of Austria’s overall exports and imports, with an overall balanced current account. Setting Austria apart from the other CEE countries, Germany does not rank as prominently in FDI as in trade, but is still among the top five countries in both inward and outward investment.

In his conclusions, Christopher Walsch unequivocally answers the question whether Germany and Austria are diverging with a clear no. The reason for this lies in the following shared understandings: “They are both stable democracies with knowledge driven, innovative economies. Their societies have similar standards of living and form politics along similar structures and processes. Both have massive inflows of labour from East-Central European EU states, both are exporters of capital in the other direction. Both support the steady integration of Central, East, and South-East Europe into European structures [...]. Both tolerate some diverging trends in that same region, but eventually stick to the ‘rightfulness’ of Western standards in European affairs. Both understand the EU not only as a greater market, but also as a club that shares the same values. Both will not compromise on nationalist attacks on the rule of law, open society, media pluralism, and limitations to the political and economic freedoms in the EU.”

Relations between Slovenia and Germany have a particularly strong emotional foundation, as Germany was the first major country to recognise Slovenia (and Croatia) at the end of 1991, signalling to everyone that Yugoslavia was history. This influenced the recognition of Slovenia by the European Community, soon followed by the recognition of the United States, Russia and China and the acceptance into the United Nations in May 1992. German goodwill extended to the country’s EU and NATO accession in 2004, both of which was strongly supported by Berlin. Somewhat of a front-runner, Slovenia was the first post-communist country to adopt the Euro in 2007 and to preside the Council of the EU in 2008. In 2006, the Slovenian Foreign Minister declared that relations with Germany were so excellent that they could hardly be better.

Things changed during and after the global economic crisis which induced serious problems for Slovenia. As Marko Lovec reminds us, disagreements over the need of structural reforms Slovenia, in the eyes of Berlin, had to enact, came to the fore, along with the war reparation issue and, in 2015, the migration crisis. On the other hand, once the Court of Arbitration finally reached its decision on the Piran bay issue in 2017,



“Germany – together with some northern European countries and against many others who decided to stay ‘neutral’ – stated openly that the decision should be implemented, thus once again earning gratitude from the Slovenian side”. A similar alignment of interests can be seen regarding the idea of a multi-speed Europe, which was received negatively in Slovenia. As for the other CEE countries, a multi-speed European Union is clearly not in the interest of Slovenia.

In economic terms, Germany has been the most important trade and investment partner of Slovenia after 1990. The small country even became an important supplier for the German industry, e.g. in the automotive sector. Showing Slovenia’s attractiveness, there are over 600 companies with German capital in the country, directly employing 46,000 people and creating revenues of €7 billion. In the security field, Slovenia worked side by side with Germany in Afghanistan, while repeatedly trying to tie Berlin to the development and Europeanisation of the Western Balkans, a region which has been particularly important for Slovenia for its proximity and past linkages. Overall Lovec asserts that anti-German political forces which have surfaced time and again have been too weak to really change the course of the bilateral relations. “Moreover, an increasing awareness of the growing global instability and dependence of Slovenia on the EU has, in many ways, brought Ljubljana even closer to Berlin.” Slovenia, which was sometimes on the look-out for new strategic partners (the Visegrád countries, Russia, even China) has come to realise that only Germany is the main “warrant for the survival of the European integrations and peace and security in Europe.”

Just as in the case of Slovenia, Germany played a very significant role in Croatia’s successful bid for independence. In his contribution, Sandro Knezović highlights that “due to the German firm support to the Croatian statehood almost from the beginning of the conflict, the image of Germany in Croatia was extremely positive, sometimes even irrationally [...]. An important role in that regard was played by the Croatian diaspora who had an important role not only in lobbying for German recognition of Croatian sovereignty, but also in portraying a desirable image of a functional society and a future potential model for the development of the Croatian state”. Yet Croatia was not to share the fate of Slovenia which entered both NATO and the EU already in 2004. The main reason for that was that it was not until after the 2000 Croatian elections that the country has started implementing a real transitional reform process. This opened new perspectives for integration into the Euro-Atlantic community, a process that has been frozen for a long time owing to the lack of political will of the Tudjman regime and its negative image abroad. Croatia finally joined NATO in 2009 and the European Union in 2013.

This belated entrance (compared to the other CEE countries) to the EU meant for Croatia that it was not until 2013 that it was released from the conditionality framework of the EU. Accordingly, Knezović writes that “after the strength of conditionality at Germany’s disposal has weakened with Croatia’s accession to the EU, some bilateral issues started popping up, changing slightly the image of harmonic relations between Germany and Croatia”. Specifically regional issues such as the development of Bosnia and Herzegovina, the Three Seas Initiative or the migration crisis showed that Zagreb and Berlin can and do have diverging interests. Yet such minor disagreements are clearly overshadowed by the over-arching common interest of Croatia and Germany in the further enlargement of the European Union. Croatia, “as the newest EU member state bordering the region, has a particular interest and responsibility to support the accession process by sharing recent

experience and knowledge, hence contributing to the long-term stabilisation of that part of Europe”. Bolstered by strong economic ties, the two countries still enjoy very good relations, leading Knezović to conclude that “minor *ad hoc* differences are unlikely to avert the existing trends in the relations between the two”.

Recent history played a big role in Serb–German relations as well, albeit in a more ambiguous sense. The break-up of Yugoslavia “most certainly represented the first low point in recent relations between Germany and Serbia” write Jelena Volić-Hellbusch and Marko Savković in their chapter. “The German Government was the first one to insist on the recognition of Croatia and Slovenia in late 1991, as the war was raging on. Here the role played by German Foreign Minister at the time, Hans Dietrich Genscher, is often considered to be of paramount importance. ‘Loved by the Croats, hated by the Serbs’, Genscher insisted on the right of self-determination for both Croats and the Slovenes”, making this a difficult start for modern-day Serb–German relations, compounded by the events some eight years later. Then, Berlin decided to join the NATO bombing campaign in order to pressure Serbia and President Slobodan Milosevic as its president to cease hostilities in Kosovo. “This was the second low point” write the authors.

Yet better relations were slowly enabled by several events. Milosevic’s ousting from power in October 2000 meant a break with the practices of the 1990s within the society, as well as in international relations. The slow democratisation process and a certain re-found German interest in Serbia brought the two countries increasingly together. According to Volić-Hellbusch and Savković, Berlin was not shy in trying to influence events in the country: “Berlin’s tacit support to the political changes of 2012 – when the Democratic Party lost power to the Serbian Progressive Party – gradually gave this country access and clout that is perhaps unrivalled in Serbian history. Once it became clear that the Boris Tadic-led Democratic Party will not “deliver” on Kosovo, the political machine under the control of CDU started its approach to the Progressives. Following the Progressive Party’s consolidation of power in March 2014, the two countries established a special partnership.” Remarkably, Serbian President Vucic has met Chancellor Merkel no less than 12 times (!) over the course of his six-year tenure. What is more, in 2014, Germany launched the “Berlin process”, meeting with the leaders of the Western Balkan countries on a yearly basis.

Obviously, the most important reason of Serbia’s and Germany’s recent realignment has been the enlargement process of the European Union, of which Serbia is part of. In a sense, Serb–German relations are currently going through a stage which was typical of the relationship between Germany and the other CEE states in the late 1990s when those countries, with Germany’s manifest help, worked their way to membership in the European Union. On the other hand, the issue of Kosovo still haunts the relationship. To put it simply, Berlin’s official point of view is that Kosovo’s independence is an undeniable – and irreversible – fact. Still, Serbia has persisted on what its consecutive leaders insist is the defence of its territorial integrity and sovereignty. “Here is one aspect of Serbia’s foreign policy where the two countries frequently collide” conclude the authors. The outcome, as of late 2018, is still uncertain, making this a major ‘known unknown’ in the future of Serb–German relations. This why Volić-Hellbusch and Savković caution that “relations between Germany and Serbia are facing their toughest test yet”.

In his piece on Polish–German relations, Rafał Ulatowski utilises the insights of realism to shed a light on the topic. Based on Kenneth Waltz’s definition, the author describes the

Polish strategy in the years after 1990 as ‘bandwagoning’, which means allying oneself with a stronger power. The goal of a weak state is to profit from this alliance in security and economic terms: while economically strong countries compete for the leading position in the technological race, those without a developed scientific and technical base will bond with a stronger partner. Although problems arose due to their difficult common past, Warsaw and Bonn were close allies in the 1990s in seeking the Euro-Atlantic integration of the former. As Ulatowski reminds us, there was a popular phrase going around at that time which said that “the road from Warsaw to Brussels passes through Berlin”.

Once Poland’s NATO and EU integration has been achieved, bandwagoning gave way to a more hard-nosed, rollercoaster-like relationship. Firstly, there was Germany’s opposition towards intervention in Iraq led by the United States, which Poland very much supported. Secondly came the issue of the Nord Stream 2 pipeline. “Germany saw it as a commercial project which was important both in terms of European energy security and developing a closer relationship between Germany, the EU and Russia. On the other hand, Poland regarded the project as a deepening of the EU’s energy dependence on Russia, which handed it a powerful means to influence European affairs.” Other dividing issues were the German “Centre Against Expulsions” and conflicting views on the reform of the European Union.

At the end of the first decade of the 21<sup>st</sup> century, Polish and German politicians once more put more effort into reducing tensions. The international situation had changed “and the global financial crisis shifted the German interest toward the Eurozone. Polish and German interests were once again similar”. During his speech in Berlin in 2011, Polish Foreign Minister Radek Sikorski even famously argued that he feared “German power less than German inactivity”. In recent years, Ulatowski points out, relations have deteriorated once again as Angela Merkel “has overhauled German migration policy and opened the borders to migrants. This step did not enjoy the sympathy of the Polish Government in Warsaw, neither before nor after the election in 2015. Despite that, the PO–PSL Government accepted the quotas in the last months of its tenure”. But the incoming new PiS-led government was not willing to support this policy and it refused the mandatory EU quotas for refugees that were promoted by Germany, leading to major tensions. “The two countries also have differing views on major European policies (energy, climate protection, immigration and the rule of law). However, they share similar perspectives on the Euro crisis as well as on relations with Russia in the context of the Ukrainian crisis.”

On the economic front, Germany played a major role in the cancellation of Poland’s debt in the early 1990s. What is more, since the early 1990s, Germany has been a leading source of foreign investment for Poland. It is the largest source in terms of the number of foreign companies investing in Poland and in second place in terms of the value of investment. Helped by geographical proximity, traditional trade links and absorptivity of the German market, Germany is also the biggest trade partner of Poland. Yet strong economic links did not lead to a community of interests between Germany and Poland. In the past two decades, Ulatowski concludes, Poland has not blindly followed German policy. It has sometimes opposed Germany and on numerous occasion it participated in coalitions trying to balance German power. Bandwagoning in Polish–German relations is now a part of history.

As with other post-communist countries in the region, the transformation in 1989–1990 meant for Czechoslovakia and Germany that for the first time in modern history the two

countries were given a unique opportunity to put their mutual relations on a qualitatively new and stable basis. As Jana Urbanovska and Zdenek Kriz remind us, Czechoslovakia's policy towards Germany in the early 1990s was marked by activism. This was apparent from President Václav Havel's first presidential visit leading to Germany or his full and unqualified support for German reunification. These accommodating steps – “blank cheques” granted by the Czechoslovak policy to Germany (KUNŠTÁT 1998) – soon strengthened the understanding of Czechoslovakia as a partner who did not think in national but rather in European terms. This notion was further underlined by the 1992 treaty on good neighbourly relations and friendly cooperation, which, although not able to resolve all outstanding issues, proved to be a solid foundation for the development of further relations, helped to develop practical, depoliticised and decentralised cooperation across various sectors, nationally, regionally and locally (HANDL 2004, 73–74).

One such problematic issue had to do with the past. Due to the incompatibility between the Czech and German views, the historic questions stemming from the Second World War “continued to represent the thorniest issue in mutual affairs. During this period, the matter went so far that the Czech–German relationship was essentially reduced to the issue of the Sudeten Germans, strengthening feelings of mistrust and alienation among both partners. It seemed that the Sudeten German question and its dissatisfactory resolution could even negatively impact the process of the Czech integration into NATO and the EU. Czech popular opinion increasingly feared Germany, and opinions were voiced that the country was following a strategic plan, continuing upon the expansionist policy of the Greater German Reich”. Yet with the signing of the Czech–German Declaration in 1997, the main purpose of which was to re-evaluate the perspectives for the understanding of Czech–German relations in connection with questions of the past, the Sudeten German question thankfully ceased to be an issue of foremost importance as the German side unequivocally acknowledged its responsibility for its role in the historical development that led to the 1938 Munich Agreement. The Czech side, likewise, expressed regret over the post-war expulsion and forced displacement of Sudeten Germans from Czechoslovakia.

Building on this foundation and bolstered by close economic ties, Germany was integral in securing the Czech Republic's accession to NATO in 1999 and the European Union in 2004. This process was not disturbed by the fact that Prague, like other capitals in the region, supported the Iraqi War. As regards the period after 2004, Urbanovska and Kriz identify the multilateralisation of bilateral relations: “Germany as a separate topic practically disappeared from the Czech political agenda, appearing rather in the broader context of multilateral security and integration policy. This was also reflected in the policy statements of governments that successively held power since the Czech accession to the EU: they either did not address bilateral relations including those with Germany, or mentioned Germany only in connection with practically-oriented, non-political cooperation.”

Overall, the assumption of a drifting apart in Czech–German relations is borne out, at least to a certain degree. The authors contend that after the Czech Republic's accession and “under a constellation that favoured a more balanced, partnership relations, the existing clear orientation of the Czech foreign policy towards Europe and hence also towards Germany weakened somewhat. On the one hand, the continuing depoliticising of the links between the two countries was apparent; and the practical aspects of cooperation had run smoothly since the early 1990s, irrespective of what government held power at any given time.

On the other hand, political relations were much more unstable and subject to frequent change, depending on the political climate on both sides of the border". Most notably, Urbanovska and Kriz identify a drifting apart in the field of European policy. "Since the Czech Republic's accession to the EU, its relationship with the EU as such and especially its position on EU institutional issues and Eurozone developments has become a cleavage splitting the Czech political spectrum, affecting also Czech–German affairs. The Czech Republic looked like a 'European state without Europeans', which clearly had a limiting influence on its relations with Germany. An insufficient sense of EU solidarity was most conspicuous during the migration crisis, when the Czech side loudly opposed the crisis management model promoted by Germany". It was to counter this development that the Czech Government proposed the Czech–German strategic dialogue in 2015, with, as of yet, uncertain results.

The Czech Republic's southern neighbour, Slovakia, has also witnessed ups and downs in its relationship with Germany. In this case, it was the 1990s which proved to be a more problematic period whereas recent years have not produced such frictions as can be seen in Germany's relationship with the other three Visegrád countries. After its independence, Slovakia entered a period under Prime Minister Vladimir Meciar (1993–1998) which was characterised by the conduct of irresponsible and populist politics, corruption, clientelism, growing international isolationism, unsystematic interventions, expansionary fiscal policy and disregard for the rules of liberal democracy. As Vladimir Müller argues, these developments cast a shadow on Slovak–German relations as well, with Chancellor Helmut Kohl being reluctant to meet his Slovak colleague. After 1998, the Dzurinda Government managed to push through the necessary economic and political reforms and Slovakia was thus able to close the gap with its Visegrád partners, who were already NATO members by 1999. Slovakia finally joined both NATO and the EU in the same year, 2004.

In economic terms, Slovakia is a small outlier: German firms are only the 7<sup>th</sup> biggest investors in Slovakia – German FDI has a much larger share in the other CEE countries. On the other hand, the value of the Slovak–German trade is increasing every year since the economic crisis: by now Germany is the most important trading partner for Slovakia with the share of cca. 20% in Slovak foreign trade. Small wonder then, that Slovakia and Germany have quite similar economic interests in the framework of the European Union, Müller argues: "Slovakia has a major interest in maintaining crucial elements of EU integration like the Single Market, the Schengen area and the European Monetary Union. As a country whose economy is based mainly on export, Slovakia fully endorses the efforts of the European Commission to sign new trade agreements with third countries. Besides, the top political representatives of Slovakia also repeatedly expressed the interest to be part of the planned future "core" of the European Union." In short, Slovakia and Germany share the same interests within these policy areas and cooperate closely to move the European integration in selected areas forward.

Turning to disagreements between the two countries, one such was the bailout of Greece in 2010, when Slovakia refused to provide €800 million as the part of the loan from Eurozone countries to Greece. The Slovak Parliament rejected the loan to Greece despite the diplomatic pressure from Germany and the European Commission and became the only Eurozone country which did not participate in the first money package to Greece. The migration crisis of 2015 and its handling also laid bare differing perceptions.

More recently, Prime Minister Robert Fico harshly criticised the sanctions against Russia, saying that he would never again support further sanctions against it. Yet it is also true that, in practice, the Slovak Government has avoided taking any steps that would undermine the EU's unity. Overall, Müller concludes, these conflicting issues caused "some discords between both partners but have not endangered the quality of their relations. Slovakia sees Germany as the natural leader and does not seek another one within the EU".

Turning to Hungary, András Hettyey divides the 25-year period into two distinct phases. In the first, up until the accession to the European Union in 2004, the strategic interests of the two countries aligned as Germany supported the Euro-Atlantic integration of Hungary, the main foreign policy goal of the respective governments in Budapest. German–Hungarian relations could build upon a strong foundation of mutual trust and appreciation: the decision of the last one-party government in September 1989 to let the East German refugees travel to the West has been a crucial catalyst of the collapse of the Berlin Wall two months later. As a further comparative advantage and as opposed to Poland or Czechoslovakia, there were no historical 'sore points' in the German–Hungarian relations nor unresolved minority or reparations payment issues, so relations developed harmoniously.

In the second phase, i.e. after the moment when Hungary's EU accession was settled, several problematic issues arose where the two countries had different perceptions and therefore pursued different goals. The first tensions developed over the hardly fought Hungarian elections of 2002 when the German press and the government expressed its worries over the harsh tone of the campaign. The war in Iraq brought another major serious disagreement between Budapest and Berlin. Yet, apart from these issues, the relationship was for the most part stable, if less cordial than in the heydays of the early 1990s. This was clearly helped by the fact that economic relations were excellent and seemingly ever-expanding. Ever since the early 1990s Germany has been the biggest trade partner for Hungary by far and, with a share of 25% in the total stock of investments in Hungary, German firms are the biggest investors as well.

The turning point on the road to creeping estrangement has been the 2010 elections in Hungary, suggesting that agency has a bigger explanatory power in the realm of Hungarian–German relations than structural factors. In the following years, serious rifts emerged over rule of law-issues, migration policy, the sanctions against Russia, the EU's relationship with Turkey and the Central European University, to name but a few. (Interestingly, economic relations did not suffer, as a recent decision of the BMW to invest in a new plant near Debrecen shows). Hettyey argues, that the main reason for the estrangement between Budapest and Berlin can be found in the differing foreign policy role concepts the two countries and their decision-makers adhere to. In short, the perceptions, values systems and world views of the respective decision-makers seem to be diverging despite the fact that both heads of government hail from a centre-right party. This difference in role concepts projects further disagreements in the future between Berlin and Budapest – as long as a change in government or a change in the relevant role concepts occurs.



## Conclusions

So far the main findings of the country chapters. We now turn to the task of answering our research questions. First, do the chapters support the notion articulated in the introductory chapter that “rather than converging in their foreign policy goals, Germany and the CEE countries seem to be drifting apart”? On the whole, the answer is no. We find only two countries, Poland and Hungary where two conditions for a drifting apart apply: first, we witness major disagreements in multiple important policy areas and second, these disagreements are observable over a longer period of time. The case of the Czech Republic falls somewhere in-between: on a practical level, relations are good yet on several major policy issues (European policy, for example) the two countries diverge. The conditions for divergence do not seem to apply to the other country dyads. Sure, there are disagreements between Austria and Germany, Croatia and Germany or Serbia and Germany. But these either to a limited number of issue areas or were sooner or later overcome.

What are the policy issue areas where most friction is detectable? Maybe the most overarching of these has been the German handling of the migration question in 2015. Part of the supposed solution is the mandatory refugee relocation quota, which is refused by Poland, the Czech Republic, Hungary and (albeit more moderately) Slovakia. Croatia, Slovenia and Austria were similarly not happy with the way Berlin was trying to handle the crisis, yet ultimately they fell in line with Germany’s overall position – also with regard to the mandatory refugee relocation quota. Another issue which is responsible for disagreements is the Nord Stream 2 project, which is criticised especially by Poland. Related to that, energy policy is also a source of friction in many dyads, as Germany is pursuing a policy based very much on renewables. CEE countries, on the whole, are less enthusiastic about renewables and accordingly spend less capital on it, political and otherwise. The sanctions against Russia present an interesting case in point, reminding us of the importance of the crucial distinction between ‘rhetoric’ and ‘implementation’ in foreign policy. On the one hand, many CEE capitals are critical of the sanctions and the concomitant tensions with Russia, an important trading partner and even more important source of energy imports. On the other hand, the European Union, the CEE countries including, has repeatedly and unanimously extended the sanctions against Russia over its actions in Ukraine for another six months. (The last time in July 2018.) Also, Germany and the CEE countries were consistently on a different page with regards to the Multiannual Financial Framework (MFF) of the European Union. In addition, some specific, individual country-related problems are present in some of the dyads, such as the Kosovo topic in the Serb–German relations or the reparation claims by the Polish Government. Despite this last point, we found it noticeable that disagreements induced by the common history of the 20<sup>th</sup> century seem to be receding. This is evident, for example, in the Czech–German relations. Also, rule of law-questions arise in the Polish–German and Hungarian–German relations, but not in the others.

However, all these disagreements seem to be insufficient to seriously question the notion that Germany and the CEE countries have a solid foundation based on common interests, strong economic links and shared perceptions and understandings. Common interests pertain to strengthening the European Union and not allowing it to morph into a ‘multispeed Europe’ – a finality very much despised by the CEE countries who keep fighting against the emergence of just such an ‘elite club’ of European states (EBERLE et al. 2017).



Cooperation in NATO and, less visibly, strong and effective bilateral defence cooperation measures are also points of common political interest, as exemplified in the chapter on the Czech Republic. Cooperation in the Common Foreign and Security Policy and the Common Security and Defence Policy of the European Union are also cases in point, as is the cooperation between the EU member states in organisations such as the United Nations, the Organization for Security and Co-operation and the World Trade Organization. Crucially, Germany and the CEE countries saw eye to eye in the Euro crisis as well, continuously supporting Chancellor Merkel's *Sparkurs* (KORNELIUS 2013, 228).

It is always difficult to conceptualise the impact of close economic ties on political relationships. As we saw, Germany is almost everywhere the biggest trade partner and the biggest investor in the region. In countries where it is not (Slovenia and Slovakia, for example) it is still one of the biggest players. One would assume that solid economic relations have an overall positive impact on the political relations, as well. They should provide a backbone, or, if you wish, the keel of a boat, which stabilises the political relationship even in windy or rocky times. We assume that these economic linkages do just that in the web of relationships between Germany and the CEE countries. A good example of this has been provided just recently, when in August 2018, the German automotive giant announced his decision to invest 1 billion Euros to build a new plant in Debrecen, Hungary. Notably, this is going to be BMW's first new factory in Europe since 2005. How should we square this development with the thesis that Germany and Hungary are drifting apart? Our tentative answer is to envision the two areas – political and economic relations – as two distinct realms, but with significant influence over the other. In this case, Hungarian–German *political* relations can be in a state of drifting apart, yet *economic* relations can, quite autonomously, continue to flourish. It is to be hoped that economics help prevent political relations falling into the water.

As to the agency-structure question, we find that the drifting apart in Polish–German and Hungarian–German relations is better explained in terms of agency than by structure. In essence, the crucial variable in this development seems to be the Polish and Hungarian governments of the day. For example, Polish–German relations were less conflictual until 2015, i.e. until the PO-led government was in power. Similarly, in Hungary conflicting issues multiplied after 2010. In turn, the role of the German government changes seems to be less important, yet ascertaining this assumption is made harder by the fact that the Angela Merkel has been chancellor for the past 13 years and her party has been leading the coalitions ever since. All this means that there are not many structural issues that divide the CEE countries and Germany and/or those that divide them have low salience. The gap in the economic development is the root cause for just such a structural difference, which is the issue of the Multiannual Financial Framework, where the CEE states constantly wanted to maximise the size of the budget. All the other conflicting issues, perhaps with the exception of the differing energy policy, are not rooted in some deep-lying, unchangeable, structural differences. This is good news for everybody interested in good relations between Germany and the Central and Eastern European Region – a region, by the way, whose importance is set to grow. It is worth pointing out, that once all the countries of the Western Balkans will have joined the European Union – granted, a rather distant prospect – the post-communist CEE countries, stretching from the Baltics to the Black Sea, will have a numerical majority in the EU: there will be more 'Eastern European' member states in the EU than 'Western European'. A German

foreign policy, which puts a premium on stable political and economic relations with the region will have a head start over other competitors – both inside and outside the European Union.

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The present volume's aim is to give an overview on the political and economic relations between Germany and Central Eastern Europe (CEE). In light of the past couple of years, it seems as though the goals and interests of the CEE countries and Germany would increasingly diverge. The handling of the migration crisis and the mandatory resettlement quota, the sanctions regime against Russia, differing views on energy policy – these are just a few topics where Germany and (some) CEE countries pursue different interests and, therefore, policy goals. Therefore, an interesting paradox arises. After decades of separation before 1990, Germany and most CEE states are now finally common members of institutions such as the EU, NATO and OSCE, working together in various fields. Other CEE countries also feel the “gravitational pull” of these institutions. Yet rather than converging in their foreign policy goals, Germany and the CEE countries seem to be drifting apart. It was with this in mind, that the idea for the present volume took shape.

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