

# FRIENDSHIP IN THE MAKING:

Transforming Relations  
between Germany and the Baltic-Visegrad Countries

*Edited by Dr. Andris Sprūds*

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*FRIENDSHIP IN THE MAKING: Transforming Relations between Germany and the Baltic-Visegrad Countries* is a research publication focusing on bilateral relations between Germany and Baltic-Visegrad countries. This book is the result of a successful collaboration among authors from research institutes and universities in Germany and the Baltic-Visegrad countries. The publication is also an example of the long lasting and productive cooperation between the Latvian Institute of International Affairs and the Friedrich Ebert Stiftung.

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## INTRODUCTION

*Andris Sprūds*

The economic recession and ensuing challenges in Europe have transformed the community's internal configuration and considerably elevated Germany's role in the European Union. Germany remained relatively competitive and successful, and experienced a modest growth in economic terms that contributed to balancing the overall negative economic trends in the EU. Its role as the major net contributing nation to the EU budget notwithstanding, Germany also provided a market for the export oriented countries, especially in the neighbourhood, and helped pull their economies out of the recession. The major European economy has been inevitably turning into the dominant player in EU debates on further economic, fiscal, monetary and political integration. Germany is becoming an indispensable European nation both economically and politically.

Germany's position and status apparently undergoes a process of transformation among the new members of the EU in the Baltic and Visegrad countries. The economic challenges and nations' selected approaches in the region have demonstrated common grounds for further cooperation. The appeal by Polish Foreign Minister Radoslaw Sikorski in November 2011 has been indicative of the changing perceptions and expectations in the region: "I will probably be the first Polish foreign minister in history to say so, but here it is: I fear German power less than I am beginning to fear German inactivity." However, the question can be raised as to what these expectations among Baltic and Visegrad countries exactly mean and whether they might lead to the transformation of a rather pragmatic mutual economic partnership into an unprecedented political partnership and friendship. Hence, the major objective of this publication is to examine how Germany's increasing power would shape Germany's activities in the region of East Central Europe and particularly influence its diverse bilateral relations with – and mutual perceptions and images within – the Baltic and Visegrad countries.

Some important and valuable research contributions on Germany's foreign policy and bilateral relations in East Central Europe have been made and identified in the following chapters. However, this research project intends to expand and elaborate on a number of additional research issues and perspectives. First, the publication is intended to somewhat integrate

the new members of the EU and NATO in Baltics and Visegrad into a joint regional perspective and subject the regional dynamic to an analysis of Germany's role. Second, a comparative perspective of three Baltic countries and four Visegrad countries is provided. The number of perspectives allow for assessing and discerning both commonalities and divergences among the Baltic and Visegrad countries. Third, the chapters follow a rather similar pattern of analyzing the role of history in bilateral relations, recent political developments and cooperation in multilateral frameworks, and mutual economic cooperation. This approach provides a comprehensive view on developments in the "new" Europe, and simultaneously discerns national particularities. Moreover, though the general structure is streamlined and the major aspects are set, the authors remain free to contribute their own idiosyncratic emphases and assessments. This diversity of approaches is essentially perceived as an important element in reflecting the plurality of opinions and the multifaceted nature of Germany's presence in the political and economic agendas of the Baltic and Visegrad countries.

The successful fruition of the current research project was enabled by a number of joint efforts. Above all, an international body of researchers have contributed to achieving the objectives of the research project. The involvement of authors from partner countries has been considered an imperative precondition for ensuring a diversity of views with a genuinely comparative perspective. The current joint research project takes a full advantage of the opportunities of a long tradition of a prolific cooperation between the Latvian Institute of International Affairs and its partner institutions in Germany, as well as the Baltic and Visegrad countries. The Friedrich Ebert Foundation in the Baltic countries was instrumental in supporting this research endeavor and in bringing it to a successful result. Last but not least, this publication would be void without a reader attentive to the subject and interested in understanding the constraints and opportunities for a friendly and mutually beneficial political and economic engagement between Germany and the Baltic-Visegrad countries, both bilaterally and within multilateral frameworks.

# GERMANY AND THE VISEGRAD-BALTIC COUNTRIES: Cooperation and Partnership in Times of Uncertainty

Kai-Olaf Lang

## Introduction

Relations between Germany and the countries in Central Eastern Europe, and their development after 1989 and 1991, are rather rare examples of success stories in international relations. After the breakdown of communism and the end of the Iron Curtain, a dense and stable network of societal, economic and political contacts between Germany and these countries emerged in a relatively short period. This is *per se* a big achievement, given the uncertainties of systematic transformation and an amorphous international environment, as well as the difficult and even traumatic stages in history between Germany and many of the countries in the region. But moreover, after more than two decades of cooperation a new awareness of closeness seems to emerge. Their common membership in NATO and the European Union is certainly a necessary precondition for developing a feeling of belonging and unfolding the potential for cooperation. However, the unclear future of European integration during the sovereign debt crisis, growing renationalization, and a (likely) overhaul of institutional architecture with undefined outcomes has made EU-issues ambivalent: they can bind countries together, but they can also drive them apart. The good news is that in the context of economic crisis and financial turmoil Germany and the states in the Central and North-Eastern regions of the continent appear to be discovering common interests and shared values. In contrast with other member states, for most of these countries “more Europe” is a desirable solution, and “more Germany” as a part of “more Europe” is not a problem, but rather a contribution to more stability in the EU.

There are certainly numerous practical factors facilitating such a constellation, including similar “philosophies” concerning public finance or intensifying bonds through mutual trade and business interests. But the increasingly close relationship between Germany and this part of Europe also results from a change in soft variables: Germany, which after 1989 or 1990 had been perceived as a reemerging European power with strong egoistic leanings, during recent years has been increasingly seen by

Central Europeans as an actor “whom you can believe”. This obviously has much to do with changes in Germany’s *modus operandi* in the EU and in foreign policy in general. Reemphasizing the classic traits of Bonn’s approach to external affairs, like being an advocate for smaller and medium-sized countries and bringing more transparency to its “special relationship” with Russia, Germany has surmounted a major obstacle in building contacts with countries in its close Eastern vicinity (the trap of mistrust).<sup>1</sup> With a heightening suspicion of French negligence, disappointment with the British retreat, and the US pivoting to Asia, in the eyes of Polish, Latvian or Lithuanian foreign policy Germany appears to be a quite empathic, understanding and involving player. Hence, to a high degree cooperation and trust explain why relations between Germany and the Visegrad and Baltic states have evolved from mere neighborhood to partnership.

This paper aims to analyze and assess the basic features of Germany’s cooperation with its direct neighbors in Central and Eastern Europe, i.e. with the countries of the Visegrad group (Poland, the Czech Republic, Slovakia and Hungary) and with the three Baltic states (Estonia, Latvia and Lithuania). More specifically, the subsequent pages strive to find answers to the following questions: What are the features of the complex relationships between Germany and the quite dissimilar grouping of the Visegrad and Baltic states? What are the frameworks and places where cooperation is taking place, and, particularly, what is the relationship between contacts at the bilateral, regional and EU levels? Which tendencies in European integration will impact Germany’s relations with the Visegrad countries and Baltic states? Is the sovereign debt crisis and related political reforms creating opportunities to increase German dominance in Europe or over those countries? Given the multiple crises and dynamics in Europe, what is the future of Germany’s relations with the Visegrad Four and the Baltic Three?

## 1. Germany’s relations with the Visegrad countries and the Baltic states – determinants and features

In describing structures and dynamics of Germany’s cooperation with Central and Eastern European countries, it’s important to bear in mind at least three underlying determinants. The first one is Germany’s interests

<sup>1</sup> Interview with Tadeusz Mazowiecki, in: Tytus Jaskułowski, Karoline Gil (ed): *Gespräche zum deutsch-polnischen Nachbarschaftsvertrag / 20 lat później. Rozmowy o polski-niemieckim traktacie o dobrym sąsiedztwie i przyjaznej współpracy*, Wrocław 2011, p. 17–25.

and objectives as country, which after the end of the Cold War and with the enlargement of the European Union and NATO “moved” from the fringes of the West to the new middle of Europe. The unified and bigger Germany had and still has to redefine its role in a changing Europe; how the balance between normalization and continuity will work out is closely followed by its partners and allies.<sup>2</sup> The second determinant is the Baltic and Visegrad states with their respective interest profiles, beginning with their profound economic, social and political reforms, their foreign policy priority to “return to the West”, and their specific, considerably varying relations with Germany. Finally, the third determinant framing Germany’s contacts with its eastern neighbors is the diverse international contexts and environments, ranging from a changing EU and transforming transatlantic relations to uncertainties in the post-Soviet space and major global crises and threats.

It is important to underline the peculiarities of Germany’s relations with the countries of the region as compared to other partners in Europe.

- **Historization.** The leftovers of the past, especially regarding the traumatic experiences of World War II and its consequences, have a much stronger weight than in German relations with, say, Northern Europe. Differing interpretations and legal positions over questions like the flight and expulsion of German communities at the end of the war have led to numerous clashes between Germany and Poland or Germany and the Czech Republic. A less volatile issue, but one that is nevertheless present in mutual contacts, has been reminders of Germany’s role in the Ribbentrop-Molotov pact. Hence, in many cases *historization* and the quest for reconciliation and “normalcy” have been a hallmark of relations.
- **Domestic policy.** Partly (but not only) due to the relevance of historic issues, some bilateral relations have shown a high salience of domestic political constellations. Center-right governments in Germany for example, have a rather open approach toward expellees (and their organization), whereas center-left coalitions follow the tradition of the new Ostpolitik from the 1960s and 70s, calling for dialogue and rapprochement with eastern neighbors while at the same time deprioritizing

2 On Germany’s normalization: Gunter Hellmann et al., *De-Europeanization by Default? Germany’s EU Policy in Defense and Asylum*, Foreign Policy Analysis (2005) 1, pp. 143–164; Simon Bulmer, William Paterson, *A Life More Ordinary? Ten theses on a normalization of Germany’s role in the EU*, Paper for the EU Studies Association biennial conference, Boston, March 3–5, 2011, [http://euce.org/eusa/2011/papers/2g\\_bulmer.pdf](http://euce.org/eusa/2011/papers/2g_bulmer.pdf)

interest groups rooted in the eastern parts of Europe. On the other hand, there has been something like a Kaczyński-effect in cooperation with Germany, as during the period of national-conservative governments in Warsaw between 2005 and 2007 a considerable deterioration of German-Polish relations took place. Also, during the era of Chancellor Gerhard Schröder a couple of foreign and European policy changes irritated politicians and societies in Central Europe. Germany’s stance during the Iraq war and its deep affiliation with France on many EU-topics were criticized by the then opposition, which would probably have acted differently (maybe not in substance, but in style).

- **Securitization.** Security issues have been a high-ranking priority in the foreign policy hierarchies of the Visegrad and Baltic states, and therefore it comes as no surprise that they have also been prominent on the agenda with Germany. On the one hand, this is due to the real and perceived vulnerability of the countries in the region vis-à-vis Russia,<sup>3</sup> and in a broader sense to their complicated interaction with their big neighbor in the east. On the other hand, the sensitivity of security issues also results from Bonn’s or Berlin’s privileged cooperation with Moscow. For this reason, Germany’s privileged contacts with Russia and what has been called the “Rapallo-complex” have sparked heavy discussions between Berlin and Warsaw on questions like energy, defense, or the U.S. military presence.
- **Asymmetry.** Relations in international relations are almost always unbalanced; partners are generally different in size and in potential. However, the dimensions of asymmetry are particularly high between Germany and its direct eastern partners, with Poland being the only mid-sized country in the region and all the others being relatively small in population, economic potential and political influence. In terms of population, Germany is bigger than all seven countries together (with roughly 80 million compared to 70 million). As for the economy, even after more than 20 years of economic reform, Germany’s GDP is more than double the combined economic power of the Visegrad and Baltic states (\$ 3.1 trillion compared to \$ 1.5 trillion in 2011, taking into account differing purchasing power). Asymmetry also has implications for some of the above mentioned determinants of German-Visegrad or German-Baltic relations. So there is definitively a “German factor” in

3 Tim Haughton, *Vulnerabilities, Accession Hangovers and the Presidency Role: Explaining New EU Member States’ Choices for Europe*, CES Central & Eastern Europe Working Paper Series No. 68, February 2010, <http://aei.pitt.edu/14473>.

Polish or Czech domestic politics. However, issues related to Poland or the Czech Republic have a rather limited capacity to get on the domestic agenda in Germany. German-Polish friction surrounding Mrs. Steinbach, the chairwoman of the expellees' umbrella organization Bund der Vertriebenen (BdV), is a good example of that: whereas Mrs. Steinbach (who is seen in Poland as a highly controversial person for her interpretation of flight and expulsion) has become extremely "popular" in Poland, she is rather unknown in Germany. In a similar vein, officials of Sudetendeutsche organizations, which are present in the Czech media and public debate, are unfamiliar to most Germans.

- **Heterogeneity.** The Visegrad states and the Baltic countries are very different in almost every respect – basically they are a colorful and volatile mosaic of national interests – and so are their relations with Germany. As mentioned before, sheer potential is one aspect (with Poland as an emerging regional power, being a key partner in the region), but potential is by far not the only feature that creates differences. Geography – i.e., their relative distances and the existence of common borders – is a further fact that has to be considered: in relations with Poland the border issue was a question that was highly sensitive for decades and was finally settled in the context of Germany's reunification. Another factor is German ethnic groups: the differing fortunes of German communities in the territory of modern Poland, of the Sudetendeutsche and Karpathendeutsche group in the Czech Lands and Slovakia, or of the Baltendeutsche in Estonia and Latvia, and particularly the way that particular countries have reflected what happened to these groups in the past, was also something that has had a certain effect on relations. And, of course, varying "pasts" have also predetermined the reason that some countries (like Poland) are highly receptive to (imagined or real) changes in the German historic discourse, whereas others are rather calm or even indifferent. Trans-border cooperation and subsequent societal and economic exchanges are an important element of German-Polish and German-Czech relations, although there are still huge administrative obstacles and invisible hurdles to taking full advantage of regional contacts on both sides. Last but not least, the manifold European and foreign policy objectives among countries from the Visegrad Four or the Baltic Three also create huge differences in their cooperation with Germany. Russia, for example, has been an irritant in German-Polish relations for many years, whereas Slovakia and Hungary seem to have taken a rather pragmatic approach in which they could coexist with Germany's idea of involving Russia.

- **Europeanization.** The most important determinant shaping Germany's cooperation with the Visegrad and Baltic states is their common insertion into multilateral political frameworks, i.e. NATO and above all the European Union. This novelty has helped reduce asymmetry by giving Central European partners the chance to develop their relations with Germany as part of a wider rule-based community, which both restricts possible German prevalence in the region and creates the chance to set up complementary partnerships with other countries in the EU. It is the changes and adaptation in Europe evoked by the financial and sovereign debt crisis that has put strain on this model of institutionally taming Germany, which for many in Central Europe was initially a reassurance against the dominance of the Berlin Republic. However, it is neither the Visegraders nor Balts who hold concerns over the erosion of the traditional model as a driver for new German dominance – worries about Berlin's rising power come from other parts of Europe (see the last part).

Of course, none of these features are static. History, for example, seems to fade away as an integral determinant of bilateral relations, even in German-Polish or German-Czech dialogue, where questions like Germany's discourse about the expulsion or law-suits filed by German expellees (or their descendants) demanding compensation for confiscated property has had a negative spill-over into political contacts. In a similar way, other factors have also changed. After more than two decades of cooperation and nearly a decade of common membership in the European Union, Germany's relations with the Visegrad countries and the Baltic states are showing the following traits: a common past is present, especially regarding the chapters of the 20th century and World War Two, but this is widely de-coupled from other dimensions of contacts. Relations are much more diverse than 20 years ago; they have undergone a parallel deepening and widening, covering different levels (political, sub-national, regional, societal) and sectors of cooperation (economy, foreign affairs, EU policies, soft issues, etc.). Security, including hard security, is still significant, but this has lost its relevance as EU and NATO memberships have changed threat perceptions – looking to Russia from inside the EU and NATO is different than being situated in a grey zone between the West and the East. However, with a more multifaceted risk assessment, which includes energy, economic instability and social uncertainty in neighboring countries as well as big global threats from Afghanistan to Syria, Germany and its Central and Eastern European neighbors continue to have different sensitivities and security vectors. European integration has turned out to be more

ambivalent than was originally expected. On the one hand, common membership in the EU provides a unique and stabilizing scaffolding, with shared values and mutual solidarity. On the other hand, being in the EU is also a source of conflict. This comes as no surprise, since the EU is an institutionalized entity that can convert national differences into compromise. However, the Visegrad and Baltic states entered the Union at a time of permanent change and increasing divergences. Immediately after these countries attained *de facto* membership in the EU – i.e., after the conclusion of accession negotiations – they were thrown into major polarizing political conflicts like the Iraq war or the battle about double majority in EU decision making, where at least some of them stood on different sides of the barricades than Germany.

## 2. Places and frameworks – Where do Germany and Central Eastern European countries cooperate?

### 2.1. Enlargement Instead of Mitteleuropa

After 1991, Germany never developed a regional strategy for cooperation with its Central European neighbors: there was no German Ostmitteleuropapolitik. In practice, German advocacy for EU (and NATO) enlargement was like a functional equivalent to such a strategy. If one had to find a slogan for Germany's posture toward the region, it could be called "enlargement instead of Mitteleuropa". The Federal Republic wanted to transform its direct neighborhood according to the principles of free market, good governance and democracy by bringing the countries in its eastern vicinity into the European community of values, rules and institutions, which had ensured stability and prosperity for many decades.

An active regional strategy for Germany's new "near East" partners in the 1990s and afterward would have provoked concern and apprehension – both with the new neighbors, who had traditionally entertained doubts about a German hegemony in the future European order, and with the old partners, who were also suspicious of the new role of the Federal Republic and for whom German go-it-alone tendencies in Central Europe would have been a confirmation of their skepticism. Therefore, Germany had an interest not to "intrude" unilaterally in the region, but rather to strengthen its presence with the support and inclusion of partners from Western Europe. This idea was one of the drivers for the founding of the Weimar Triangle: one of Bonn's objectives was to involve France in the

process of deepening German-Polish relations and to simultaneously show Poland that closer cooperation with Germany could be "balanced" by a parallel boost in relations with France.<sup>4</sup>

In 2004, all countries of the region acceded to the EU. Hence, alongside the enlargement process Germany's quest for a holistic regional approach moved to the east. With the emergence of geostrategic plurality in the post-Soviet space after the colored revolutions and discussions about "integration competition"<sup>5</sup> between the West and Russia, Berlin sought to find the harmonious construction of a triangle of the EU, Russia, and Eastern European countries like Ukraine. In the run-up to the German presidency of the EU in the first half of 2007, the German foreign office defined principles for a new Ostpolitik, which aimed at the intensification of EU-Russia relations, at an upgrade of the recently established European Neighborhood Policy (ENP), and at the establishment of a Central Asia strategy.<sup>6</sup> Of course, this was to be implemented by the EU and within the framework of the Common Foreign and Security Policy, and not as an "individual" German initiative. Irrespective of the endeavor's motivations and outcomes, the debates around the new Ostpolitik showed that Germany's conceptual thinking about the East and eastern policy was definitely decoupled from Central Eastern Europe, which was now firmly anchored in an EU-context.<sup>7</sup> In other words: Germany's proximity policy toward its Central and Eastern European partners consisted of a set of bilateral relations that were increasingly inserted into the scaffolding of European integration.

### 2.2. A Hierarchy of Bilateralisms

Concurrently with the EU-ization of cooperation with the Visegrad and Baltic states, the array of bilateral relations developed and deepened and quite soon a veritable hierarchy of bilateralisms emerged. From an early

4 Ludger Kühnhardt, Henri Ménudier, Janusz Reiter, *Das Weimarer Dreieck: Die französisch-deutsch-polnischen Beziehungen als Motor der europäischen Integration*, Bonn, 2000, ZEI Discussion Paper C 72/2000.

5 Cf. Hannes Adomeit, Integrationskonkurrenz EU–Russland. Belarus und Ukraine als Konfliktfelder, in: *Osteuropa*, 62 (2012), 6–8, pp. 383–406.

6 Berlin sucht eine neue Ostpolitik, in: *Frankfurter Allgemeine Zeitung*, 4.12.2005.

7 Interestingly, in 2001 the Christian Democrats called for the establishment of a "Central European dimension" (ostmitteleuropäische Dimension) in a foreign policy document adopted at their party congress. This framework would have included future EU-members like Poland and Hungary, candidates like Slovakia and Romania, and Eastern European countries like Ukraine and Moldova; CDU: *Leitsätze für eine aktive Außen- und Sicherheitspolitik*, Beschlüsse des 14. Parteitags der CDU Deutschlands, <http://www.cdu.de/doc/pdf/beschl-auen.pdf>

stage, Poland was seen as the hub and hinge of the region. With the benefit of hindsight, one can also conclude that German-Polish controversies in the early membership period and during the Kaczynski-era were just temporary setbacks and in the end rather enhanced Poland's weight from a German point of view: Warsaw's high profile in security affairs, in the eastern policy, and in the context of EU treaty reform made Poland an active shaper of European integration, or at least – to put it less positively – an awkward partner that has to be involved. With Poland's pro-European shift, an attempt to reset relations with Russia and a clear orientation toward Germany, Warsaw became one of Berlin's key partners in the EU. On a political and diplomatic level, German-Polish cooperation intensified in an unprecedented manner. Numerous contacts between the parliaments and governments of both countries highlight the dynamics of bilateral exchange.

Poland is one of the few countries with which Germany holds regular government consultations (i.e., meetings between both cabinets). On the occasion of the 20<sup>th</sup> anniversary of the German-Polish treaty of good neighborhood, both governments adopted a program of cooperation, which included a long list of mutual projects on the bilateral and EU levels.<sup>8</sup> This program of cooperation can be seen as the counterpart to a similar framework for cooperation with France, which was signed in February 2010 (the so-called "Agenda 2020"). In this respect, the German-Polish program also reveals the German desire to give a similar significance to relations with Warsaw and Paris. In 2004, the office of a government plenipotentiary for German-Polish societal and trans-border relations was created, and after 2009 this position was upgraded and is exerted by a parliamentary state secretary in the German Foreign Office.<sup>9</sup> German presidents Köhler and Gauck, as well as foreign minister Westerwelle in 2009, chose Poland as their first visit abroad. The coalition treaty between Christian democrats and liberals, signed in autumn 2009, was intended to deepen "cooperation and friendship" with Poland. Polish-German cooperation is supposed to deliver new stimuli for European integration. Besides France,

8 Cf. *Joint statement by the governments of the Federal Republic of Germany and the Republic of Poland on the occasion of the 20<sup>th</sup> anniversary of the signing of the Treaty of Good Neighbourship and Friendly Cooperation between the Federal Republic of Germany and the Republic of Poland: Neighbours and partners 20 years of good neighbourship*, Warsaw, 21.6.2011, [http://www.bundesregierung.de/Content/EN/Pressemitteilungen/BPA/\\_2011/2011-06-21-gemeinsame-deutsch-polnische-erklaerung-beschlossen\\_en.html?\\_\\_site=Meseberg](http://www.bundesregierung.de/Content/EN/Pressemitteilungen/BPA/_2011/2011-06-21-gemeinsame-deutsch-polnische-erklaerung-beschlossen_en.html?__site=Meseberg) and: Programm der Zusammenarbeit.

9 Before that, the office of a plenipotentiary for bilateral relations existed only in relations with France, the United States and Russia.

Poland was the only EU-country that was explicitly mentioned in the coalition agreement.<sup>10</sup> During Poland's EU council presidency, both countries were in close contact. Exchange diplomats that were situated in important positions within the Foreign Offices of both countries have played an important role in deepening the mutual dialogue. Polish and German foreign ministers have made various common foreign trips (e.g., to Kiev and Minsk), and formulated common articles and common initiatives (e.g., a letter to EU High Representative Ashton on EU-Russia relations).

Compared to the premium partnership with Poland, other bilateral relations rank somewhat lower. Hungary had the potential to become a pivotal partner for Berlin, since in the 1990s it was the frontrunner for economic reforms and attracted substantial German investment. As a successful transformation country with large minorities in neighboring countries, Budapest could have played an important role as a stabilizer for the Western Balkans and South Eastern Europe. However, its economic downfall since the early 2000s and the policies of the Orbán government after 2010 have restricted the political relevance of Hungary. However, whereas some member states have called for an isolation of Budapest, Germany has pursued a realistic course of critical friendship. Contacts between the German chancellor and Hungarian Prime Minister Orbán (who are both political allies in the European Peoples Party) have especially contributed to this pragmatism.

The Czech Republic is also a pragmatic neighbor with solid economic policies and a high economic interdependence with the German economy, but it falls behind its potential as a possible priority partner for Berlin. The reason for this is the salience of Czech euroskepticism and the lack of a domestic consensus in EU affairs. The leading force of the Czech center-right and the leading party in many governments, the Civic Democratic Party, has a predilection for the London way of European affairs and has moved closer to the British Conservatives, while downgrading relations with German Christian Democrats. The economic and financial crisis and debates about a multi-speed Europe have catalyzed this Czech drift.

Slovakia has turned from a problem child in Vladimír Mečiar's time into a model student. Even various handovers of power from center-right to left and the emergence of a strange social-patriot coalition between 2006 and 2010 did not cause a populist realignment in economic or social policy.

10 *Wachstum. Bildung. Zusammenhalt. Koalitionsvertrag zwischen CDU, CSU und FDP*. Beschlossen und unterzeichnet am 26. Oktober 2009, <http://www.cdu.de/doc/pdfc/091026-koalitionsvertrag-cducsu-fdp.pdf>

Slovakia's entry in the eurozone at the beginning of 2009 made the country one of the first EMU members of the region (Slovenia had joined in 2007). Nevertheless, from the German point of view, Slovakia, as a relatively small state, has only limited influence and instruments, and can act only as a partial partner in specific policy areas (e.g., the Western Balkans or the eastern policy) than as first-rank partner in leadership. In principle, this also holds true for the Baltic states, which have been generally perceived as small but efficient partners whose impressive economic track-record is contrasted with their strained relations with Russia. Paradoxically, the financial and sovereign debt crisis, which has hit the Baltic states hard, has improved the image of the Baltic states in Germany, as their consistent consolidation and swift regeneration has been regarded as a positive model of how to cope with the economic downturn and how to combine fiscal austerity with pro-growth policies.

After the Visegrad and Baltic states joined the EU, the panorama of German relations with these countries is as follows: a set of bilateralisms emerged, including vital cooperation with Poland and a number of rather varied contacts with the other capitals. These bilateralisms were increasingly Europeanized as EU-questions constituted a growing part of the common thematic portfolio. Between Germany's "differentiated bilateralism"<sup>11</sup> and the overarching scaffolding of European integration, there seemed to be neither the need nor the space to develop a specific Mitteleuropapolitik.

At first glance, this seemed to be a convenient arrangement. Indeed, Germany's attempt to find new ways to further enhance cooperation with its Eastern neighbors, after the enlargement rounds of 2004 and 2007, seemed to proceed within the paradigm of a double-track approach of direct contacts and EU-collaboration. There were various reasons for Germany's efforts to give more substance to contacts with Central and Eastern European member states. One of these was an increasing awareness that in the EU 27 a Franco-German coupling is not sufficient to exert leadership. Moreover, after the elections of 2005 and the emergence of a grand coalition of Christian Democrats and Social Democrats, the France-first approach of the Schröder-era was seen as somewhat monistic. There was a growing consciousness in Berlin that the Federal Republic had been focusing too much on the heavyweights (above all France, but also Blair's Great

11 Vladimír Handl, Adrian Hyde-Price: Germany and the Visegrad Countries, in: *Slovak Foreign Policy Affairs*, 1/2001, S. 56–74, p. 71.

Britain),<sup>12</sup> while neglecting smaller partners, who in turn felt neglected or even marginalized. Concerning foreign and security affairs, consultations with France and Russia, seen as an annoying "axis" by some Central European countries, were downsized in their symbolic and political relevance. This tendency has continued and deepened after the 2009 change of government, and it reinvigorated the search for new forms of inclusion and contact, especially with the countries that joined the EU in 2004 (and 2007).

One result of this was the attempt to involve particularly Poland into strategic mechanisms of coordination and consultation. So, at least on a verbal and diplomatic level, the Weimar Triangle was revitalized. Although the Weimar Triangle summit on the occasion of the 20th anniversary of its foundation ended with little substance, the trilateral grouping attained some results in particular policy areas, e.g., a common initiative on enhancing European defense was launched. At the same time, a new triangular framework including Germany, Poland and France was set up. This new arrangement has produced little by way of tangible effects (apart from the liberalization of minor border traffic in the Kaliningrad region and adjacent EU-territories in Poland), but from the German point of view it is a vehicle to create confidence and transparency vis-à-vis Poland, while at the same time buttressing the fragile Polish-Russian rapprochement.

### **2.3. Germany and the Visegrad-Group: From Reluctance to Contact**

Another effect of Germany's push for closer cooperation with Central European countries was considerations about establishing or reinforcing frameworks for contacts between the purely bilateral level and the EU level. As was mentioned earlier, there was no specific concept for Central Europe in German foreign and European policy after 1989. The double enlargement of the EU and NATO was Germany's Mitteleuropastrategie. Among other things, this meant that there was vivid cooperation with the Visegrad countries but virtually no contact with the Visegrad group – a fact that is striking, since the four states had numerous meetings with EU and external partners according to the V4-plus formula. The only high-ranking meeting in this format took place in spring 2000, when the prime ministers of the Visegrad group and German Chancellor Gerhard Schröder met in the Polish town of Gniezno to commemorate the millennial anniversary

12 In the early and mid 2000s there were various trilateral summit meetings between the German chancellor, the British prime minister and the French president.

of the encounter between Germany's emperor Otto III and Poland's king Boleslaw Chrobry at the place where St. Adalbert is buried, a precursor of Europe's unity.<sup>13</sup> However, this meeting was an event with a merely symbolic relevance and remained a unique exercise without any follow-up. The reasons for the weakness of German-V4 contacts have to do both with the state of Visegrad cooperation and with Germany's policy.

The lack of essential German relations with the Visegrad group results to a large extent from the internal situation of Visegrad cooperation. In its first two decades, the Visegrad three or four very often appeared to be a ceremonial exercise rather than a proactive community with common goals. Internally divided by historical, economic, foreign policy, security, or domestic political differences, the "V4" for a long time was a rather loose "political family" more than a strategic actor or a coherent framework – hence, there was no particular need for Berlin (or other EU partners) to treat Visegrad as a partner or a veto-player who had to be accommodated.

From the German side, for quite a long time contacts with Visegrad as a group were limited for two reasons. First, Germany did not support regional groupings in the EU, as the upgrade to such groups (and diplomatic meetings with Germany always contain a certain symbolic appreciation) could have the potential to interfere with German interests. In general, Germany has followed a course of rather limited contact with regional groupings in the EU (this also concerns the Benelux group and Nordic Cooperation). The second consideration was France. For quite some time, Germany was reluctant to underpin engagement in and for Central Eastern Europe (which is much denser than French contacts with the countries of the region) to avoid nurturing French suspicion about the creation of a German zone of privileged interests. Obviously, such considerations have never been fully present in relations with the Baltic states, since in contrast to Visegrad-Plus meetings including the Federal Republic Germany, meetings between Germany and the Baltic Three have taken place regularly. This is probably due to a mixture of pragmatism and salience: Germany-Baltic contacts were never as visible as (possible) gatherings with the Visegrad countries.

Nevertheless, circumstances changed somewhat and Germany seemed to overcome its reluctance toward Visegrad as a group. The German Chancellor Merkel participated in a Visegrad summit in February 2011, 20 years after the establishment of the group (along with the Austrian and

13 The five heads of government signed a declaration stressing their will to cooperate in uniting Europe and to opposing nationalism and totalitarianism, Polen setzt auf Hilfe Schröders, *Die Welt*, 29.4.2000; Drzewka jedności, *Rzeczpospolita*, 29.4.2000.

Ukrainian heads of government). In March 2011, Foreign Minister Westerwelle took part in a meeting of the V4 foreign ministers in Bratislava, co-sponsoring declarations on the Eastern and Southern Neighborhood Policies of the EU.<sup>14</sup> After the Christian-Liberal coalition came to power in 2009, German diplomacy reflected possibilities of enhancing relations with Central Eastern and South East European EU member states, strengthening bilateral and sub-regional forms of cooperation. Initiatives and considerations like these do not herald a different stage of relations with the countries concerned, nor do they commence a paradigm switch toward more regional cooperation. Bilateral relations packed increasingly with EU content will remain the building-blocks of German political activities in the region. However, this marks a more flexible form of engagement, using different formats and fora to promote Germany's presence and contact with its eastern neighbors.

### **3. The Changing Context: Implications of the "Crisis" for Germany's Relations with Central Eastern European Partners**

If European integration and common membership in the European Union make up the overarching context and the dominating substance for Germany's relations with the countries of the Visegrad and Baltic regions, then profound changes within the EU and its internal mechanisms will have manifold implications for those relations. Since 2008, the interrelated financial, sovereign debt and economic crises, which have hit economies, societies and budgets all over the continent, have produced significant shifts in Europe's political landscape and the way political process in the community are organized. The need to stabilize public finances, to make economies more competitive and to push through reforms of economic, financial and political governance in the EU in general – and the eurozone in particular – goes along with trends that did not previously exist at all, or at least did not exist to such a degree. Three tendencies seem to particularly matter when looking at Germany and its relationships with the countries beyond its eastern borders.

14 *The Visegrad Group meets in Bratislava*, Press Release, Federal Foreign Office, 3.3.2011, <http://www.auswaertiges-amt.de/EN/AAmt/BM-Reisen/2011/03-UKR-Slowakei/110303-Slowakei>

First, European integration seems to move toward more fragmentation. The traditional objective of an “ever closer Union” was a compromise that avoided a consensus on the finality of integration; but it was above all a formula that was based on the assumption that all member states at one point in the future will take part in all integration projects – maybe apart from the United Kingdom, with its specific status and historic predilection for standing aside. Now discussions about groups, multiple-speed integration and a “core Europe” have left the academic sphere and entered the political space – and with them, the idea that clusters of member states, *de facto* a politicized eurozone, might form an inner circle within the EU. For the time being, discourse about differentiated integration or a multi-speed Europe predominantly claims to adhere to openness and inclusiveness: however, for some proponents of such thoughts, creating a “club within the club” is a vehicle to outmaneuver those who are seen as troublemakers or impediments to EU reform. The outcome of the December 2011 European Council meeting and the emergence of the Fiscal Compact as a “satellite treaty”<sup>15</sup> is indicative of that development: France, Germany and others have come to the conclusion that there can be situations where it is better to compromise outside the EU treaties, particularly as the United Kingdom blocked the road to a swift solution that would anchor reforms aimed at fiscal consolidation directly into EU law.

Second, renationalization is gaining ground. European integration is increasingly prone to domestic political constellations and to financial interests. The rising salience of domestic issues and actors for the European policies of member states is not new, but it has been catalyzed by the crisis. As fiscal and financial questions are a leading subject in the European debate in member states, the monetization of European policies seems to be rising. Looking at the decision making process in EU affairs in most member states, it has been finance ministers and the heads of governments who are decisive players, whereas foreign offices and EU ministries (which are traditionally more sensitive to the integrity and functioning of the EU) have lost clout.

Third, as a corollary of that, the differing postures of member states and key bilateralisms are more important than they were previously. The interplay of the sovereign debt crisis and the innovations of the Lisbon treaty have led to a return of the capitals. Trends of peculiar significance include the revival of Franco-German relations, British drift, and Germany's

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15 Daniel Thym, *Ein Bypass, kein Herzinfarkt*, 13.12.2011, <http://www.verfassungsblog.de>

new role as a pivotal country. This goes along with the enhanced position of heavyweights, whereby many smaller member states feel relegated to the fringes of the political decision making center.

As a consequence of this, a couple of controversial issues (or even dividing lines) have emerged. All of these have implications for Germany's relations with Visegrad and Baltic states.

- **Growth vs. Austerity.** For years, a considerable East-West divide has reportedly been structured into the EU. In the wake of the crisis, controversies between fiscally conservative “Northeners” and pro-growth countries in the South have superseded the East-West, or old vs. new, member state separation. Due to their experience in system transformation and their economic track record, the Visegrad and Baltic states see themselves as part of the “new North”. The fall of the Radicová-government in Slovakia in autumn 2011, sparked by coalition dissent over an assistance package for the eurozone, just like the denial of financial aid for Greece in 2010, has revealed how far some politicians in the region are willing to go: when Slovakia's then foreign minister Dzurinda explained that there should be no solidarity without responsibility, or when Bratislava's adamant liberal leader Sulík declared that poor Slovak pensioners will not contribute to bail-out schemes for wealthy Greeks, many in Germany (at least tacitly) sided with these views. Although a closer look at political debates in some of the countries in Central and Eastern Europe reveals that their attitude toward economic and fiscal policies is different from Germany,<sup>16</sup> all in all most countries in the region are seen in Berlin as like-minded concerning stability in public finance.
- **Intergovernmentalism vs. Community method.** The re-emergence of capitals goes along with a possible limitation of the community method and institutions that represent the principles of unity and equality. Whereas France used to be a standard-bearer for pro-European intergovernmentalism, Germany has traditionally been a protagonist of community institutions and procedures. In this respect, Germany was a natural ally of mid-sized and smaller states, like those in the Visegrad and Baltic regions. However, Berlin has slightly moved its position in the recent past, arguing in favor of a new balance of power with due weight for the member states and institutions like the

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16 Polish Finance Minister Rostowski, for example, has argued for an active role for the European Central Bank as a lender of last resort. This Anglo-Saxon idea clearly differs from the German approach; Jacek Rostowski, Desperate times need desperate ECB measures, in: *Financial Times*, May 20, 2012.

European Council and its permanent president. The German chancellor called this new approach the “Union method”.<sup>17</sup> There is no doubt that most countries in Central Europe are skeptical about such tendencies, since for them a strong community-based system is a security against a strengthened position for the big member states as decision-takers.

- **Core vs. Periphery.** The financial crisis has sped up efforts to improve economic and fiscal policy coordination among the states in the eurozone. Debates over reform have included far-reaching proposals like the establishment of a full-fledged eurozone budget or a special parliamentary assembly for the eurozone. The non-eurozone countries in the region – i.e., all except for Slovakia and Estonia – have mostly seen this as a risky tendency that might force them into an “inside-out” strategy (apart from parts of the Czech ODS, which see differentiated integration as an opportunity to select the speed and depth of integration). Poland has been the leader of those countries calling for effective inclusion into the new structures of the 17 euro-states, pointing to possible cracks in the EU if the eurozone integrates ever closer. Poland has also emphasized that it wants to be involved in euro-17 processes, because it is a “pre-in” – that is, not a permanent bystander like the United Kingdom, but a future eurozone member. Basically, this consideration seems to be an analogy of the status Poland and other accession countries had in the lead up to the drafting of the Constitutional Treaty, when they were granted something similar to an anticipated membership. In this regard, Germany seems to be inclined to solutions that secure pre-ins a voice and a “place at the table”. Especially when compared to the French approach, Germany’s position has been open and elastic – an approach the Visegrad and Baltic countries both share and appreciate. Here, in principle, there is a common interest for both sides, since Germany has an interest that the effects of enlargement will not be questioned by the emergence of new divisions between “older” and parts of the “younger” EU. During the Polish Council presidency, France opposed the inclusion of the presidency in the meetings of ECOFIN (i.e., the eurozone finance ministers), while Germany would

17 Rede von Bundeskanzlerin Merkel anlässlich der Eröffnung des 61. akademischen Jahres des Europakollegs Brügge, Bruges, 2.11.2010, <http://www.bundesregierung.de/Content/DE/Rede/2010/11/2010-11-02-merkel-bruegge.html>; among others, critical remarks have been expressed by representatives of the opposition like Manuel Sarrazin, Speaker for European Affairs of the Green parliamentary group: Manuel Sarrazin, Sven-Christian Kindler: “Brügge sehen und sterben” – Gemeinschaftsmethode versus Unionsmethode, in: *integration*, 3/2012, pp. 213–222.

have agreed. However, Germany will hardly accept the full-fledged inclusion of non-eurozone states into the eurozone-decision process. Germany could possibly agree to a closer status for pre-eurozone countries (something like a eurozone association), if they would participate in solidarity structures like the European Stability Mechanism (ESM).

#### 4. Who is afraid of German hegemony?

Germany is a decisive actor for all attempts to stabilize the eurozone. As the biggest state in the monetary union and the most powerful economy in the EU, it is the most important contributor to all rescue schemes. Berlin’s behavior has been determined by the implicit quest for a sort of grand bargain: Germany provides solidarity if the recipients of assistance accept tougher rules for budget consolidation, including more or less automatic sanctions for financial laggards. This pattern has been criticized for being too narrow and inappropriately focused on fiscal austerity. From different angles, both Keynesian statist and Anglo-Saxon free-marketers have condemned Germany’s approach as monistic monetarism, which worsens the crisis instead of overcoming it, by refusing to accept both shared liability (e.g., the introduction of Eurobonds) and a redefinition of the European Central Bank (i.e., the large-scale injection of liquidity into the markets).<sup>18</sup> Others have blamed Berlin for particularism, which jeopardizes European integration due to a lack of will to bear the costs of European integration – of which Germany is one of the biggest beneficiaries. For these countries, Berlin’s reluctance to act swiftly and suitably has given rise to a new German question.<sup>19</sup>

A key aspect of Germany’s role in Europe is the possible shift of power due to the crisis. Many observers have argued that “Germans are now in the position of dictating to Europe what the solution to the euro crisis is” (George Soros).<sup>20</sup> According to these observers, this implies the possibility of exporting the German economic model to the EU. Indeed, at first glance Germany has all the resources to sketch out and mold the ongoing process

18 In Europe, new fears of German might, in: *Washington Post*, 23.10.2011.

19 Cf. Guérot u.a. The New German Question: How Europe can get the Germany it needs, *ECFR Policy Brief*, 30, April 2011, [http://www.ecfr.eu/page/-/ECFR30\\_GERMANY\\_AW.pdf](http://www.ecfr.eu/page/-/ECFR30_GERMANY_AW.pdf); Jürgen Habermas, Joschka Fischer, Henrik Enderlein and Christian Calliess (2011), “Europa und die neue Deutsche Frage”, in: *Blätter für deutsche und internationale Politik*, 56, 5/ 2011, p. 45–66.

20 “You Need This Dirty Word, Euro Bonds”, Spiegel Interview with George Soros, *Spiegel Online*, 08.15.2011.

of change, which is necessary to stabilize the eurozone and to improve economic governance in the Union. It looks as if Berlin has gotten the unique opportunity to guide European integration according to the German credos of Ordnungspolitik into a multi-layered, quasi-federal political system – with financial engagement in the mutual assistance mechanisms of the eurozone as the crucial lever to Europeanize German beliefs about fiscal solidity and compliance.

However, looking closer at the broader political constellation, Germany is far from dominating the new European Union. The main reason for this is that Germany's capability to "project" its power at the Union level is substantially restricted. Just as potential does not equal power and power does not equal influence, Germany's position as the most relevant "donor" in stabilization arrangements does not translate automatically into political supremacy. Why is that?<sup>21</sup>

First, the group of German allies is small; moreover, it seems to disintegrate. Within the eurozone it amounts to just a couple of member states, like Finland, the Netherlands or Austria, which stand firm with the German "culture of stability" for public finances. The French elections in 2012 not only removed Merkozy, but also created a staunch protagonist for what has been called the Southern pro-growth camp.

Second, Germany has no real chance to deny assistance. In case there is an existential danger to the eurozone, Germany simply has to act and, if necessary, to pay or even accept new measures that it has so far rejected. Alexis Tsipras, the leader of the radical left in Greece, has put it bluntly, stating that Greece's problems are also Germany's problems, due to the exposure of German creditors. Such considerations entail a clear signal: if we don't get assistance, we will default, and then Germany will be seriously affected! Moreover, Germany is a "systemic" country for the entire stability architecture in the eurozone. If Finland or Slovakia denies solidarity, there is a problem. If Germany denies solidarity, the rescue schemes will collapse. In other words: Germany is not able to threaten help-seekers with non-support, it is instead the help-seekers that can intimidate Germany.

Third, Germany has no supremacy in the debate about better economic governance. Although Germany enjoys the trust of many smaller states, Berlin was not able to create a strategic majority for its understanding of economic regeneration. With the Hollande-effect and related power shifts

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21 Kai-Olaf Lang, Daniela Schwarzer, *The Myth of German Hegemony. Why Berlin Can't Save Europe Alone*, October 2, 2012, Foreign Affairs Snapshot, <http://www.foreignaffairs.com>

on the political map of Europe, considering the possible return of other social-democratic governments and the decreasing public acceptance for spending cuts in most countries, proponents of an expensive big government approach seem to gain the "discursive hegemony" over Germany's monistic austerity mantra. Common efforts with other member states – like a recent initiative on "smart growth" undertaken with Sweden, Finland and the Baltic states – indicate that Germany is looking to get rid of its anti-growth image and to broaden its definition of economic soundness, but the outcome of this will be more of a compromise with the stimulus countries than an example of German control of the discursive space.

All in all, the EU is not in a situation whereby Germany is taking the reins and Berlin is unilaterally enforcing a European model of integration according to its own image. Germany is rather a big player, with numerous domestic restrictions (including reluctant public opinion, a strong Constitutional Court, and an increasingly active Bundestag) in need of partners in an ever tighter Union of common liabilities and shared risks. To exaggerating somewhat, one might argue that Germany is more of a powerful demander than a dominating rule-setter.

Critics are right in that Germany is looking for a new balance by trying to harmonize two imperative necessities: on the one hand, Germany is increasingly a nation like any other. It wants to and has to defend its own interests. On the other hand, Germany is maintaining its responsibility for Europe and discovering an obligation to lead.

What does this imply for Central Europe? CEE member states are in an ambivalent position. On the one hand, Germany needs partners with common interests, pro-Europeans, and success stories. There is probably no other region in the EU in which the possibility for Germany to find all of this is as high as in Central Europe. There is no doubt that with a domestically polarized Hungary, the "realistic" European policy of the main Czech governing party, Poland calling for a generous cohesion policy, and most CEE member states opposing "tax harmonization" there are some areas of contention with Germany. But with most countries in the region backing the principle of consistent budgetary recovery, there are possibilities to close these gaps with Germany – for example, by endorsing the philosophy of austerity in exchange for Germany's acceptance of a growth-orientated EU financial framework.

But the single most important challenge is the question of inclusion. Germany still has a predilection for an "all-encompassing" Union without internal dividing lines. In any case, the momentum of change, the pressure

to act, the dynamics to reinforce eurozone cooperation, and the Lisbon Treaty system have pushed Berlin to a revival of German-French cooperation and to a new mode of European leadership that has been called the Union method: i.e., an approach that does not bypass community institutions, but instead gives more weight to bi- and multilateral coordination between (the strong) member states in EU decision making (see below). In spite of this, the Visegrad or Baltic states do not belong to those who worry about German hegemony. As Polish Foreign Minister Sikorski emphasized in his famous Berlin speech in November 2011, it is not “more Germany” that Poles – and probably other Central Europeans as well – are afraid of, but “less Germany”: “I fear German power less than I am beginning to fear German inactivity. You have become Europe’s indispensable nation.”<sup>22</sup> What is at stake for countries like the Visegrad Four or the Baltic Three – irrespective of being eurozone members or not – is not so much the risk of German hegemony, but the risk of an inward-looking Germany that either does not want to lead or that defines co-leadership as an endeavor of old member states. For Central and Eastern Europeans, a self-referential Germany would also pose an additional challenge: that of unilateralism. Presumably, for many observers in these countries Berlin’s behavior in the Libya crisis, Germany’s sudden turnaround in energy policy after the Fukushima accident, and the continuity of pragmatic relations with Russia are signs that Germany is not only more assertive, but also less inclined to build partnerships and consensual networks to produce legitimacy for political action.

## Conclusions: What is the Future for Germany’s Relations with Visegrad and Baltic States?

It is still unclear which of the above mentioned tendencies of the European Union will prevail and whether the crisis will be a catalyst for a closer Europe or for less community. In any case, the adaptation and reform of the EU will impact Germany’s relations with the countries in the Visegrad area and the Baltics. Before looking to the future, it is important to point out the positive developments and the solid foundations for mutual cooperation. There are strong and steadily intensifying economic and trade relations –

22 Mr Radek Sikorski, Minister of Foreign Affairs of the Republic of Poland: “Poland and the future of the European Union”, Speech at the German Council on Foreign Affairs, Berlin 28 November 2011, <http://www.msz.gov.pl/resource/33ce6061-ec12-4da1-a145-01e2995c6302:JCR>

for example, Poland has been a more important market to German exporters than the entire Russian Federation. As for policies and issue areas, in the first years of common membership in the EU the big themes between Germany and the Visegrad countries, as well as Baltic states, were questions surrounding Russia, the post-Soviet space, transatlantic relations, and energy. Most of these questions had something to do with security or hard security, and many of them were divisive. In the meantime, the portfolio of Central and Eastern European states has broadened and diversified. It is now climate policy, economic and fiscal questions, justice and home affairs, and the reform and future of European integration (and many other policies) for which these countries have become key figures in shaping negotiations and decisions or in which they have become opinion-leaders. The “traditional” issues have not vanished, but in some of these fields some sort of convergence, or at least compromise, has been emerging, with German-Polish collaboration concerning the eastern policy and Russia being one of the most visible examples. Also, a tight infrastructure of bilateral contacts has been established based on bilateral treaties and a dense network of official contacts between administrations and parliaments. Moreover, Germany has manifold “soft” channels for buttressing bilateral contacts and exchanges between societies, as well as research, cultural or expert communities. In sum, there is a robust texture of cooperation that binds Germany and the other countries from the region together. The crisis and the upcoming reforms will not delete or damage this texture. But the big question is whether the crisis will alter the feeling of mutuality and commonality in Europe, which both sides have developed in recent years.

Bearing this in mind, the following options for German cooperation with its neighbors in the Visegrad and Baltic regions provide some considerations about the setting of bi- and multilateral relations, and about the future of Europe. These options are simplified framework conditions, rather than descriptions of relationships.

**A New Divide.** This option is rather pessimistic, although not dramatic. It assumes a growing institutional separation between the eurozone and non-euro states, assuming more and more fragmentation effects, including an erosion of the single market. In many policy areas, the emergence of new dividing lines would complicate dialogue and cooperation between Germany and the euro-bystanders in the region. The situation could be aggravated if eurozone dynamics would result in the emergence of different zone of solidarity within the EU. In such a setting, cooperation among the Visegrad and Baltic states would also be hampered, since fragmentation would cut across these groupings, subdividing them into the Visegrad

Three and Baltic Two vs. Slovakia and Estonia. This is not necessarily drift, which goes along with such a development, but a growing indifference might be one of the consequences of this. However, this option would not entail a fundamental disconnect. It would still enable Germany and its “inside-out” neighbors to collaborate on important issues, for example in the foreign and security policy areas. The scene might deteriorate if economic troubles undermine the business bonds and dampen the process of socio-economic convergence of Germany and its neighbors. Bilateralisms – some better, but most less intensive than at present – would be the core of relations.

**Asymmetric Synthesis.** The second option is the most positive one. This would result from a continued deepening of political dialogue and the emergence of a European dimension of bilateral or multilateral relations between Germany and most of its partners. The necessary precondition for this is that the new forms of eurozone-governance and institutional reform do not produce exclusionary effects, and/or that the countries in the region adopt the common currency. Of course relations would continue to be asymmetric, but differing potentials and interest profiles would be combined in a synergetic way. Germany would be a custodian of unity and work for European cohesion by helping to project Visegrad and Baltic interests to the EU and other partners, especially France. Strong bilateral relations would be complemented by a multitude of regional structures like the V4+ Germany, the Baltic Three + Germany, the Weimar Triangle (plus), and Baltic Sea Cooperation. Germany and the countries of the region would form partnerships to shape the EU and certain policies (*Gestaltungsgemeinschaften*).

**Controlled disorder.** This would be an in-between outcome. Selectivity and differentiation would be the key features of this rather non-transparent option. It would reflect an ever closer eurozone with symbolic openness, with some countries in the region joining this inner circle and others remaining outside for quite some time. Bilateral relations with all their peculiarities would be key, including differentiated partnerships with hinge countries, narrow and selective issue-based dialogue with other countries, and a focus on economic relations with the rest.

All in all, a lot will depend not only on how both sides perceive each other, but also on how they define their interests and values. In the end, it will be the mutually assumed added value of deepened cooperation that will decide the future of Germany's relations with its partners from Central Europe and the Baltics.

## CZECH-GERMAN RELATIONS IN THE POST-COLD WAR ERA: The Best Ever?

Petr Kratochvíl and Zdeněk Sychra

### Introduction

This chapter explores the special relationship between Germany and the Czech Republic (CR) over the last thirty years. For a number of reasons, the relationship between the two countries is in many ways closer than their relationships with other Central and Eastern European countries. The Czech Lands were historically a part of the Holy Roman Empire – Prague was even the seat of Emperor at times – and the Czech Lands had a large number of German speaking inhabitants. The complicated historical legacy has continued influencing mutual relations even after the end of the Cold War. Additionally, the Czech Republic is linked to Germany by intense social, cultural, and in particular economic ties. This chapter gives a very brief overview of the relationship, focusing on three basic aspects: (1) bilateral political relations over the last three decades, (2) interactions between Germany and the CR in multilateral settings (the EU and NATO), and (3) economic ties.

### 1. Political relations

The evolution of Czechoslovak/Czech relations with Germany did not start with a clean slate in 1989, and they cannot be understood without recourse to the broader context, mainly unsolved questions related to World War II and the bipolar structure of European (and global) politics during the Cold War. Due to West Germany's Hallstein Doctrine, Czechoslovakia cultivated full diplomatic relations exclusively with the German Democratic Republic until the early 1970s. In 1967, official commercial representations were established in Prague and Frankfurt, thus weakening the Doctrine substantially. Finally, in 1973 the Treaty of Prague was signed, establishing diplomatic relations between the two countries.<sup>1</sup> The Treaty set the scene

<sup>1</sup> The Treaty also declared the Munich Agreement null ex tunc, which was very important for Czechoslovakia for both symbolic and legal reasons. See Ann L. Phillips, *The Politics of Reconciliation: Germany in Central-East Europe*, German Politics 7/2, 1998, pp. 64–85.

for the relatively pragmatic relations between Czechoslovakia and the Federal Republic of Germany throughout the remaining years of the Cold War.

The tremendous changes in 1989–1990 brought about a need to re-define relations between Czechoslovakia and a unified Germany. The Cold War division contributed to the freezing of many war-related grievances on both sides, and for a long time the legacy of World War II and its aftermath (i.e. the repulsion of Germans from the Czech Lands) constituted the single biggest obstacle to normal Czech-German relations. But even after the break-up of the Eastern Bloc, official Czech discourse always interpreted the repulsion (or “resettlement”) as a consequence of the WWII and, hence, a minor problem that should be viewed through the prism of Nazi war crimes. For many Germans, in particular those who or whose ancestors lived on the territory of the present-day Czech Republic, the War and the repulsion were only indirectly linked and did not diminish the moral burden lying on those who carried out or sanctioned the repulsion. It is important to stress here that the repulsion consisted of two waves – the unofficial “wild repulsion” and the allies’ sanctioned official repulsion. Both of these, nevertheless, were accompanied by a number of atrocities and bloodshed. A related contentious issue was the set of post-War Decrees of President Beneš that legalized the repulsion and which became the kernel of the “repulsion dispute” between the CR and Germany.

The end of the Cold War was considered a good time for reopening all these sensitive questions and establishing new foundations for the relationship. A new treaty was signed on the 27<sup>th</sup> of February, 1992. The Treaty was much more comprehensive than the previous one from 1973 since it discussed a wide range of common activities for both countries in post-Cold War Europe. However, the Treaty’s language was vague in places and thus open to diverse interpretations, and some old problems remained unsolved. For instance, the Munich Agreement was still not declared invalid, and the use of the term “expulsion” in the text also provoked heated political debates in Czechoslovakia.<sup>2</sup>

The break-up of Czechoslovakia in 1993 did not result in a worsening of the relationship with Germany, but the evolution of Czech-German relations in the five years following the signing of the 1992 Treaty was not entirely satisfactory. Unlike in other post-Communist countries (notably Hungary, but also Poland), Czech-German historical problems dominated

2 Martin Kunštát, Czech-German Relations after the Fall of the Iron Curtain. Czech Sociological Review, 1998, Vol. 6., No. 2, pp. 149–172.

the political dialogue. Only the German-Czech Declaration on Mutual Relations and their Future Development of the 21<sup>st</sup> January 1997<sup>3</sup> succeeded in finally sidelining discussions about the past.<sup>4</sup>

On a symbolical level, the Declaration constitutes a fundamental watershed in Czech-German relations in that after its signature the attention of both countries shifted to other issues, in particular the deepening of increasingly depoliticized economic ties and the Czech accession to multilateral platforms of which Germany had long been a member. The necessity to enter both the EU and NATO already constituted a basic foreign policy consensus in the Czech Republic in the first half of the 1990s, but it was only after the complicated Czech-German historical problems had been solved that the Czech Republic’s entry into the EU and NATO could become a major issue in Czech-German relations as well. In spite of this, Germany proved to be a firm supporter of Czech aspirations and, as a consequence, Czech-German relations developed much more positively for the rest of the 1990s and into the new century (for more on the role of Germany in the CR’s NATO and EU accession see the following sections).

However, once these ends were accomplished (NATO entry in 1999 and EU accession in 2004), the clear focus of Czech foreign policy toward both Europe and its biggest neighbor was lost. In the following years, Czech-German relations fell prey to changing foreign policy preferences within the CR, depending on which parties formed the ruling coalition in Prague. As a result, we can speak on the one hand about the depoliticized (mainly economic) ties between the two countries that have been developing smoothly over the last 15 years irrespective of which political parties formed the government in both countries, and on the other hand about the more volatile political relations that undergo frequent changes depending on the political constellations in Berlin and Prague.<sup>5</sup>

Nevertheless, in general the historical reconciliation between the two countries is a firm political fact. Today there are a number of formal and

3 The German-Czech Declaration on Mutual Relations and their Future Development of 21 January, Ministry of Foreign Affairs of the Czech Republic, 1997. <http://www.mzv.cz/file/198499/CzechGermanDeclaration.pdf>.

4 Although Article IV of the Treaty claims that “both sides therefore declare that they will not burden their relations with political and legal issues, which stem from the past”, the Declaration did not remove all remaining doubt regarding property compensation demands of the expelled Sudeten Germans.

5 A more skeptical interpretation of the mutual relationship in the 1990s can be found in Bierling, Stephan (2005) Die Außenpolitik der Bundesrepublik Deutschland: Normen, Akteure, Entscheidungen, München: Oldenbourg, p. 295.

informal cooperation platforms, among which the Czech-German Discussion Forum and the Fund for the Future should be mentioned. From time to time, some groupings – such as the Sudeten German Heritage Organization – are criticized in the Czech media for their alleged hostility toward the CR, but the impact of these organizations remains limited in both countries.<sup>6</sup> These organizations retained some influence only in Bavaria: for a long time Bavarian Prime Ministers refused to officially visit the CR as a result of Sudeten German pressure, but Prime Minister Horst Seehofer officially visited the CR for the first time on the 19<sup>th</sup> and 20<sup>th</sup> of December, 2010.<sup>7</sup>

As a result, it is only on rare occasions that Czech politicians invoke fear of Germany as a relevant factor driving Czech foreign policy. But exceptions still exist – the Communists see German expansionism as the main security threat to the country, and from time to time other politicians also mention alleged German demands regarding property confiscated after WWII. One of the most well-known recent examples was President Klaus's much publicized critique of the Lisbon Treaty, which according to his reading might strengthen the legal position of the Sudeten German expellees.<sup>8</sup>

### **Sources of friction**

There are not major unsolved disputes between the Czech Republic and Germany, but several minor irritants still persist. The first of these is related to the huge political and economic asymmetry between the CR and Germany. Even though historical fears regarding Germany have subsided, Czech policy-makers still grapple with maintaining an adequate relationship with its biggest neighbor. While the asymmetry in terms of economic output, populations and political weights cannot be disputed, what is often discussed is Czech economic dependence on one (i.e. German) market, Germany's great power ambitions (see the section on energy policy below), as well as their at times differing views of the European integration process. A politically balanced and mutually acceptable solution to

- 6 For the history of expellee politics, see Jürgen Tampke, *Czech-German Relations and the Politics of Central Europe. From Bohemia to the EU.* (New York: Palgrave Macmillan, 2003) esp. ch. 5; Steve Wood, *Germany and East-Central Europe. Political, Economic and Socio-Cultural Relations in the Era of EU Enlargement.* (Aldershot: Ashgate, 2004), pp. 29ff.
- 7 Vláda České republiky, Petr Nečas Meets with the Bavarian Premier Seehofer, Government of the Czech Republic, 20<sup>th</sup> December 2010. <http://www.vlada.cz/cz/media-centrum/aktualne/petr-necas-meets-with-bavarian-premier-seehofer-79302/>.
- 8 Cf. also Vladimír Handl, *Germany in the Czech Foreign Policy.* In Kořan, M., *Czech Foreign Policy in 2007–2009.* (Prague: Institute of International Relations, 2010), pp. 148–162.

this sensitive question will undoubtedly present the biggest challenge for mutual relations in the years to come.<sup>9</sup>

The second issue, loosely related to the first, pertains to concerns in the CR regarding the overly friendly relations between Germany and Russia. The deeply rooted historical mistrust toward great power politics (the so-called Munich complex and the related motto “about us, without us”)<sup>10</sup> is particularly palpable here since Germany and Russia are the two great powers that have occupied the country in the past. One of the frequently mentioned issues in this context is the Nord Stream project and the involvement of former German Chancellor Gerhard Schröder in the Russian energy sector.<sup>11</sup>

Third, energy policy as such seems to be a serious challenge that has been growing in importance as the energy policies of the two countries take different directions.<sup>12</sup> Germany's stress on renewable sources of energy is viewed with a heavy dose of skepticism in the CR, and the Czech government which came to power in 2010 even decreased its support for renewables. Additionally, the Czech government is trying to redefine renewables to include nuclear energy as well, which would superficially make the country greener and allow it to fulfill its obligations under the EU's Climate and Energy Package.<sup>13</sup> The German nuclear power phase-out, which was considerably quickened after the Fukushima catastrophe, has varied consequences for the CR in this context. On the one hand, it will allow the CR to export more energy to Germany – and for a higher price, at that. On the other hand, the move might be damaging for Czech consumers (due to higher energy prices) and increases the potential danger of large-scale blackouts spilling-over into the CR. In addition, the German decision means that yet another Czech neighbor (after Austria) is joining the non-nuclear club, which could exert considerable pressure on the Czech Republic as well. To top it off, the Czech government approved a new

- 9 Cf. op. cit.
- 10 See Jürgen Tampke, *Czech-German Relations and the Politics of Central Europe. From Bohemia to the EU.* (New York: Palgrave Macmillan, 2003), chapter 4.
- 11 For a summarizing analysis of Germany's attitudes to Russia, see Vladimír Handl (ed.), *Německo v čele Evropy? SRN jako civilní mocnost a hegemon eurozóny.* (Prague: Institute of International Relations, 2011), pp. 32ff.
- 12 Tomáš Ehler, *Energetická bezpečnost v rámci zahraniční politiky SRN – mezi bilateralismem a evropeizací.* In Handl, Vladimír (ed.) *Německo v čele Evropy? SRN jako civilní mocnost a hegemon eurozóny.* (Prague: Institute of International Relations, 2011), pp. 277–318.
- 13 The EU Climate and Energy Package, European Commission, 10 September 2012. [http://ec.europa.eu/clima/policies/package/index\\_en.htm](http://ec.europa.eu/clima/policies/package/index_en.htm).

ambitious program of nuclear power expansion, which is clearly at odds with developments in the neighboring countries.

## 2. Institutional multilateral relations

Germany is the only European great power with which the Czech Republic is coupled on so many levels. Further strengthening the unprecedented importance of Germany for the CR is its economic power, its role as a key (and still strengthening) actor in the EU, its geographic proximity and their common, even if at times traumatic, history. From the Czech point of view, a maximum compatibility of interests is the desirable state of affairs in Czech-German relations. At the same time, the fact has to be acknowledged that the CR will always play a less significant role for Germany than vice-versa.

On the practical level, mutual ties take on different forms mainly depending on ideological differences between the currently ruling elites in the two countries; the differences seem to be bigger in Czech domestic politics than in Germany. This pertains particularly to two areas: the further direction of European integration (and the position of the CR in the EU) and security policy (a European vs. trans-Atlantic priority). Although the mid-term Foreign Policy Conception of the CR defines Germany as a strategic partner<sup>14</sup>, in reality the Czech approach is rather *ad hoc* and its consistency is relatively low. For the CR, Germany is essential in at least three multilateral dimensions – as a key partner in the EU, as an ally in NATO, and as a partner in a number of other international organizations (such as the UN, the IMF, the World Bank, etc.).

### 2.1. The European Union – a common project?

Czech attitudes toward the European Union are not much different from the media clichés about Eurosceptic Czechs that can be often read in German media. Recently, however, several important developments have taken place. First, German analysts and commentators have started to differentiate between President Klaus and other political actors in the CR, which somewhat relativized the Eurosceptic picture of the CR in the eyes of German policy-makers. Secondly, while Czech Euroscepticism has by no means abated, a growing wariness of the EU is palpable in Germany

<sup>14</sup> Ministerstvo zahraničních věcí ČR, *Koncepce zahraniční politiky ČR*, (Praha: MZV 2011).

as well. Thirdly, this is also reflected in political and legal processes in both countries – for instance, the rulings of the Czech Constitutional Court and its German counterpart are quite similar regarding the integration project. This is no accident: the German constitutional judges visited their Czech colleagues to discuss the Lisbon Treaty and its legal implications.<sup>15</sup>

There is no denying that Germany sees some areas of European integration differently than the Czech government (such as energy policy, the Fiscal Compact<sup>16</sup>, and generally the future direction of the integration process). At the same time, however, there are a number of other areas where cooperation works smoothly (the Czech Presidency in the Council of the EU, the liberalization of services, the stress on fiscal discipline following the Eurozone crisis, etc.). Strongly pro-EU German political elites find support with Czech advocates of the EU as a political union, whereby these advocates include all relevant political parties with the exception of the Communists (KSČM) and the Civic Democrats (ODS). As the strongest right-wing party, the ODS does not share the vision of a federal EU and cooperates instead with like-minded political actors such as the British Conservatives.<sup>17</sup> In spite of the country's Euroscepticism, the CR behaves very pragmatically toward the EU. This stance can be well demonstrated with the example of the Lisbon Treaty. In spite of rhetorical critique from the Czech side, the CR did not provoke a clash over the Treaty during the Intergovernmental Conference. At the same time, a deep division regarding the EU at the domestic scene led to serious problems during the Treaty's ratification in the CR, with the President delaying his approval.<sup>18</sup>

The role of the President is by no means marginal. Václav Klaus has dominated the debate about European integration for many years. No matter what the President says about the Union, he is one of the main opinion-makers in the country and contributes heavily to the growing

<sup>15</sup> Vladimír Handl, *Germany in the Czech Foreign Policy*. In Kořan, M., *Czech Foreign Policy in 2007–2009*. (Prague: Institute of International Relations, 2010), p. 149.

<sup>16</sup> Formally, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

<sup>17</sup> For instance after the 2009 election to the European Parliament, both parties refused to become members of the EPP and instead founded the European Conservatives and Reformists (ECR).

<sup>18</sup> These problems were related to the ratification in the upper chamber of the Czech Parliament, which was blocked by ODS senators and later to the obstructions by President Klaus who refused to sign the Treaty. He did so only on the 3rd November 2009 after the Czech Constitutional Court declared the Treaty compatible with the Czech Constitution. See Ústavní soud ČR, Press Release 3 November 2009. <http://www.usoud.cz/clanek/2144> and also iHNed, Klaus podepsal Lisabon, 2009. <http://zpravy.ihned.cz/cesko/c1-38920040-klaus-podepsal-lisabon-tato-hra-nema-viteze-reagoval-topolaneck>.

Euroscepticism in the country. This has simultaneously led to a worsening of relations between the President and leading German politicians.<sup>19</sup> However, Klaus's presidential term is drawing to its end.<sup>20</sup> The question is what impact the end of Klaus's presidency will have on the Czech-EU debate. What is already clear is the fact that the President's Eurosceptic line, which is closely related to the critique of German politics toward the EU, will be sidelined since none of the strongest presidential candidates take a similar approach. On the contrary, these candidates' foreign policy programs are clearly pro-European.

Considering EU-related cooperation between the CR and Germany in the last 15 years, two elements have been most important for the Czech side – (1) the German advocacy of the enlargement process and (2) the continuing German support for the Czech Republic during its Presidency in the Council. Clearly Germany's role in the EU's Eastern enlargement is difficult to overestimate. The Eastern expansion of the Union was of vital interest for Germany since it ensured political stability in the region and promoted German economic and commercial interests in Eastern Europe.<sup>21</sup> Even though the enlargement process moved up and down in the list of German foreign policy priorities (with strong support under Chancellor Helmut Kohl and somewhat weaker political backing during the government of Gerhard Schröder), Germany always remained the main advocate of Eastern enlargement.

Germany's positive role in the enlargement process was somewhat complicated by occasional disagreements between Germany and the CR, mainly regarding the post-war expulsion of Sudeten Germans (and the related Beneš Decrees) and the nuclear power plant Temelín. Although the Sudeten German issue never substantially hampered the EU entry negotiation process, which started in 1998,<sup>22</sup> the veto threats mentioned by some German and Austrian politicians or expellee organizations aided some Czech politicians and political parties in provoking anti-German

sentiments in the country. This was particularly palpable in the election campaign prior to the parliamentary election of 2002, when the German position on this issue was interpreted as an attack on the postwar international order.<sup>23</sup> In addition, these disagreements also negatively influenced Czech attitudes toward the EU at large.<sup>24</sup>

Another controversial question that was intensely discussed prior to the Czech EU entry was the safety of the nuclear power station Temelín, related to the start of its operations in 2002. Officially, Germany was not the main opponent of the power station; on the contrary, Germany was worried that Austrian pressure for additional guarantees of the power station's safety might delay enlargement. But reservations and protests from the German side were strong as well. German environmental organizations especially exerted considerable pressure on the CR, arguing against the launch of the plant; German Minister for Environment Trittin declared that Temelín did not measure up to German standards and Bavaria also expressed some concerns.<sup>25</sup> In the end, the EU itself took up the role of guarantor and mediator of the (legally non-binding) Melk Protocol between the CR and Austria, the aim of which was to solve outstanding points of contention surrounding the power plant.

Regarding more recent developments, what improved Czech-German relations immensely was Germany's strong support for the Czech Presidency in the Council of the EU.<sup>26</sup> The role of Germany can be best explained when compared to that of France. While France has practically boycotted the Presidency and its activities, Germany gave its backing even on the highest political level. At this critical juncture, Germany proved to be the closest and most natural ally of the CR in the Union.<sup>27</sup> For example, Chancellor Merkel attended the Eastern Partnership Summit in Prague

19 Probably most well-known was the personal animosity between Václav Klaus and Helmut Kohl.

20 The second five-year term will elapse on the 7<sup>th</sup> March 2013.

21 Jean-Marc Trouille, France, Germany and the Eastwards Expansion of the EU. Towards a Common Ostpolitik. In Ingham, Hilary; Ingham, Mike (eds.) *EU Expansion to the East*. (Cheltenham: Edward Elgar, 2002), p. 55.

22 EU Commissioner for enlargement, German Günther Verheugen insisted that the past should not play a role in the accession negotiation: "Any attempt to tie the accession negotiations to demands from the past or to similar preconditions for accession to the EU is bound to fail" (Emil Nagenast, *The Beneš Decrees and EU Enlargement*. *European Integration*, December 2003, Vol. 25 (4), p. 340).

23 For more about this see Emil Nagenast, *The Beneš Decrees and EU Enlargement*. *European Integration*, December 2003, Vol. 25 (4), pp. 335–350.

24 The issue of the Beneš Decrees resurfaced once more several years later. President Klaus made his signature of the Lisbon Treaty conditional upon the CR's exception from the EU's Charter of Fundamental Rights and Freedoms. His argument was based on the alleged need to protect the country from potential property-related lawsuits of the expelled Sudeten Germans which could be brought against the CR. (Klaus.cz, Statement of President Václav Klaus on the Ratification of the Lisbon Treaty, 9.10.2009. <http://www.klaus.cz/clanky/182>).

25 Regina Axelrod, *Nuclear Power and EU Enlargement: The Case of Temelín*. *Environmental Politics*, Vol.13, No.1, Spring 2004, pp. 157–8, 161.

26 Vladimír Handl, *Germany in the Czech Foreign Policy*. In Kořan, M., *Czech Foreign Policy in 2007–2009*, (Prague: Institute of International Relations, 2010) p. 150.

27 Petr Kaniok, *České předsednictví Rady EU – most přes minulost*. (Brno: Masarykova univerzita, 2010), p. 162.

on May 7, 2009, when Sarkozy, Berlusconi and many others did not. In a similar vein, Germany backed Czech efforts at solving the gas crisis in the beginning of 2009.

Despite the above-mentioned differences regarding their EU policies, Germany's understanding of the complex political landscape in the CR has reached beyond the Presidency as well. For instance, while the two countries may have different views of the future evolution of the Eurozone, Chancellor Merkel chose not to exert any pressure on the CR following the Czech decision to abstain from the Fiscal Compact. The same argument applies to the two countries' energy policies, where the difference in preferences is clearly visible as well.<sup>28</sup>

## **2.2. The role of NATO: the USA or Germany in security consideration of the Czech Republic?**

There is a basic tension in the CR between those who see the EU as the main security partner and those who rely on the USA instead.<sup>29</sup> In particular, the Atlanticist orientation of former Prime Minister Topolánek (ODS) and his government, and their stress on the USA as the ultimate security provider, should be underlined. Germany belongs to those countries that were quite unhappy about this, especially after bilaterally agreed plans were published regarding the US radar base on Czech territory, which circumvented multilateral security institutions such as NATO, not to mention the EU.<sup>30</sup> In spite of generally similar security priorities, no relevant German political party backed the establishment of some components of the US anti-missile system in Central and Eastern Europe.<sup>31</sup>

In the Czech political environment, on the other hand, the project brought about a deep divide in the political spectrum and even within the

ruling coalition – between the supporters of the Atlanticist and of the European direction of security policy. This division, however, pertains mainly to particular policy segments, not to general security priorities, where a general consensus prevails about membership in NATO and close ties with the USA.<sup>32</sup> After failing to establish a base in the CR and after the inauguration of President Obama, domestic political tensions subsided and the country returned to focusing on security cooperation with EU member states (including Germany).<sup>33</sup>

From the point of view of national security, the CR has both international commitments (the OSCE, the UN) and alliance ties (NATO, the EU). The order of relevance for the country's security is (1) NATO, (2) the EU, (3) the UN, and (4) the OSCE, which means that a firm partnership between NATO and the EU is a key factor in Czech national security. The keyword here is "complementarity".<sup>34</sup> Clearly, the roles of Germany and the USA are somewhat different, with Germany being the main economic partner and the USA fulfilling the specific role of being a key security provider.<sup>35</sup> Interestingly, the relevance of the USA (and maintaining ties to it) is perceived similarly in both the CR and Germany. The key difference, however, lies in the fact that in the German case dependence on the USA has been weakening since the end of the Cold War, while in the CR dependence was established just after the Cold War and some of the Czech political elite have a much stronger emotional attachment to the USA.<sup>36</sup>

But Germany plays a significant role in security policy as well. The country is perceived in the CR as an important part of the newly constructed European security architecture, especially in the framework of the Common Security and Defense Policy of the EU, as well as being an essential ally in NATO. Since the CR, together with the other Eastern neighbors of

28 Aktualně.cz, Merkelová: Tlačit na vás kvůli rozpočtové smlouvě nebudeme, 2012. <http://aktualne.centrum.cz/domaci/zivot-v-cesku/clanek.phtml?id=739690>.

29 The Atlanticist attitude prefers close ties with the USA, the United Kingdom and NATO. It is rather wary as far as supranational integration and other arrangement of collective security (such as the OSCE) are concerned. In the EU, the Atlanticists give priority to the economic integration over the political one. The Europeanists, on the other hand, are advocates of a deeper EU integration as well as regional cooperation (the Visegrad Countries), with the EU being seen as a counterbalance to the US influence. (Vladimír Handl, Češi a Němci jako spojenci: sblížení strategické kultury. In Drulák, Petr; Střítecký, Vít a kol., Hledání českých zájmů – mezinárodní bezpečnost, 2010, p. 132).

30 The radar base in the CR was a part of the plans of President Bush's administration to build some elements of the USA Missile Defence in Europe.

31 Vladimír Handl, Češi a Němci jako spojenci: sblížení strategické kultury. In Drulák, Petr; Střítecký, Vít a kol., Hledání českých zájmů – mezinárodní bezpečnost, 2010, p. 137.

32 Ibid.

33 It is telling, however, that the Defence Strategy of the Czech Republic, adopted by Petr Nečas government in October 2012, does not mention the Common Security and Defence Policy of the EU, the main fundament of the security cooperation in the EU. (Ministerstvo obrany ČR, Battle Group EU s českou účastí získala certifikaci a je připravena k nasazení od počátku července, 2012. <http://www.acr.army.cz/informacni-servis/zpravodajstvi/battle-group-eu-s-ceskou-ucasti-ziskala-certifikaci-a-je-pripravena-k-nasazení-od-pocátku-cervence-70411/>) Cf. also Jan Prášil a kol., Zahraniční politika Německa na začátku 21. století. (Praha: Asociace pro mezinárodní otázky, 2011).

34 Ministerstvo zahraničních věcí ČR, Bezpečnostní strategie ČR. (Praha: MZV, 2011). [http://www.mzv.cz/file/699914/Bezpecnostni\\_strategie\\_CR\\_2011.pdf](http://www.mzv.cz/file/699914/Bezpecnostni_strategie_CR_2011.pdf), p. 6.

35 Ministerstvo zahraničních věcí ČR, Bezpečnostní strategie ČR (Praha: MZV, 2011). [http://www.mzv.cz/file/699914/Bezpecnostni\\_strategie\\_CR\\_2011.pdf](http://www.mzv.cz/file/699914/Bezpecnostni_strategie_CR_2011.pdf), p. 18.

36 Vladimír Handl, Češi a Němci jako spojenci: sblížení strategické kultury. In Drulák, Petr; Střítecký, Vít a kol., Hledání českých zájmů – mezinárodní bezpečnost, 2010, p. 135.

Germany, is located in an area of direct German interest, Germany was the main engine behind NATO expansion in 1999. German support for expansion was motivated by its efforts to get rid of its position as a border country and, using Cold War terminology, a front state of the first wave.<sup>37</sup>

Czech-German cooperation within the NATO framework is just a continuation of previous bilateral security ties and of Czech efforts to become part of the Euro-Atlantic security structures. Examples of cooperation between the two countries in this area abound. For instance, the CR and Germany worked together in the common provincial reconstruction team in Badakshan until 2007. They also closely cooperated in the creation of the Battle Groups as the core of the EU Rapid Reaction Force. In practical terms, this first meant German support for the creation of the common Czech-Slovak battle unit, and consequently (since July 2012) the creation of the German-Czech-Austrian Battle Group under the leadership of the Bundeswehr.<sup>38</sup>

### 3. Economic relations

The social and political stabilization of Central and Eastern Europe has always been one of the main goals of German foreign policy. But Germany was interested in the launching and continuation of reform processes in the region not only for political reasons, but also for economic ones, whereby stress was put on the development of a strong market for both high-quality goods and investment.<sup>39</sup> On the Czech side, mutual trade relations and the economic conditions in Germany constitute one of the most fundamental factors influencing the macroeconomic situation in the Czech Republic. Compared to the volatile development of political relations in the 1990s, economic ties with Germany represented the most dynamic area of Czech-German relations. Today, the two countries are economically closely related and interdependent in many ways.

37 Jiří Šedivý, *Dilema rozšiřování NATO*. (Praha: Ústav mezinárodních vztahů, 2001), p. 100–101.

38 Ministerstvo obrany ČR, *Obranná strategie České republiky*, Praha 2012. <http://www.mocr.army.cz/scripts/file.php?id=129126&down=yes>. Czech units should also be part of the common Battle Group of the Visegrad Countries planned for 2016.

39 Michael Dauderstädt, *Mittel- und Osteuropa*. In Schmidt, Siegmund; Hellmann, Gunther; Wolf, Reinhard (Hrsg.) *Handbuch zur deutschen Außenpolitik*. (Wiesbaden: VS Verlag Für Sozialwissenschaften, 2007), p. 429.

In addition, from the point of view of political economy, both countries' governments tend to adopt liberal principles in their approach to the international (and national) economy, which often puts both countries on the same side during deliberation processes in the EU. For instance, Germany supported the Czech insistence on economic liberalization during the Czech EU Presidency (in the first half of 2009). Still, there are some differences in economic policies, especially where they overlap with security concerns – for example, Germany doesn't share the Czech Republic's apprehension regarding dependence on Russian energy supplies.

#### 3.1. The importance of Germany as an economic partner

Today, economic relations constitute the core of the mutual relationship since Germany is the Czech Republic's single most important economic partner. German companies often use their Czech counterparts as subcontractors, thereby mediating the Czech access to the world markets. Two factors are most relevant for the Czech economy in this regard: (1) the high dependence on the economic situation in Germany and the related attempts to diversify Czech foreign economic relations, and (2) efforts to keep the strong export relations to Germany in spite of the Czech economy staying outside the Eurozone.<sup>40</sup> Some level of diversification has partially been achieved since the Czech entry to the EU, but the financial crisis at the close of the first decade of this century showed again how much the Czech economy was still dependent on the German market.<sup>41</sup> This interdependence is, however, deeply ambivalent. While being overly dependent on just one country can prove dangerous, connections to the strongest economy in Europe – and a country that emerged from the crisis even stronger than before – can help overcome Czech economic problems as well. (For the evolution of the two countries' foreign trade, see Chart 1.)

40 Vladimír Handl, *Germany in the Czech Foreign Policy*. In Kořan, M., *Czech Foreign Policy in 2007–2009*. (Prague: Institute of International Relations, 2010), p. 153.

41 This link is succinctly described by the proverb that says that when Germany sneezes, Czechia catches a cold.

Chart 1: Exports and imports of Germany and the Czech Republic (billions of euros)



Source: Czech National Bank, 2011. Germany – the Czech Republic’s main trading partner. [http://www.cnb.cz/en/monetary\\_policy/inflation\\_reports/2011/2011\\_IV/boxes\\_and\\_anexes/zoj\\_2011\\_IV\\_box\\_3.html](http://www.cnb.cz/en/monetary_policy/inflation_reports/2011/2011_IV/boxes_and_anexes/zoj_2011_IV_box_3.html).

In absolute figures, Czech-German trade has been growing continuously; in 2011 the figures were almost double those of 2001. However, since the CR’s entry into the EU, Germany’s position has gradually decreased in relative terms. In 2000, Germany’s share was 40 percent of Czech exports and 32 percent of Czech imports, but in 2011 the corresponding figures were only 32.1 percent and 25.6 percent.<sup>42</sup> Czech exports exceed imports (57.4 percent in 2011), with the gap growing from 2005–2011. The trade balance has thus been a surplus from the Czech perspective since 1998. In terms of individual Bundesländer, the most important trading partners are Bavaria, Baden-Württemberg, and North Rhine-Westphalia. These three Länder represented 45 percent of German exports to the CR and 63.1

42 Zastupitelský úřad Berlín, Souhrnná teritoriální informace – Německo, 2012. <http://services.czechtrade.cz/pdf/sti/nemecko-2007-05-20.pdf> and also Czechtrade / Česká agentura na podporu obchodu, Zahraniční obchod České republiky v roce 2011, 2012. [http://www.czechtrade.cz/d/documents/01/7-infoservis/analyzy-zo-cr/2012/zahr\\_obchod\\_zo\\_rok\\_2011.pdf](http://www.czechtrade.cz/d/documents/01/7-infoservis/analyzy-zo-cr/2012/zahr_obchod_zo_rok_2011.pdf).

percent of total German imports to the country in 2011. These are followed by Lower Saxony, Saxony and Hesse (with 18.4 percent of German exports and 22.9 percent of imports).<sup>43</sup>

Table 1: The share of Germany in Czech exports from 2005–2011 (percent)

Germany’s share in	2005	2006	2007	2008	2009	2010	2011
total exports	33.6	31.9	30.7	30.7	32.5	32.3	32.1
exports to the EU	39.3	37.3	36.1	36.0	38.3	38.5	38.8
exports to neighboring countries	63.0	62.5	61.6	60.1	62.9	62.5	61.9

Source: Český statistický úřad, Zahraniční obchod České republiky s Německem, 2012. [http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/\\$File/a-601212.pdf](http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/$File/a-601212.pdf).

The trade balance looks different from the German point of view due to the country’s size and economic strength. The Czech share in German exports amounted to 2.4 percent in 2005 and 2.9 in 2011, thus making the CR the thirteenth most important export partner. Out of all the new EU member states, only Poland has gained a better position (4.1 percent in 2011). In terms of German imports, the Czech share is much larger and the country ranks ninth (at 2.8 percent in 2005 and 4.1 percent in 2011), surpassing even Poland (2.7 percent in 2005 and 3.8 percent in 2011).<sup>44</sup>

The close trade ties are also reflected in the structure of mutual trade. The dominant items in German exports are machinery and transportation (amounting to a half of all exports) and the structure of Czech exports is very similar, its main pillar being industrial products (at more than 50 percent). The Czech economy’s high dependence on external trade, however, means that a “downturn in external demand, usually accompanied by a decrease in foreign interest rates, has an immediate downward effect on the domestic GDP growth” as well.<sup>45</sup> This fact was again confirmed by the

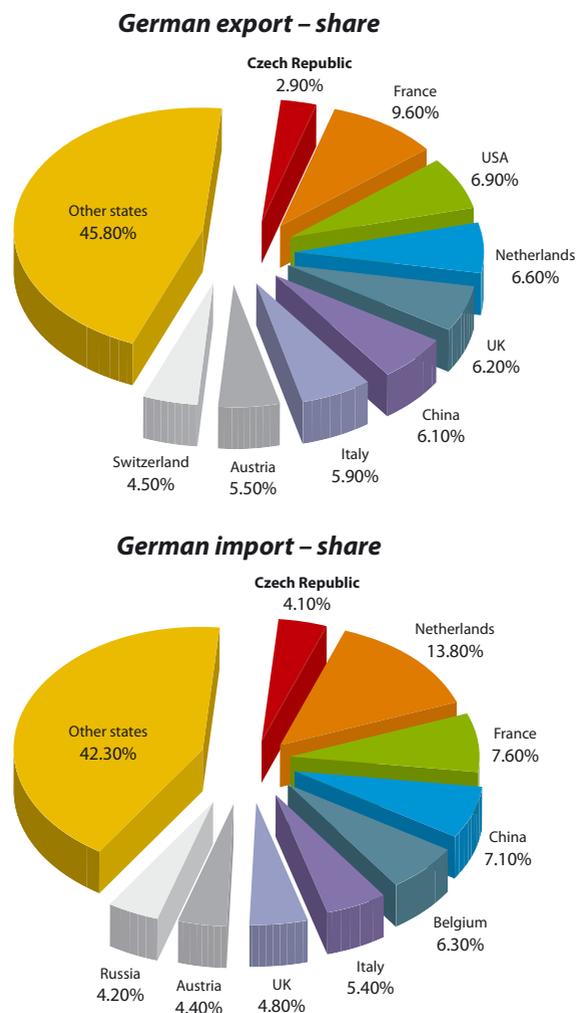
43 Český statistický úřad, Zahraniční obchod České republiky s Německem, 2012. [http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/\\$File/a-601212.pdf](http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/$File/a-601212.pdf).

44 Český statistický úřad, Zahraniční obchod České republiky s Německem, 2012. [http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/\\$File/a-601212.pdf](http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/$File/a-601212.pdf).

45 Czech National Bank: Foreign Direct Investment, 2012. [http://www.cnb.cz/en/statistics/bop\\_stat/fdi/index.html](http://www.cnb.cz/en/statistics/bop_stat/fdi/index.html).

evolution of the Czech economy after 2008 (the impact of the economic crisis and subsequently the euro-crisis), which reignited the Czech debate about the excessive dependence of the Czech economy on Germany.

Chart 2: **The share of the CR in the total exports and imports of Germany (2011)**



Source: Český statistický úřad, Zahraniční obchod České republiky s Německem, 2012. [http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/\\$File/a-601212.pdf](http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/$File/a-601212.pdf).

### 3.2. Foreign direct investments and company ownership structure

Germany is also one of the main investors in the CR. There has been a long-term spontaneous expansion of German business in the country – the most well-known examples include Volkswagen-Škoda, Siemens, RWE Gas, Continental, Deutsche Telekom, and many others<sup>46</sup>, with “Germany... taking over the most lucrative parts of the Czech economy”<sup>47</sup>. Germany is the second largest investor in the country (after The Netherlands<sup>48</sup>) (See Chart 3). There are a number of reasons for this: geographic proximity, historical reasons, language knowledge, the educated workforce, cheap labor, etc. The EU accession of 2004 further boosted German investment in the CR. Germany, together with Austria, was the member country that gained the most economically from the enlargement. With its high unemployment rate and proximity to labor from the East, Germany had to put up with substantial adjustment costs in the short term, but in the long term the accession will mean a high permanent increase in GDP.<sup>49</sup>

Most German investments are aimed at industrial production, as well as at trade and financial services. Approximately 3.500 to 4.000 German companies are active in the CR. The share of German investment has been nevertheless decreasing. In 2000, new German FDI still constituted 26.5 percent of the total, whereas in 2011 the figure was only 13.8 percent.<sup>50</sup> This decrease is explained “partly by the drop in the attractiveness of the

46 The biggest investment projects are Škoda Auto (Volkswagen) and Transgas and regional gas distributing companies (RWE Gas). Other important investments have come from Continental, Siemens, Robert Bosch, Linde, Knaf, Deutsche Telekom, Paul Hartmann, Messe Düsseldorf, Osram, TDW, Hella, E.ON and Hebel (BusinessInfo.cz, 2012. <http://www.businessinfo.cz/cs/clanky/nemecko-investicni-klima-19049.html>).

47 Steve Wood, Germany and East-Central Europe. Political, Economic and Socio-Cultural Relations in the Era of EU Enlargement. (Aldershot: Ashgate, 2004), p. 97.

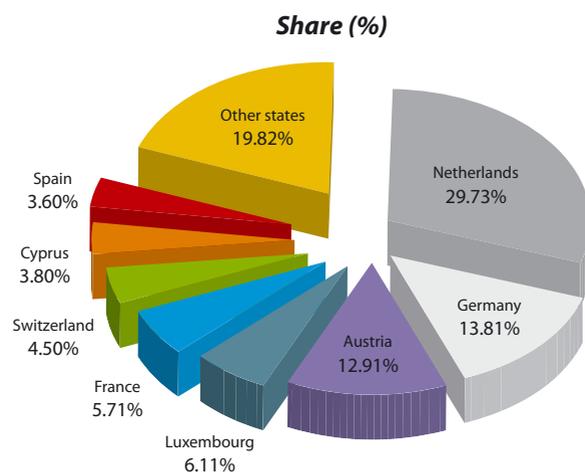
48 The first place of The Netherlands might be surprising. As some economic experts and the Czech National Bank explain, the Dutch position is contestable and the figure distorted. “The Netherlands is an attractive country for tax reasons and that is why many transnational companies move their seats there because of tax optimization. It is The Netherlands through which many third countries and domestic subjects invest, which heavily distorts this figure. This is why we should consider the German investors as the most important ones in the Czech Republic.” (Milan Damborský, Soňa Dobrá, Regionální rozložení německých a rakouských přímých zahraničních investic v České republice s důrazem na zpracovatelský průmysl. Regionální studia, 2011, č. 1, p. 20.).

49 Andrew Moravcsik and Milada Vachudova, Preferences, Power and Equilibrium. In Schimmelfennig, Frank; Sedelmeier, Ulrich (eds.) The Politics of European Union Enlargement. (Abingdon: Routledge, 2005), p. 205.

50 Czech National Bank, Foreign Direct Investment, 2012. [http://www.cnb.cz/en/statistics/bop\\_stat/fdi/index.html](http://www.cnb.cz/en/statistics/bop_stat/fdi/index.html).

Czech Republic, which was often replaced by Slovakia in the investment strategies of private enterprises<sup>51</sup> Also, German companies often call for the introduction of the Euro in the country, which would remove currency fluctuations and allow for better financial planning. The low level of transparency in public tenders and the instability of the legal framework and taxation system also have a negative impact on investments. In spite of all these factors, the Czech Republic is perceived as the most attractive business area in Central and Eastern Europe from the German perspective. In the annual market research rankings from the German chambers of commerce, the CR has regularly occupied first place, usually followed by Poland and Slovakia.<sup>52</sup>

Chart 3: **Foreign direct investment in the CR – territorial structure (until 2010)**



Source: Český statistický úřad, Zahraniční obchod České republiky s Německem, 2012. [http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/\\$File/a-601212.pdf](http://www.czso.cz/csu/2012edicniplan.nsf/t/2A0030D2E2/$File/a-601212.pdf).

The Czech banking sector is in general characterized by high external exposure (especially to the EU), but German participation in this area is rather limited. The most important European shareholders of Czech banks

51 Vladimír Handl, Germany in the Czech Foreign Policy. In Kořan, M., Czech Foreign Policy in 2007–2009. (Prague: Institute of International Relations, 2010), p. 154.

52 Deutsche Auslandshandelskammern, CEE Investment Climate Survey, 2012. [http://tschechien.ahk.de/fileadmin/ahk\\_tschechien/Presse/PM\\_2012/CEE\\_Investment\\_Climate\\_Survey\\_2012.pdf](http://tschechien.ahk.de/fileadmin/ahk_tschechien/Presse/PM_2012/CEE_Investment_Climate_Survey_2012.pdf).

have their seats in Belgium, France, and Austria. This does not mean, however, that in some sectors German investments are not of strategic economic importance. This pertains in particular to the Czech car industry (Škoda Auto is a part of the Volkswagen Group) and the Czech gas industry (through the purchase of Transgas, the country's main importer of gas and one of the leading regional gas distribution companies, to RWE Gas). Here, economic ties are closely linked to political interests as well. The privatization of the Czech gas industry into German hands was a part of the process to ensure the energy security of the CR, which tries to limit dependence on Russian energy sources. The German approach to energy policy is – also due to Germany's different strategy in this area – a sensitive political topic. The recent German withdrawal from nuclear energy (as mentioned above) and the radical shift toward renewable sources of energy has brought about a new problem. The large surpluses of German energy from renewable sources that flow from Germany across Czech territory have exposed the country to a serious risk of blackouts. Since 2011, the Czech energy distribution network has been seriously overstretched several times, and it is highly probable that such problems will continue in the future as well. The possibility of cutting the country off of the German network has been rejected by the Czech government (but advocated by the similarly exposed Poland); instead, the government plans to strengthen the Czech transmission network and to discuss the issue in a European format.<sup>53</sup>

### 3.3. Other economic ties, financial assistance, regional cooperation

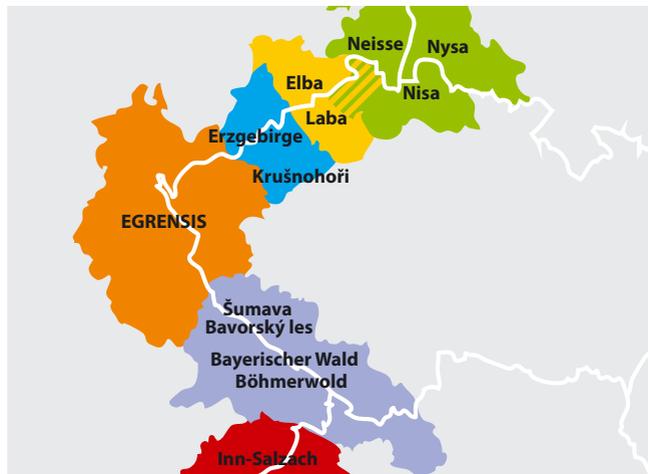
Czech-German economic cooperation is also strongly present in the non-profit area, often supported by public sources. It is not possible to separate these from the most important political projects or from EU-wide cooperation. Equally important is cooperation among non-governmental organizations and between the civil societies of both countries. Germany is very supportive of these kinds of activities, both bilaterally (funds supporting the transition to democracy and a market economy, and social and cultural projects) and multilaterally through international organizations such as the EU, the EBRD, the World Bank, and the IMF.<sup>54</sup>

53 iDnes, Přes Česko teče příliš mnoho elektřiny z Německa, zemi hrozí blackout, 2012. [http://ekonomika.idnes.cz/pres-cesko-tece-prilis-mnoho-elektriny-z-nemecka-zemi-hrozi-blackout-1iy-/ekonomika.aspx?c=A120110\\_104921\\_ekonomika\\_spi](http://ekonomika.idnes.cz/pres-cesko-tece-prilis-mnoho-elektriny-z-nemecka-zemi-hrozi-blackout-1iy-/ekonomika.aspx?c=A120110_104921_ekonomika_spi).

54 Michael Dauderstädt, Mittel- und Osteuropa. In Schmidt, Siegmund; Hellmann, Gunther; Wolf, Reinhard (Hrsg.) Handbuch zur deutschen Außenpolitik. (Wiesbaden: VS Verlag Für Sozialwissenschaften, 2007), p. 430–431.

Of utmost importance is cross-border regional cooperation, which has been continually accelerating thanks to both countries' membership in the EU. Thirteen euroregions are located on the territory of the CR, out of which five are in the Czech-German neighborhood. The euroregions are typically bilateral or trilateral regional groupings whose aim is to contribute to economic and social development by means of concrete projects. These regions include the oldest and most well-known euroregions: Neisse-Nisa-Nysa (D-CZ-PL, 1991), Elbe-Labe, Erzgebirge-Krušnohoří (D-CZ, 1993), Egrensis (D-CZ, 1993) and Bayerischer Wald-Šumava-Mühlviertel (D-CZ-A, 1993). See Picture 1.

Picture 1: Euroregions with Czech-German participation



Source: Wikipedia (2012). [http://cs.wikipedia.org/wiki/Soubor:Euroregionen\\_zusammenarb4\\_a.gif](http://cs.wikipedia.org/wiki/Soubor:Euroregionen_zusammenarb4_a.gif)

The projects that are carried out in the euroregions are usually financed by the EU<sup>55</sup> – previously through the pre-accession program for candidate countries PHARE-CBC (cross-border cooperation), and after the accession through the EU initiative INTERREG III. Since 2007, cross-border cooperation

55 The euroregions are financed from multiple sources, with the EU's means being the most important. These sources include membership fees, the contributions of regions and municipalities, incomes from economic activities and other one-time sources for concrete events. (Pavel Branda, Euroregiony v České republice – komparativní analýza. Současná Evropa, 01/2009, p. 88).

has belonged to the new, autonomous objective of the EU's regional policy, in the framework of the Operational Programme "Interregional Cooperation" (INTERREG IV). The Programme pertains to the NUTS III regions that border on the regions of another member state. In the CR, the German regions were included in Objective 3, and were further divided into Saxonian and Bavarian regions.<sup>56</sup> Financial means are supplied by the European Regional Development Fund, with co-financing from both participating countries (see Table 2). Other financial sources for inter-regional cooperation include foundations, sponsors, communal sources, and private finances.

Table 2: European Territorial Cooperation – Czech Republic/Germany 2007–2013

	Objective 3: Czech Republic-Bavaria	Objective 3: Czech Republic-Saxony
Total Amount	115.51 mil. €	207.40 mil. €
Amount for the Czech part	55.04 mil. €	67.20 mil. €
share in the total EU funds for the CR	0.21 %	0.25 %
Co-financing (CZ + D)	20.38 mil. €	36.60 mil. €

Source: EU Funds, <http://www.strukturalni-fondy.cz/Programy-2007-2013/Evropska-uzemni-spoluprace/Cil-3-Ceska-republika---Svobodny-stat-Bavorsko-2007?lang=en-GB>, EU Funds, <http://www.strukturalni-fondy.cz/Programy-2007-2013/Evropska-uzemni-spoluprace/Cil-3-na-podporu-preshranicni-spoluprace-2007---2013?lang=en-GB>.

German political foundations the Konrad Adenauer Foundation, the Friedrich Ebert Foundation, the Hanns Seidel Foundation, the Friedrich Naumann Foundation, and the Heinrich Böll Foundation<sup>57</sup> are also very active in the area of Czech-German cooperation since they support a large number of various projects each year, in particular in the areas of education, political dialogue, experience sharing, and support for civil society. The visibility of these foundations and the frequency and extent of their activities are incomparably higher than any other European country.

56 EU Funds, 2012. <http://www.strukturalni-fondy.cz/Programy-2007-2013/Evropska-uzemni-spoluprace/OP-Meziregionalni-spoluprace>.

57 Velvyslanectví Spolkové republiky Německo v Praze, 2012. [http://www.prag.diplo.de/Vertretung/prag/cs/03/Linksammlung\\_\\_Politik\\_\\_Gesellschaft/Linksammlung\\_\\_Politik\\_\\_Gesellschaft\\_\\_cz.html](http://www.prag.diplo.de/Vertretung/prag/cs/03/Linksammlung__Politik__Gesellschaft/Linksammlung__Politik__Gesellschaft__cz.html).

Although the intensity of these activities culminated in the years of political transformation – through the 1990s and before the CR's EU entry in 2004 – their presence is still felt in the Czech public space.

Another important actor in Czech-German relations is the Czech-German Fund for the Future, the goal of which is to overcome the historical burdens of mutual relations.<sup>58</sup> It supports projects that contribute to the Czech-German partnership and to mutual dialogue. Since 1998, the Fund has spent a total of around 40 million euros, supporting approximately 7.000 projects.<sup>59</sup> The originally planned working time-span of 10 years was prolonged for another decade in 2007. In the first phase of its activities, the Fund had almost 85 million euros at its disposal, and the projects of the second phase are supported by 18 million euros. It is important to note that most finances were used as compensation for the victims of National Socialist violence in the first phase. The establishment of the Fund was immediately followed by international negotiations and the consequent political decision by Germany to compensate the so-called forcibly employed persons from Central and Eastern Europe. The foundation, titled "Remembrance, Responsibility and the Future", was established for this purpose in August 2000. The German state and companies paid 10 billion Deutsche-marks, out of which 423 million Deutsche-marks were given to victims from the CR.<sup>60</sup> The Czech-German Fund for the Future was tasked with making the payments and the Fund set up the Office for the Victims of Nazism for this purpose.<sup>61</sup>

## Conclusion

Although historically the Czech Lands and Germany have a long track record of disputes and misunderstandings, the current state of relations between the two countries is arguably the best ever. With no major

58 The Fund's working is closely linked with the Czech-German Declaration of 21<sup>st</sup> January 1997. In the same year (29<sup>th</sup> December 1997), the Fund was established as a Foundation seated in Prague.

59 Deutsch-Tschechischer Zukunftsfonds, 2012. <http://www.fondbudoucnosti.cz/de/uber-uns/uber-uns/grundung-des-zukunftsfonds-und-seine-finanzierung-1>.

60 Deutsch-Tschechischer Zukunftsfonds, 2012. <http://www.fondbudoucnosti.cz/de/ns-opfer/entschadigung-von-zwangsarbeitern/entschadigung-von-zwangsarbeitern>.

61 Between 2001 and 2006, the Fund transferred financial compensations to 75.769 applicants. For more about this issue see Entschädigung 2000–2006. Der Deutsch-Tschechische Zukunftsfonds und die Zahlungen an Opfer von Sklaven- und Zwangsarbeit. (Praha: Der Deutsch-Tschechischer Zukunftsfonds, 2007), <http://www.fondbudoucnosti.cz/getFile.aspx?itemID=121>.

irritants, dense economic ties, a similar security approach, and only minor differences in their foreign policy outlook, the relationship between the Czech Republic and Germany is an example of a successful transition from centuries of difficult cohabitation and occasional enmity to peaceful and mutually beneficial cooperation.

The post-Cold War path to the current good relations was by no means easy, however, and it can be divided into three major phases. The first, which lasted roughly until 1997, was the period of final reconciliation. Reconciliation was more difficult and lasted longer than with other post-Communist countries (notably Poland). Today, 15 years after the signature of the German-Czech Declaration of 1997, old grievances are all but forgotten and only rarely resurface in political debates, mainly on the fringes of the political spectrum. The second phase was characterized by Czech preparations for entry into the EU and NATO. German support was essential here but – inasmuch as the support was in German interests – it was not entirely unconditional: discussions about the post-war expulsion, the Decrees of President Beneš, and the nuclear power station Temelín constituted the most sensitive issues to be tackled. In the end, none of these stalled the EU negotiation process and the CR entered the Union in 2004.

The third, present phase is defined by the loss of a foreign policy consensus in the Czech Republic and, in parallel, by increasingly pragmatic and depoliticized cooperation between Germany and the CR. Even though some problems still haunt Czech-German relations, these problems are today not tied to the past so much as to present-day differences, such as the countries' different visions of energy policy and their different assessment of Russia and its policy toward Central Europe. In spite of this, the CR and Germany are stable partners today and it is highly probable that their relations will remain very good for the foreseeable future.

## Introduction

This chapter will investigate the current relations between Estonia and Germany. Considering that geographically they can both be considered part of the Baltic Sea Region and share centuries of historic entanglement, one might have expected to find the relationship today – some 21 years after Estonia regained its independence from the Soviet Union – to reflect its historic depth, though this is not the political reality.

However, as the following analysis shows, the Estonian-German relations since 1991 have developed along paths independent of both the historic context and their regional identity. Having emerged from half a century of Soviet occupation, Estonia has internalized very clear cut and dogmatic policy objectives, which in turn dictate its relationship with Germany. The overriding concern is the maintenance of independence and territorial integrity. For that, Estonia has identified first NATO, but also the EU, as the principal facilitators and regional cooperation – primarily with the other Baltic states and the Nordic countries, since Germany is detached from regional affairs – as an important support mechanism.

It is hence Germany's role within these frameworks that dictates Estonia's position; and in turn Germany's influence over Estonia. This means that Estonia is very much oriented toward Germany for all internal European and economic affairs, as in those areas Germany is either dominant, or aligned with Estonia's own interests. However, on security matters, and especially Russia policy, Estonia does not perceive its interests to be secured by Germany and therefore leans toward NATO. The second priority, after NATO, is regional security cooperation. Here, Estonia looks specifically to the Nordic states and NORDEFECO, since Germany chooses not to be an actor in regional security affairs.

## 1. Political relations

### 1.1. Cooperation modes on official governmental and municipal levels

Since Estonia's accession to the EU modes of cooperation have changed essentially. While in the 1990s bilateral cooperation was most often facilitated on the national level and revolved mostly around reconstruction assistance and institution building, this mode of cooperation has almost disappeared. For one, Estonia is no longer in need of this sort of assistance, making much of what happened in the 90s obsolete. In addition to this, most other matters concerning cooperation between the two countries are now facilitated through the EU.

Most direct interaction between Estonia and Germany has been replaced by a wide, decentralized network of relationships and cooperative frameworks on the sub-national level. Often building on structures established in the 1990s, Estonia has strong economic and cultural ties to several of the German Bundesländer<sup>1</sup> both on the national and, predominantly, on the municipal level. Several German states have seen high-level visits from Estonian public officials in recent years. In 2009 Estonian Prime Minister Andrus Ansip, along with a delegation of Estonian business men and women, visited Baden-Württemberg to meet experts in the renewable energy sector and attend an economic forum aimed at introducing business opportunities in Estonia to local business leaders. Also in 2009, Estonian President Toomas Ilves travelled to Düsseldorf, in North Rhine-Westphalia, where he met with its then Premier Jürgen Rüttgers for an exchange of ideas. President Ilves was also accompanied by a business delegation. Most recently, in 2011, Juhan Parts – the Estonian Minister for Economic Affairs and Communication – visited Bavaria, where he met his Bavarian counterpart and visited local companies.

On the sub-national level, six Estonian counties and 23 cities and municipalities have longstanding partnerships with their German counterparts. The topics of the cooperation within these partnerships range from culture, education, sports, environmental protection, and administration to EU integration and tourism. Most of these have evolved from an initial focus on one-sided assistance to solid long-standing partnerships. Moreover, 19 Estonian cities participate in the Union of Baltic Cities.

<sup>1</sup> Schleswig-Holstein, Mecklenburg-Vorpommern, Baden-Württemberg, Hansestadt Hamburg, Freistaat Sachsen, Nordrhein-Westfalen, Freistaat Bayern

Though much of today's cooperation takes place on a sub-national level, the governments of Estonia and Germany still cooperate in some fields. Most cooperation on this level, outside of the EU framework, happens in the realm of defense and security; but it is also present in education – where Germany provides German teachers for schools in Estonia through the German Academic Exchange Service (Deutscher Akademischer Austauschdienst DAAD), which offers students a German high-school diploma (Abitur) – and in culture and language through the Goethe Institute.

On political issues, the main points of contact are within the “3+1 Format”, which is an annual meeting of Baltic Foreign Ministers with their German counterpart, the Council of the Baltic Sea States and high level bilateral visits by government officials. There have been quite many of the latter in recent years. Since 2008 Estonia has seen visits from the Chancellor, the Foreign Minister, the President, the Minister of Agriculture, and the President of the German Parliament.<sup>2</sup>

In the realm of defense, Estonia and Germany cooperate on many issues, though mostly within multilateral frameworks. A long running bilateral program, in operation since 2004, is the sale of surplus German military vehicles to Estonia. Germany also contributes to NATO's Baltic Air Policing Mission. Estonia, in turn, contributed to the German contingent in the EU's ATALANTA mission, stationing its Vessel Protection Detachment aboard a German Frigate patrolling the coast of Somalia from November 2010 to March 2011. Germany also participates in the NATO Cyber Defence Center of Excellence in Tallinn, currently with three officers, and has resumed its contribution to the Baltic Defence College. Germany is also a participant in the annual BALTOPS naval exercises.

## **1.2. Unsolved disputes and problematic issues**

The Estonian-German relations are, broadly speaking, devoid of any major disputes. On the contrary, within the context of EU economic and fiscal policy, the two countries seem to be converging. Estonia has, after strong initial reluctance, now embraced the financial transaction tax, as well as the fiscal pact – thereby abandoning the UK on both of these issues. It is overall a strong supporter of fiscal discipline and supports the Chancellor's course concerning the financial and sovereign debt crisis.

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2 Angela Merkel, Guido Westerwelle, Christian Wulff, Ilse Aigner and Norbert Lammert respectively

Though it would be an overstatement to call them disputes, some topics, especially in the realm of foreign and security policy, contain divergent preferences. The most prominent of these is Germany's Russia policy. Though Estonia has in the past been very critical of engagement type policies vis-à-vis Russia, Estonian thinking<sup>3</sup> and rhetoric has been converging somewhat toward the general central European consensus that positive relations need to be developed. What still causes unease is the impression that Germany – and other large central European states – maintain and develop bilateral relations with Russia without informing or consulting their eastern European partners on the often important issues that are discussed and decided on. This causes some degree of ambivalence toward, in this case, German-Russian relations. On the one hand, positive engagement with Russia is desirable since it is a vital player in the region and unlikely to disappear. On the other hand, however, 20<sup>th</sup> century history has taught Estonians the peril of these two big players reaching decisions over the heads of smaller states in the region.

One prime example that appeared to validate Estonian apprehension was the decision reached by Germany and Russia to promote the construction of the *Nord Stream* pipeline<sup>4</sup> without consulting any of the Baltic states. While the officially stated worries revolved around environmental issues, the real concerns were related to the further energy isolation of the region through a pipeline that circumvents all the states between Russia and Germany – allowing Russia to use resource supply and pricing as a political tool on dependent and isolated countries in eastern Europe – and the possibility of an increased Russian naval presence on the Baltic Sea. The latter threat was reinforced by statements made by Russian President Vladimir Putin during a televised phone-in session on national TV to the effect that the Baltic Sea Fleet would play an active role in ensuring the environmental safety of the project.<sup>5</sup>

In the end, the environmental concerns did not become a reality. The pipeline did, however, with two lines already completed and in service (the first since November 2011 and the second since October 2012) and another two planned. Whether Estonia should grant permission for the next

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3 It is not thinking on Russia that has changed, but about the prudence of pushing the Estonian opinion too hard on the EU stage, which was found to be counterproductive as it furthered conviction in Germany and other capitals that Estonia – as well as the other Baltics – was irrational about Russia.

4 While Germany maintains that this is a purely economic enterprise between two companies, in Estonia it is very much a political issue.

5 “Russian navy to ensure Nord Stream ecology–Putin”; Interfax; 25.10.2006

two lines to pass through its exclusive economic zone is currently causing some debate. Some Estonian politicians, among them Defense Minister Urmas Reinsalu, have already gone on record saying that they will oppose *Nord Stream AG's* request to survey the seabed in Estonia's exclusive economic zone.<sup>6</sup> The Prime Minister, meanwhile, has stated that the government would wait until the request had actually been submitted.<sup>7</sup>

Another issue that is always prominent on the minds of Estonian policy makers is the vitality of NATO. As a staunch supporter of the U.S. – the principal security provider in NATO – Estonia always sees dwindling defense budgets and a lack of support for U.S. missions and security policy objectives as problematic, since this could potentially weaken the U.S.'s commitment to NATO. This is not a completely unfounded worry, as the U.S. is increasingly becoming exasperated with its European allies over the issue of burden sharing. In June 2011, then Defense Secretary Robert Gates predicted a “dim, if not dismal future” for the alliance should this development not be reversed.<sup>8</sup>

### **1.3. Nongovernmental activities and public opinion**

Germany is very present in Estonia, especially on the civil society level. One active institution is the Lutheran Church, with two German parishes in Tallinn and Tartu. The regional “Nordelbische Landeskirche” also initialized a big aid drive in the 1990s with the aim of restoring the historic Jaani Church in Tartu. That project was successfully concluded in 2005. There are also initiatives by churches and private individuals that are usually aimed at providing assistance to the often struggling rural population, and elderly or disabled people. One example of a private initiative is *Estlandhilfe/Eestiabi*. The Catholic Church works in Estonia through its *Bonifatius Werk*.

Also very active in Estonia are German political foundations, such as the *Friedrich Naumann Stiftung*, the *FES* and the *KAS*. Of these, the latter two are by far the most active. Their activities are aimed mainly at education and the support of Estonian civil society through the organization of workshops, seminars and debates, as well as the publication of books.

6 “Defence Minister Pushes for No on Nord Stream”; Estonian Public Broadcasting 23.10.2012 (<http://news.err.ee/politics/c8119ddf-fc1d-41c1-813b-b204be064526>)

7 “Prime Minister: No Rush Over Nord Stream Appeal”; Estonian Public Broadcasting 23.08.2012 (<http://news.err.ee/economy/a4fd852f-599e-443e-bcd2-662857fa3ba1>)

8 U.S. Department of Defense, “The Security and Defense Agenda (Future of NATO),” speech by Secretary of Defense Robert Gates, Brussels, June 10, 2011, (<http://www.defense.gov/speeches/speech.aspx?speechid=1581>)

Probably the most pronounced cooperation is in the realm of culture and education. Nine German Universities have partnership programs with their Estonian counterparts. Tartu University cooperates with Universities in Kiel, Hamburg, Göttingen, Konstanz, Greifswald, Lübeck and Münster. Tallinn Technical University has a partnership program with the Brandenburg Technical University in Cottbus, while Tallinn University cooperates with the University of Würzburg. As a result of this, there are currently some 75 German students enrolled in Estonian universities.

Estonian public opinion concerning Germany is not clear cut. For one, it is important to note that there is no (recent) polling data or research of any kind on Estonian opinions on Germany. Hence, any description of public opinion on this subject is anecdotal to some degree. Every Estonian is, however, well aware of the shared history between the two countries, both in the sense that Estonia was held in fief by the German aristocracy for hundreds of years and that German domination was by far preferable to Russian – and later Soviet – occupation. On a basic level this results in a positive attitude toward Germany. However, actual knowledge about Germany and its society is rather limited in the broader society. This is also reflected in parts of the Estonian online and print media, where Germany is often used to make cheap populist points intended for a domestic audience. This is especially true concerning immigration and the integration of – mostly Islamic – foreigners.

Most public sentiment, however, is based on the current German policy. The most notable negative impact on public opinion stems from what is viewed as German-Russo-centrism at the expense of Estonia's interests and security. German insistence on austerity among countries suffering from the sovereign debt crisis is very popular, despite the fact that some news outlets argue that this is a vehicle for resurging German hegemony within Europe. But in general the view that Chancellor Merkel has engineered the crisis to facilitate German ascension is limited to the populist media and its followers.

## **2. Economic relations: trade patterns and investments**

Estonia's current account balance (in 2011) is 339.5 million euros (2.1% of GDP). Hence, it is a net exporter. Considering that Estonia was running a trade deficit of 2.6 billion euros (15.9% of GDP) in 2007, this marks a strong recovery. *Vis-à-vis* Germany, Estonia's current account balance is –822.2

million euros (as opposed to 1 billion euros in 2007).<sup>9</sup> Therefore, trade between the two countries is relatively substantial. In 2011, trade between Estonia and Germany was worth around 2.3 billion euros (7.4% of Estonia's total foreign trade). Estonia exported goods worth 762.4 million euros to Germany in 2011 and bought goods worth 1.58 billion euros. The main exports from Estonia are wood products, electrical machinery, and prefabricated housing, while the main imports from Germany are cars and machinery, as well as steel products.

Germany invested roughly 296 million euros in Estonia in 2011 (2.3% of total investments).<sup>10</sup> That makes Germany the 14<sup>th</sup> largest investor in Estonia, behind Sweden (which tops the list with 28.6% – 3.7 billion euros – in investments), the other two Baltic states, the Netherlands, Russia, and the USA. In turn, Estonia invested 23.2 million euros in Germany in 2011, which is 0.6% of its total investment abroad. This is a surprisingly low inflow of capital considering Germany's size, economic clout and geographic proximity.

This picture is repeated when one looks at company ownership. Though there are 430 registered companies with German shareholders in Estonia<sup>11</sup>, German companies do not own or hold a majority in any of the top 50 companies in Estonia; they hold significant shares (above 25%) in only six of the top 50 companies.<sup>12</sup>

The Estonian banking sector is almost entirely composed of foreign banks. Nordic banks alone account for 95% of the Estonian market.<sup>13</sup> Estonian owned banks only account for 3%. German banks have no meaningful representation. From the years 2000–2007, foreign banks financed Estonia's growth with massive capital inflow. This resulted in a soaring current account deficit and exploding prices, mainly in the real estate market, which played a substantial role in Estonia's growth during that period. While the overwhelming dominance of foreign owned banks, coupled with the peg of the Estonian kroon to the euro, severely limited the possibility of the government or the central bank to intervene in the excessive lending in the

9 Information taken from the statistical service of the Bank of Estonia (<http://statistika.eestipank.ee>)

10 Information taken from the statistical service of the Bank of Estonia (<http://statistika.eestipank.ee>)

11 Homepage of the German Foreign Ministry ([www.auswaertigesamt.de/sid\\_BC5205624E9DFCD9383DEC3740AC1096/DE/Aussenpolitik/Laender/Laenderinfos/Estland/Bilateral\\_node.html#doc334146bodyText2](http://www.auswaertigesamt.de/sid_BC5205624E9DFCD9383DEC3740AC1096/DE/Aussenpolitik/Laender/Laenderinfos/Estland/Bilateral_node.html#doc334146bodyText2))

12 Information provided by the Estonian Commercial Register

13 Swedbank 41%, SEB Bank 23%, Nordea 19%, Danske 9%, DNB Bank 3%

run-up to the crisis, it also meant that the bill of non-performing loans and defaults was being picked up by the owners of the Estonian subsidiaries.

### 3. Multilateral relations

#### 3.1. *The European Union – a common project?*

The EU is very much regarded as a common and indispensable project by Estonian policy makers. It is of vital importance to Estonia's economy and security. In 2011, 74% of Estonia's trade volume was conducted with the EU.<sup>14</sup> In the current budgetary cycle (2007–2014), Estonia is getting 4.5 billion euros from the EU budget. In the same period, Estonia is contributing 0.9 billion euros to the budget.<sup>15</sup> That makes Estonia a net recipient of 3.6 billion (roughly 4% of GDP) euros of EU funds.<sup>16</sup> Considering the role in trade and financial assistance the EU plays, its importance cannot be understated.

Within the EU framework, Germany is clearly the focal point for Estonia. Estonia very much views its interests in being part of the northern continental group of core members, as opposed to the UK model for example. Estonia wants to be part of the eurozone and not just the EU – and should the euro not withstand the test of time, Estonia wants to be part of any potential new arrangement between Germany and its northern European partners.<sup>17</sup> Hence, Estonia is willing to cooperate and compromise with German interests on a wide range of topics. One very recent example – though a grudging one, since it contradicts the Estonian ruling coalition's free market philosophy – is Estonia's support for the financial transaction tax.

Another indicator of Estonia's strong support for the German course within the EU framework is its ratification of the ESM. This, again, is a step not lightly taken, since it imposes potential financial liabilities of up to 1.3 billion<sup>18</sup> (22.5% of the 2011 GDP) euros on Estonia. Considering that the average income, social security, and standard of living is considerably

14 10, 2011, (<http://www.defense.gov/speeches/speech.aspx?speechid=1581>). Information taken from the statistical service of the Bank of Estonia (<http://statistika.eestipank.ee>)

15 [http://www.estonia.gov.uk/estonia\\_in\\_the\\_eu](http://www.estonia.gov.uk/estonia_in_the_eu)

16 "EU net contributor or net recipient: Just a matter of your standpoint?"; Deutsche Bank Research.

17 Interview with Andres Kaasekamp, Director of the Estonian Foreign Policy Institute

18 "Estonia Approves ESM", *The Wallstreet Journal*; August 30, 2012

lower in Estonia than in those countries that will potentially receive the aid, one can imagine that politically this is not an easy sell.

Where German leadership already coincides fully with Estonian attitudes is on fiscal discipline and austerity. Estonia itself took the path of ruthlessly cutting its budget when the crisis hit, instead of increasing lending. Even though its economy contracted severely (from 2008–2009, GDP fell by 14.1% and unemployment rose by 10%), Estonia's budget deficit only rose by 1.7%. This was achieved through austerity.<sup>19</sup>

The intra-EU relationship between Estonia and Germany does not, however, lack reciprocity. Germany has indicated tentative support for Estonia's – and the other Baltic states' – desire to increase agricultural funding through more equal distribution.<sup>20</sup> As a result, Estonia and Germany are actively engaging in negotiations concerning the next budgetary cycle.<sup>21</sup> Another project close to Estonia's heart is Rail Baltica, as well as all other infrastructure projects that increase the number of connections between Estonia and the rest of Europe.

### **3.2. The transatlantic dimension**

To assess whether Estonia looks toward the U.S. or Germany as the principal touchstone of its policies, one has to differentiate between security policy and other areas. As mentioned in the last section, Germany is clearly the principal country for Estonia in EU and economic affairs. When it comes to security matters, however, NATO takes precedence. Estonia views NATO as the principal guarantor of its security and independence and as such is willing to expend considerable effort in maintaining the alliance and grooming its bilateral relationship with the U.S. One manifestation of this is Estonia's unequivocal support – both rhetorically and militarily – of the U.S. invasion of Iraq, despite the fact that both Germany and France strongly opposed the endeavour.

Estonia also has 150 soldiers deployed in Afghanistan, where they fight without caveat under British command. This deployment is costly both in monetary terms and in human lives (nine soldiers have been killed so far), especially considering that Estonia has no security interest in Afghanistan and its contribution is, measured against the total number of allied forces

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19 Estonia also had financial reserves build up during the surplus years 2000–2007

20 A farmer in the Baltics gets an average of 150 euros per hectare, while his Greek counterpart gets 500 euros

21 HE Christian-Matthias Schlaga, German Ambassador to the Republic of Estonia

deployed, insignificant to the success or failure of the mission. Estonia moreover did not decrease its commitment during the financial crisis. This effort is undertaken purely to maintain NATO and to foster Estonia's bilateral relations with the U.S.

However, wherever there is no apparent conflict with NATO Estonia participates actively in the EU's CSDP. One example is the already-mentioned ATALANTA mission, while Estonia also currently deploys personnel to EU-POL in Afghanistan, EULEX in Kosovo and EUMM in Georgia. This commitment is congruent with the understanding that the EU is also a vital part of Estonian security and prosperity. Estonia has also recently decided to support the establishment of a permanent operations headquarters within the EU.<sup>22</sup> This move is somewhat significant, since the UK vetoed such a proposal in July of last year and the project had been regarded as a duplication of NATO capabilities – which is a red flag for states with a very strong transatlantic orientation. It is, however, also important to note that Estonia's support for this project only came after the Obama administration had signaled that the U.S. would no longer oppose it.<sup>23</sup> What is important to keep in mind is that Estonia's biggest overarching concern is security and independence. Therefore, Estonia's default policy response will always favor NATO – and hence the U.S. – when choices are perceived as zero-sum. However, the development of EU capabilities is the only way to close the 'burden-sharing' gap even a little in the face of austerity and ever shrinking defense budgets.

### **3.3. Germany and Estonia in international organizations**

Concerning Estonian-German relations within international organizations such as the UN, the IMF, and potentially the OSCE, the story is rather simple. In the UN Germany has – on the occasions where decisions impacted Estonian interest – acted counterproductively from the Estonian point of view. The Schröder government's refusal to support the U.S.'s war on Iraq was viewed as especially damaging to transatlantic relations and thus a danger from the Estonian perspective. Possibly even more damaging was Germany's abstention from the Security Council Vote on Resolution 1973 concerning the no-fly zone over Libya. In this instance, Germany not only sided against the U.S., but with Russia and China against other NATO/EU allies on the Council.

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22 "Estonia's European Union Policy 2011–2015"; p. 58; published by the Office of the Prime Minister

23 Interview with Andres Kaasekamp, Director of the Estonian Foreign policy Institute.

Within financial institutions like the IMF, Estonia and Germany have very little conflict, since Estonia supports German policies in this realm and accepts German leadership in these domains. Generally, IMF policies are coordinated through the EU framework in any case. Other organizations, like the OSCE or CBSS, are rather inconsequential to Estonia and thus do also not provide the potential for conflict.

### 3.4. Germany's normative power

When talking about Germany's normative impact on Estonia after the collapse of the Soviet Union, one encounters several problems. While it is clear that Estonia has gone through a socialization process in the run-up to its EU and NATO accession, it is very difficult to distinguish the impact of a single member state on the institution(s) as a whole. It is beyond a doubt that the EU successfully (at least superficially) influenced Estonian domestic policy in the run-up to accession – on the issue of minority rights, for example. What exact weight Germany had in this process is hard to determine.

What can be said about German normative power in Estonia is that it suffers from several hypocrisies (at least generally regarded as such in Estonia) in policy and rhetoric. Sticking with the example of minority rights, throughout the time that this was an issue for Estonia's EU accession aspirations (1998-2004) the Turkish minority in Germany was suffering from similar discriminatory policies concerning naturalization to those that Estonia was criticized for.<sup>24</sup>

A more recent complaint is the fact that Germany is seen to advocate intense study and analysis of history in order to become a strong and stable democracy, but when it comes to Russia, Estonia is advised to forget its history and focus on the future.<sup>25</sup> Similarly, German rhetoric and official documentation seems to set great store in multilateral and cooperative frameworks, but in its dealings with Russia the concerns of its eastern EU allies often appear to be of small interest – a trend that can be observed from the very beginning of Estonia's struggle for independence, when Germany ignored the Estonian (and other Baltic) aspirations in order to secure reunification.

24 Michael Johns: "Do as I Say, Not as I Do": The European Union, Eastern Europe and Minority Rights"; *East European Politics & Societies*; 2003, 17; p. 693–694

25 Interview with Andres Kaasekamp, Director of the Estonian Foreign Policy Institute.

On the other hand, Germany did strongly support Estonia once it gained independence. It helped negotiate the Russian military withdrawal and put its weight behind Estonia's shift toward the EC (EU). Germany's opinion on NATO expansion into the Baltics, however, was much more reserved and any support for the Baltic states in general was carefully weighed against Germany's interests in Moscow.

However, it is undeniable that Germany – especially in its current dominant standing within the EU – exerts considerable normative power in Estonia. Concerning everything but security policy, Germany is the touchstone for Estonian foreign and economic policy. The Estonian government has abandoned both ideologically held positions (the financial transaction tax) and important security allies (the UK) in order to align itself with German preferences and safeguard the EU. It can also be argued that Estonia's change in rhetoric concerning Russia has a socializing effect of Germany. The reason for the diplomatic noise was mainly to get the attention of key states – and especially Germany – on issues concerning Russia that Estonia viewed as threatening. On the realization that Berlin was at best complacent and often annoyed with its EU partner over what it viewed as overly aggressive rhetoric, Estonia was forced to change its tack.

So what is German normative power in Estonia? It is certainly a factor, both historically and in current affairs. It is, however, curbed by the Estonian perception that Germany will abandon Estonian interests in favor of cooperation with Russia if beneficial. In the end, German influence is dominant in internal European affairs – particularly in economic matters – but is limited in matters of security. Here, Estonia leans strongly toward the U.S. on the global level and the Nordic states on the European level. Also, when discussing German influence one should not forget that in almost all aspects the Nordic states, especially Sweden and Finland, 'out-cooperate' Germany in Estonia by a large margin.

## Conclusions

When analyzing whether Germany exerts dominance over Estonia through its particular style of foreign policy and economic clout, one has to divide the issues into well-known spheres. Germany's economic position makes it the default focal point for Estonia in ensuring its continued prosperity. This, however, has little to do with direct economic relations, for Estonia's economic ties with Germany are really quite weak (especially when compared to the other Baltic states and Sweden and Finland), but

instead is a response to Germany's role in the overall European economy and the resulting influence it has on the development and evolution of the European project. Estonia sees itself very much as a part of the northern European economies, of which Germany is the principal leader.

Moreover, considering the sheer size of Germany, the role it plays in Baltic Sea Regional cooperation is really not where it could be at the national level. Sub-national and non-state cooperation between the two countries is quite vibrant. For Estonia, the defining frameworks in the Region are NORDEFECO, the Arctic Council, the NB-8, and bilateral relations with its Baltic neighbors, Sweden, and Finland. Germany simply doesn't view itself as part of the Baltic Sea Region – certainly a function of its size and its resulting orientation toward larger issues – which is evident when looking at the much denser network connecting Estonia to the Nordics, for example, than to Germany.

When it comes to foreign and security policy, Germany's approach has little resonance in Estonia. While it is certainly keenly aware of the potential benefits of positive and constructive relations with Russia, Estonia is very suspicious of the German approach. For one, it is mostly conducted without consultation or participation. Secondly, it allows Russia to selectively engage parts of the EU and disregard others, which Estonia views as weakening and damaging. Hence, Estonia would be strongly in favor of Europeanizing the Russia policy. The same is true for energy policy.

Where wider Europeanization is met with skepticism is defense policy. Here, Germany and the EU play minor roles for Estonia. The U.S. is the key player here on a global level, and regional cooperation within the NB-8 takes precedence over EU initiatives. Looking ahead, Estonia will attempt to further integrate into the region, especially in security and defense spheres, but also in terms of infrastructure. Concerning the former, Estonia will look to its Nordic allies and NORDEFECO in particular. Estonia does, however, have a vested interest in increasing the role Germany is playing regionally and should hence welcome any German reorientation toward the region. Estonia will also be supportive of measures enhancing EU defense integration, Permanent Structured Cooperation, and other 'smart defense' initiatives, since this is the only way for Europe to increase its military capabilities in the face of shrinking defense budgets.

In short, Estonia has a very differentiated view of Germany and its role in the region. While certainly interested in having Germany play a bigger role in regional affairs, Estonia is skeptical concerning Germany's current role. It thus makes rational choices on which matters to ally with Germany and on which to look for regional solutions.

## GERMAN-HUNGARIAN RELATIONS: A Marriage Held Together By Money, Not Love?<sup>1</sup>

*András Hettyey and András Rácz*

### Introduction

This chapter aims at exploring the current trends of German-Hungarian political and economic relations from the Hungarian perspective. As was stated in the introduction, the general objective of the research is to map out the role of Germany as a possible normative power in the Baltic and Visegrad region. In accordance with the general idea of the project, this chapter intends to answer five different research questions about the Hungary-Germany relationship.

The central question to answer is whether Germany is able to dominate the relationship with Hungary through its imminent economic power. Is Berlin successful in making Hungary follow pacifistic German foreign policy by using German economic power? Second, are German-Hungarian relations dominated by rational, geo-economic reasoning, or is there a normative civilian power approach present from the German side as well? If so, how successful is it? The third research question is related to the future prospects of the German-Hungarian relationship. What are Hungary's concepts toward further cooperation with Germany, and how does Budapest see the future of relations with Berlin? Fourth, in the broader context of German-Hungarian relations, are the recent European Council meetings on deeper economic cooperation likely to change the focus points of bilateral German-Hungarian relations? Is cooperation going to become closer, or is Germany more likely to decrease its political and economic presence in Hungary to concentrate more on the Southern European members of the eurozone? The final, fifth question to answer is how important the performance of the German economy is for the development of Hungary.

<sup>1</sup> The opinion presented here is solely the authors' own, and it no ways represents either the official position of the National University of Public Service, or the Hungarian Institute of International Affairs.

Could economic ties be either substituted or counter-balanced with political, military, or cultural cooperation? Or, vice-versa, could economic cooperation counter-balance political tensions?

The authors operate on the hypothesis that political relations between Budapest and Berlin enjoy much less attention from the Hungarian side than would be justified by the key importance of the German economy for Hungary. While the German economy clearly ranks in first place both for Hungarian exports and imports, political relations show surprisingly little activity. The few high-level bilateral meetings that take place are related mostly to either EU-level issues or to very concrete questions of Hungarian domestic politics, such as the media law or the extraordinary taxes put on large foreign companies. As a Hungarian diplomat sarcastically characterized it: "Contemporary Hungarian-German relations are similar to a long cooled-down marriage, where money is the only topic left to discuss."

The research concentrates particularly on the current German-Hungarian relationship. Hence, focus will be put on the activities of the past five to eight years and the development of German-Hungarian relations since the EU accession of Hungary, which took place in 2004. When necessary, historical context will also be discussed, though briefly.

The chapter relies both on primary and secondary sources, and some interviews were also conducted. Concerning primary sources, besides various governmental documents, a particularly valuable source of information has been the website of the German-Hungarian Chamber of Industry and Trade from which one may obtain very detailed and up-to-date data on bilateral trade and economic relations. However, political relations are surprisingly under-documented in Hungarian primary sources. Contrary to the general practice of the Hungarian Ministry of Foreign Affairs, on the website of the Hungarian embassy in Berlin no up-to-date information is available at all on important bilateral meetings and high level visits. Hence, in some particular issues the authors had to rely predominantly on interviews conducted with active and former politicians, as well as with experts and officials.

Similar scarcity characterizes the availability of secondary sources. Despite the fact that the German-Hungarian relationship constitutes an important link for both countries, surprisingly little has been written about it. Moreover, the existing literature is unevenly distributed – perhaps the only topic that has gained significant attraction, and has been therefore

quite thoroughly analyzed, is the transition of 1989/90.<sup>2</sup> The most comprehensive (and basically the only) book from Hungary about the relationship between the two states up to 1991 is from former Hungarian ambassador to West Germany István Horváth, and contains all the valuable insights of an experienced diplomatic hand<sup>3</sup>. The economic relationship between Germany and Hungary has been relatively better reviewed<sup>4</sup>, but on the political side there is even less to rely on. Perhaps the only contributions devoted explicitly to German-Hungarian relations were written by László Kiss J.<sup>5</sup> A systematic and thorough analysis of Hungarian politics between 1985 and 2002 has been provided by Andreas Schmidt-Schweizer's thorough, if somewhat politically unbalanced, book "Politische Geschichte Ungarns von 1985 bis 2002". There are chapters on Hungarian foreign policy as well, but the relationship between Germany and Hungary

- 2 German sources, for instance: Brunner, Georg: Verfassungsreform und politische Entwicklung in Ungarn. *Südosteuropa-Mitteilungen* 29 (1989) 3, 175–185; Sitzler, Kathrin: Die Anfänge eines politischen Pluralismus in Ungarn. *Südosteuropa* 38 (1989) 11/12, 678–694; Barany, Zoltan D.: On the road to democracy. The Hungarian Elections of 1990. *Südosteuropa* 39 (1990) 5, 318–329; Sitzler, Kathrin: Parteiensystem und Gesellschaft in Ungarn. *Südosteuropa* 41 (1992) 3/4, 171–187; Schmidt-Schweizer, Andreas: Die politischen Auseinandersetzungen am "Nationalen Runden Tisch". Systemtransformation auf dem "Verhandlungsweg"? *Südosteuropa*, 46 (1997) 1/2, 37–64; Zellner, Wolfgang – Dunay, Pál: Ungarns Außenpolitik 1990–1997. Baden-Baden, 1998. Schmidt-Schweizer, Andreas: Politische Geschichte Ungarns von 1985 bis 2002. Von der liberalisierten Einparteienherrschaft zur Demokratie in der Konsolidierungsphase. München, 2007. Hungarian sources, for instance: Romsics, Ignác: Magyarország története a XX. században. Budapest, 2003; Bihari Mihály: Magyar politika 1944–2004. Budapest, 2005; Schmidt-Schweizer, Andreas: Die Öffnung der ungarischen Westgrenze für die DDR-Bürger im Sommer 1989. Vorgeschichte, Hintergründe und Schlussfolgerungen. *Südosteuropa Mitteilungen*, 37 (1997) 1, 33–53; Oplatka, András: A határnyitás története. Budapest, 2008.
- 3 Horváth, István: *Az elszalasztott lehetőség*. Budapest, 2009, Corvina Kiadó.
- 4 Körösi, István: Kettős kötődés: Németország az Európai Unióban és Közép-Európában. Budapest: MTA Világgazdasági Kutatóintézet, 1997, 16; Inotai, András: Strukturelle Umgestaltung der mittel- und osteuropäischen Volkswirtschaften und Ungarns im Spiegel ihrer Ausfuhren nach Deutschland (1989–2000) Budapest: Deutsch-ungarische Industrie- und Handelskammer, Institut für Weltwirtschaft. 2001; Körösi, István: A magyar-német gazdasági kapcsolatok fejlődésének húsz éve (1989–2009) a tíz új EU-tagországgal összehasonlítva. *Külgügyi Szemle* 2009/3, 3–43.
- 5 Kiss J., László: Zwischen Öffnung des Eisernen Vorhanges und der Europäischen Integration: Die Entwicklung der deutsch-ungarischen Beziehungen (1989–1996). In: *Wiedervereinigung Deutschlands. Festschrift zum 20. jährigen Bestehen der Gesellschaft für Deutschlandsforschung* (ed. by Karl Eckart, Jens Hacker, and Siegfried Mampel). Berlin, 1998. 649–669; Kiss J., László: Germany and Hungary. In: *Germany and East Central Europe since 1990. Research Project of the Ministry of Foreign Affairs of the Czech Republic* (ed. by V. Handl, J. Hon, P. Pick et al.). Prague, 1999. 201–215; Kiss J., László: Multilateralism in Bilateralism: Germany as Hungary's Western Patron in the EU. In: *Germany's European Policy: Perceptions in Key Partner Countries* (ed. by Matthias Jopp, Heinrich Schneider, and Uwe Schmalz). Bonn, 2002. 215–231.

gets only a cursory mention<sup>6</sup>. A notable exception to this general shortage of literature is András Masát's article about cultural relations between the two countries.<sup>7</sup>

The chapter is structured into four main parts. First, it analyzes political relations between Hungary and Germany, concentrating on the actual situation, though the events of 1989–1990 obviously cannot be left out. The second part studies economic relations between the two countries, focusing on the question of dependence vs. interdependence. The non-governmental aspects of bilateral business ties are also extensively studied here. The third part deals with the institutional aspects of Hungarian-German relations, and particularly with cooperation inside the EU and NATO. Regarding the latter, defense-related cooperation between Hungarian and German armed forces, particularly in Afghanistan, constitutes an important and rather successful aspect of bilateral relations. Finally, the paper ends with a concluding chapter

## 1. Political relations between Germany and Hungary

This part intends to provide a comprehensive overview of developments in German-Hungarian political relations. As analyzing all events of the last two decades that have passed since the democratic transition would clearly exceed the framework of this book, the authors intend to define the general trends and main focus points of bilateral relations, concentrating on recent and contemporary events.

### 1.1. Cooperation modes on an official governmental and municipal level

As a start, it is important to note that Hungary had close ties with West Germany even before the fall of the Berlin Wall. Since the late 1970s Budapest had increasingly relied on West German loans, credit, and financial assistance.<sup>8</sup> A visit by Social Democratic Party of Germany (SPD) Chairman

6 Schmidt-Schweitzer, Andreas: Politische Geschichte Ungarns von 1985 bis 2002. Von der liberalisierten Einparteienherrschaft zur Demokratie in der Konsolidierungsphase. München, 2007.

7 Masát, András: Régi és új pozíciók a magyar kultúra németországi megjelenésében: 1989–2009. *Külügyi Szemle* 2009/3, 86–107.

8 Békés, Csaba (2011): "Magyar külpolitika a bipoláris világban." [Hungarian foreign policy in a bipolar world.] *Külügyi Szemle*, 2011/4. pp. 95–127.

Willy Brandt to Budapest in 1978 was an important step in fostering interstate relations.<sup>9</sup> The motivations behind strengthening relations with West Germany were manifold. In addition to the ever-increasing need for outside financing, Budapest was also interested in the import of modern technologies and even intended to attract Western investments. Besides, as was pointed out by historian Csaba Békés,<sup>10</sup> in the foreign policy of János Kádár good relations with the West were also perceived as an important balancing tool concerning the relationship with the Soviet Union. The good personal relations and mutual respect between János Kádár and Willy Brandt indeed contributed to the strengthening of German-Hungarian political and business relations.<sup>11</sup>

The role played by Hungary in the fall of the Iron Curtain has been very well documented by many authors, and frequently praised both by German and Hungarian politicians. Following the democratic transition, the unified Germany had strong positive feelings toward Hungary, its people, and its government, because of Budapest's key role in the German re-unification. However, according to István Horváth,<sup>12</sup> former Hungarian ambassador to Germany, the Hungarian government of József Antall (1990–1993) could not properly utilize the opportunity provided by this overall positive German attitude. Horváth argues that, besides numerous bureaucratic hindrances, the main reason for this was simply a lack of understanding: decision-makers in Budapest could not and did not correctly estimate the real scale of the opportunity provided by German support.

Regardless of the opportunities missed, German-Hungarian bilateral relations rapidly developed in the years after the transition. The well-known cordial relations between Hungarian Prime Ministers József Antall, Gyula Horn, and Chancellor Helmut Kohl indeed contributed to these positive developments. One may even be tempted to call it a trend that over about the last thirty years many Hungarian political leaders have had a very good personal relationship with their German partners aside from the obviously close political and economic contacts.

A remarkable general feature of post-transition German-Hungarian interstate relations has been the very few issues resulting in bilateral tension.

9 Sziklai, István (2009): "Szemelvények Magyarország és az NSZK kapcsolatából." [Excerpts from the relations of Hungary and the Federal Republic of Germany.] *Múltunk*, 2009/1. pp. 45–64.

10 Békés.

11 Sziklai.

12 Horváth, István (2009): *Az elszalasztott lehetőség.* [The Missed Opportunity.] Budapest, 2009, Corvina Kiadó.

One may recall literally only a few questions that have seriously burdened German-Hungarian political relations since 1989, especially taking into account continuously growing economic cooperation. Hence, as a preliminary note one needs to keep in mind that since the transition the general trend has been that German-Hungarian bilateral relations have been continuously very good, and thus only a few exceptions need to be noted. The most important one of these was when Hungary signed the so-called 'Letter of the Eight' in support of the U.S. attack on Iraq in January 2003. This is going to be explained in more detail in the third part.

Regarding municipal level cooperation, approximately 400 Hungarian cities, towns and villages maintain twin city relations with German partners from various parts of Germany.<sup>13</sup> Twin city relationships continue not only to foster people-to-people contacts, but also to foster interregional cooperation, tourism, and in many cases educational exchange as well. In many cases such projects are initiated by ethnic Germans living in Hungary.

### **1.2. Unsolved disputes and problematic issues**

The Orbán government that came to power in 2010 brought a significant change to the German-Hungarian political relationship, though unintentionally. The widespread domestic political and legal changes introduced by the new government (which possessed a constitutional majority) were, of course, closely followed by Germany. German analysts noted the openly declared intentions of Orbán to make Fidesz the dominant power on the Hungarian political landscape for the next 15–20 years even before the 2010 elections. In his famous speech in Kötcse in 2009, Orbán indicated that he wanted to make Fidesz into a "large governing party, and to set up a centralized political space."<sup>14</sup> Such discourse caused open worries in Germany due to the country's historical heritage.

Hence, after Orbán and his Fidesz party won the elections it was not surprising that Germany closely followed the political developments in Hungary. Particular attention was paid to the new media law and to the

13 *Német-magyar kapcsolatok. Számok, adatok, tények.* [German-Hungarian relations. Numbers, data, facts.] Német Nagykövetség, 2012. Budapest. <http://www.deutschebotschaft.hu/downloads/nemet-magyar-kapcs.pdf>

14 Bos, Ellen: "Ungarn unter Spannung." [Hungary under tension.] *Osteuropa*, Dezember 2011. pp. 39–63.

new constitution,<sup>15</sup> both of which were widely studied and disputed in the German press. The new media law was widely criticized over the extremely wide and mostly uncontrolled power given to the new Media Council and the implicit censorship opportunities created by the relevant regulations. Besides that, the appointment of the Head of the Media Council, Annamária Szalai for nine (!) years, also generated numerous concerns. In addition to the legal-technical aspects of the transformation of the Hungarian political system, certain symbolic moves were also noted and criticized in Germany – for example, changing the country's official name from the Republic of Hungary to simply Hungary.

Without intending to comprehensively overview German critiques of the ongoing Hungarian political transformation, one may come to the conclusion that they were mostly aimed at supposed violations of democratic norms and principles, and not focused on concrete bilateral German interests. The importance of respecting these norms and principles for Berlin was well reflected in the fact that Chancellor Merkel personally engaged herself in trying to prevent Hungary from violating the freedom of the media<sup>16</sup> following numerous lower level warnings. However, in an interview Orbán commented on Merkel's warnings in a rather unusual way: "Concerning the poor Lady Chancellor, she got just mixed into the story. The poor [woman] did not say anything; it was only the deputy spokesperson of the German government who said that a European state has to respect EU norms."<sup>17</sup> Though technically it was true what Orbán said (the warning quoted above really was made by Vice Speaker Christoph Steegmans), this was Germany's position. Besides, calling the German Chancellor a "poor lady" was an unprecedented moment in bilateral relations. According to an active Hungarian diplomat working in bilateral relations, Orbán's remark was obviously not commented on in Berlin, but it also has obviously not been forgotten.<sup>18</sup>

15 Küpper, Herbert: Mit Mängeln. Ungarns neue Grundgesetz. [With defects. Hungary's new constitution.] *Osteuropa*, Dezember 2011. pp. 135–143.

16 *Die Welt*: "Medien-Zensur. Merkel warnt Ungarn vor Missachtung der EU-Werte." [Media censorship. Merkel warns Hungary of disregarding EU values] 22 December 2010. <http://www.welt.de/aktuell/article11787211/Merkel-warnt-Ungarn-vor-Missachtung-der-EU-Werte.html>

17 "Ami pedig a szegény német kancellár-asszonyt illeti, őt kabátlopási ügybe keverték – fogalmazott. – Nem mondott szegény semmit. A német kormány helyettes szóvivője mondta azt, hogy egyébként természetesen egy európai uniós tagállam be kell, hogy tartsa az európai uniós normákat" Quoted by: *Népszava*, 24 December 2010.

18 Interview with a Hungarian diplomat, Budapest, October 2012.

Regarding the current state of bilateral political relations, though both sides regularly emphasize very active and growing business cooperation (see the next chapter for more details), high level bilateral meetings are rare. Merkel received Orbán in Berlin once in July 2010, when they mostly discussed Hungarian domestic developments and the incoming Hungarian EU presidency.<sup>19</sup> They met once again in May 2011 in Berlin, mostly in connection with Hungary's EU presidency. However, following these two meetings, the Hungarian Prime Minister was not invited to the Chancellor's Office again until October 11, 2012. It was telling that on the very day before the meeting, the spokesperson of the German government, Steffen Seibert, warned Orbán that the "two-third majority [Orbán owns] comes together with a great responsibility for the ones in minority."<sup>20</sup> Following this strong and well-timed message, it was not surprising that at the joint press conference that followed the bilateral Merkel-Orbán meeting, mostly economic and EU-related questions were emphasized.<sup>21</sup> Merkel however, briefly welcomed the fact that Hungary respected the guidelines of the European Commission and modified most of its disputed laws and regulations.<sup>22</sup>

Even the pro-government Hungarian daily *Magyar Nemzet* recognized that the main task of Budapest was to restore the trust of Berlin, as Germany did not understand the Hungarian transformation and has been worried about democracy, stability, and German investments.<sup>23</sup> However, even Hungarian opposition newspapers admitted that bilateral relations are currently on track for normalization, following a hectic 2010–2011 period. The daily *Népszabadság* referred to an interview with Frank Spengler, head of the Konrad Adenauer Foundation on bilateral relations. Spengler said that that CDU position toward Hungary can be described as "information, readiness to talk and friendly critique, if necessary, but only behind

closed doors in order not to violate Hungary's dignity."<sup>24</sup> In light of this CDU position, the release of Seibert's warning just one day before the Orbán visit was indeed a very strong message.

During the Berlin visit, Orbán held a public lecture at the Konrad Adenauer Foundation, where he reportedly got numerous very critical questions concerning not only the domestic political transformation in Hungary, but also regarding the increasingly unstable business climate.<sup>25</sup> This indicates that German concerns clearly prevail regarding domestic politics in Hungary, though the bilateral Merkel-Orbán meeting was an important moment. It remains to be seen how the most recent economic moves of the Hungarian government are going to influence bilateral relations.

Contrary to the less than cordial high level political ties, contacts between Hungary and the various German regions are very intensive. A particularly important partner for Hungary is Bavaria: Orbán himself even visited Bavaria a few times, in addition to numerous visits by Hungarian ministers, state secretaries, and leading businessmen.

### 1.3. Non-governmental activities and common projects

Reflecting the traditionally strong historic and cultural ties, there are a huge number of German NGOs working in Hungary. Foremost of these is the venerable Goethe Institut, which opened its premises in Budapest in 1988, a year before the transformations of 1989/90. The German political foundations were also quick to establish bureaus in the newly democratic country. In 1989, the Friedrich Naumann Stiftung (Foundation) arrived, followed by the Konrad-Adenauer-Stiftung, the Friedrich Ebert Stiftung and the Hanns Seidel Stiftung. All four foundations organize conferences, seminars and workshops on wide ranging issues, such as the political culture, rule of law, the civil society and the role of the media.

Another major initiative was the foundation of the Andrassy Gyula German Speaking University in Budapest in 2001, which is the only German speaking university outside the German speaking countries. The university is co-financed by Hungary, Austria, Germany, Bavaria, Baden-Württemberg, and the autonomous region of Trentino-Alto Adige in Italy.

19 Official website of the Hungarian EU presidency: "Berlin támogatást ígért a magyar elnökségnek." [Berlin promised support to the Hungarian presidency] 5 May 2011. <http://www.eu2011.hu/hu/hir/orban-merkel-2011-05-05>

20 "Figyelmeztették Orbánt a németek." [Orbán was warned by the Germans] [www.origo.hu](http://www.origo.hu/10%20October%202012%20http://www.origo.hu/itthon/20121010-figyelmeztettek-orbant-a-nemetek.html) 10 October 2012.

21 Official website of the Prime Minister of Hungary: "Orbán Viktor Berlinben" [Viktor Orbán in Berlin] 11 October 2012. [http://miniszterelnok.hu/cikk/orban\\_viktor\\_berlinben](http://miniszterelnok.hu/cikk/orban_viktor_berlinben)

22 "Lezajlott az Orbán-Merkel találkozó" [The Orbán-Merkel meeting is done.] 11 October 2012. <http://profitline.hu/hircentrum/hir/275172/Lezajlott-az-Orban-Merkel-talalkozo>

23 Stier, Gábor: "Berlini kapcsolat." [A Contact in Berlin] *Magyar Nemzet Online*, 2 October 2012. <http://mno.hu/vezercikk/berlini-kapcsolat-1110981>

24 Inotai, Edit: "Orbán újra bizonyíthat Berlinben." [Orbán can again prove himself in Berlin] *Népszabadság*, 11 October 2012. [http://nol.hu/kulfold/20121011-orban\\_ujra\\_bizonyithat\\_berlinben](http://nol.hu/kulfold/20121011-orban_ujra_bizonyithat_berlinben)

25 [http://hvg.hu/vilag/20121011\\_Orbant\\_megszorongattak\\_nemet\\_eszmetarsai](http://hvg.hu/vilag/20121011_Orbant_megszorongattak_nemet_eszmetarsai)

The University offers four consecutive master's programs in International Relations, Central European Studies, and Comparative Law and Governance, two post-graduate study programs and four different PhD programs, and houses around 200 students. The Foreign Ministry of Germany supports the project with a Professorship for Diplomacy, which is filled by an active German diplomat for a period of three years, thereby enriching the study course with first-hand experience. The research activity of the University is coordinated by the Danube Institute for Interdisciplinary Research, which was established in 2011. As a signal of the importance of the Andrassy University, Chancellor Angela Merkel visited it in person in August 2007, highlighting the project as a prime example of German-Hungarian cooperation.<sup>26</sup>

Another particularity in German-Hungarian relations is the role played by the German minority in Hungary. Before 1945, around 500.000 Germans (5% of the population) lived in Hungary, most of whom were descendants of settlers that arrived in the 13–18<sup>th</sup> centuries. After the Second World War approximately half of them were expelled, reducing the number to 230.000 (the expulsion orders affected anyone who claimed German nationality or German as a mother language in the 1941 Hungarian census, anyone who was a member of a German ethnic organization, former members of the SS, and anyone who changed their Hungarianized surnames back to the German equivalent). In 2001, 62.105 people in Hungary declared themselves to be German.<sup>27</sup> The German community has a vivid cultural life, a cultural centre in Budapest and, in accordance with a 1993 law, has the right to form German local councils.

#### **1.4. Public opinion and domestic rhetoric**

There have been no formal public opinion polls made on the importance of German-Hungarian relations, and hence it is complicated to establish an academically well-grounded position on the issue. However, one may still rely on a few indicators, which confirm that relations (both

26 *Népszabadság*: "Merkel: az Andrassy Egyetem a szoros német-magyar kapcsolatok kiemelkedő példája" [Merkel: The Andrassy University is a spectacular example of the close German-Hungarian relations.] 21 August 2007. <http://www.nol.hu/archivum/archiv-461174>.

27 Prauser, Steffen – Rees, Arfon: The Expulsion of the "German" Communities from Eastern Europe at the End of the Second World War, EUI Working Paper No. 2004/1. <http://cadmus.eui.eu/bitstream/handle/1814/2599/HEC04-01.pdf;jsessionid=B28EA619D45C64899FB293F539AAA51C?sequence=1>, Retrieved: 2012-09-01

political and economic) with Germany are highly important both for the political elite and for the wider public.

Concerning the Hungarian political elite: ever since the democratic transition there has been a lasting consensus on the primary importance of maintaining close and cordial relations with Germany.<sup>28</sup> There has been no visible difference between the various Hungarian governments: both rightist and leftist-liberal governments have described Germany as a prioritized partner for Hungary, and have continuously voiced their intentions to foster relations. Emphasizing the economic dimension of bilateral relations has been equally present in Hungarian governmental rhetoric, and thus one may be tempted to describe the German perception of the Hungarian elite as primarily economy-motivated, rather than value-driven.<sup>29</sup> However, as with the public opinion question there are no representative polls available on the subject.

Regarding the wider public opinion, it is indeed telling that German is the second most popular foreign language taught in Hungary (following English).<sup>30</sup> The highly prioritized role of German is connected to the employment opportunities it offers, ranging from the business sphere to engineering and from humanities to the natural sciences.

## **2. Economy**

### **2.1. Current account balance**

Germany is the most important economic partner for Hungary. Hungary is in several ways highly integrated with the German economy, resulting in valuable export opportunities as well as important technology imports for Hungarian firms. Vice-versa, Germany has built up close trade links and a huge investment portfolio in Hungary, which it would be loath to give up. Germany is Hungary's most important trading partner by far, both for imports and exports. In 2011 25.2% of Hungarian exports went to Germany.<sup>31</sup> To illustrate the intensity of trade, Hungary's second biggest export market in 2011 was Romania, with a share of only 5.7% of Hungarian

28 Horváth, *ibid*.

29 Interview with Hungarian diplomat, Budapest, October 2012.

30 National Higher Education Information Center: *Milyen nyelvet tanuljak?* [What language should I learn?] [http://www.felvi.hu/hallgatoknak/tanulas/milyen\\_nyelvet\\_tanuljak](http://www.felvi.hu/hallgatoknak/tanulas/milyen_nyelvet_tanuljak)

31 Deutsch-Ungarische Industrie- und Handelskammer: *Wirtschaftszahlen*. <http://www.ahkungarn.hu/laenderinfo/wirtschaftszahlen/>

exports. A similar share, 24.6% of Hungarian imports, came from Germany, with the second biggest importer being Russia at around 9%. While Hungarian dependence on the German economy is obvious, it should be pointed out that Hungary is the 16<sup>th</sup> biggest trading partner for Germany as well, surpassing global giants like Brazil and India or up-and-coming economies like Turkey and Indonesia. In this sense, one should not underestimate the importance that Hungary carries for mighty Germany. In Eastern Europe, only Russia, Poland, and the Czech Republic conducted more trade in recent years with Germany than Hungary. Signaling its relative importance, Hungary's share of German bilateral trade reached almost 2% in 2011, up from only 0.8% in 1990.<sup>32</sup>

In short, while Hungary is undeniably heavily dependent on Germany as an economic partner, one might also conclude that this relatively small country carries a proportionally huge importance for the German economy as well. In this sense, one can cautiously suggest that the relationship between the two countries, while dominated by the giant Germany, carries a slight hint of interdependence. German firms have huge and lucrative interests in Hungary, and, by and large, do not want to lose their long-standing positions in the country, which might explain the often cautious and matter-of-fact approach applied by Berlin toward the possibly worrisome political developments in Budapest.

Economic ties between the two countries started to grow dynamically in the 1970s – from an admittedly low base – with the Federal Republic of Germany (FRG) reaching a share of 16–17% of Hungarian exports by the second half of the 80s.<sup>33</sup> Thus, the FRG was the most important Western partner state for Hungary. After 1989, Hungarian exports to Germany exploded, growing by 500% from 1990–2000. The volume of Hungarian exports has continued to grow almost every year since 2000, albeit at a slower pace. Much the same can be said of German imports to Hungary, which quadrupled from 1990–2004.<sup>34</sup> In 2011, Hungarian exports to Germany totaled € 20 billion, while German imports to Hungary reached € 18 billion. It is worth mentioning that starting from 1998 Hungary has usually had a surplus in the balance of trade vis-à-vis Germany. In 2011, this surplus totaled more than € 2 billion.

32 Deutsch-Ungarische Industrie- und Handelskammer: *Wirtschaftszahlen*. <http://www.ahkungarn.hu/laenderinfo/wirtschaftszahlen/>

33 Kőrösi, István: A magyar-német gazdasági kapcsolatok fejlődésének húsz éve (1989–2009) a tíz új EU-tagországgal összehasonlítva. [Twenty years of development of German-Hungarian economic relations (1989–2009) in comparison with the ten new EU member states] *Külügyi Szemle* 2009/3, pp. 5.

34 Ibid., pp. 33.

However impressive these figures may be, they are also misleading. Since Hungarian industries are highly integrated with German industries, a lot of activity involves processing components in Hungary that are imported from Germany and then re-exported again to Germany (or somewhere else).<sup>35</sup> In this sense, many Hungarian imports from Germany and Hungarian exports to Germany are little more than German companies moving parts across the border.

The composition of traded products has radically changed in the last 20 years. In the 90s, Hungary mainly exported agricultural products (tobacco, beverages, etc.) and raw materials to Germany. Machines and transport equipment accounted for only 12–14% in that period, but this has changed dramatically. By 2008, the combined share of agricultural products and raw materials dropped to 5%, while the share of machines and transport equipment rose to 66%. A good example for this is Audi, which is a big exporter to Germany. A similar development occurred regarding Hungarian imports from Germany: the share of machines and transport equipment has expanded from 27% (1990) to 60% (2008), while the share of raw materials dropped from 60% (1990) to 1% (2008). These changes in the composition of the bilateral trade can be explained by the fact that from 1995–2000 many German firms invested heavily in factories and assembly plants in Hungary. As noted, these firms tend to acquire their production inputs in Germany and then ship them for assembly to Hungary, from where they are sold abroad.<sup>36</sup> Nevertheless, the engagement of German firms has definitely played “a significant role in the technological modernization and restructuring of the Hungarian economy.”<sup>37</sup>

Overall, Hungary's economy closely follows the course of the German economy. In light of their close trade links and the significant amount of German FDI in Hungary, this is no surprise. Whenever the German economy is expanding, the Hungarian economy tends to grow too. The reverse is also true: a recession in Germany is usually followed by contraction in Hungary.<sup>38</sup> GDP forecasts by the German statistical agency are therefore

35 Hungary Economy Watch Blog: *From Here To Eternity, Hungarian Style*. 27 January 2012; <http://hungaryeconomywatch.blogspot.hu/search?q=Germany&max-results=20&by-date=true>,

36 Kőrösi, pp. 10.

37 Kiss J., László: “Germany and Hungary.” In: *Germany and East Central Europe since 1990*. Research Project of the Ministry of Foreign Affairs of the Czech Republic (ed. by V. Handl, J. Hon, P. Pick et al.). Prague 1999. 201–215.

38 Központi Statisztikai Hivatal: *A magyar-német gazdasági kapcsolatok főbb jellemzői*. [Main characteristics of Hungarian-German economic relations.] 25 September 2009. <http://www.ksh.hu/docs/hun/xftp/gyor/jel/jel309072.pdf>

closely watched in Budapest, and serve as a useful guide to further developments.

## **2.2. Foreign direct investment and company ownership structure**

Germany's importance as an investor in Hungary is paramount. Since 1990, German firms have expanded continuously in the country, building up a huge and diverse portfolio. The main advantage of German investors has been the fact that they were among the first movers, grabbing lucrative slices of formerly state-owned Hungarian firms or establishing flourishing subsidiary companies using all their experience and know-how, against which Hungarian firms emerging from decades of socialism were no match. Nevertheless, German firms were also highly welcome in Hungary, and they reciprocated this by being mostly "responsible investors": they often established their regional centers in Budapest, re-invested profits in the country, and imported knowledge as well as technologies.<sup>39</sup>

As of 2010, foreign firms have invested € 68.6 billion in the country. The single biggest chunk of this – 21.9%, or around €15 billion – has been made by German firms.<sup>40</sup> German investments started early: by 1994, they have already reached € 1.4 billion, expanding especially rapidly between 1995–2000 and 2004–2010. The year that saw the biggest volume of German investment was – perhaps surprisingly – the crisis-prone year of 2010, when German firms invested no less than € 2.1 billion over 12 months. Investments primarily went to the following industries: automotive engineering (34%), energy and water supply (14%), trade and commerce (13%), insurance and banking (8%) and transport and communications (6%). By region, Bavaria was the most active investor in Hungary, accounting for 48% of German FDI, followed by North Rhine-Westphalia (16%) and Baden-Württemberg (16%). All the other states combined accounted for only 12%. One of the single biggest investments ever made in Hungary was executed by Audi in the Western city of Győr, where the German automaker has so far invested € 3.3 billion in its car factory. Mercedes opened a new factory in Kecskemét in 2012, with the capacity to produce 100.000 Mercedes-Benz compact cars a year (€ 800 million), while General Motors's German subsidiary Opel has invested € 500 million in Szentgotthárd.

39 "Balhé Berlinnél" [A clash with Berlin] *Véleményvezér Blog*. 4 January 2011. [http://velemenyvezer.blog.hu/2011/01/04/balhe\\_berlinnel](http://velemenyvezer.blog.hu/2011/01/04/balhe_berlinnel)

40 Deutsch-Ungarische Industrie- und Handelskammer: *Wirtschaftszahlen*. <http://www.ahkungarn.hu/laenderinfo/wirtschaftszahlen/>

Siemens, with its Combino low-floor tram, is an ever-present feature in the Budapest urban landscape, along with its 31 Desiro passenger trains.

Other German companies with significant investments and a major presence in Hungary are Allianz, Bosch (with 8.000 employees), Deutsche Telekom (through its subsidiary Magyar Telekom), SAP, ZF, and Knorr-Bremse, to name only a few, along with several medium sized firms. Moreover, leading German manufacturers, including Audi, Bosch, Knorr-Bremse, and ThyssenKrupp, have established R&D centers in – among other places – Budapest, Győr, Veszprém, and Miskolc. Overall, there are around 7.000 German firms in Hungary, according to the German Embassy in Budapest.<sup>41</sup>

In the energy sector, E.ON Hungária Zrt is one of Hungary's leading energy providers, being one of the country's 10 largest companies in terms of revenue. Based on investments, E.ON AG has been the top investor in Hungary since 2006 through E.ON Energie, E.ON Hungária Zrt's majority stockholder, and through the Hungarian subsidiary of E.ON Ruhrgas.<sup>42</sup> Currently, E.ON provides nearly 2.5 million customers with electricity and supplies (mostly Russian) gas to over half a million customers in 15 counties. E.ON has been present in the country since 1995. Another major player is RWE, which has built up a huge portfolio of energy-related investments in Hungary. RWE entered the country in 1995, when almost the entire Hungarian energy market was privatized. Since then, RWE has built a strong presence in both the electricity and gas businesses. Fővárosi Gázművek Zrt. (FÖGÁZ) and Tiszántúli Gázszolgáltató Zrt. (TIGÁZ), in which RWE holds a large minority share, are the Hungarian gas market leaders. With stakes in the ELMŰ/ÉMÁSZ/MÁSZ Group, RWE is the second largest player on the Hungarian electricity market. By holding a majority share in the Hungarian lignite and gas power station Mátra, RWE secures part of the electricity supply in Hungary.

Throughout the years, German financial firms have invested heavily in Hungary, making German-owned institutions very important players in the Hungarian banking sector. Signaling early German confidence in the newly capitalist Hungary, Commerzbank founded a Hungarian subsidiary as early as 1993, servicing primarily big companies. The most important German player in terms of engagement and exposure has been Bayerische

41 Deutsche Botschaft Budapest: *Wirtschaftsbeziehungen*. [http://www.budapest.diplo.de/Vertretung/budapest/de/05\\_20Wi/Wirtschaftliche\\_Zusammenarbeit/Bilaterale\\_Wirtschaftsbeziehungen.html](http://www.budapest.diplo.de/Vertretung/budapest/de/05_20Wi/Wirtschaftliche_Zusammenarbeit/Bilaterale_Wirtschaftsbeziehungen.html)

42 E. ON Hungária: *Company History*. <http://www.eon-hungaria.com/en/corporate/eon/history/>

Landesbank Girozentrale-BLB, which was among the first to invest in the Hungarian banking sector when the state-owned MKB Bank was privatized in 1994. This was the first privatization of a big bank in Hungary.<sup>43</sup> BayernLB, as it is now known, bought 25% of the bank's shares, gradually increasing its stake to 100%. Currently, BayernLB owns 95% of MKB, which in 2010 had the fourth biggest market share in Hungary with around 6.5%<sup>44</sup>, and operates 87 branches with 349.000 customers throughout the country.<sup>45</sup> Another early bird has been Deutsche Bank, which opened a Hungarian representation in 1990.<sup>46</sup> Deutsche Bank has no branches in the country and focuses instead on financial services for big and medium size companies. An important building society in the Hungarian market is Fundamenta, of which 51% is owned by the well-known German firm Bausparkasse Schwäbisch Hall AG and 11% is owned by Wüstenrot and Württembergische AG. As of 2010, Fundamenta managed 607.000 deposit accounts. In addition to this, German insurer Allianz has been the market leader in the insurance industry, with a market share of over 20% in 2011.<sup>47</sup> Allianz bought the former state-owned Hungária Biztosító insurance company in the 1990s, marking the first significant Western investment in the Hungarian financial industry.

By 2004, German FDI in Hungary's banking sector totaled € 577 million, or around 5% of total German investment in Hungary from 1990–2004. Another € 55 million went into the insurance industry. By 2009, German credit and insurance firms had invested around € 1.4 billion in Hungary, 8.1% of total German investment in the period of 1990–2009.<sup>48</sup> Overall, German banks had the third highest exposure to Hungary in 2012, having lent to the tune of \$ 21.38 billion to Hungary. Only Austrian and Italian institutions lent more.<sup>49</sup>

43 MKB Bank: *Történet* [History]. [http://www.mkb.hu/az\\_mkb\\_bankrol/bemutakozas/tortenet/index.html](http://www.mkb.hu/az_mkb_bankrol/bemutakozas/tortenet/index.html)

44 Magyar Bankszövetség: *Pénzügyi kilátások – Prezentáció* [Financial perspectives – presentation]. <http://www.mgyosz.hu/hirlevel/20110930csucs.ppt#318,5>

45 Magyar Bankszövetség: *Éves bankismertető 2011* [Annual Bank Information 2011]. [http://www.bankszovetseg.hu/anyag/feltoltott/evesbank\\_2011.pdf](http://www.bankszovetseg.hu/anyag/feltoltott/evesbank_2011.pdf), Retrieved: 3 September 2012.

46 Ibid.

47 Magyar Bankszövetség: *Pénzügyi kilátások – Prezentáció*. [Financial perspectives – presentation] <http://www.mgyosz.hu/hirlevel/20110930csucs.ppt#319,6,A> vezető magyar biztosítók piaci részesedése – 2011. II. negyedév

48 Deutsch-Ungarische Industrie- und Handelskammer: *Wirtschaftszahlen*. <http://www.ahkungarn.hu/laenderinfo/wirtschaftszahlen/>

49 Frankfurter Allgemeine Zeitung: *Ungarn ist kein zweites Griechenland*, 13 January 2012. <http://www.faz.net/aktuell/wirtschaft/europas-schuldenkrise/schuldenkrise-ungarn-ist-kein-zweites-griechenland-11604113.html>

Hungarian investment into Germany is “negligible”, the total volume being only € 45 million as of 2009.<sup>50</sup> A notable exception is the Hungarian bakery Sweet Horn GmbH, which is building a factory in Geilenkirchen and hopes to invest up to € 5.5 million in the coming years.

All in all, around 30.000 Hungarians are working legally in Germany, while German companies provide no less than 300.000 jobs in Hungary, which means that around 7–8% of the Hungarian work force is employed by German firms.<sup>51, 52</sup> This staggering share is even bigger if one includes the number of employers who work for Hungarian automotive suppliers that are dependent on German companies producing in the country. This naturally provides Germany huge leverage over Hungary, both economically and politically.

However, this did not stop the Fidesz-led government of Viktor Orbán from adopting a string of measures that challenged the position of German firms and led to a worsening of the bilateral relationship. First, the government imposed a so-called “particular taxes” on the telecommunications sector, the big retail food chains, the energy sector, and the financial sphere (banks and insurance companies) in 2010. The tax mostly affected foreign (especially German) firms, including, for example, Magyar Telekom, which is majority owned by Deutsche Telekom. Magyar Telekom pays roughly half the total telecom related taxes, due to its market share.

Although in December 2011 the Orbán government promised banks that the “particular tax” imposed on them would be halved in 2013 and completely eliminated in 2014<sup>53</sup>, in October 2012 the government announced a set of new austerity measures, one of them being the continuation of the particular tax to its full extent in 2013.<sup>54</sup> What is more, Economic Minister György Matolcsy also announced that the proposed financial

50 Nemzeti Külgazdasági Hivatal: *Országismertető* [Country Profiles]. <http://hita.hu/hu/Content.aspx?ContentID=b684f082-e3c3-4a66-9776-9bc47a0c1bfb>

51 “Beelőztük a lengyeleket: 43 százalékkal nőtt a Németországban dolgozó magyarok száma” [We have taken over the Poles: 43% increase in the number of Hungarians working in Germany] *Privatbankar.hu*. 5 May 2012. <http://privatbankar.hu/karrier/beeloztuk-a-lengyeleket-43-szazalekkal-nott-a-nemetorszagban-dolgozo-magyarok-szama-246917>

52 “Már nem jönnek a német cégek. [German firms are not coming any more] *Világgazdaság Online*. 13 December 2011, <http://www.vg.hu/gazdasag/gazdasagpolitika/mar-nem-jonnek-a-nemet-cegek-364362>

53 Government of Hungary: *Tárgyalási jegyzőkönyv* [Minutes of Understanding], 15 December 2011. <http://www.kormany.hu/download/4/1b/60000/T%C3%A1rgyal%C3%A1si%20Jegyz%C5%91k%C3%B6nyv.pdf>

54 “764 milliárdos megszorítás jön” [A Cut of 764 billion forints is coming]. [www.index.hu/17](http://www.index.hu/17) October 2012. [http://index.hu/gazdasag/magyar/2012/10/17/367\\_milliardos\\_csomag/](http://index.hu/gazdasag/magyar/2012/10/17/367_milliardos_csomag/)

transaction tax will double from 0.1 to 0.2% on all bank transactions from January 1, 2013.

Recently, the Hungarian state strong-arming RWE into selling its stake in Budapest Waterworks back to the city some ten years before the formal end of the contract (at € 4.8 million or an 8.5% discount on the contract price) has also ruffled some feathers.<sup>55</sup> Another ongoing issue is the proposed nationalization of E.ON. In a bid to increase the state's presence in the economy – a cherished goal of Fidesz – Orbán's conservative government has already bought back a 21% stake in Hungarian oil and gas group MOL from Russian investors and a 74% stake in vehicle parts maker Rába. The possible nationalization of E.ON, which was announced by the prime minister in August 2012, would fit this pattern. However, according to an analysis, the firm might respond positively: "E.ON's silence on the matter indicates that the German multinational likely approves of the plan. The move fits with E.ON's drive to reduce its foreign presence and to consolidate its remaining international assets in markets with a more stable outlook – for example, by moving into Poland and out of Hungary."<sup>56</sup> According to a German diplomat working at the German Embassy in Budapest, all these measures led to serious problems for German firms in Hungary and to a loss of trust for Berlin toward Budapest.<sup>57</sup>

Nevertheless, German investors still appreciate Hungary as an investment location. The factor most often cited as decisive in coming to Hungary is the availability of a qualified and motivated workforce. Wages are not that low anymore, and instead the country offers "hinsichtlich seiner Arbeitskräfte vielen ausländischen Unternehmen ein attraktives Verhältnis von Produktivität, Qualifikation, Kosten und regulativem Umfeld."<sup>58</sup> According to a survey of German investors in 2012, the biggest headache was the unpredictability of the governments' economic policy and decreasing

55 "Hungary: Mercedes plant, yes; foreign partners in Budapest water, no thanks." *Financial Times*. 30 March 2012. <http://blogs.ft.com/beyond-brics/2012/03/30/hungary-mercedes-plant-yes-please-foreign-investors-in-budapest-water-no-thanks/#axzz28naiZfpT>

56 "Hungary's bid to nationalise E.ON could spur funding backlash." [www.euractiv.com](http://www.euractiv.com) 30 August 2012, <http://www.euractiv.com/energy/hungary-plans-eon-spur-funding-b-analysis-514562>

57 "Az Orbán iránti bizalmat nehéz helyreállítani – üzeni a német kormány." [Message from the German government: it is hard to restore confidence in the Orbán-government.] *HVG*. 19 October 2012. [http://hvg.hu/gazdasag/20121019\\_Ne\\_tegy\\_e\\_Orban\\_az\\_oszes\\_tojast\\_egy\\_kosar#](http://hvg.hu/gazdasag/20121019_Ne_tegy_e_Orban_az_oszes_tojast_egy_kosar#)

58 Deutsch-Ungarische Industrie- und Handelskammer: *Verlässliche Benchmarks für Höhe und Struktur von Vergütungen in Ungarn*. [http://www.ahkungarn.hu/fileadmin/ahk\\_ungarn/Dokumente/Bereich\\_CC/Presse/2010/2010-12-09\\_DUIHK\\_Verguetungsreport.pdf](http://www.ahkungarn.hu/fileadmin/ahk_ungarn/Dokumente/Bereich_CC/Presse/2010/2010-12-09_DUIHK_Verguetungsreport.pdf)

confidence in the stability of the law. However, these problems should not distract from the fact that the day-to-day operations of German firms in Hungary are going smoothly, in a mutually beneficially way. This was acknowledged by Angela Merkel in May 2011, after her meeting with Viktor Orbán. Both premiers emphasized the long-term commitments of German firms in Hungary, which are "highly regarded" in Hungary, according to Orbán.<sup>59</sup> Although recent problems between the two countries arising from the unpredictable nature of the Hungarian government might dent this sunny mood for a while, the long-term nature of German engagement in Hungary means that occasional difficulties will be patiently endured. German investors are in Hungary for the long run and choose to stick through the bad times.

### 3. Institutional aspects of German-Hungarian cooperation

#### 3.1. The European Union – a common project?

In the ongoing debates on the future of Europe, official German and Hungarian positions differ significantly. While Germany acts as an engine of economic and fiscal integration, Viktor Orbán's government uses a much more skeptical and cautious discourse. Critiques from the Hungarian Prime Minister are centered on three main topics. The first is the alleged control that the EU intends to exercise over Hungary by limiting the country's sovereignty. This is in line with the 'economic freedom fight' discourse often used by the Orbán government since it came to power in 2010. As reported by the *Wall Street Journal* as early as in 2010, Hungary was committed to setting its own economic policy even if it prevents Budapest from getting a new loan from the EU and the IMF. According to a high-ranking Hungarian official quoted by the journal, this policy was aimed at "restoring the financial independence of the country."<sup>60</sup> As for an IMF loan, the EU's consent is inevitable, though the IMF debate obviously takes on an EU dimension as well.

59 Bundesregierung: *Pressestatements von Bundeskanzlerin Angela Merkel und dem Ministerpräsidenten der Republik Ungarn Viktor Orbán*. 5 May 2011. <http://www.bundesregierung.de/Content/DE/Mitschrift/Pressekonferenzen/2011/05/2011-05-05-merkel-orban.html>

60 Fairclough, Gordon: "Hungary Does Without EU and IMF." *The Wall Street Journal*, 2 August 2010. <http://online.wsj.com/article/SB10001424052748703314904575399231189704608.html>

The 'pro-independence' attitude of the Orbán government may indeed result in conflicting interests with Germany. The often belligerent Hungarian rhetoric used against the EU and the IMF is aimed at the strict financial control exercised by these organizations in exchange for any loan to Hungary. As one of the main promoters of a strong, more integrated, more financially coherent Europe is Germany, the anti-EU and anti-IMF discourse of Budapest also indirectly goes against Berlin. In the IMF, Germany is obviously far more powerful than Hungary when the percent of total votes are compared: while Berlin has 5.81% of all votes, Budapest has only 0.44%.<sup>61</sup> However, it cannot be reliably determined how Germany acts within the IMF regarding the ongoing debates around Hungary.<sup>62</sup>

Due to a deficit in the national budget and the very high (approx. 77% of GDP) state debt, Hungary is in constant need of outside financing. Turning to the International Monetary Fund would be an obvious solution, particularly as in 2008 the country already got a large loan from the organization. Currently the main question is that what kind of loan would be needed. The IMF would be ready to provide a bail-out loan, while the government only wants a precautionary loan, as a kind of "hedge" against unexpected economic turmoil. Despite its original anti-IMF discourse, Budapest finally applied for an IMF loan in November 2011; however, there is still no agreement on either the type or the conditions of the loan. Many analysts argue that the Hungarian government uses a so-called 'Turkish tactic', i.e., uses the negotiations themselves to stabilize the national currency, instead of pushing for a real agreement.

The second issue of tension is more value-driven. Several domestic political moves by the Orbán government induced harsh criticism from the EU, as well as from Germany: for example, the media law, the new Constitution, the retroactively adopted extraordinary taxes, and so on. Hence, the often EU-skeptic rhetoric of the Hungarian Prime Minister may also be perceived as a counter-reaction to criticism toward his domestic policies from the EU.

The third group of questions is related to the concrete future of the eurozone. If one follows the logic that the Hungarian government intends to avoid any outside control (be it financial or political) from the European

61 International Monetary Fund: *IMF Members' Quotas and Voting Power, and IMF Board of Governors*. 23 October 2012. <http://www.imf.org/external/np/sec/memdir/members.aspx>

62 One of the interviewed Hungarian diplomats flatly refused to answer, while the other said that he had no concrete information on the topic.

Union, then it is not surprising that in a recent interview given to the *Handelsblatt*<sup>63</sup> Orbán said the project of the bank union was going too fast for Hungary. He also rejected the idea of tax harmonization inside the EU. Besides this, he also declared that at the moment it would be "irresponsible" to introduce the euro in Hungary. Without discussing whether Hungary is able to meet the criteria of EU accession at all, it is interesting to note the argument used by the Prime Minister. Orbán expected that the euro crisis would grow into a leadership crisis that may seriously affect Hungary. He pointed out that leadership problems were inherent weaknesses of democratic political systems, and a presidential political system was perhaps much more able to conduct serious reform.<sup>64</sup> Though this was a remark on the alleged advantages of a presidential system compared to democracies, and was not commented on from the German side, according to a competent Hungarian official source it was surely not unnoticed.<sup>65</sup>

Minister of Foreign Affairs János Martonyi usually uses a much softer and more delicate tone. At a 'Friends of Europe' conference in Brussels in October 2012, Martonyi said that Hungary was interested in a stronger, more coherent Europe, but that raising any internal division inside Europe was to be avoided. According to Martonyi, a two-speed or multi-speed Europe would be against Hungary's interests.<sup>66</sup> Though the tone was different, the main message was the same as that of Orbán: Hungary was against the deepening financial integration of the eurozone – as Budapest is not member of the zone, closer integration would result in the isolation of Hungary. This position indeed contradicts German plans for a more coherent, more financially integrated Europe.

However, contrary to official rhetoric, Hungarian opposition forces and civil actors often criticize the government for the tactics used with the IMF, and for the 'economic freedom fight'. The strongest parliamentary opposition party, the Hungarian Socialist Party, in its recently launched white paper, the Leftist Economic Program, suggests that in addition to restoring rule of law in Hungary and improving the overall credibility of the political system, Hungary should enter the ERM-2 zone as soon as possible.<sup>67</sup> The

63 Berschens, Ruth: "Präsident Orbán sieht keine Pflicht zum Euro-Beitritt". *Handelsblatt*, 10 October 2012. <http://www.handelsblatt.com/politik/international/ungarn-praesident-orban-sieht-keine-pflicht-zum-euro-beitritt/7237152.html>

64 Ibid.

65 Interview with Hungarian diplomat. Budapest, October 2012.

66 <http://www.kormany.hu/hu/kulugyminiszterium/hirek/martonyi-janos-az-europai-unio-egysege-mellest-szallt-sikra-brusszelben>.

67 Hungarian Socialist Party: *Baloldal, gazdasági kitörés, 2014*. [Left, Economic Breakout, 2014.] 21 October 2012. [http://www.mszo.hu/hirek/baloldal\\_gazdasagi\\_kitores\\_2014](http://www.mszo.hu/hirek/baloldal_gazdasagi_kitores_2014)

Socialists are also in favor of a quick IMF agreement. This is in sharp contrast with Orbán's above-quoted declaration that Hungary does not need the euro at the moment. The Patriotism and Progress Public Policy Foundation, led by former Prime Minister (and supposed 2014 Prime Minister candidate) Gordon Bajnai also stresses the urgent need for an agreement with the EU-IMF in order to restore the interest rates financing the state debt, and thus to stabilize the national economy.<sup>68</sup>

All in all, one may conclude that the official, often cautiously ambivalent discourse of the Hungarian government on the future of the European Union is far from representative of the whole spectrum of Hungarian society. While the Orbán government is conducting an 'economic freedom fight' aimed at avoiding or decreasing any outside control over Hungary, there are important opposition and civil society actors who are strongly in favor of a more integrated Europe with Hungary as a member. Another conclusion is that the Hungarian government's position on the EU is not the result of a well-elaborated, coherent vision for Europe, for example regarding a confederalist integration. Instead, the EU-skepticism of the government is more connected to the critiques coming from the EU about domestic developments in Hungary, as well as to the conditions of any financial assistance or loan. In other words, the Hungarian government's different vision on Europe does not originate from a different vision of Europe, but from a different vision of Hungary itself.

### 3.2. NATO: USA or Germany?

Since the mid-1990s, and particularly since the NATO accession in 1999, Budapest has been cautiously avoiding making an open choice between Atlanticist and pro-European options. As has been often said about Hungarian diplomacy, in NATO Budapest represented a pro-European force, while in the EU Hungary belonged to the Atlanticist camp.

In light of this balancing approach, it was surprising for many when Hungary signed the so-called 'Letter of the Eight' in support of the U.S. attack on Iraq in January 2003. Thus, Budapest joined the Atlanticist group of European countries that basically torpedoed a joint EU-position on Iraq, a position that was supported and brokered mainly by France and Germany.

68 Patriotism and Progress Public Policy Foundation: *Magyarország a hitelválságban. Bajnai Gordon előadása*. [Hungary in the debt crisis. Lecture of Gordon Bajnai] 22 October 2012. [http://hazaeshaladas.blog.hu/2012/10/22/magyarorszag\\_a\\_hitelvalsagban?utm\\_source=ketrec&utm\\_medium=link&utm\\_content=2012\\_10\\_22&utm\\_campaign=index](http://hazaeshaladas.blog.hu/2012/10/22/magyarorszag_a_hitelvalsagban?utm_source=ketrec&utm_medium=link&utm_content=2012_10_22&utm_campaign=index)

From the perspective of German-Hungarian relations, the main problem was not the signing of the letter itself, but the fact that Budapest did not notify either Berlin or Paris in advance.<sup>69</sup> This caused a serious loss of confidence and induced harsh criticism, both formally and informally, from Germany. Berlin counted the move by Budapest as a serious violation of the norms of bilateral relations, which had been based on mutual respect and close cooperation. Thus, by signing the "Letter of the Eight" the balancing practice of Hungarian diplomacy described above had clearly been disregarded.

However, the National Security Strategy adopted in 2004 returned to the traditional dualist approach, and emphasized the need for both a strong NATO and EU. The strategy declared that "Hungary is primarily providing for its security in the framework of membership in NATO and the European Union, [and] in cooperation with its allies and partners"<sup>70</sup> Hence, the strategy again avoided any deliberate choice between NATO and the EU and opted instead for maintaining a balance between the two organizations and the role Hungary played in them.

The security and defense policy of the Orbán government seems to continue along the same policy line, as is clearly reflected in the new National Security Strategy adopted in February 2012<sup>71</sup>. Though the new strategy calls Article Five of the Washington Treaty the cornerstone of Hungary's security, it also emphasizes the need for a strong EU in terms of security policy. The document named both the EU and NATO as communities of fundamental values, and confirmed Hungary's readiness to contribute to the crisis management operations of both organizations. It is important to note that while the 2004 strategy was adopted under a Socialist-Liberal government, the new one was made in the Fidesz era. This indicates that the Orbán government has not brought any fundamental changes to the security and defense policy of Hungary or to the above-mentioned balancing attitude. The pro-EU component of this policy line obviously includes Germany as well, though Germany is not mentioned explicitly in the strategy.

69 Lengyel, László: "Magyar viselkedés a második atlanti válságban." [Hungarian behavior in the second Atlantic crisis] 2000. 2006/2. [http://www.ketezer.hu/menu4/2006\\_02/lengyel.htm](http://www.ketezer.hu/menu4/2006_02/lengyel.htm)

70 Government of Hungary: *The National Security Strategy of the Republic of Hungary*. Budapest, 2004. English version: [merln.ndu.edu/whitepapers/Hungary\\_English-2004.pdf](http://merln.ndu.edu/whitepapers/Hungary_English-2004.pdf)

71 Government of Hungary: *A Kormány 1035/2012 (II. 21) Korm. határozata Magyarország Nemzeti Biztonsági Stratégiájáról*. [Resolution 1035/2012 on the National Security Strategy of Hungary.] 21 February, 2012.

Military ties between Germany and Hungary have been cordial since the democratic transition. The unified German state supported the modernization of the Hungarian Defense Forces (HDF) in numerous ways. Perhaps the longest-standing form of assistance has been that the HDF received free-of-charge fellowships to the Führungsakademie der Bundeswehr (FüAkBw), which is the highest level military academy of the German armed forces and operates in Hamburg.<sup>72</sup> This training contributed a lot to the modernization of the Hungarian Defense Forces, particularly in terms of operational standards, principles, and socialization.

The most important field for German-Hungarian military ties is cooperation in the international crisis management mission, particularly in Kosovo and Afghanistan. In Kosovo, HDF units are currently serving under German higher command in the KFOR. Hungarian soldiers played an important role during the November 2011 crisis in Northern Kosovo, when they managed to protect a border crossing point from attacking Serbian rioters,<sup>73</sup> besides performing other riot control duties.<sup>74</sup>

However, Afghanistan is clearly the most important field for German-Hungarian military relations. German and Hungarian forces have been closely cooperating in Afghanistan in running their respective Provincial Reconstruction Teams (PRTs). As the Hungarian PRT is neighboring the German one that operates in Kunduz, an exchange of experiences is natural between the two units. Cooperation has been further strengthened by the fact that so far there have been two commanders of the Hungarian PRT who earlier completed leadership courses at the Führungsakademie der Bundeswehr, and thus were very familiar with the German operational standards and environment, in addition to the obvious importance of personal relations and linguistic knowledge.<sup>75</sup>

The continuous transfer of military technology constitutes another area of cooperation. After the re-unification of Germany, the HDF received various types of valuable military equipment from Germany, mostly from stockpiles of the former East-German armed forces.<sup>76</sup> Military transfers

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72 Interview with Péter Wagner, research fellow of the Hungarian Institute of International Affairs. Budapest, October 2012.

73 Ibid.

74 Ministry of Defense of Hungary: "Tömegkezelés – éles helyzetben." [Riot control – live]. 13 February 2012. <http://www.honvedelem.hu/cikk/30232>

75 Interview with Péter Wagner, research fellow of the Hungarian Institute of International Affairs. Budapest, October 2012.

76 SIPRI Database on Arms Transfers. [http://armstrade.sipri.org/armstrade/page/trade\\_register.php](http://armstrade.sipri.org/armstrade/page/trade_register.php).

significantly increased following Hungary's NATO accession, and particularly after Hungary started to participate in the Afghanistan mission. Germany supplied the HDF with hundreds of modern Kevlar helmets, and dozens of Unimog all-terrain trucks in addition to the Mercedes G military SUVs. Parallel to the ongoing modernization and decrease of the Bundeswehr, talks are currently going on about the possible transfer of even more military equipment,<sup>77</sup> reportedly including heavy weaponry as well.

### **3.3. Germany's normative and socializing power**

As was demonstrated in the part discussing high level politics ties, in relations with Hungary the German government and civil society pay particularly strong attention to ensuring the respect of fundamental EU norms on democracy, rule of law, and freedom of the media. German foreign policy has been ready to take on even serious diplomatic confrontations in order to make Budapest obey these principles. The German discourse that preceded Orbán's October 2012 visit to Berlin, i.e. the combination of a very strong warning right before the visit and then the Chancellor's welcoming remarks on Hungary respecting the recommendations of the European Commission, clearly demonstrated this approach.

This leads one to the conclusion that in relations with Hungary Germany feels the responsibility to do its best to make fundamental EU norms respected, and thus clearly acts as a normative player. The frequent references to important and close economic ties demonstrate that besides this responsibility, Germany also has the means to get its interests realized and its recommendations respected. However, instead of directly using the existing economic 'sticks' it has, Germany tends to limit its activities to political and media pressure, both in bilateral relations and in multilateral fora.

The situation is the same in the field of security cooperation. Germany not only contributed to the modernization of the organization and operational standards of the Hungarian Defense Forces, but also to the significant improvement of its equipment. Hence, the relationship could theoretically be well described as one of clear dependence. However, Berlin seems to exercise the same self-restraint as in higher political relations, and visibly

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77 Hungarian Government: "Tértíesmentesen kapott Magyarország hadfelszereléseket Németországtól" [Hungary received military equipment free of charge from Germany] Official website of the Hungarian Government. 27 July 2012. <http://www.kormany.hu/hu/honvedelmi-miniszterium/hirek/tiz-teherautot-es-otszaz-rohamsisakot-kap-teritesmentesen-a-honvedseg>

refrains from using this dependence as any kind of direct political leverage. Instead, the methods and timing of providing these types of support could better be characterized as a soft power tool: a favorably-performing partner gets rewarded, and if the performance worsens then there are no definite sanctions, just no more benefits are given. All in all, in the security and defense relationship between the two countries Germany seems to be an actor of socialization and soft power, instead of playing the role of a clearly dominant ruler.

## Conclusions

In assessing German-Hungarian political and economic ties, one may conclude that though Germany is clearly in a dominant position in the economic sense, politically it is much less active, particularly in bilateral relations. In terms of security and defense policy, the two countries follow mainly the same pacifistic course, though this is mostly in connection with their common NATO membership. This is particularly visible in the close German-Hungarian cooperation in Afghanistan and Kosovo, in addition to the ongoing German assistance in the development of the Hungarian Defense Forces. Over the last two decades Hungary has avoided any situation where an open choice would have to be made between the two sides of the Atlantic, such as between the EU and NATO, or between the U.S. and Germany. Hence, signing the "Letter of the Eight" in 2003 could be considered as the single exception to a lasting trend.

Regarding the second research question: in addition to the obvious geo-economic agenda, from the German side a normative, civilian power approach is clearly present as well. However, taking into account the Hungarian domestic political transformation – for example, the media law, the constitution, and many other issues – this normative German approach seems to be only moderately successful. The Hungarian government has so far been able to proceed even with the most criticized measures, and has made only minimal corrections on them regardless of any outside criticism.

Concerning the third research question on the future prospects of the German-Hungarian relationship, the Hungarian perception of bilateral relations is dominated by economic considerations. The main objectives of the Hungarian government regarding Germany are to attract more investments and capital, e.g., by inviting German companies to set up factories

and assembly plants in Hungary, encouraging already present German firms to broaden their portfolios, etc. Accordingly, the non-economic, value-oriented dimensions of bilateral relations receive only very moderate attention from the Hungarian side, particularly concerning the Prime Minister's discourse.

This leads to the fourth research question, namely the German and Hungarian positions on the future of European integration. The policy line followed by Budapest differs significantly from the one of Berlin. Hungary currently rejects any closer financial coordination inside the EU – such as tax harmonization or the bank union – and is very skeptical even toward the euro itself. As Germany seems to be successful in getting its interests realized regarding the EU anyway, the opposing Hungarian strategy is not likely to be sustainable over the long run. However, this is not likely to change the nature of the German-Hungarian relationship, which is and will continue to be dominated by bilateral, mutual economic interests.

Hence, the answer to the last question is that practical economic and military cooperation currently seems to continue to counter-balance existing political, norm-related tensions. The German economic engine was, is, and will be essential for the economic development of Hungary. Germany is the country's biggest trading partner, the biggest investor in the country and employs 7–8% of the work force. Although the current Hungarian government adopted a string of measures detrimental to German investors, it is safe to assume that they will stick out this difficult phase because German firms have built up a valuable and lucrative portfolio in Hungary. Moreover, German engagement is decidedly long-term, meaning that changes in the political barometer deter them less than other, more flighty investors. Besides this, Hungary and the Hungarian market also has some importance for the German economy: after all, Germany trades more with tiny Hungary than with global giants Brazil or India. Their partnership is of course dominated by Germany, but interdependence is also at play, because German investors still value Hungary as an investment location and economic partner.

It is questionable, however, how long Germany is going to tolerate the repeated non-compliance of the Hungarian government with its commitments. This is particularly relevant regarding the increasingly unpredictable business environment in Hungary and the extraordinary taxes that seriously affect German interests in the country. In order to forecast the future attitude of Berlin, it is important to keep in mind the large, relatively immobile German business portfolio present in Hungary in the form of

factories, telecommunications and banking sector investments, etc. On the one hand, these are obviously not easy to relocate. On the other hand, protecting the interests of German investors and entrepreneurs abroad is an obvious priority of the German government.

This leads to the final conclusion that if the unpredictable and often norms-breaking attitude of the Hungarian government prevails, then it would not be surprising if Germany feels the need to increasingly rely on the sticks it has in its inventory. Besides sending clear and often strong messages in bilateral relations, Berlin may easily use its dominant position in multilateral fora, primarily in the EU, to put pressure on Hungary, both politically and economically.

## FROM DIPLOMACY TO ROUTINE PARTNERSHIP: The Bilateral Relations of Latvia and Germany in the XXI Century

*Kārlis Bukovskis*

### Introduction

The relationship between the Federal Republic of Germany and the Republic of Latvia has had its ups and downs. History demonstrates a long and complicated co-habitation, but it is the present that demonstrates new trends. It is in the 21<sup>st</sup> century that the small state of Latvia has reckoned with its past relations with Germany and sees a future together rather than apart from its historical malefactor. This paper addresses the character and motivations of these transformed Latvian-German relations.

This research is based on document analysis and statistical data analysis, as well as interviews<sup>1</sup> with decision makers and representatives from the Ministry of Foreign Affairs of Latvia, the German Embassy in Riga, the Latvian Embassy in Germany, the German-Baltic Chamber of Commerce, the Foreign Affairs Committee of the Latvian Parliament, and journalists from both the Latvian and German media. The article first provides an evaluation of official political relations between the countries. This is followed by an analysis of trends in bilateral economic relations, and finally the role of historical and emotional factors will be shortly analyzed.

### 1. From Pragmatic Diplomacy to Natural Partners

To understand the shift toward the intensive routine-like partnership in Latvian-German relations that became gradually more visible after Latvia joined the European Union and NATO, first the evolution of diplomatic and political relations must be analyzed. This chapter therefore addresses the

<sup>1</sup> Naming worries of unintentional wrong-doing to good relations between the two countries as the main reason for their unwillingness to disclose their affiliations, most of the interviewees expressed a desire to remain unquoted and unanimous. Thus, the names and precise affiliations of the interviewed officials for this research will not be disclosed unless they have given consent to be named.

practical evidence demonstrating shifts and current trends: the foundation of modern diplomatic and political relations between Germany and Latvia, the increase in the amount of political interaction and the growing number of actors engaging in multi-level interactions between both countries, the current official perspectives on German-Latvian relations, and the bilateral bargaining process.

German-Latvian relations could be traced back to the 12<sup>th</sup> century, with the arrival of first German clergymen and their interaction with the Baltic tribes. The introduction of a feudal system with Germans as the ruling class and members of the future Latvian ethnic groups as serfs defined relations between the two communities almost until the beginning of the First World War. The interwar period and the establishment of bilateral relations between the two sovereign states was characterized mainly by the domestic struggle of Baltic Germans for a position in the democratic state and the constantly growing trade relations between Germany and Latvia.

The repatriation of the Baltic Germans to Germany at the beginning of the Second World War, more than three years of Nazi occupation of Latvian territory, and the half-century violent incorporation of Latvia into the Soviet Union (and the resultant maintained separation from Germany) drastically changed the political agenda between both countries when Latvia regained independence in the 1990s. On August 28, 1991, Germany reestablished diplomatic relations with the Republic of Latvia<sup>2</sup>. This marked a new start in relations between the countries, whereby previous disagreements began to be considered a historic experience rather than disputable political antagonism. "In 1991 we had a different Germany than before the Second World War; (...) we had interest in the Baltic states, (...) [and] because of communist regime in Eastern Germany we could understand the changes the Baltic states were going through; (...) we felt responsibility for the past and we wanted to build new, long lasting relations with Middle and Eastern European countries;"<sup>3</sup> is recalled by the German Ambassador to Latvia Andrea Wiktorin.

In spite of the positive reestablishment of relations between Latvia and Germany, both countries had their own problems to solve in the international arena. The German advocacy of the Baltic States and their path toward Euro-Atlantic integration allowed for the establishment of

2 Germany *de iure* recognized Latvia's independence and established diplomatic relations on February 1, 1921.

3 Author's interview with the Ambassador Extraordinary and Plenipotentiary of the Federal Republic of Germany Andrea Wiktorin in Riga, October 2012.

fundamental attitudes between Latvia and Germany that still serve as the basis for bilateral relations. However, German support and sympathies for Latvia and the Baltic States in general have been from time to time questioned.

These positive political attitudes and Germany's advocacy for the reintegration of Latvia, Estonia and Lithuania into Europe remained consequential and overpowered the growth of distrust in Latvia toward Germany. As Klaus Kinkel, then the Federal Minister for Foreign Affairs, famously said, "Germany emphatically supports moves to bring the Baltic States via association status into full membership in the European Union. It is our desire to help these states quickly and with all the means at our disposal take up their rightful place in Europe. (...) The European Union would remain incomplete if all three Baltic States were not one day to become members."<sup>4</sup> This statement naturally assured Latvia that taking the Euro-Atlantic integration path would be the correct choice for its development. It also safeguarded trust in Germany as potentially their closest large state ally in Europe.

At the same time, the core issue for both Germany and Latvia has been their relationship with the former Soviet Union and its successor, the Russian Federation. The "Russia factor" has traditionally caused the most difficulty in Latvian-German bilateral relations. In the case of Germany, during the breakup of the Communist system "Chancellor Kohl was concerned that developments in the Baltics could have a negative impact on the two-plus-four discussions (...) [and for] this reason he was keen to separate the German question from that of the Baltic States."<sup>5</sup> This German carefulness in relations with Russia continued to take place throughout the chancellorship of Helmut Kohl, and especially that of Gerhard Schröder. Although German actions toward the Baltic States' and Latvia's interests from were rather mixed at times throughout the 90s, it could be seen as a precautious attitude toward Russia rather than a specific diplomatic, political or economic problem with Latvia: "(...) even after the reunification of the two German states, the Federal German government was careful to ensure that contacts with the Baltic states did not cause relations with Moscow to suffer."<sup>6</sup>

The Russo-German factor in relations between Latvia and Germany has created some disappointment in this century as well. The foremost visible

4 Klaus Kinkel "Die Zukunft des Baltikums liegt in Europa", *Die Welt*, March 5, 1994.

5 Andreas M. Klein and Gesine Herrmann. "Germany's Relations With the Baltic States Since Reunification," *KAS International Reports* 9 (2010), 63.

6 Andreas M. Klein and Gesine Herrmann. "Germany's Relations With the Baltic States Since Reunification," *KAS International Reports* 9 (2010), 65.

move that caused political disappointment in Latvia was the *Nord Stream* gas pipeline project under the Baltic Sea. The agreement between Chancellor Schröder and the Russian elite demonstrated the pragmatic reasoning of German national interests and personal predispositions instead of a full commitment to the Baltics as emerging EU member states. Thus, Germany's willingness to build relation with Russia disregarded the worries and situation of the Baltic States.

The attitudes and activities of Latvia toward Russia matters to Chancellor Angela Merkel as well. During the Chancellor's visit in Riga in September 2010, she emphasized the necessity to continue the Latvian political tack "of constructing a good neighborly relationship with Russia, on the basis which is typical for all sovereign states"<sup>7</sup>, and expressed satisfaction on the conclusion of the Latvian-Russian border agreement in 2007. Thus, the Chancellor demonstrated Germany's interest in Latvia's ability to cooperate with Russia on pragmatic terms and consequently improving the political and economic environment in the Baltic state for foreign investors.

Thus, Germany's occasional reluctance to follow its original Kohl-Genscher "Baltic advocacy" approach created misunderstanding among Latvia's foreign policy elite and grounds to disbelieve the sincerity of German support. For instance, Germany's unconfident attitude toward the Soviet troop withdrawal from Latvia made Latvians look for support from the other side of the Atlantic Ocean. Germany's caution in military issues and the Civilian Power (*Zivilmacht*) foreign policy approach<sup>8</sup> facilitated Latvia's becoming ever closer to the United States of America. As a result of this, it was the US that became Latvia's largest strategic partner in the military and political contexts.

The following interest and support for the Baltic States in their domestic transformation process – together with the personal interest and activity of Hagen Graf Lambsdorff (1991–1993), the first German ambassador to renewed Latvia – set the tone for German-Latvian diplomatic relations in the 1990s. The new millennium inherited the political traditions and diplomatic principles set by earlier politicians and ambassadors. And, with Latvia's acceptance into the EU and NATO in 2004, bilateral relations between Germany and Latvia changed for good.

7 "Merkel: Latvian, Russian and German Relations Must Be Activated (Merkele: jāaktivizē Latvijas, Krievijas un Vācijas attiecības)," *IR.lv*, September 7, 2010.

8 See for instance, Hanns W. Maull "Zivilmacht Bundesrepublik Deutschland. Vierzehn Thesen für eine neue deutsche Aussenpolitik," *Zeitschrift für Internationale Politik* 10 (1992), 269–278.

The post-accession period is characterized by a constant improvement and multi-lateralization of relations between Germany and Latvia. The frequency of official and working visits demonstrates the growing intensity of bilateral political relations. Data available from the Latvian Ministry of Foreign Affairs demonstrates<sup>9</sup> that over the last eight years the prime minister of Latvia has visited Germany 14 times on various occasions. Five of those were V. Dombrovskis, who met Chancellor Merkel in Berlin twice within the last three years. Germany was on various occasions visited six times by Prime Minister Aigars Kalvītis (2004–2007), who also met Chancellor Merkel in Berlin twice, and Chancellor Schröder was met by Latvian Prime Minister Indulis Emsis once. Before Latvia's accession into the EU, the frequency of visits by Latvian Prime ministers to Germany was visibly lower: there were no visits in 2000–2002 and only two forum attendances in 2003. It is, however, important to note that rather similar trends can be observed in the first years of Latvia's regained independence. In 1991 Prime Minister Ivars Godmanis twice visited Germany – once in January and then once after Latvia *de iure* regained its freedom. The next visit, by Latvian Prime Minister Māris Gailis, was only in 1995, when he visited Germany twice.

The number of times the German Chancellor has visited Latvia also demonstrates the growing intensification of Latvian-German relations. Namely, while Chancellor Kohl never came to Latvia and Chancellor Schröder was the first German Chancellor to visit renewed Latvia in June 2000, when he visited Tallinn and Vilnius as well, Chancellor Merkel has been to Riga twice: in 2006 during the NATO summit and also on an official visit in September 2010. The official visit of by Chancellor Merkel in September 2010 was not only to promote economic relations and discuss urgent bilateral and EU matters, but also to demonstrate support for Prime Minister Valdis Dombrovskis and Latvia's economic austerity model ahead of the 2010 Saeima elections<sup>10</sup>. Naturally Latvia is not the only partner country for Germany, but one can observe the trend that German Chancellors visit Latvia once a decade. The intensification of their partnership could seemingly lead to more frequent visits, and one should not disregard the countless meetings of Latvian and German government leaders within various multilateral frameworks, including the Council of the European Union.

9 Based upon the list "Latvian-German Relations (Latvijas un Vācijas attiecības)," Ministry of Foreign Affairs of the Republic of Latvia, <http://www.mfa.gov.lv/lv/Arpolitika/divpusejas-attiecibas/Vacija/>; Additional archive research done for the earlier data.

10 Author's interview with the Deputy Chairman of the European Affairs Committee of Saeima Atis Lejiņš in Riga, September 2012.

Visits by the ministers of foreign affairs to Germany naturally occurred more often, although it is clear that after Latvia joined the EU their common issues grew exponentially. Up to 1996, Latvian foreign ministers visited Germany until 1996 six times (three of those in the significant year of 1991), while German Foreign Minister Genscher was in Riga in 1991, thus becoming the first high ranking Western politician to come to Latvia. The second visit was by Klaus Kinkel ahead of the 3+1 format (the three Baltic States+Germany), and was when regular annual political consultations were established. Therefore, from 1996 until Latvia's accession into the EU, the foreign ministers met seven times at various locations (twice in Riga). Since May 2004 the number of times that Latvian ministers of foreign affairs have visited Germany is 17, while German ministers or state ministers have been to Latvia on 11 occasions.

Besides the numerous exchanges of mutual visits by other government members – or parliamentarians and inter-parliamentary cooperation groups – and countless working meetings between the staffs of the ministries, the visits by state presidents also stand out. Namely, the first exchange of presidential visits took place in 1993, when Bundespräsident Richard von Weizsäcker came to Riga. This was followed by President Guntis Ulmanis's visit to Germany in 1995. Since Latvia joined the EU, the number of times that Latvian presidents have gone to Germany has increased. Even though the number of state visits is significantly smaller than working visits, there were 17 occasions (until November 2012) when Latvian presidents have been in Germany. And there have been two visits by German Presidents to Riga since 2004. It is of course evident that official presidential visits take place after the new president has been elected. The current President of Latvia has just been on an official state visit to Germany. It is also evident that besides official visits the Presidents of Germany relatively rarely visit their Latvian counterparts. This yet again demonstrates the different sizes and scopes of political interest in both countries and reveals the practical aspect of the political asymmetry between Germany and Latvia.

In parallel to the extensive number of mutual visits of high ranking politicians, an even greater number of regular meetings take place between the officials of ministries and municipalities. Forty-three Latvian cities or lands (*novads*) have official partner cities or regions in Germany. This close cooperation serves as the basis both for increasing economic cooperation and for political relations. The prevalence of German ties to Latvian municipalities lessens the necessity to involve the embassy or state (and thus official state diplomacy).

Inter-parliamentary cooperation between both countries is a visible example of the intensity of partnership. The Latvian parliamentary group for cooperation with the German Bundestag currently consists of 33 members<sup>11</sup>, which is almost one third of the 100 member Latvian parliament. Additionally, the group includes MPs from all of the political groups represented in the 11<sup>th</sup> Saeima. It is noteworthy that the German-Baltic Parliamentary Friendship Group in the German Bundestag was already established in 1991 for cooperation with the parliamentarians of the transition period. Thus, Germany's willingness to find common ground for cooperation with Latvia went hand in hand with the renewal of diplomatic relations and the regaining of independence.

Parallel to official political interaction, the role played by numerous other actors should not be neglected. The Ministry of Foreign Affairs (together with the line ministries), the expert community, scientific institutions, businesses, universities, and many other organizations manage to cooperate intensively on an unprecedented scale. Growing governmental and nongovernmental interaction is visible in all spheres. Organizations like the Friedrich Ebert Stiftung, Konrad Adenauer Stiftung, Goethe-Institut Riga, The German Academic Exchange Service (DAAD), Zentralstelle für das Auslandsschulwesen (ZfA) and others have been active in promoting Germany in Latvia and facilitating political, cultural and social exchange between the countries. "Naturally one needs political visits for limelight, but the partnerships between civic society, businesses and students – and without embassies – define excellent political relations between two countries."<sup>12</sup>

If Germany tends to look at the Baltic states collectively without providing Latvia with a specific role, then Latvia, of course, lists Germany among its main partners in the region and in the EU. At the same time, in Latvian documents defining the country's foreign policy Germany is not given any unique evaluation. Moreover, it is "blended together" with the Nordic countries and Poland in a regional or EU context. For instance, in the current Declaration on the Planned Activities of the Cabinet of Ministers Led by Valdis Dombrovskis (the Government Declaration) Germany is among a limited number of countries named in the declaration, but is not mentioned more prominently than the other named countries: "We

11 "For Cooperation with Parliaments of Other States (Sadarbībai ar citu valstu parlamentiem)," Saeima, [http://titania.saeima.lv/Personal/Deputati/Saeima11\\_DepWeb\\_Public.nsf/structureview?readform&type=7&lang=LV&count=1000](http://titania.saeima.lv/Personal/Deputati/Saeima11_DepWeb_Public.nsf/structureview?readform&type=7&lang=LV&count=1000)

12 Author's interview with the Ambassador Extraordinary and Plenipotentiary of the Federal Republic of Germany Andrea Wiktorin, in Riga, October 2012.

will continue closer political, economic and cultural integration with the Nordic countries. We will deepen cooperation with Germany and Poland as the most important European Union and NATO states in the Baltic Sea region.<sup>13</sup> Moreover, while in the Government Action Plan for the Implementation of the Government Declaration more specific tasks regarding cooperation with the Nordic countries is mentioned, in the case of Germany (and Poland) nothing more specific than a deepening of ties and the attraction of investments is mentioned<sup>14</sup>. Evidently routine relations with Germany are seen as an established fact and no specific actions are considered necessary.

At the same time, not only does the Government Declaration acknowledge the fact that Germany has a role in the region vital to Latvia, but a willingness to deepen integration is also outlined in the Annual Report of the Minister of Foreign Affairs on the Achieved and Planned Actions in State Foreign Policy and on the Achieved and Planned Actions in European Union Issues (the Annual Report). It is stated that “geographical, cultural and historical contacts with the Nordic countries, Germany and Poland in the coming years should not limit themselves only to EU projects interesting to Latvia, but must be based upon building a common cultural-political space that would strengthen Latvia’s bilateral relations with these countries, as well as improve understanding and coordination in EU matters and [within] other regional and international organizations”<sup>15</sup>.

Politicians, however, are more outspoken about German-Latvian bilateral relations. Former Minister of Foreign Affairs Ģirts Valdis Kristovskis during the annual parliamentary debates on foreign policy in 2011 stated that Latvia has had long lasting and close ties with the great powers of the Baltic region – Germany and Poland – and “with pleasure approve [of the fact] that our relations with these countries have entered a new quality stage”<sup>16</sup>. He discussed the necessity to have regular political and expert consultations with Germany and Poland on EU matters and within other

international organizations. Current Minister of Foreign Affairs of Latvia Edgars Rinkēvičs in his 2012 speech was more laconic, but more specific as well: “Latvia’s foreign policy will be aimed at close regional cooperation among the Baltic and Nordic States and Germany and Poland, especially emphasizing the energy and transportation spheres.”<sup>17</sup>

There are also statements in the media that reveal the current attitude of Latvian authorities toward Germany. During the September 2012 visit of the delegation of the German-Baltic Parliamentary Friendship Group of the German Bundestag, Speaker of the Latvian Parliament Solvita Āboltiņa clearly stated that “the development of close relations between Germany and the Baltic states is a foreign policy priority for Latvia, and it is important to maintain this strategic cooperation.”<sup>18</sup> The character of strategic cooperation between the two countries in the eyes of Latvian politicians had already been defined earlier. For instance, as then-Minister of Foreign Affairs of Latvia Aivis Ronis at the time of Chancellor Merkel’s visit to Riga explained: “If good relations between the USA and Russia have an influence on our security, if Polish-Russian relations have effect on the evaluation of historical processes, then German-Russian relations have the central role in the successful use of the geographic and economic potential of our region.”<sup>19</sup> Thus, politicians are emphasizing the role of Germany not only in the political future of the region, but also its economic importance for Latvia’s development. The attraction of German investments and businesses are essential for Latvia, as Germany is among the closest and most natural sources of capital for the small Baltic state.

Finally, in order to understand the gradual transformation of German-Latvian relations from diplomacy-driven to a routine partnership type, aspects of cooperation within the European Union and bilateral bargaining must be evaluated. The main trend in these regards is the sporadic character of the bargaining process. While in Latvia’s eyes the coordination of its interests with Germany is considered essential, Germany, naturally, does not always require Latvia’s assistance. At the same time, cooperation on EU

13 *Deklarācija par Valda Dombrovskā vadītā Ministru kabineta iecerēto darbību*, adopted October 25, 2012, <http://www.mk.gov.lv/lv/mk/darbibu-reglamentejosie-dokumenti/valdibasdek/>

14 *Valdības rīcības plāns Deklarācijas par Valda Dombrovskā vadītā Ministru kabineta iecerēto darbību īstenošanai*, adopted with Regulation No. 84, February 16, 2012, [http://www.mfa.gov.lv/data/file/data/VRP\\_2012.doc](http://www.mfa.gov.lv/data/file/data/VRP_2012.doc)

15 *Ārlietu ministra ikgadējais ziņojums par paveikto un iecerēto darbību valsts ārpolitikā un par paveikto un iecerēto turpmāko darbību Eiropas Savienības jautājumos*, January 14, 2012, [http://www.mfa.gov.lv/data/zinojums\\_par\\_valsts\\_arpolitiku\\_2012.pdf](http://www.mfa.gov.lv/data/zinojums_par_valsts_arpolitiku_2012.pdf)

16 *Ārlietu ministra Ģirta Valda Kristovskā runa Saeimas ārpolitikas debatēs*, January 28, 2012, <http://www.mfa.gov.lv/lv/Jaunumi/Runas/2011/27-1/>

17 *Ārlietu ministra Edgara Rinkēviča runa Saeimas ārpolitikas debatēs*, January 26, 2012, <http://www.mfa.gov.lv/lv/Jaunumi/Runas/2012/01-26-2/>

18 “Āboltiņa meets with German parliamentarians: Relations between our countries are close and active,” *Saeima.lv*, September 21, 2012, <http://www.saeima.lv/en/news/saeima-news/20027-aboltina-meets-with-german-parliamentarians-relations-between-our-countries-are-close-and-active>

19 “Ronis: Merkel’s Visit Raises Assurances about our Economy and its Future (Ronis: Merkeles vizīte ceļ pārliecību par mūsu ekonomiku un tās nākotni),” *Apollo.lv*, September 6, 2010, <http://www.apollo.lv/zinas/ronis-merkeles-vizite-cel-parliecibu-par-musu-ekonomiku-un-tas-nakotni/460698>

issues between both countries, as admitted by the interviewed officials, is now more intensive than ever.

As Germany is one of the economic and political engines of the European Union and a major state not only in the Baltic region but also in the world, Latvia's need to approach Germany when lobbying its interests is natural. If the intense and increasingly positive diplomatic and personal relations between politicians are added to the mix, Latvia's friendship with Germany becomes a logical foreign policy option. Germany, however, sees its partnership with Latvia and the other Baltic states as important and looks for Baltic support for their policies and interests as well. One of the most visible examples in which Germany lobbies Latvia is in decisions requiring unanimity, including ones concerning the appointment of the core figures of different institutions and agencies.

This situation produces the first example of asymmetric relations between Germany and Latvia. Diplomatic and political asymmetry is created by practical rational differences in the amount of available human resources and financial capital resources between the major power Germany and small state Latvia. As a result, this has traditionally created the necessity for Latvia to struggle for Germany's affections and interest in the country and region more intensively. Latvia has been – and evidently will continue to be – seen in Germany as simply one of their partners, and never as “the core partner”. In spite of good political and diplomatic relations and their routine partnership on a political and societal level, Latvia is only one of the countries in the German foreign policy space and not “the one”.

As Latvian foreign policy decision makers pragmatically evaluate their cooperation with Germany, the Germans act the same<sup>20</sup>. Each country looks to the practical gains of a close relationship, not only to emotional satisfaction. In this context, the example one must give in the conclusion of this chapter is the second and most recent major push-factor that helped build Latvian-German relations, and which was admitted by many interviewees. This is the Latvian Austerity Model<sup>21</sup> and the country's success in fighting the financial crisis and the economic recession from 2008 onward.

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20 Of course, the importance of emotional ties between countries and their representatives is essential as well and will be discussed in the third chapter of this article.

21 For a more detailed discussion, please see Karlis Bukovskis, “Latvia's Austerity Model in the Context of European Austerity versus Growth Debate,” in *The Riga Conference Papers 2012*, ed. by Andris Spruds (Riga: Latvian Institute of International Affairs, Latvian Transatlantic Organization, 2012), 10–15, [http://liia.lv/site/docs/The\\_Riga\\_Conference\\_Papers\\_20121.pdf](http://liia.lv/site/docs/The_Riga_Conference_Papers_20121.pdf)

The three governments led by Dombrovskis have demonstrated to German politicians, including Chancellor Merkel, German diplomats and mass media<sup>22</sup>, the responsibility and courage of the Latvian state and the population that endured it. Moreover, Latvia's austerity approach fits with the arguments German politicians are using toward the Southern European countries. Thus, Latvia is in the position that its economic philosophy and experience is attractive to German politicians, as it can be used as an example of the successfulness of budgetary cuts and a disciplined government economic policy. The Nordic budgetary soundness approach taken by Latvia is very familiar and appealing to Germany. Thus, the reinvention of Latvia for Germans as a likeminded people has become more visible during the years of the current Prime Minister. Not only is Prime Minister Dombrovskis seen as an expert in crisis management and important for the current political leverage of Latvia, but also as a good symbol and excellent promoter of the country among German businesses, which will be discussed in the next chapter.

German political support for Latvia's economic achievements and OECD membership goal has also been clearly stated by the Foreign Minister of Germany, Guido Westerwelle: “The relationship between Latvia and Germany is excellent. We admire Latvia's success story and we are thankful and very respectful about the way [that the] Latvian people and Latvian leaders took the country out of the 2008 crisis. Therefore, we think that Latvia is ready to become an OECD member. Germany will support Latvia's membership application.”<sup>23</sup>

It can be concluded that the relationship between politicians, diplomats, experts and officials has become both extensive and inexpressive. The number and frequency of visits demonstrates a routine more than loud political discussions between Latvia and Germany. Routine partnership has been emerging not because there would be only a small of number of issues to discuss, but quite the opposite. The number of issues that are being coordinated between the countries means that their embassies administrate the visits of officials more than perform the function of intermediary. Relations with Germany as a strategic economic partner are a priority of Latvia. The current state of relations has been a long and

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22 “Im Gespräch: Valdis Dombrovskis, Ministerpräsident von Lettland “Mehr Zeit für Konsolidierung bedeutet mehr Rezession”, *Frankfurter Allgemeine Zeitung*, September 8, 2012, 12.

23 “Germany Supports Latvia's Acception into OECD (Vācija atbalsta Latvijas uzņemšanu OECD),” *Financenet.lv*, August 24, 2012, [http://financenet.tvnet.lv/zinas/433551-vacija\\_atbalsta\\_latvijas\\_uznemsanu\\_oecd/](http://financenet.tvnet.lv/zinas/433551-vacija_atbalsta_latvijas_uznemsanu_oecd/)

winding process, but also a stubborn one. Thus, the main task of officials of both countries is catching the moment and prolonging the moment in Latvian-German relations.

## 2. The Economic Logic of Growing Interdependence

Economic cooperation is an essential constituent element of good bilateral relations between two countries. Opening one country's market to other country's products is politically always seen as a sign of trust and good political relations. Thus, the deeper the economic integration, the better the political relations must be. This idea is also clearly followed by the two European Union member states of Germany and Latvia. Increasing economic interdependence is currently on the agenda both for Latvian decision makers and for German decision makers. The post-crisis economic growth that Latvia's economy has experienced since 2011 and the positive image of Latvia's economic choices in comparison with many other European Union member states, only contribute to the established German presence in the Latvian economy and the economic advantages and attractiveness this Baltic country possesses.

In the modern globalized economy, Latvian businesses gradually establish their role through German companies as a well-functioning constitutive part of the economic mechanism. As subsidiaries, outsourcing companies, subcontractors and component manufacturers, Latvian companies establish their name<sup>24</sup>, attract foreign investment and create added value to themselves, to the export sector and to Latvian tax revenues in general. Additionally, the high number of companies exporting ready-made products to Germany demonstrates the strength and potential of Latvian businesses when the chance is given.

Therefore, the fact that Latvian politicians increasingly emphasize the necessity to broaden and deepen economic cooperation is pragmatic from the small state security perspective, from the economic growth perspective, and for building irreversibly good relations between countries. Recently, S. Āboltiņa explained that "Germany has been among Latvia's most important economic partners since the restoration of [Latvia's] independence, and German investors were among the first to dare to enter the Latvian market. Lasting, close, and dynamic cooperation in trade and

24 See for instance, "Prese der Deutschen Wirtschaft 2012 vergeben. "Made for Germany" in Litauen un Lettland," *AHKbalt Aktuell* 3 (2012): 12.

investments has been established over these years. (...) However, German businessmen admit that there is still unused potential in Latvia."<sup>25</sup> Similarly, Ambassador Wiktorin and the Latvian Minister of Finance Andris Vilks have both agreed on necessity to widen economic cooperation between Latvia and Germany and enhance dialogue in order to facilitate economic growth both in Latvia and in the Baltic region in general<sup>26</sup>. Thus, as Germany sees the Baltic states together, Latvia understands the need to increase economic the interdependence of Germany, the Baltics and the Nordics.

Economic cooperation between both countries has entered a stage similar to political and diplomatic relations – namely, routine partnership. Familiarity, together with long term interest in a deepening and widening of cooperation between enterprises, naturally does not require political or diplomatic supervision or lobbying. It does require information and potential state assistance in contact building, but not for everyday functioning and free interaction, especially if both countries are in the European Union and act in accordance with similar or identical standards. Bilateral economic relations between both countries since May 2004 have mostly been regulated by EU common market rules, while some bilateral agreements covering investment protection<sup>27</sup>, the prevention of double taxation<sup>28</sup> and tax exemptions in road carrier services<sup>29</sup> still operate.

Macroeconomic data reveals that in 2011 Germany was Latvia's fourth largest export partner and second largest importer, with total trade and service turnover of 2300.6 million euros and with a negative balance of 547.7 million euros<sup>30</sup>. In the first half of 2012, exports to Germany accounted for ~7% of the total, while imports reached ~11%. This is relatively low if compared to historic data. Namely, during recent times the highest relative presence of Germany in Latvia's external trade reached 17.2% in

25 Nina Kolyako, "Saeima: close ties with Germany a priority of Latvia's foreign policy," *Baltic Course*, August 23, 2012, [http://www.baltic-course.com/eng/baltic\\_states/&doc=61751](http://www.baltic-course.com/eng/baltic_states/&doc=61751)

26 "German Ambassador: Latvia has Successfully Exited Crisis and i san Excellent Example for Others (Vācijas vēstniece: Latvija veiksmīgi izkluvusi no krīzes un ir lielisks piemērs citiem)," *Delfi.lv*, October 19, 2012, <http://www.delfi.lv/news/eiropa/zinas/vacijas-vestniece-latvija-veiksmigi-izkluvusi-no-krizes-un-ir-lielisks-piemers-citiem.d?id=42761176>

27 Agreement between the Republic of Latvia and the Federal Republic of Germany on facilitation and mutual protection of investments. Since 09.06.1996.

28 Agreement between the Republic of Latvia and the Federal Republic of Germany on prevention of double taxation of the income and capital taxes. Since 26.09.1997.

29 Agreement between the Republic of Latvia and the Federal Republic of Germany on mutual tax exemptions in the sphere of international road carrier services. Since 22.10.1998.

30 "Statistics on Latvia's external Trade with Germany (Statistika par Latvijas ārējo tirdzniecību ar Vāciju)," Embassy of the republic of Latvia in Germany, July 27, 2012, <http://www.am.gov.lv/lv/berlin/EkonomiskasAttieibas/20063/?print=on>

exports in 2000 and in imports in 2002; though this cannot be compared to the interwar period, when from 1925 to 1939 it averaged 28.7% in exports (reaching a high of 36.5% in 1939) and 36.6% in imports (reaching a high of 44.6% in 1939)<sup>31</sup>. Today, Latvia's external trade is apparently more diversified.

Diversification and a smaller relative presence of Germany in trade does not mean that trade has not been growing between the countries. In spite of the effects of economic crisis in Latvia, in 2011 trade turnover reached its highest absolute number in the history of modern Latvia. Simultaneously, it is evident that the economic crisis and reorientation of Latvia's economy to exports after a drastic fall in internal consumption has improved the trade balance for Latvia. Namely, while imports from Germany were steadily growing at about 70 million euros a year before Latvia joined the EU, in 2005 imports grew by almost 180 million euros, in 2005–2006 by 326 million and by ~240 million in 2006–2007, thus exceeding 1.5 billion euros<sup>32</sup>. The falling internal consumption and domestic economic activity in 2008 and especially 2009 hit imports from Germany significantly. From 1.5 billion euros in 2007, imports in absolute numbers fell to 650 million euros in 2009. 2010 demonstrated a return to growth for imports from Germany, but in 2011 they still had not reached the same absolute value as even 2006, at 1.123 billion euros.

Almost the opposite can be observed regarding Latvia's exports to Germany. Annual growth has been less rapid, but it has been compensated for by an improvement in the current account balance. Namely, Latvian exports to Germany before membership in the EU grew by approximately 20 million euros a year. 2004–2005 demonstrated a 41 million euro increase, 2006 a 29 million euro increase, and 2007 only a 21 million euro increase, thus revealing the substitution of external markets with internal markets among Latvian businesses during the rapid economic growth years of 2005–2007. A decrease of 1 million euros in 2008 and 58 million euros more in 2009 preceded an unprecedented rapid growth of 128 million and 107.5 million euros in the next two years, reaching 645.2 million

31 Viesturs Pauls Karnups, "Latvian foreign trade and investment with Germany and Russia: Past and Present", Discussion paper of Europa-Kolleg Hamburg, Institute for European Integration 4 (2010), <https://www.econstor.eu/dspace/bitstream/10419/44429/1/63542567X.pdf>

32 "Germany. Information on Latvia's External Trade (Vācija. Informācija par Latvijas ārējo tirdzniecību)," Ministry of Economics of the Republic of Latvia, July 17, 2012, [http://www.em.gov.lv/images/modules/items/DE2011\(1\).pdf](http://www.em.gov.lv/images/modules/items/DE2011(1).pdf)

euros in the total trade of goods<sup>33</sup>. Thus, the Latvian trade deficit in goods with Germany has decreased from 1.053 billion euros in 2007 to 478 million euros. Trade in goods, though, does not reveal trends in the export of services, where Latvia's balance has been traditionally positive, with 40–50 million euro surpluses. In 2011, for instance, Latvia was providing 163.2 million euros worth services, while importing 120.9 million euros worth services from Germany.

Data from the Latvian Ministry of Economics on economic relations with Germany<sup>34</sup> demonstrates that the trade structure between Latvia and Germany is quite diversified as well. The main export products to Germany in 2011 were timber products, like veneer, wooden furniture, and peat (23.5%), metals and metal products, like scrap metal and aluminum and cuprum products (15.9%), vehicles and their parts (9.7%), chemical industry products and applied science materials, including fiberglass (8%), electrical appliances and machinery (6.7%) and 36.1% of other goods. The main services that Latvians provide to Germany were tourism (at 43 million euros) and logistics by road (60 million euros), sea (17 million euros), air (13 million euros) and rail (11 million euros), IT services (7 million euros), construction services (4.6 million euros), the advertisement industry (4.3 million euros) and legal and accountancy consultations (2.9 million euros).

Imports from Germany are also diverse, but are strongly dominated by manufactured products like vehicles (27.9%), machinery, mechanisms and electrical equipment, including the spare parts for cars (20.2%), plastic and rubber manufacturing (9.2%), chemical products, including medicine (7.8%) and metals, including gold (7.3%). Additionally, products like cigarettes and tobacco, various plants and other products constitute 27.7% of imported goods to Latvia. The services of German businesses, like in the case of exports, include tourism (at 50 million euros), and logistics by road (13 million euros), sea (18 million euros), air (19 million euros), construction services (6.3 million euros), IT services (2.1 million euros) and other services.

Thus, mutual trade reveals some positive changes and the recovery that the Latvian economy has experienced over the last few years; namely,

33 "Germany. Information on Latvia's External Trade (Vācija. Informācija par Latvijas ārējo tirdzniecību)," Ministry of Economics of the Republic of Latvia, July 17, 2012, [http://www.em.gov.lv/images/modules/items/DE2011\(1\).pdf](http://www.em.gov.lv/images/modules/items/DE2011(1).pdf)

34 "Germany. Information on Latvia's External Trade (Vācija. Informācija par Latvijas ārējo tirdzniecību)," Ministry of Economics of the Republic of Latvia, July 17, 2012, [http://www.em.gov.lv/images/modules/items/DE2011\(1\).pdf](http://www.em.gov.lv/images/modules/items/DE2011(1).pdf)

improvements in the trade balance. At the same time, the statistics demonstrate that imports from Germany within the last couple of years have grown faster than exports: with a 34% growth of imports in 2011 and only a 22% growth in exports. Due to mercantilist sentiments and reasoning, traditions among the foreign policy decision makers, and the countries' populations, a balanced trade improves political relations as well. Thus, it is essential that Latvia manages to keep up in increasing exports to Germany at the same scale that post-crisis domestic consumption demands imported German products.

In order to understand Latvian-German economic relations it is also essential to look at mutual investments and the arguments behind them. Latvia, as a small post-communist state with relatively little accumulated capital since its reestablishment, has been struggling for foreign investment. Thus, Germany is seen as a very prospective economic ally and a strategic economic partner. Not only do German investments facilitate absolute growth for the Latvian economy, but they also help balance out the relative amount of investment from other countries as well.

According to Bank of Latvia data, with 474 million euros of accumulated investment, Germany is the fifth largest investor in Latvia (~5% of total foreign investment in Latvia) in the first quarter of 2012<sup>35</sup>. Largest investments are distributed in the following way: 35% of investments are in the energy sector (electricity infrastructure, gas and water supply), 17% in manufacturing industries, 22% in real estate, 11% in retail trading, 4% in the financial industry and 7% in the extractive industry. This diversity in investment distribution demonstrates a significant difference from the Latvian experience in Germany, where around four-fifths of all investments up to 2011 were in the financial sector. A withdrawal from the financial industry changed the picture, and in the first quarter of 2012 most Latvian investments were in the manufacturing industry, though it reached only around 4.5 million euros in absolute numbers. It is clearly evident that because of European and Latvian financial problems, not only Latvian investments in the financial sector and real estate market have been withdrawn. In 2009, the same fate was suffered by German money in the Latvian banking sector. At the same time, German investments in other spheres have remained at the same level or with relatively minor reductions. Only the energy sector has experienced visible growth within the last three years.

35 "Data on Foreign Direct Investments (FDI) (Ārvalstu tiešo investīciju (ĀTI) datu tabulas)," Bank of Latvia, October 2012, <http://statdb.bank.lv/lb/?lang=lv>

This relative stability in spite of financial problems and an economic recession in Latvia is largely related with the significant number of German portfolio investments and FDI in Latvian enterprises. Statistical data demonstrates that there is 145.5 million euros of German capital investments in approximately 1.101 Latvian businesses<sup>36</sup>. At the same time, some German businesses are registered in Latvia through their subsidiaries in Nordic or other Baltic countries, and thus the real number is thought to be much higher, potentially making German businesses the most highly represented foreign partners in Latvia, as was emphasized by the director of the Latvian Bureau of the German-Baltic Chamber of Commerce Ginta Petra<sup>37</sup>. The largest German investors in Latvia are E.ON Ruhrgas International AG (47.23% of shares in gas monopolist Latvijas Gāze); Vitrolan International GmbH, P-D Glasseiden GmbH Oschatz, P D Management Industries Technologies GmbH (all three together are majority shareholders of the fiberglass producer Valmieras stiklašķiedra), ERGO International Aktiengesellschaft (insurance), and KNAUF (construction materials)<sup>38</sup>.

Latvia has managed to attract this substantial amount of German investment and is naturally continuing to seek new ones. Politicians and officials are looking forward to facilitating economic cooperation both in diplomatic negotiations and by improving the image of the country in general. Latvia is not the only country struggling for German affection and capital, and competition is rather strong among the Baltic States. In this context it is necessary to evaluate the prospects of further economic cooperation and the appeal that Latvia has or could have in the eyes of German businesses.

As most of the interviewees agreed, in 90% of cases German investors do not experience any problems they would point out to the embassy, trade chamber or other authorities. The rest have been complaining lately about the following problems: the system of vocational training, long court procedures, the regulative complexities of public tenders, and the unpredictability of frequent amendments to the tax and legal system of Latvia.

Vocational training issues are a structural matter of Latvia's economic and educational system, whereby Latvia could gain significantly from the

36 "Lursoft Statistics", *Lursoft*, October 2012, [http://www.lursoft.lv/komercregistra\\_statistika.html](http://www.lursoft.lv/komercregistra_statistika.html)

37 Author's interview with the Director of Latvian Bureau of the German-Baltic Chamber of Commerce in Riga, September 2012.

38 "Germany. Bilateral Relations (Vācija. Divpusējās attiecības)," Ministry of Foreign Affairs of the Republic of Latvia, August 22, 2012, <http://www.mfa.gov.lv/lv/Arpolitika/divpusejas-attiecibas/Vacija/>

very positive experience of Germany. Thus, it is argued that the Ministry of Education – with the assistance, for instance, of the Ministry of Foreign Affairs – could more actively improve and reform the professional education system to increase the country's competitiveness in the eyes of German businesses. Similarly, Latvia suffers from overly long court procedures that drastically reduce trust in the country's judicial system not only among foreign investors, but for local businesses and the population as well. Finally, the limited predictability of the legal and tax system because of frequent amendments and adjustments often cause additional inefficiency and wastes administrative and financial resources.

The frequently changing legal and tax system can be partially explained by the fact that within the last 20 years Latvia has been going through significant transition periods, in a way that the situation with the public tenders cannot. First, there was the transition from the communist system to an open market economy, second, the adoption of *acquis communautaire*, and third, the economic crisis, which induced amendments to the tax system and legal regulations that in many cases are temporary. The frequent lack of transparency, political bargaining, an unwillingness to outsource to other countries and complicated systems of intermediation create negative images for German businesses.

In spite of these problems, as already mentioned the absolute majority of German businesses do not encounter problems working in Latvia or cooperating with Latvian businesses. Latvian partners are seen to be in possession of several advantages, among which is membership in the European Union and therefore similar regulations. Other advantages that Latvia possesses include its geographic proximity, where the distances are even further reduced by frequent and convenient flights provided by national airline AirBaltic and ferry traffic in the Baltic Sea. Additionally, Latvia is conveniently located close to the Russian and Scandinavian markets and partners, Latvian and German politicians avoid having political disagreements that could negatively affect economic cooperation, and labor and business partners in Latvia are seen as very motivated and able to adapt. The Latvian partners not only are familiar with German language, culture and mentality, but have also accumulated a good reputation. Finally, Latvia's legal system provides flexibility in working hours that the labor inspection in Germany would never allow. Latvian work ethic, together with professionalism and technical skills, is an appealing factor.

The asymmetry in economic and production capacities between Latvia and Germany is clearly visible when Latvia's activity in Germany is

addressed. In spite of growing exports to Germany, as previously mentioned, Latvian investments have been relatively low with the number of registered businesses operating in Germany in 2011 calculated at around 50. At the same time, Latvian entrepreneurs often choose to establish a company in Germany instead of a representation. This approach is advised by some on the basis of avoiding stereotyping and distrust in foreign companies.

It is also recommended that Latvian businesses operate by producing and selling niche products in Germany. Goods like eco-cosmetics, wooden toys, textile products or IT services are more likely to penetrate the German market than goods produced for mass consumption in bulk. Not only do Latvian companies not have the production capacity to make large quantities of everyday goods, but they also face strong competition with Polish products, for instance. Thus, the solution that Latvian businesses are recommended to take is the production of high added value products and services.

Therefore, taking into account the scale of mutual trade, the level and character of investment, and the frequency of the problems that German businesses in Latvia and Latvian businesses in Germany are dealing with, one can conclude on the routine character of the German-Latvian partnership. Both countries are increasing their economic interaction, and protectionist reasoning is not a clearly stated opinion. Common membership in the EU and the willingness for increased mutual economic and political cooperation sets both Latvia and Germany on the path to closer regulatory integration. Thus, Latvia's interest in joining the European Monetary Union (EMU) in 2014 is a logical step for which it has support both from the Bundestag<sup>39</sup> and Minister Westerwelle.

### 3. History and Emotions in the Latvian – German Partnership

Finally, in order to acquire a more complete picture of Latvian-German bilateral relations at the moment, and more importantly the sustainability of relations, this chapter will shortly deal with the two remaining constituent elements of a good partnership: historical legacies and the emotional

39 "Germany Welcomes Latvia's Goal On Joining the Eurozone (Vācija atzinīgi novērtē Latvijas mērķi pievienoties eiro)," *Delfi.lv*, September 19, 2012 <http://www.delfi.lv/news/eiropa/zinas/vacija-atzinigi-noverte-latvijas-merki-pievienoties-eiro.d?id=42683192>

situation<sup>40</sup>. An evaluation of these factors is essential because of the level of trust they create in relations between officials, politicians and entrepreneurs. And good relations based on routine partnership cannot last if emotional trust is not present. Moreover, because of history, Latvian-German relations and Latvian-Russian relations are full of emotional arguments that could and sometimes do affect decision making on an everyday basis.

The rhetoric of good or excellent political relations between countries has been demonstrated by the officials and diplomats involved in monitoring and building bilateral relations. None of those interviewed for this research stressed any existent or potentially significant problems in Latvian-German relations. The current state of affairs in mutual integration is the result of long term logical development. Both countries have carefully cultivated a gradual improvement of diplomatic, political, cultural and economic cooperation. Gradualism, however, is among the most important characteristics. As German officials and politicians gradually familiarized or re-discovered the Baltic states for themselves, Latvians have gradually learned to prove themselves to Germany again.

Peculiarly, the main achievement (with luck) in Latvian-German relations was the normalization and restart of relations after the Soviet period. The results of the Second World War and the Soviet period of limited interaction between Germans and Latvians, together with the fact that both countries suffered from the Soviet Union, created new grounds for bilateral interaction in the 1990s. Similar communist experiences in the German Democratic Republic and the similar transformation processes that part of Germany had to go through helped in developing empathy between the countries. As a result, the almost 50 years under communism changed perspectives about Germany and concentrated historical grievances on the experiences with Russia. Because of this, Russo-German relations can stir some memories and cause potential issues, and awaken recently forgotten worries and distrust toward Germany. The 'Russia factor', therefore, is the most likely issue that could threaten good political relations between Latvia and Germany.

As Germany has tried and succeeded in reducing the role of history and the past in its foreign policy, the same path in official relations has been

followed by Latvian politicians as well. Historical issues surrounding the Second World War are not included in the routine partnership. At the same time, the attempt to demonstrate that German leaders cherish relations with the Baltic states and Latvia was vocalized on August 23, 2012, when three Baltic ministers of foreign affairs and G. Westerwelle issued a common statement in denouncing the Ribbentrop-Molotov Pact: "23 August 1939 was a dark day for Europe. On that day, the Reich Foreign Minister von Ribbentrop and Molotov, the Soviet People's Commissar of Foreign Affairs, signed the heinous Hitler-Stalin Pact. (...) It paved the way for a policy of injustice and inhumanity (...). Our united Europe has learned the historical lessons and has overcome the cynical and pernicious spirit of the Pact."<sup>41</sup> Of course, many would still expect an official apology, but here it should be remembered that there was a second party to the treaty as well. The approach Germany has managed to follow is a moderate and 'emancipating' diplomacy in regard to Latvia. As the country largely followed this post-historical approach in its domestic policy formulation and Latvia embraced this trend in its bilateral relations with Germany, the Bundesrepublik based its relations with Latvia on equality and European re-integration based rhetoric.

These factors, in addition to the overall image of post-war Germany in Europe, its economic successes, and political peacefulness, helped create and preserve positive emotions about Germany both in Latvian society and for politicians. Thus, according to some of the interviewees, Germany gradually acquired the image of an "older brother". The historic and cultural ties between Germans and Latvians, and the achievements of Hanseatic League, are a few of the arguments used today for strengthening relations between the countries. A common vision of the future instead of a negative past is cultivated, and this ensures good relations further in the future.

Not only Latvians remember a positive past – German politicians and decision makers apparently follow a similar pattern. Cultural ties, knowledge of the German language, a similar mentality, and the familiar atmosphere of Riga were quite often mentioned among the interviewees to describe Germany's affection for Latvia in the 21<sup>st</sup> century. Even in the German media, according to Latvian and German journalists, Latvia is not seen as a poor or backward country. It is more and more often seen as modern,

40 Please see Tuomas Forsberg's research on emotions in Russian foreign policy for more conceptual understandings. In this research, though, the term emotions should be understood as perceptions and attitudes of politicians and decision makers towards Latvian-German relations.

41 Audronius Ažubalis, Urmas Paet, Edgars Rinkēvičs, Guido Westerwelle, "For a European Culture of Trust", Estonian Ministry of Foreign Affairs, August 23, 2012, <http://www.vm.ee/?q=en/node/15185>

full of potential, and with a patient, stubborn and hard working people. "Latvia is seen nowadays in Germany as a country that has consequently achieved what it wanted – to overcome the current crisis."<sup>42</sup>

During the course of the research the interviewees were asked to provide three keywords that would characterize German-Latvian relations. The responses varied, but clearly demonstrated the emotions and principles that are present among the decision makers. From descriptions like "excellent", "good", "beneficial", "preciseness" and "orderly" to terms like "doubts", "caution", "pragmatism", "suspiciousness" and "self-righteousness" was the range of characteristics attributed to current German-Latvian relations. Some emphasized the positive German cultural footprint in Latvia as a facilitative aspect for relations, and pointed to common activity in accordance with predefined principles and steady decision making, which exists in an environment of very active political dialogue and consultations between ministers, while others talked about the unresolved historical responsibility issues that cause mistrust surrounding German-Russian relations (though with a decreasing tendency lately). Therefore, in spite of generally positive political rhetoric and inspiring statements about a "deep and long standing friendship and partnership based on common values and profound trust", some more worrisome elements are also present in the discourse on the German and Latvian bilateral relations, which if not treated properly could crush the positive routine partnership that both countries have managed to establish in the 21<sup>st</sup> century.

## Conclusions

Relations between the Federal Republic of Germany and the Republic of Latvia have entered a new phase. A lack of antagonistic interests, limited political distrust, common and voluntary membership in the European Union and NATO, and growing economic interdependence has set relations to become a routinized partnership. Not only is there apparent willingness to belong to the same political structures, but also a growing understanding and the recognition of a common mentality and similar character. Pragmatic and emotional arguments in support of good bilateral relations between both countries are evident – and emphasized by extremely

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42 Author's interview with the Ambassador Extraordinary and Plenipotentiary of the Federal Republic of Germany Andrea Wiktorin in Riga, October 2012.

positive political rhetoric – and strengthen hopes for relations to continue on the path of friendship; a friendship between two countries that come from different positions and different situations.

Their different position in the world and the different starting capital that both countries had in 1991 should not be forgotten, though. Asymmetry in Latvian-German relations is unavoidable in political and economic terms, but not in emotional terms. Emotions have a changeable nature and do not rely on hard facts. Germany could be Latvia's "older brother" in this friendship, as long as the "younger brother" does not lose self-confidence and a pragmatic understanding of the unavoidability of the asymmetry, and the older one does not become arrogant. Latvia has tried to prove itself to Germany and to the rest of the world by achieving the foreign policy and domestic goals that it set for itself and strictly followed. Thus, recognition of the small state's successes by the powerful state is essential, and the positive emotional background provides an encouraging setting in this regard.

# GERMAN – LITHUANIAN RELATIONS: Toward a Strategic Partnership?

Liudas Zdanavicius

## Introduction

The Lithuanian-German relationship could not be described as a very deep strategic partnership despite the loud declarations of politicians. There are some quite considerable differences in the positions of both states in the frameworks of the EU, NATO and regarding relations with other countries (such as Russia). Developments in this area from 2009 to 2012 demonstrated stable improvement. Bilateral German-Lithuanian relations, despite their importance for Lithuania, do not receive much attention from scientists. The main aim of this article is to fill this gap and provide a broad overview of the most important aspects of bilateral relations.

In the first part of the article, an evaluation of bilateral political relations after Lithuania's accession to the European Union is given. The focus is on such important questions as the position of both sides on relations with Russia and energy questions. Additionally, a short assessment of the attitudes of the Lithuanian population toward Germany is provided. In the second part, economic relations between Lithuania and Germany are analyzed. Attention is particularly given to bilateral trade and German direct investment in Lithuania. In the third part of the article, the multilateral component (both in the EU and NATO) of Lithuanian-German relations is analyzed. The issues where they have close positions and the disagreements between the two countries are both identified. The article is based on interviews with Lithuanian decision makers, scientific texts, articles in Lithuanian and foreign media, statistical data, the results of the opinion polls, and other sources.

## 1. Political relations

### 1.1. The main trends in Lithuanian-German relations

Lithuanian-German relations could be easily divided into two separate historical periods: before and after Lithuania's accession to the European Union and NATO (1991–2004 and 2004–2012). Germany's position toward Lithuanian accession to European Union was supportive, but also quite cautious. Germany was much more skeptical about Lithuanian accession to NATO, because it was afraid of a negative reaction from Russia.

At the same time, prior to Lithuania's accession to the EU and NATO Germany was one of the most important supporters of the development of the country's public administration capabilities, legal system, military, and other areas. Finances, expertise, studying opportunities, and other resources were provided. From 1994–2002, the Federal government through the *Transform* program provided support totaling 25 million euros<sup>1</sup>. After the accession, the character of the bilateral relations changed: not only were new opportunities created, but also new tensions and conflicts. **From 2004–2008, a clear deterioration of Lithuanian-German relations could be identified.**

The main reason for this was that Lithuania was an active promoter of Russia's "containment" agenda inside the EU and NATO. Such Lithuanian aspirations created tension with Germany, which had a much more relaxed and economy-oriented stance toward Moscow. The Lithuanian government treats German-Russian cooperation very sensitively, particularly in the field energy. This sensitivity is based on the popularity of the (sometimes oversimplified) geopolitical approach to regional and world affairs on the part of Lithuanian decision makers and intellectuals.

In this case the most visible example is the *Nord Stream* gas pipeline, which came into operation in November 2011. From the beginning of the project Vilnius fiercely resisted the idea and tried to stop construction of the pipeline using all possible means. In Lithuania, the project was often seen in the paradigm of classical geopolitics as aimed at creating a Russia-Germany axis that would compete with Atlantic states (the USA, and Great Britain, and particularly negatively affecting their allies in Eastern and Central European countries). In Lithuania it is still popular to compare the *Nord Stream* project with the Molotov-Ribentrop pact, a comparison which

<sup>1</sup> Lietuva iš Vokietijos įsigys kelias dešimtis šarvuočių, www.delfi.lt, 2003-01-13.

was first publicly raised by the Polish foreign minister Radek Sikorsky<sup>2</sup>. Berlin was regularly provided with security, ecological and other arguments, but the Lithuanian (and other countries') measures only brought additional tension to the bilateral relations. Germany treated Lithuanian aims to promote a common EU energy policy quite skeptically and leaned toward a bilateral partnership with Moscow in this field.

Active Lithuanian support for Georgia's and Ukraine's membership in NATO and the EU, a strict position on negotiations over the new PCP agreement with Russia, and open criticism of the "too soft" position of some EU countries (including Germany) on the Russian-Georgian military conflict also stimulated the worsening of relations between Vilnius and Berlin. It is apparent that the lowest point of contemporary Lithuanian-German relations took place in middle of the 2008, between the NATO meeting in Bucharest and the Georgian war. **Since the second half of 2008 there has been a constant and considerable improvement of bilateral relations.**

The first significant step to the "warming" of relations was the short (just a few hours) visit by Angela Merkel to Vilnius in August 2008. During that visit the chancellor did not support the idea of an extension for the Ignalina nuclear power station, but instead emphasized the necessity to build electricity links between Lithuania and other EU countries. Angela Merkel also demonstrated a quite critical position toward Russia regarding the Georgian war of August 2008. The German approach was not considerably different from the Lithuanian position in this case<sup>3</sup>.

During her next extended visit to Vilnius, in September 2010, Merkel was even more positive. She stated that Germany politically supports the new Visaginas nuclear power station that Lithuania is planning to build. She also stressed that the Baltic states' energy isolation is a problem and declared plans to discuss the question in the Council of the European Union. The Chancellor still urged Lithuania to be "kind and open with Russia"<sup>4</sup>. Germany was one of the defining voices in the decision by the Council of the European Union in February 2011 to abolish all "energy islands" inside of the European Union by 2015.

No less important for Lithuania was decision of the European Commission to begin antitrust proceedings against Gazprom in September

2 NordStream "a waste of money", says Poland, Euroactiv, 2010-01-11.

3 A. Sytas, Adamkus ir Merkel: Rusijai nepavyks įteisinti Abchazijos ir Osetijos užėmimo, www.alfa.lt, 2008-08-26.

4 S. Gudavičius, A.Merkel negailėjo pagyrų, www.diena.lt, 2010-09-07.

2012<sup>5</sup>. It is symbolic that European Energy Commissioner Oettinger (who was delegated by Germany) in September 2012 visited Lithuania and stated that it is not normal situation when natural gas for different EU countries is sold with a 30% difference in prices. This overlaps with Lithuanian arguments in their conflict with the Gazprom, whereby Lithuania pays 20-30% more for natural gas than Germany<sup>6</sup>. Hence, the German position toward a common energy policy and relations with Russia has changed. This could be explained by their reaction to Moscow's behavior (for example, tensions between Gazprom and German energy companies on natural gas contracts, the situation with Gazprom-Ukraine relations, etc.). The systemic lobbying activities of Lithuania, along with the other Baltic states and Poland, have had some impact.

In the meantime, Lithuanian foreign policy priorities changed to improve relations with the core EU countries. Vilnius is heavily dependent on support for strategic projects such the Visaginas nuclear plant, electricity links, and Rail Baltica. Lithuanian President Dalia Grybauskaitė was an EU Commissioner and has broad experience and many contacts with European, including German, leaders. Proof of both good personal relations and bilateral relations between the countries was the invitation issued in August 2011 to the Lithuanian president to attend the Kaiser Otto Prize Award Ceremony in Magdeburg for German Chancellor Merkel. Lithuania's prime minister and president have regularly described bilateral relations as good and constructive.

Moreover, the European financial crisis significantly amplified the part of the agenda in which Germany's and Lithuania's positions are very close. Lithuania is a clear supporter of the current German anti-crisis policy (this cooperation is described in the third part of this article). Notwithstanding positive developments, some questions remain surrounding bilateral relations in the energy sector.

**Russia aims to sell electricity from the planned Kaliningrad nuclear power station** (which could be finished sometime between 2016 and 2020) **to Germany**. In November 2011, the Russian company Rosatom declared that it is planning to build an electricity link between the Kaliningrad oblast and Germany<sup>7</sup>. To lower building costs, part of the electricity

5 European Commission, Antitrust: Commission opens proceedings against Gazprom, IP/12/937, 2012-09-04. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/937>

6 R. Staselis, EK: rusiškų dujų kainos ES negali skirtis 30%, www.vz.lt, 2012-09-14, <http://vz.lt/article/2012/9/14/ek-rusisku-duju-kainos-es-negali-skirtis-30>.

7 "Росатом" намерен продавать энергию в Европу, Росбалт, 2012-03-28, <http://www.rosbalt.ru/main/2012/03/28/962591.html>

link could be built parallel to the existing NordStream pipeline. Russia has offered up to 49% of shares in the future power plant to German energy companies. As Germany in 2011 decided to close all existing nuclear power plants by 2022, which may create energy deficit, its companies might be tempted to participate in the project. The Kaliningrad power plant project will need to be connected to the European grid as there is no great electricity demand in the Russian exclave.

Lithuania is strictly against Russia's plans. The Baltiiskaya power plant is not only a competitor to the planned Lithuanian Visaginas nuclear plant, but is also considered to be a big ecological and security problem because it is built in close vicinity to the Lithuanian border. In this case, Vilnius wants Germany to support halting construction of the Russian power plant – or at least to provide assurances that Germany will not buy electricity from the plant. To lower the attractiveness of Russian electricity, Lithuania (together with Estonia) is lobbying for the introduction of EU import tariffs on electricity.

Lithuania is also seeking support from Germany (as one of the most influential EU countries) on the **foreclosure of the Ignalina nuclear power plant**. In the 2014–2020 financial period, Lithuania is asking 770 million euros more for work at the Ignalina station, but European Commission is only ready to provide 210 million euros. Moreover, in 2005 the tender for building the nuclear waste reservoirs was won by the consortium of German companies Nukem Technologies and GNS. The controlling package of shares in Nukem Technologies in 2009 was transferred by the German owners to a subsidiary of Russia's state nuclear corporation "Rosatom". From 2008–2012 the Lithuanian government has been in a state of permanent conflict with Nukem Technologies and GNS (which is still a German state-owned company). The agreement signed in 2005 is perceived as disadvantageous for the Lithuanian side. Lithuanian media speculates that a possible reason for difficult negotiations with Nukem is the influence of German politicians<sup>8</sup>.

It is expected that the forthcoming Lithuanian presidency of the Council of the European Union in the second half of 2013 will further intensify Lithuanian–German relations. One of the Lithuanian presidency's priorities is the Eastern Partnership. There are already some common areas of interest for Lithuania and Germany regarding Eastern Partners.

8 Prie Lietuvos pralaimėjimo Briuselyje prisidėjo ir Vokietijos politikai, www.iq.lt, 2012-01-10, <http://iq.lt/ekonomika-ir-verslas/prie-lietuvos-pralaimėjimo-briuselyje-prisidejo-ir-vokietijos-politikai-2/>

Lithuania, as a **Belarusian** neighbor, positions itself as the unofficial leader of EU relations with the country. Germany is also interested in democratic developments in Belarus. For example, a clear sign of such interest is the fact that one of the most influential members of the German government – the Chief of Staff of the German Chancellery and Federal Minister for Special Affairs Ronald Pofalla – twice (in 2011 and 2012) attended events organized by the European Humanities University in Vilnius. It must be noted that Lithuania's position regarding the imposition of economic sanctions on Belarus was softer than Germany's. Both Germany and Lithuania are actively involved in dialog with **Ukrainian** leadership on the question of Yulia Timoshenko. Lithuanian President Grybauskaitė was the only leader of an EU country who met with the opposition politician in prison. Notwithstanding the complexity of nuclear energy projects in the region, both Lithuania and Germany are interested in the successful social and economic development of the **Kaliningrad region**. Lithuania, Germany and Poland are the three biggest investors in the region.

Having indicated issues of common interests, it is obvious that a certain asymmetry of mutual interest remains. This asymmetry could easily be explained by the huge difference between the countries' economic and political weight. It is natural that relations with Lithuania are not the highest priority of the German government. This is demonstrated by an analysis of the highest level state visits. Lithuania's highest level officials (the president, prime minister and speaker of parliament) visit Germany much more often than their German counterparts visit Lithuania. There was an eight year pause between Chancellor Schroeder's visit to Lithuania in 2000 and Merkel's visit in 2008. Sometimes objective factors limit the possibility to organize visits (for example, the resignations of two German presidents in recent years). On the other hand, Lithuanian and German officials have the possibility to interact within broader multilateral formats (such as the EU, NATO, the OSCE, the Council of the Baltic Sea States, and others). Lithuanian–German parliamentary cooperation is quite active. In 2012, the parliamentary group on friendship with Germany was the biggest of such groups, consisting of 67 members of the Seimas. A similar group in the German Bundestag has 42 members. There are regular visits on the both highest level and on committee levels.

The Lithuanian central government develops relations with some German federal lands (North Rhein Westphalia, Hessen, Thuringia, and others). Contacts on lower levels are even more active. This cooperation could be evaluated as potentially successful because in this case the size (population, economic potential) of the partners is more symmetrical, but in order

to succeed such relations should be “filled” with more practical cooperation. Cooperation between Lithuanian and German regions exists, but is not particularly fruitful. Most Lithuanian cities and towns have partnerships with German towns – for example, Vilnius is paired with Erfurt, and Klaipėda is paired with Lübeck and Leipzig. In most cases, relations are limited to the occasional exchange of delegations, as well as some educational and cultural ties. It is clear that the Lithuanian regions only rarely use the full potential of such cooperation. There is wide range of knowledge of “city management” (energy saving, policing, etc.) that could be gathered from German partners.

### 1.2. Lithuanian public opinion about Germany

Despite the fact that the perception of Germany among the Lithuanian population is quite positive, the country is clearly not the center of attention. Data from a 2006 opinion poll showed that only 25.6% of respondents mentioned Germany as a friendly country toward Lithuania (compared to 8% percent who mentioned it as hostile) when they were not specifically asked their opinion about Germany. The results of similar opinion poll in August 2012, which was carried out by opinion research company RAIT, showed that when specifically asked 89% of respondents evaluated Germany as friendly country toward Lithuania (28% as friendly, 61% as more friendly than unfriendly). In this opinion poll only Latvia (with 90% percent of respondents) was evaluated as more friendly than Germany. At the same time, Germany was ahead of Estonia (which had 87%), the United States (81%), Poland (57%), Russia (46%), and Belarus (43%)<sup>9</sup>.

The popularity of the German language, which was historically quite high, is rapidly decreasing. From 2005–2011 the share of pupils that were studying German as a foreign language in the high schools went down from 17.6 to 8.3% (the share studying the English language increased from 87.7 to 91.5%, and Russian from 39.8 to 41.8%)<sup>10</sup>.

Lithuanian media pays very little attention to Germany in relation to the importance of the country. There is very limited coverage of Germany’s internal and foreign policy or of German-Lithuanian relations. The most visible exceptions to this are the broadcasts and articles about efforts to solve the euro crisis, German-Russian relations, and the most important German

9 Apklausa: Lenkiją draugiška šalimi laiko daugiau nei pusė lietuvių, BNS, 2012-09-11.

10 Lietuvos Respublikos švietimo ir mokslo ministerija, Lietuvos švietimas skaičiais 2012, [http://www.smm.lt/svietimo\\_bukle/docs/Lietuvos%20svietimas%20skaiciais%202012\\_Bendrasis%20ugdymas.pdf](http://www.smm.lt/svietimo_bukle/docs/Lietuvos%20svietimas%20skaiciais%202012_Bendrasis%20ugdymas.pdf).

political events (parliamentary elections, the resignation of the president, etc.). It is worth mentioning that in this regard Germany’s situation is not very unusual. Lithuanian media (even the outlets oriented toward a more intellectual audience) does not pay enough attention to most EU countries (even big players such as the UK and France).

The presence of German media in the Lithuanian market is minimal. Most cable TV plans have one or two German channels in their packages. The popularity of such channels is minimal (less than 1% of customers watch them)<sup>11</sup>. On the other hand, direct personal contacts are becoming more active as emigration from Lithuania to Germany is constantly growing. Data from the German statistics bureau shows that the number of Lithuanian citizens living in Germany from 2004–2011 increased from 14.700 to 27.800<sup>12</sup>. The number of female emigrants is almost twice that of male emigrants. This could be explained by international marriages and the fact that a considerable share of female emigrants work as nurses. Data provided by the Lithuanian department of statistics shows, however, that emigration to Germany is significantly lower than to the United Kingdom. This could be explained by the fact that until 2011 Germany limited the possibility for Lithuanians (and other new EU member citizens) to work, based on the need to learn the German language, lower wages, and other reasons.

Table 1: **Emigration from Lithuania in 2006–2011**

	2006	2007	2008	2009	2010	2011
<b>Total</b>	<b>12 602</b>	<b>13 853</b>	<b>17 015</b>	<b>21 970</b>	<b>83 157</b>	<b>53 863</b>
Ireland	1 313	1 616	1 983	2 763	13 048	5 587
Spain	766	841	917	1 355	3 535	1 948
United Kingdom	3 223	3 659	4 472	5 719	40 901	26 395
United States	1 771	1 540	1 782	1 700	2 783	1 788
Norway	216	261	337	536	4 901	3 814
<b>Germany</b>	<b>1 114</b>	<b>1 277</b>	<b>1 349</b>	<b>1 350</b>	<b>3 806</b>	<b>3 745</b>
Other states	4 199	4 659	6 175	8 547	14 183	10 586

Source: Lithuanian department of statistics.

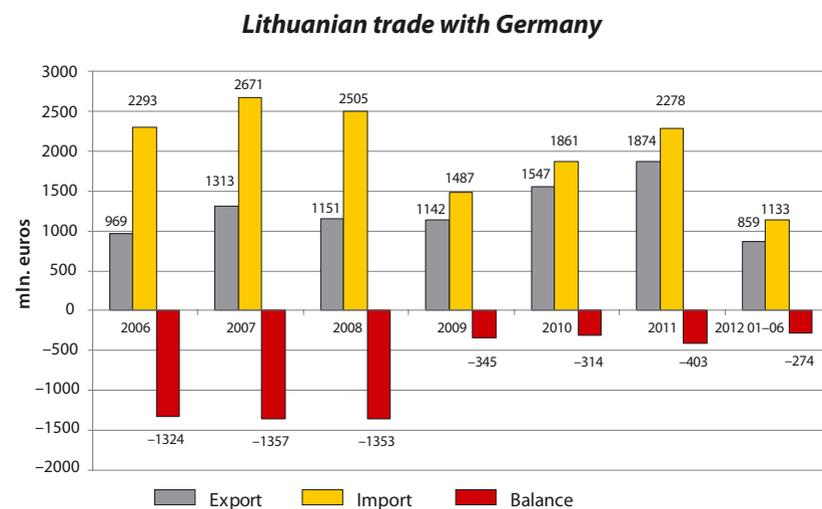
11 AB“TEO LT”, Interaktyviosios Gala TV metrai, [http://www.gala.lt/interaktyvioji/TV\\_metrai](http://www.gala.lt/interaktyvioji/TV_metrai).

12 Statistisches Bundesamt, Bevölkerung und Erwerbstätigkeit. Ausländische Bevölkerung, Ergebnisse des Ausländerzentralregisters, 2012. [https://www.destatis.de/DE/Publikationen/Thematisch/Bevoelkerung/MigrationIntegration/AuslaendBevoelkerung2010200117004.pdf?\\_\\_blob=publicationFile](https://www.destatis.de/DE/Publikationen/Thematisch/Bevoelkerung/MigrationIntegration/AuslaendBevoelkerung2010200117004.pdf?__blob=publicationFile)

## 2. Economic relations

### 2.1. Foreign trade in goods and services

In the first half of 2012, Germany was Lithuania's third biggest trade partner for the export of goods (including re-export; exports to Germany amounted to 8.3% of total Lithuanian exports) after Russia and Latvia. In the same period, Germany was the second biggest import partner (with 9.8% percent of total imports) after Russia. For the export of goods of Lithuanian origin, Germany is the most important partner (11.4% percent of Lithuanian goods are exported to Germany).



Source: Lithuanian department of statistics

Lithuania's trade deficit with Germany, which before economic crisis (in 2006–2008) was around 1.3 billion euros annually, decreased more than 3 times to 403 million euros from 2009–2011. In the first half of 2012, the trade deficit amounted almost 274 million euros, or 19.3% of the total Lithuanian foreign trade deficit. Moreover, the fact that a considerable share of imports from Germany are later re-exported to markets such as Russia and Belarus must be stressed. For example, Lithuania is an important re-export channel for second hand vehicles from Germany to CIS countries. About

41% of used vehicles were imported to Lithuania from Germany<sup>13</sup>.

The Structure of Lithuanian foreign trade with Germany (regarding goods) perfectly illustrates the economic differences between the countries. Lithuania mostly exports products with low added value, such as the plastics, oil products, food, and furniture, and imports high added value products from Germany. Thus the trade pattern indicative of a central and semi-periphery country.

Table 2: **The most important goods for Lithuanian export to Germany in 2011**

Goods	Mln. euros	Share in the total export to Germany	Weight of exports to Germany within total Lithuanian export of goods
<b>Total</b>	<b>1608</b>	<b>100.0%</b>	<b>8.7%</b>
Plastics and articles thereof	267.5	16.6%	22.9%
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	235.1	14.6%	4.6%
Furniture; bedding, mattresses, mattress supports, cushions...	139.8	8.7%	13.6%
Wood and articles of wood; wood charcoal	120.0	7.5%	17.9%
Fertilizers	114.6	7.1%	11.8%
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	107.6	6.7%	7.4%
Fish and crustaceans, molluscs and other aquatic invertebrates	103.1	6.4%	47.3%

Source: Lithuanian department of statistics

<sup>13</sup> Autoplius tyrimai, Lietuviai įveža automobilius iš Vokietijos, o išveža į Rusiją, 2011-02-19, [http://auto.plius.lt/tyrimai/idomus-faktai/lietuviai-iveza-automobilius-is-vokietijos-isveza-i-rusija?page\\_nr=1](http://auto.plius.lt/tyrimai/idomus-faktai/lietuviai-iveza-automobilius-is-vokietijos-isveza-i-rusija?page_nr=1)

In general, it is very difficult for Lithuanian companies to enter the highly competitive German market. Most Lithuanian export products are sold to German partners, who use their own trademarks – thus, profit margins in the German market are considerably lower than in the Eastern markets for Lithuanian export (Russia, Belarus, Ukraine, and some others).

Such limitations are not feasible for low added value products such as plastics, oil products, and fertilizers. For example, in 2009 Lithuania started to export diesel to Germany, and this became one of the main reasons for the rapid growth of Lithuanian exports to Germany. Diesel exports grew from 46 million euros in 2009 to 229 million euros in 2011.

Table 3: **The most important goods for Lithuanian imports from Germany in 2011**

Goods	Mln. euros	Share in the total import from Germany	Weight of imports from Germany within total Lithuanian imports
<b>Total</b>	<b>2278</b>	<b>100%</b>	<b>10%</b>
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	461.5	20.2%	24.6%
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	390.7	17.1%	23.7%
Plastics and articles thereof	163.4	7.2%	20.6%
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders	160.9	7.1%	13.8%
Pharmaceutical products	94.0	4.1%	15.1%
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments	68.8	3.0%	22.4%
Paper and paperboard; articles of paper pulp, of paper or of paperboard	67.4	3.0%	16.5

Source: Lithuanian department of statistics

Lithuanian services exports to Germany in 2011 amounted to 411 million euros (making it the third biggest export partner, with 11.1% of total Lithuanian services exports), an increase of 12.9% compared to the 2010 (total Lithuanian services exports grew by 21.1% during that period)<sup>14</sup>. The most important of these was the export of transportation services – at 288.9 million euros (13% of total Lithuanian transportation services exports) – and travel/tourism services at 89.2 million euros (a 9.6% share).

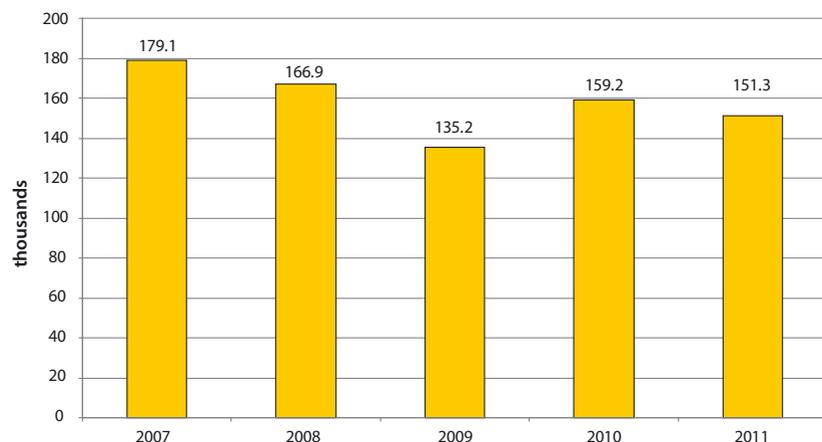
German ports are the main partners for the Lithuanian port of Klaipėda. There are two main RORO (*roll on roll off ships*) lines between Klaipėda and German ports: Klaipėda–Sassnitz and Klaipėda–Kiel. Such strong relationships with Germany have deep historical roots. First, the railroad transportation shipping line between Klaipėda and Mukran (currently Sassnitz) began to operate in 1986 (and was an important factor for the later development of the Sassnitz port). In 2011, 6.4 million tons (27.2% more than in 2010 and 62.7% more than in 2009) of cargo was shipped between Klaipėda and German ports (17.4% of the total, making it the most important partner country for sea transportation for Lithuania). In this case German ports serve not only as the final destination, but also as a major transit hub for goods transported to/from Klaipėda<sup>15</sup>. Goods to/from Klaipėda are later loaded in German ports to/from bigger transatlantic ships (for example, from China).

Passenger flow to Germany from Lithuanian airports in 2011 constituted 10.2% of total passenger flow (285.000). The flow of German tourists to Lithuania is constantly decreasing. In 2011, Germany was the fifth biggest Lithuanian partner in terms of tourist inflow. A total of 151.300 Germans visited Lithuania (4.9% less than in 2010, and 9.3% less than in 2008). The share of Germans in the total number of visitors is 10%.

14 VŠĮ "Versli Lietuva", Paslaugų eksporto tendencijos 2011, Vilnius, 2012.

15 Klaipėdos valstybinio jūrų uosto direkcija, Klaipėdos valstybinio jūrų uosto 2012 metų krovos darbų ataskaita, 2012, [http://www.portofklaipeda.lt/uploads/statistika\\_docs/klaipedos\\_uosto\\_krovos\\_ataskaita\\_2011.pdf](http://www.portofklaipeda.lt/uploads/statistika_docs/klaipedos_uosto_krovos_ataskaita_2011.pdf)

**German tourist flows to Lithuania in 2007–2011**



Source: Lithuanian department of statistics

It is worth noticing that 51.3% of German tourists who visited Lithuania in 2011 were older than 55. The popularity of Lithuania for young German tourists is much smaller.

## 2.2. Investment

At the end of the first half of 2012, Germany was the third biggest investor in the Lithuanian economy. Germany's accumulated FDI totaled 1133 million euros (10.1% of total accumulated FDI in the Lithuanian economy).

Table 4: **Accumulated FDI in the Lithuanian economy (mln. euro)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012.06	
									size	share
<b>Total</b>	<b>4693</b>	<b>6926</b>	<b>8384</b>	<b>10291</b>	<b>9198</b>	<b>9214</b>	<b>10039</b>	<b>11038</b>	<b>11178</b>	<b>100.0%</b>
<b>Total EU</b>	<b>3580</b>	<b>4579</b>	<b>7042</b>	<b>8209</b>	<b>7467</b>	<b>7326</b>	<b>7951</b>	<b>8424</b>	<b>8689</b>	<b>77.7%</b>
Sweden	706	766	881	1176	1289	881	1022	2269	2461	22.0%
Poland	84	114	1882	1814	557	934	1163	1375	1317	11.8%
<b>Germany</b>	<b>533</b>	<b>740</b>	<b>809</b>	<b>881</b>	<b>920</b>	<b>862</b>	<b>969</b>	<b>1116</b>	<b>1133</b>	<b>10.1%</b>
Netherlands	204	204	206	434	777	697	814	855	871	7.8%

Norway	134	142	222	318	362	347	316	731	745	6.7%
Russia	396	1704	523	1005	488	495	716	599	441	3.9%

Source: Lithuanian department of statistics

From the above table we can see that German FDI into Lithuania is constantly growing, but that this growth is moderate. The sharp increase in 2005 could be explained by Lithuania's accession to the EU, and the decline in 2009 by the economic crisis in Lithuania (in 2009 the Lithuanian GDP fell by record high 14.8%). In general, the inflow of German FDI correlates with the growth of the Lithuanian economy. It is quite difficult to explain the decline of the size of accumulated German FDI in the first half of 2012, because the Lithuanian economy, unlike most EU countries, has demonstrated a visible growth rate. The largest share of German FDI went to the real estate sector (27% of total German FDI), electricity, gas, steam and air conditioning supply (25.7%), wholesale and retail trade, the repair of motor vehicles and motorcycles (17%), manufacturing (15.3%), and financial and insurance activities (5.6%).

Lithuanian FDI into Germany is minimal, with one significant exception: Lithuanian fertilizer producer Achema in 2005, together with German partners, built a liquid fertilizer terminal (with a capacity of 150.000 tons) in Lübeck. The total size of the Achema investment in Germany at the end of 2011 was around 16 million euros<sup>16</sup>. Germany, however, is an important market for investments of Lithuanian pension funds. At the end of June 2012, the total investment of Lithuanian pension funds into Germany totaled 118.5 million euros (9.23% of the total investment portfolio of Lithuanian pension funds, in fourth place after Lithuania, Luxembourg, and Ireland)<sup>17</sup>.

German capital is one of the most important factors in the Lithuanian **natural gas sector**. In 2003, Lithuania sold a 34% share of state gas company Lietuvos dujos to German energy giant E.ON Ruhrgas International (it currently owns a 38.9% share) for just 33.6 million euros. Another 34% share for a similar price was sold to Russia's Gazprom. Such a low price (which even at the moment of privatization was 2–3 times lower than

<sup>16</sup> "Achema" atidarė pirmąjį terminalą užsienyje, www.delfi.lt, 2005-06-30.

<sup>17</sup> Lietuvos bankas, Lietuvos II ir III pakopos pensijų fondų bei kolektyvinio investavimo subjektų rinkos apžvalga 2012 1 pusmetis, 2012, [http://www.lbank.lt/ii\\_ir\\_iii\\_pakopos\\_pensiju\\_fondu\\_bei\\_kolektyvinio\\_investavimo\\_subjektu\\_rinkos\\_apzvalga\\_2012\\_m\\_i\\_pusmetis](http://www.lbank.lt/ii_ir_iii_pakopos_pensiju_fondu_bei_kolektyvinio_investavimo_subjektu_rinkos_apzvalga_2012_m_i_pusmetis).

market value) was explained by the expectation that the presence of German capital would balance any possible negative aspects of the presence of Russian capital in Lietuvos dujos. It was expected that Gazprom would concentrate on delivery and the German shareholder on distribution (including the integration of the Lithuanian gas pipeline network to European pipeline networks). It is worth mentioning that investments in Lietuvos dujos are profitable for the German company (as they are for Gazprom). Those expectations were not met. E.ON Ruhrgas didn't (at least openly) push Gazprom to get a lower natural gas price for Lithuania (currently prices are almost 30% higher than for some Western European countries).

German shareholders also have not declared a separate position in the conflict between Gazprom and the Lithuanian government, related to the model of implementation of the Third EU Energy Package. For example, in March 2011 the German shareholder, together with Gazprom, sent letters to members of Lithuanian parliament to encourage them to vote against a strict implementation of the Third Energy Package<sup>18</sup>. The real position of German Lietuvos dujos shareholders on the future split of the company is not clear. E.ON Ruhrgas (in contrast to Gazprom) does not openly confront the Lithuanian government's plans to regain control of core gas pipeline infrastructure. A possible explanation for this is that the Lithuanian government has already made (or will make) a deal with the German investor on adequate compensation for possible losses.

In May 2011, during a meeting between Lithuanian Prime Minister Andrius Kubilius and German Chief of Staff of the German Chancellery and Federal Minister for Special Affairs Ronald Pofalla, both sides stated that their positions on the implementation of the Third Energy Package are very close<sup>19</sup>. In September 2012, during a meeting of Lithuanian President Dalia Grybauskaitė with Ruprecht Polenz, chairman of the foreign committee of the German Bundestag, the Lithuanian leader thanked Germany for its support in implementing the Third Energy Package<sup>20</sup>.

German investors are visible players in the Lithuanian **transportation sector**. Data rating the biggest Lithuanian transportation companies in

18 VTEK: "Gazprom" ir "E.ON Ruhrgas" atstovai Lietuvoje užsiėmė draudžiamu lobizmu, bet įstatymas jų bausti neleidžia, www.delfi.lt, 2011-09-13.

19 Premjeras teigiamai vertina stiprėjantį europinį energetinį solidarumą, www.ekonomika.lt, 2011-05-05.

20 Press Service of the President of the Lithuanian Republic, Strong and united EU is a common goal of Lithuania and Germany, 2012-09-20, [http://www.president.lt/en/press\\_center/press\\_releases/strong\\_and\\_united\\_eu\\_is\\_a\\_common\\_goal\\_of\\_lithuania\\_and\\_germany.html](http://www.president.lt/en/press_center/press_releases/strong_and_united_eu_is_a_common_goal_of_lithuania_and_germany.html)

2011 includes at least five German controlled companies: the 27<sup>th</sup> biggest in terms of income in 2011 was Hegelmann transporte (18.7 million euros), 34<sup>th</sup> was DPD Lietuva (one of the leaders of the Lithuanian parcel delivery sector, at 13.7 million euros), 39<sup>th</sup> was DB Shenker (10.4 million euros), and 44<sup>th</sup> was Hellman worldwide logistics (9.4 million euros). Most German controlled transport companies, as with the Lithuanian logistics sector in general, demonstrated steady growth of income in 2010–2011<sup>21</sup>. The joint Lithuanian-German company Tuvlita (the German partner is TÜV THÜRINGEN) controls the state vehicle technical inspection market in eastern Lithuania (including the capital, Vilnius).

German companies are one the most active foreign actors in the Lithuanian **real estate sector**. In 2007, one of the biggest real estate operators in Germany, investment fund Deka Immobilien Investment GmbH, for 36 million euros acquired one of the biggest shopping malls in Vilnius, BIG. In 2008, the same fund acquired control of the biggest shopping mall in Kaunas, Kauno akropolis. In 2009, the German company ECE Projektmanagement in Vilnius opened shopping mall Ozas (with main commercial space of 62 thousand sq. meters, total investments was planned to reach 175 million euros)<sup>22</sup>.

Germany's presence in the Lithuanian **retail sector** is constantly growing. In 2008, German corporation REWE group – together with partners from Belgium, France and other countries (the Coopernic alliance) – acquired control of the second biggest Lithuanian retailer UAB Palink (operator of the IKI shopping centers). German retail operator Lidl had extensive expansion plans in Lithuania, but in 2008 sold much of the already purchased property. A wide range of explanations exists as to why Lidl decided to stop operations in 2007–2008, starting from the economic crisis to the high level of competition and even sabotage by existing retail chains afraid of a dangerous new competitor. In 2011, however, Lidl once again decided to begin operations in Lithuania. The first shop is scheduled to be opened in the Lithuanian town of Alytus in 2013.

The biggest German investments in the Lithuanian **manufacturing sector** are Baltik vairas (a producer of bicycles, bought by German company Panther), Eternit-Akmene (a producer of roofing materials) and Shmitz Cargobull (a producer of trailers). There is also clear interest from German businesses to invest in the **Lithuanian agricultural sector**, which is

21 Didžiausios transporto bendrovės pagal 2011 m. Pardavimus, Verslo žinios, 2012-03-07.

22 Investicijos į prekybos centrą "Ozas" – 588 mln. Lt, www.DELFI.lt, 2009-04-02, <http://verslas.delfi.lt/business/investicijos-i-prekybos-centra-ozas-588-mln-lt>.

stimulated by low land and labor prices. For example, German company KTG AGRAR already controls 4.000 hectares of agricultural land in Lithuania<sup>23</sup>. Currently, such aspirations are limited by the decision of the Lithuanian government to extend a ban on the sale of agricultural land to foreigners until 2014, but after that period it is easy to forecast a considerable inflow of German investment in the sector.

The presence of the German financial capital in the **Lithuanian banking sector** is rather minimal. This niche is almost fully occupied by Scandinavian capital. From 2002–2010, German bank Nord/LB acquired the formerly government owned Agricultural bank, one of the biggest Lithuanian banks. In 2010, control of the financial institution was transferred to the Norwegian DnB NOR Bank ASA<sup>24</sup>. From 2001–2007 a branch of the German Vereinsbank, which was mostly oriented toward corporate clients, operated in Lithuania. In 2007 the branch was acquired by the Italian Uni-credit bank. At the moment of writing there were no German owned banks and no branches of German banks in Lithuania. Some German banks operate in Lithuania without registering as a legal entity<sup>25</sup>. This situation, which is similar to other Baltic countries, could be explained by the limited attractiveness of the Lithuanian market, which is quite small and highly competitive. Another explanation, which is quite popular among Lithuanian experts and politicians, is that there is some “secret deal” between Scandinavian and German banks on their “regions of interest”.

Germany’s presence in the Lithuanian **insurance sector** is considerably more visible. The German controlled Ergo Lietuva is the fourth biggest actor in Lithuania’s non-life insurance market (with a 12.9% market share in the first half of 2012), and fifth in the life insurance market (with 9.6%)<sup>26</sup>. The branch of German insurance company Vereinigte Hagelversicherung VvaG has a dominant position in the Lithuanian agricultural insurance sector and is the sole insurer that operates in the crop insurance market.

Lithuania could be evaluated as average in the terms of the attractiveness of German FDI. It is much more successful in this regard than its Baltic neighbors, but lags behind Poland, and particularly the Czech Republic and Slovakia. Even more importantly, only a small fraction of German FDI went to export-oriented “green field” projects.

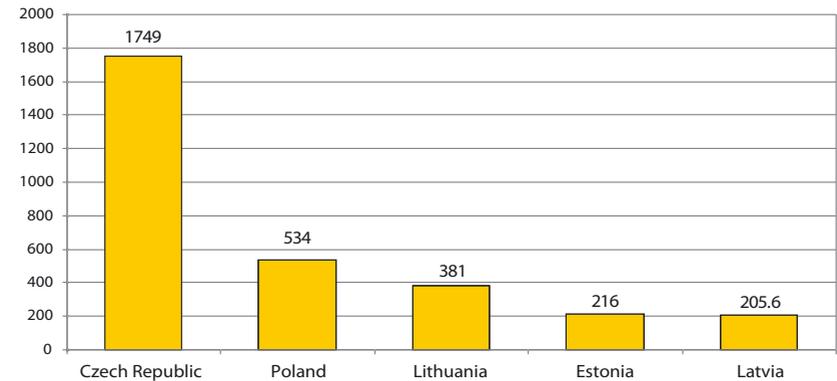
23 A. Milašius, Lietuvos ūkininkas mielesnis nei vakarietis, 2010-09-07, Verslo žinios, Nr. 168.

24 DNB, Apie banką, <http://www.dnb.lt/lt/apie-banka/apie-banka/istorija/>.

25 Lietuvos bankas, Bankai, <http://www.lbank.lt/bankai>.

26 Lietuvos bankas, Lietuvos draudimo rinkos apžvalga, 2012 m. 2 ketvirtis, [http://www.lbank.lt/2012\\_m\\_ii\\_ketv\\_lietuvos\\_draudimo\\_rinkos\\_apzvalga](http://www.lbank.lt/2012_m_ii_ketv_lietuvos_draudimo_rinkos_apzvalga).

**Accumulated foreign direct investment from Germany per capita in 2010–2011 euros**



Source: Central bank and statistical offices of the corresponding countries.

What could be done to attract more German FDI? Data from opinion polls of the biggest foreign companies (from five Western countries, including Germany), organized by the Lithuanian public agency “Invest Lithuania” in July–August 2012, showed that German companies quite positively evaluate Lithuania as a possible investment market. Some 54% of German respondents evaluated Lithuania as an attractive or very attractive country for investment, and only 24% as unattractive or very unattractive (only 22% had no opinion in this regard at all). The main drawbacks of the Lithuanian market for Germany are the small internal market and the absence of the euro<sup>27</sup>. Beside this, there are natural reasons for a limited German presence: poor transportation links with the rest of the EU, a small internal market, and a greater distance from Germany (compared with Poland and the Czech Republic).

The results of another survey, organized in 2012 by the German-Baltic Commercial chamber (118 companies with German capital working in the Baltic countries) showed that German investors very positively evaluate their work in Lithuania. A total of 74% of companies would invest again.

27 VŠĮ “Investuok Lietuvoje”, Lietuvos patrauklumas investicijoms ir tarptautinei prekybai, Jungtinės Karalystės, Vokietijos, Švedijos, Danijos, Norvegijos įmonių apklausa, [http://www.investlithuania.com/files/files/PDF/lietuvos\\_patrauklumas\\_investicijoms\\_ir\\_uzsienio\\_prekybai.pdf](http://www.investlithuania.com/files/files/PDF/lietuvos_patrauklumas_investicijoms_ir_uzsienio_prekybai.pdf).

Moreover, investors gave Lithuania one of the best attractiveness scores for FDI. The evaluation was very close to the results of Latvia, Poland and the Czech Republic<sup>28</sup>. Former Lithuanian commercial attaché in Germany Liutauras Labanauskas in his interview explained this phenomenon through the lack of human and financial resources that are spent on attracting German FDI. There is also a tactical mistake in the country's strategy – Lithuania tries to attract the biggest German companies, for which Lithuania is a way too small, and is not giving enough attention to the small and medium size companies (the “small German champions”)<sup>29</sup>.

On the other hand, Lithuania's central and local governments are not always flexible enough to attract important German investments. In a situation of the heavy competition between Central European countries, governments should be very swift and sometimes even “purchase” investments. For example, Lithuania lost a competition to Romania in the race to attract a new factory built by German tire maker Continental AG. Lithuania is currently trying to attract investment for the creation of an export-oriented service center (for example, IT consulting centers, call centres, etc.), but the list of successfully attracted investors (Barclays, Western Union, Danske bank, and others) includes no German companies. One possible explanation is the shortage of a skilled and German speaking workforce. There are also some new export-oriented projects based on the German capital:

- German company Bio-chem Cleantec is planning to build a cleaning products factory and a research laboratory (one of the main attractions for the German company was the possibility to get financial support from EU funds);
- Germany's Panther, which already owns bicycle factory Baltic vairas in the Lithuanian town of Šiauliai, declared that it will transfer its electric bicycle factory from Germany to Lithuania (laying off 80 German workers and creating at least 50 new jobs in Lithuania);
- German-owned logistics company Rhenus svoris is planning to invest in the construction of more than 11.000 sq. meters of warehouse facilities in the new Vilnius logistics terminal<sup>30</sup>.

28 Vokietijos ir Baltijos prekybos rūmai, Baltijos šalių įmonių, susijusių su Vokietija, esama padėtis ir lūkesčiai 2012 metais, [http://www.ahk-balt.org/fileadmin/ahk\\_baltikum/Publicationen/Konjunkturumfrage/2012/Imonių\\_apklausoš\\_rezultatu\\_apzvalga\\_2012.pdf](http://www.ahk-balt.org/fileadmin/ahk_baltikum/Publicationen/Konjunkturumfrage/2012/Imonių_apklausoš_rezultatu_apzvalga_2012.pdf)

29 Violeta Bagdanavičiūtė, Buvęs Lietuvos komercijos atašė Vokietijoje Liutauras Labanauskas: “Kodėl Lietuva nori tik BMW?“, [www.15min.lt](http://www.15min.lt), 2012-07-18.

30 “Rhenus Svoris” investuos į logistikos centrą, ELTA, 2011-10-21.

### 3. Multilateral formats

#### 3.1. The European Union

Lithuanian and German positions in the European Union have both close similarities and some serious fundamental conflicts. From 2004–2008, some Lithuanian activities inside the EU framework clearly interfered with the German position:

- Lithuania actively tried to use the question of negotiations on the new PCP with Russia to defend its own interests in relations with Moscow. Despite the fact that Lithuania didn't stop the beginning of negotiations on the new PCP, it managed to include important questions into the negotiators mandate, such as the renewal of the Druzhba oil pipeline, the regulation of “frozen conflicts” in Georgia and Moldova, Russia's agreement to sign additional protocols regarding the Energy Charter, and other questions.
- Vilnius tried to move forward the creation of a common EU energy policy.

Lithuania was an active supporter of EU enlargement to the East (particularly supporting Ukraine's accession to the EU). A change of priorities in the agenda of Lithuanian-German relations in the context of the European Union could currently be identified. Firstly, the euro-crisis became a major topic. Secondly, as was mentioned earlier, the German position toward a common energy policy vis-à-vis Russia became closer to Lithuania's goals.

It is clearly impossible to compare Lithuania's and Germany's “weight” in the EU decision making process. **Vilnius is heavily dependent on Berlin's “good will” on most questions related to EU support for its strategic projects.** Besides the already mentioned nuclear energy projects, Lithuania is interested in EU support for electricity links with Sweden and Poland, and the “Rail Baltica” high speed railroad. As was mentioned earlier, Germany supports most Lithuanian strategic projects.

**Lithuania is positioning itself as the supporter of economic measures promoted by Germany in order to tackle the financial crisis.** For example, Vilnius favored the EU Fiscal Stability Pact (it was ratified by the Lithuanian Seimas in June 2011<sup>31</sup>). Lithuanian Prime Minister Kubilius also openly supported the German position in discussions between Merkel

31 Seimas ratifikavo Europos fiskalinio stabilumo paktą, BNS, 2012-06-28.

and Holland revolving around “spending versus saving as the crisis exit strategy”<sup>32</sup>. Lithuania could even join the informal “smart growth” group, proposed by the Latvian Minister of Foreign Affairs in June 2012.<sup>33</sup> Lithuania (along with the other Baltic countries) could be (and often is) used as an example of successful implementation of difficult but necessary saving measures (cutting costs without a currency devaluation) for the “Southern states” (Greece, Italy, Spain, etc.).

At the same time, there are still some dissimilarities between German and Lithuanian positions. The most important question is **2014–2020 EU budget and financial support for Lithuania**. Prime Minister Kubilius stated in May 2012 that Lithuania is strictly against the current budget project, in which financial support in the 2014–2020 period will be at least 1 billion euros lower than in the 2007–2013 period<sup>34</sup>. The position of Germany as the biggest “net payer” is crucial for Lithuanian interests.

Lithuania’s position on the future of the EU Common Agricultural Policy also contradicts the German one. Lithuania aims to equalize the size of direct support for its farmers with the EU level (currently it is only 25% of the “old” EU members level). The German position toward the EU CAP is more liberal, and Berlin is interested in lowering agriculture support EU-wide. In the author’s view, Lithuania should reconsider its position toward the German one, and ask for a lower (but equal) level of support throughout the EU.

EU-wide tax unification is another topic in which the Lithuanian and German positions are fundamentally opposite. Germany, where corporate income taxes are 10-15% higher than in many other EU countries, wants to eliminate the factor of the tax competition. Lithuania, whose attractiveness for foreign investors relies on a competitive tax regime, opposes any German proposals in the field of further tax equalization<sup>35</sup>.

At the moment of writing, Lithuania still has not expressed an official position toward the financial transaction tax, which was proposed by Germany and France and is supported by 9 more countries. Lithuanian banks

32 A. Kubilius pasirinko: Lietuva aiškiai stovi Vokietijos pusėje, BNS, 2012-05-31.

33 The ministry of the Foreign affairs of the Republic of Latvia, Minister Rinkēvičs speaks about creating grounds for economic growth, 2012-06-12, <http://www.am.gov.lv/en/news/press-releases/2012/june/12-1/>.

34 Kubilius: kategoriškai nesutiksime, kad ES fondų parama Lietuvai mažėtų, ELTA, 2012-05-29.

35 Eglė Markevičienė, Planas patinka Vokietijai, o Lietuvai – nelabai, Verslo žinios, Nr. 18, 2012-01-26.

have already forecasted that this tax will cost them (and Lithuanian customers) more than 6 million euros annually<sup>36</sup>.

### 3.2. NATO

German-Lithuanian military cooperation could be easily split into two periods: before and after Lithuania’s accession to NATO. After the reestablishment of Lithuanian independence, Germany was one of the most active supporters of the Lithuanian military. Bilateral cooperation is based on an agreement between the German and Lithuanian MODs on military cooperation signed in 1994. Bundeswehr donated a substantive amount of excessive military equipment to Lithuania, equipment which is still used by the Lithuanian armed forces.<sup>37</sup> Another important aspect of German military support was the provision of free studies for Lithuanian officers in Bundeswehr learning institutions. Since 1994, almost 300 Lithuanian officers have finished studies at different levels in Germany. Currently, most of the highest level Lithuanian officers – including Commander of the Armed force A. Pocius, Commander of the Air force E. Mažeikis, and Chief of staff V. Tamošaitis – have studied in Germany.

After Lithuania’s accession to NATO, the character of Lithuanian-German relations changed from one of support to one of equal partnership. Germany almost entirely stopped donations of military equipment (anyway, as a result of military reform in Germany, the country has a supply of excessive military equipment that could be very attractive to Lithuania because of the quality/price ratio), and cooperation in the officer training also became much less active. Lithuania currently is sending its officers to the Baltic Defense College (in Tartu, Estonia), which is co-funded by all three Baltic states and some other countries. It is clear that such a decrease in cooperation in the field of officer studies is not effective for Germany, because it loses an important cooperation channel (providing Lithuanian officers with information on German views of the national security, information about Bundeswehr, etc.).

The partners’ relations are not specifically intensive. There are almost no specific bilateral military cooperation projects (mostly because of low interest from both sides and limited resources). Lithuania and Germany operate in different regions of Afghanistan, and thus don’t need to work

36 Socialdemokratai pasisako už finansinių sandorių mokesčių Lietuvoje, [www.alfa.lt](http://www.alfa.lt), 2012-09-07.

37 Lietuva iš Vokietijos įsigys 100 šarvuotųjų “M-113”, [www.delfi.lt](http://www.delfi.lt), 2005-02-17.

particularly closely in the ISAF. Cooperation is mostly concentrated on multilateral formats. For example, in 2010–2011 Lithuania and Germany, together with the other countries, participated in the same battle-groups (created within the framework of CSDP), and cooperated through SUCBAS and other formats. The quite low intensity of bilateral military relations is illustrated by the representation of military attachés. Lithuania currently has a military attaché in Germany who resides in Denmark and covers a few other Scandinavian countries. The German military attaché to Lithuania resides in Riga.

Lithuania's and Germany's positions in NATO may also sometimes demonstrate some wider differences. On the one hand, this could be evaluated as part of broader tensions between German and US positions. In this regard Vilnius usually leans toward a more transatlantic approach than Berlin. For example, in 2003 Germany, France and some other countries opposed the US operation in Iraq. At the time, Lithuania was in the Central European club of supporters of US-led actions. In 2011, Germany didn't take active part in the Libya conflict, while Lithuania supported the NATO operation. **Lithuania's approach toward a balance between NATO and the CSDP is closer to the British** (namely, that the CSDP should be developed to complement NATO, but not to replace the Alliance's role in European and global security), than to the German and French positions (which aims to be more independent from the US's European security and defense policy).

On the other hand, as was already mentioned earlier, Lithuania is sensitive to "too close cooperation" between NATO and Russia. "Too deep" cooperation could lead to a decrease in Lithuania's security. In this case, standard German efforts to improve NATO-Russia relations are watched with skepticism in Vilnius (and the other Baltic capitals). Vilnius particularly opposes any possible Russia-NATO agreements on Baltic region security and sees NATO (not Russia) as a guarantor of its security.

The Lithuanian and German positions clearly differ on **questions of NATO enlargement**. Lithuania was one of the most active supporters of Georgia's and Ukraine's aspirations to get a NATO Membership Action Plan during the 2008 Bucharest meeting. In the meantime, the opposing position of Germany was one of the important factors that led to the decision not to provide both countries with a MAP. It is clear that such a careful German position was influenced by its will not to "anger" Russia. During the Russia-Georgia war in August 2008, Lithuania was one of the most active supporters of the Georgian position, while Germany's approach was much more balanced (even leaning toward the Russian side).

Lithuania opposes any inclusion of Russia in the creation of the **NATO missile defense system**. On the other hand, Germany has tried to soften Russia's negative position toward the NATO missile defense project (by negotiating, including Russian experts, organizing joint exercises, etc.).<sup>38</sup> Another important topic for Lithuania is the **question of tactical nuclear weapons** in Europe. The German government leans toward the withdrawal of such armaments from its territory<sup>39</sup>. Lithuania's position on this question differs from the German one, mainly because Vilnius states that the withdrawal of U.S. tactical weapons from Europe should be directly related to Russia's obligations to withdraw such weapons from NATO border regions, or at least considerably lower their numbers. The sensitivity of this question for Lithuania is amplified by the fact that Lithuanian Minister of Defense Juknevičienė has said that Russia stationed such weapons in the Kaliningrad region<sup>40</sup>. In May 2012, the advisor to the Lithuanian prime minister and former ambassador to NATO Linkevičius stated that Lithuania does not accept calls to unilaterally withdraw tactical weapons<sup>41</sup>. Germany currently does not take an active role in the operations of the newly created Energy Security NATO Center of Excellence, possibly because of a cautious position toward the inclusion of energy security questions on the NATO agenda.

Despite such differences between the countries, there are examples of positive Lithuanian-German interaction in the context of NATO. Germany is an active participant in the NATO Air policing mission, based in Zokniai airport (Lithuania). Germany has already taken five shifts of the air policing mission (the last one in 2012, consisting of a 110-man military personnel)<sup>42</sup>. In June 2012, during a visit by the Lithuanian vice-minister of defense V. Umbrasas to Germany, Berlin once again repeated its intention to actively participate in the air policing mission. In the words of Lithuanian President Grybauskaitė, Germany was also one of the biggest supporters of the creation of the NATO defense plans for the Baltic countries<sup>43</sup>.

38 Justyna Gotkowska, Germany in NATO's missile defence system, CE Weekly, Center for eastern studies, 2012-02-08. <http://www.osw.waw.pl/en/publikacje/ceweekly/2012-02-08/germany-nato-s-missile-defence-system>

39 Oliver Meier, German nuclear stance stirs debates, Arms control today, 2009-12. [http://www.armscontrol.org/act/2009\\_12/GermanNuclearStance](http://www.armscontrol.org/act/2009_12/GermanNuclearStance).

40 R. Juknevičienė: Karaliaučiuje yra Rusijos taktinis branduolinis ginklas, BNS, 2011-02-08.

41 L. Linkevičius: raginimai vienašališkai atsisakyti JAV branduolinių ginklų Europoje Lietuvai nepriimtini, BNS, 2012-05-31.

42 Lietuvos kariuomenė, NATO Oro policijos misija, [http://kariuomene.kam.lt/lt/kariuomenes\\_struktura/karines\\_oro\\_pajegos/nato\\_oro\\_policijos\\_misija/vokietija.html](http://kariuomene.kam.lt/lt/kariuomenes_struktura/karines_oro_pajegos/nato_oro_policijos_misija/vokietija.html)

43 A. Merkel atvyko tik žadėti, Respublika, 2010-09-07.

## Conclusions

Currently Lithuanian-German political relations are on the rise. The “cold age” of 2004–2008, which was mostly induced by tensions on questions such as the *Nord Stream*, EU relations with Russia, and Georgia’s and Ukraine’s accession to NATO, was replaced by a rapid “warming”, which could be identified by an increase in the intensity of bilateral relations and much friendlier rhetoric from both sides. Even more importantly, Germany supports Lithuania’s aims to increase its energy independence from Russia (through EU support for electricity links with Poland and Sweden, a gas pipeline to Poland, the implementation of the Third EU Energy Package, and the European commission investigation against Gazprom). On the other hand, Lithuania actively supports Germany’s position on EU financial stabilization (it supports saving, but not additional spending).

On the one hand, the warming of bilateral relations was induced by a shift of priorities for Lithuanian foreign policy, whereby significant attention was transferred to the most important members of EU (including Germany). On the other hand, Germany became more sensitive to the positions of Lithuania (particularly in the energy sector).

Because of the objective reasons (such as the size of the economy, population, etc.) bilateral relations are asymmetrical. Germany is much more important for Lithuania than Lithuania is for Germany. For example, Lithuania largely depends on German support on strategic questions surrounding the EU’s support for strategic projects such as electricity links, the shutdown of the Ignalina nuclear power plant, and “Rail Baltica”.

Despite these positive developments, there is a lot of room for the improvement of Lithuanian-German relations. For example, in the context of the EU there are some serious contradictions between Vilnius and Berlin: including the new EU financial perspective, tax unification, and the Common Agricultural Policy. In the context of NATO, meanwhile, there are disagreements on questions such as relations with Russia and the removal of tactical nuclear weapons. In the field of economic cooperation, Germany is an important trade and investment partner for Lithuania, but over the past few years Lithuanian exports to Germany, the size of German FDI in Lithuania, and the inflow of German tourists are not developing satisfactorily for the Lithuanian side. Moreover, there is clearly not enough German investment in export-oriented (value creating) industrial or service sectors. Germany is also barely visible in Lithuania’s information space, where it is surpassed by players such as Russia and the United States.

It seems that after the accession of Lithuania to NATO and the European Union in 2004 Germany has not fully identified a new model for its presence in Lithuania. Prior to the accession to both organizations Germany was an active supporter of Lithuanian state building (both in the civil and military sectors), but later this mode of cooperation was abandoned and has received no clear substitute.

To sum up, Lithuanian-German relations need further permanent efforts from both sides. Forthcoming Lithuanian presidency in the EU Council in the second half of 2013 could create additional opportunities for bilateral cooperation. For example, Germany and Lithuania could more actively cooperate on the Eastern Partnership, including trilateral cooperation projects. The German government should also consider paying more attention to increasing the share of the information about German domestic and foreign policy in the Lithuanian media. The arrival of big German “green field” or service sector exporting investors could also become a serious stimulus for the further deepening of bilateral relations.

# A CHRONICLE OF OVERCOME HURDLES: Toward a Pragmatic Partnership in Polish-German Relations

Artur Ciechanowicz

## Introduction

German-Polish relations have historically been difficult and not always friendly (the two countries were often rivals and adversaries), but are steadily improving. In 2011, the German daily *Frankfurter Allgemeine* even stated that ties between two countries had never been so close. The main catalyst for that is good cooperation between Prime Minister Donald Tusk and Chancellor Angela Merkel, as well as between the presidents and the heads of the Foreign Ministries. In the years since Donald Tusk became Polish Prime Minister, a “particularly difficult Polish-German partnership” has been replaced with one marked by routine problem solving. The German-Russian gas pipeline under the Baltic Sea no longer arouses emotion (although it is still an actual problem in bilateral relations that is addressed whenever possible). Erika Steinbach no longer makes the headlines. Warsaw today is an important ally of Berlin in financial negotiations in the EU – the Federal Republic has noticed that Poland is not a pure beneficiary from Europe, but has become a participant in solving problems. Poland has set itself the ambitious goal of becoming an active player in the EU. This fact is noticed and in most cases appreciated by Berlin. Yet the road to this kind of coexistence was long and filled with challenges.

## 1. Political relations

After Germany’s reunification in 1990 and the profound transformation processes in Central and Eastern Europe that accompanied it, German-Polish relations gained remarkable dynamics. The signing of the German-Polish Treaty on June 17, 1991 intensified political dialogue and contact between the two countries. German support for Polish efforts to become a member of the EU and NATO was only one of numerous examples in which German and Polish interests coincided across many areas. As in

other spheres, Poland’s accession to the European Union and Schengen area was a milestone in political relations. Common membership in the EU offered new dimensions for the development of German-Polish relations.

### 1.1. On the way to the EU partnership

Since the very beginning of European integration, the Federal Republic was generally in favor of constantly expanding the European Communities. The same applied to Central Europe: after the collapse of the USSR, Germany hoped – because of its geographic location and economic strength – for a successful transformation of the region. At the same time that Warsaw was concluding negotiations on its Association Agreement with the European Community, the Treaty of Good Neighborship and Friendly Cooperation between Poland and Germany was signed in Bonn (on June 17, 1991). This has been the most important document in guiding the direction of developments in bilateral relations for over 20 years now. Among other commitments, the Treaty contains the provision that the Federal Republic favors the prospect of Poland’s accession to the European Community.

A milestone on Poland’s road to EU membership was Germany’s six month presidency of the EU, which began on July 1, 1994. In the “mission statement” outlining the main goals of its presidency, Berlin declared support for Central European countries looking to join the European Union. It is said that in 1997 Chancellor Helmut Kohl warned other EU countries against trying to postpone official membership negotiations with Warsaw. He allegedly even threatened to block entrance to the EU for other Central European countries unless Poland was among those invited in the first round (along with the Czech Republic, Hungary, Slovenia, Estonia, and Cyprus).<sup>1</sup>

It is often believed in Poland as well as in Germany that Berlin’s push for Poland’s accession into the EU stemmed from a so-called “moral imperative”: a sense of guilt for World War II actions against its vulnerable neighbors. This was of course a factor, but not the decisive one. Having Poland in the EU was among the vital interests of the Federal Republic. After the accession of Greece, Spain and Portugal in the eighties, the center of gravity in the Community had moved south, to the Mediterranean, which did not match with German interests. Secondly, including Central Europe

<sup>1</sup> Bogdan Koszel, “Rola Niemiec w procesie integracji Polski ze WE/UE”, Poznań 2011. [http://www.iz.poznan.pl/news/329\\_Nr%2058.%20Niemcy%20w%20procesie%20integracji%20Polski%20z%20UE.pdf](http://www.iz.poznan.pl/news/329_Nr%2058.%20Niemcy%20w%20procesie%20integracji%20Polski%20z%20UE.pdf)

to the EU would automatically move Germany from the periphery to the center and – equally important – would put it on friendly terms with the new member states. Furthermore, German companies very soon realized how economically attractive the Polish market was<sup>2</sup>.

One proof that the reasons were not all “moral imperative” was made apparent in 1998, when Gerhard Schröder was appointed Chancellor by the coalition government of SPD-Bündnis90/Die Grünen. In statements regarding EU enlargement, the term he used most often was “Realpolitik”. Germany started voicing concerns about the unsatisfactory pace of implementation of the *acquis communautaire* by Poland and the general state of unpreparedness for membership. Poland suddenly became a country of “particular concern” (Sorgenkind). The reason for this change was public opinion. Eastern Germany still experienced high levels of unemployment. Local governments were afraid of competition in the labor market, lower environmental standards, immigration, price dumping, and organized crime. Because of this, Germany and Austria demanded a seven year transition period for the employment of citizens from the new member states. Nevertheless, in 2002, after a red-green coalition won the parliamentary elections again, negotiations in the most demanding areas were completed thanks to Germany’s assistance. On December 13, 2002, the final terms of Poland’s accession were set. The ceremony of signing the accession treaty by 10 new member states took place on April 16, 2003 in Athens. The treaty still required ratification by the European Parliament, as well as the parliaments of both old and new member states. The ratification of the Accession Treaty in Germany, as expected, did not encounter much difficulty. On July 4, 2003, 575 of 580 members of the Bundestag voted in favor of the ratification<sup>3</sup>.

It was hoped that Poland’s accession to the European Union would catalyze a further deepening of cooperation between the two countries. However, high expectations soon proved to be unrealistic. In the aftermath of the parliamentary elections in the Federal Republic of Germany and parliamentary and presidential elections in Poland in the autumn of 2005, both sides started voicing disappointment. From the very beginning the new German government of Chancellor Angela Merkel proclaimed the continuity and intensification of cooperation with its neighbors, especially Poland, the return to good transatlantic relations, greater activity in

2 Bogdan Koszel, “Rola Niemiec w procesie integracji Polski ze WE/UE”, Poznań 2011. [http://www.iz.poznan.pl/news/329\\_Nr%2058.%20Niemcy%20w%20procesie%20integracji%20Polski%20z%20UE.pdf](http://www.iz.poznan.pl/news/329_Nr%2058.%20Niemcy%20w%20procesie%20integracji%20Polski%20z%20UE.pdf)

3 Ibid.

the European Union, and more criticism in dealings with Russia, which in the days of Chancellor Gerhard Schröder’s government were suspiciously warm. However, once the Polish government was dominated by the conservative Law and Justice party, disagreements were formed, and controversies and mutual distrust quickly deteriorated the relationship. Germany welcomed the new Polish government of Kazimierz Marcinkiewicz and then Jarosław Kaczyński with obvious reluctance and disapproval, accusing him of nationalism and egoism. In turn, the right side of the Polish political spectrum suspected the Germans of attempting to “re-write” history and relativize the crimes of National Socialism.

Suspicion and resentment quickly spilled out onto the European arena. The Federal Republic had hoped that Poland would be a close ally in the enlarged Union – but Warsaw instead distanced itself from closer cooperation with Germany, suspecting it of hegemonic inclinations and predicting that Poland would eventually be dominated by the stronger partner. In this situation, German and Polish positions on a number of crucial European issues (like the EU Constitution) differed strongly. The new government coalition of PO-PSL that formed after the October 2007 elections made many efforts to restore an atmosphere of trust in the relationship between Berlin and Warsaw, and succeeded. In his inaugural speech, Prime Minister Donald Tusk declared among other things that his aim was to develop a strategic partnership with Germany. In his view, the position of both countries in the EU depended straightforwardly on the quality of their bilateral relations<sup>4</sup>. Nonetheless, this does not mean that the essence of their relationship was or is flawless.

## 1.2. Regional and cultural cooperation

Both countries seem to believe that cultural understanding and regional cooperation is indispensable for bridging the gap between the people. This leads to the promotion of cultural and youth exchange and municipal partnerships. Apart from that, there are hundreds of exchange and cooperation programs launched each year on a local level.

Promoting cooperation and tackling common challenges in the border regions is primarily within the competence of the federal states, which are supported by the federal government. The main coordinating body in this sphere is the German-Polish intergovernmental commission for regional

4 Transcript of Donald Tusk’s inaugural speech from 23.11.2007. <http://wiadomosci.gazeta.pl/wiadomosci/1,114873,4701279.html>

and cross-border cooperation. On the German side, members of the Commission include the Foreign Office, as well as representatives from other ministries and from federal states. The Polish side is represented by the Ministry of Internal Affairs and the provinces. The European Commission is also entitled to send participants to the meetings. Among the tasks of the government commission is the maintenance of contacts and cooperation between regional, local and other institutions, and the encouragement of further initiatives. The European Union supported several projects in the German-Polish border region and praised the cooperation between Germany and Poland in this area as exemplary. Even closer integration of management and planning in the coming years will enable the essential use of the central location of the two countries within the EU to promote growth and innovation<sup>5</sup>.

The commitments made by political and cultural organizations, private foundations, more than 600 German-Polish city partnerships, the provinces, districts and municipalities, schools, universities and scientific societies contribute to the intensive cultural exchange between Poland and Germany. The basis for this boisterous cooperation is the German-Polish Cultural Agreement of July 14, 1997. On September 1, 2005 an agreement was signed regarding the creation of a German-Polish exchange school (Begegnungsschule) in Warsaw (Willy Brandt School). Each year 40 German teachers work at various schools throughout the country. The Goethe Institute in Warsaw and Krakow (with reading rooms in Wrocław, Katowice, Poznań and Szczecin), a number of partner libraries and the Goethe Centre in Lublin provide important information and contribute to organizational and language aspects of the program. Polish culture is more present in Germany than in any other country: Berlin, Leipzig and Düsseldorf have Polish Cultural Institutes, complemented by cultural events by the Polish Consulate General in Munich and Hamburg, and the German-Polish societies.

One of the financially strongest institutions in German-Polish cooperation has been the Foundation for Polish-German Cooperation (SdpZ). The governments of Poland and Germany agreed on November 7, 1990 on the establishment of the foundation, under Polish law, the aim of which was to promote projects of mutual interest. These occur mainly in the areas of conservation, infrastructure, education, youth exchange, health care,

5 Witold Ostant, "Współpraca regionalna w świetle traktatu o dobrym sąsiedztwie i przyjaznej współpracy między Polską a Niemcami z 1991", Poznań 2011. [http://www.iz.poznan.pl/news/333\\_Nr%2062.%20Wsp%20C3%B3%20C5%82praca%20regionalna.pdf](http://www.iz.poznan.pl/news/333_Nr%2062.%20Wsp%20C3%B3%20C5%82praca%20regionalna.pdf)

ecology and the renovation of public buildings. In 2000, the Foundation's funds were running out and thus the scope of its activity had to be cancelled. But it was agreed that the foundation would proceed with its activities with smaller budget and more modest programs. With about one-tenth of its previous annual budget, SdpZ shifted focus to promoting exchanges, training, and language programs. Since 2006 the German-Polish virtual music stock exchange has been operating. It is funded by the Federal Government Commissioner for Culture and Media. The German regional arts councils and the Polish regions have brought to life a mutual website. The website provides information in German or Polish on the development of music and culture in both countries<sup>6</sup>.

An important element of strengthening social proximity and private ties is frequent contact between the younger generations. Personal experience with peers leads to early mutual understanding. Teaching about the German-Polish neighborhood in the classroom and promoting exchanges at different ages plays a central role. The German-Polish Youth Office was founded in 1991 by the governments of Germany and Poland as part of the German-Polish neighborhood agreement. Members maintain offices in Potsdam and in Warsaw. The institution funds internships and various programs and projects. A growing interest in German-Polish encounters and an ongoing increase in demand for programs and projects is observable.

### **1.3. Difficulties in bilateral relations**

The Polish-German treaty of 1991 was a milestone in bridging the centuries-old divisions between Poland and Germany. Even its preamble indicates that it is in the spirit of reconciliation and attests to the primacy of the paradigms of cooperation, forgiveness and compromise, rather than the paradigms of grudge, revenge and conflict. And finally – something that unfortunately happens too rarely in Polish-German relations and politics in general – it is a triumph of common sense, cold calculation and provides an accurate assessment of the situation. A relevant assessment of the situation is boiled down to the simple statement that communism collapsed, the situation is open and it is up to us to define it. In other words, the treaty was also a manifestation of the bold attempt to go against current stereotypes. Among the representatives of the German political elite,

6 Maria Wagińska-Marzec, "Rozwój czy stagnacja? Współpraca kulturalna Polski i Niemiec po podpisaniu traktatu o dobrym sąsiedztwie i przyjaznej współpracy", Poznań 2011. [http://www.iz.poznan.pl/news/330\\_Nr%2059.%20Wsp%20C3%B3%20C5%82praca%20kulturalna%20Polski%20i%20Niemiec.pdf](http://www.iz.poznan.pl/news/330_Nr%2059.%20Wsp%20C3%B3%20C5%82praca%20kulturalna%20Polski%20i%20Niemiec.pdf)

there was a consensus that the deal was necessary and that, along with the border treaty of 1990, it would be the basis of Polish-German relations and determine the direction of their development. The agreement was modeled on a similar arrangement between Germany and France, and was to lead to the formation of a partner relationship described as “on par”. Far from everyone in Germany in the early 90s seemed to appreciate both the importance of good relations with Poland and the seriousness of the moment. The Treaty was the subject of much controversy and debate in the governing coalition CDU / CSU-FDP, with disagreements concentrating on the specific wording and the decisions contained in the treaty. The milieu of so called expellees tried to delay the signing of the Treaty, and inspired politicians from the Bavarian CSU to cause brief friction over it in the coalition government of CDU / CSU-FDP. Former German Foreign Minister Hans-Dietrich Genscher was accused by the “expellees” of weakness and uncritical compliance with Polish demands. As proof they cited the fact that Genscher did not demand from Warsaw the return of Lower Silesia and Pomerania (sic!)<sup>7</sup>. Fortunately, however, the Treaty was signed. Without the Treaty there would be no shield to prevent the potential introduction of hostility into the relationship.

The importance of the Treaty in most cases cannot be discussed in isolation from the broader context of Polish-German relations. On the one hand it molded the relationship. On the other its implementation in many cases depended on the state of the relationship. But it should be stressed again that the Treaty has always been a framework, within which Poland and Germany were free to vary. The balance of the Treaty through history has moved between cooperation and tension. The two following examples illustrate this:

- The great success of the Treaty includes the regularization of the status of the German minority in Poland. Immediately after signing the document, German media were skeptical when evaluating Poland's ability to meet the self-imposed requirements. This tone soon changed to an almost enthusiastic one when the press started to write about improving the situation of the German minority. Poland was praised for supporting the development of cultural minorities and facilitating the learning of the German language. But the improving situation was not always used for good purposes. There have been several arbitrary initiatives taken by the German minority, such as erecting monuments

7 Bremser von Rechts, “Immer noch Streit um die Ostpolitik”, *Die Zeit*, 24.05.1991. <http://www.zeit.de/1991/22/Bremser-von-rechts>

to Wehrmacht soldiers<sup>8</sup>, or placing street signs in German<sup>9</sup>. In some instances the behavior of members of German minority indicated that they were not loyal to the Polish state, such as the mass-avoidance of military service and close links with radical right-wing organizations in Germany<sup>10</sup>.

- When it comes to the Polish minority in Germany, the situation is, unfortunately, the opposite. Germany fails to comply with the provisions of the Treaty, although the document provides for equal treatment of the two groups<sup>11</sup>. This applies to such spheres as access to learning the mother tongue or funding for cultural activities. The Federal Government's argument in this case is inconsistent. Depending on the situation, Berlin either claims that Polish rights are guaranteed by the Constitution and are not violated, or it recognizes the existence of the problem but emphasizes that the solution to most of the demands made by Poles in Germany lies with the authorities of federal states, not the federal government (although the Vienna Convention on the Law of Treaties of 1969 prohibits invoking the provisions of internal law as a justification for failure to abide by an international treaty). This is aimed at defending the concept of Germany's integration policy, which puts more pressure on actual assimilation than on maintaining the national identity of immigrants. Additionally, a change in the approach to the Polish minority would result in a need to increase budget spending<sup>12</sup>. On June 10, 2011 the German parliament adopted a resolution to mark the occasion of the approaching (June 17) 20<sup>th</sup> anniversary of the Treaty on Good Neighbourhood and Friendly Cooperation. Work on the text of the resolution was drawn out and numerous improvements were made<sup>13</sup>. The document included the main demands from the Polish minority in Germany, and was said to pave the way for further negotiations with the German government about eliminating asymmetries

8 “Ewige Verehrung Die deutsche Minderheit fordert die Polen heraus – mit Großmanns-sucht und Heldendenkmälern”, *Der Spiegel*, 02.11.1992

9 “Germanische Namen”, *Die Zeit*, 18.12.1992; “Schlesischer Blues”, *Die Zeit*, 04.11.1994

10 “Ewige Verehrung Die deutsche Minderheit fordert die Polen heraus – mit Großmanns-sucht und Heldendenkmälern”, *Der Spiegel*, 02.11.1992. <http://www.spiegel.de/spiegel/print/d-13691046.html>

11 “Traktat pozwolił pozytywnie zmienić polsko-niemieckie relacje”, *Dziennik.pl*, 21.06.2011. <http://wiadomosci.dziennik.pl/polityka/artykuly/342133,traktat-pozwolil-pozytywnie-zmienic-polsko-niemieckie-relacje.html>

12 Artur Ciechanowicz, “Impas w polsko-niemieckich negocjacjach nt. respektowania praw polskiej mniejszości”, 11.05.2011. <http://www.osw.waw.pl/pl/publikacje/best/2011-05-11/impas-w-polskoniemieckich-negocjacjach-nt-respektowania-praw-polskiej-mni>

13 “Wspólne posiedzenie rządów Polski i Niemiec: Merkel ze swoimi ministrami przyleciała do Warszawy”, *Dziennik Gazeta Prawna*, 21.06.2011.

in the treatment of the Polish minority in Germany and the German minority in Poland. Yet up to now very little indicates that Berlin was thinking seriously about leveling off the asymmetries between the treatment of the Polish minority in Germany and that of the German minority in Poland<sup>14</sup>.

Responsibly dealing with the past is essential for a close and friendly relationship. This includes the unconditional recognition of German guilt for the suffering of the Polish people during World War II. A symbol for this was Willy Brandt kneeling in front of the Monument to the Heroes of the Warsaw Ghetto on December 7, 1970. His gesture paved the way for German-Polish reconciliation. As proof of this reconciliation, the German government does not support any demands for the restitution of the estates that belonged to displaced persons, nor does it formulate such claims itself. Chancellor Angela Merkel has reiterated this stance several times<sup>15</sup>.

Although the issue of “expellees” and differing interpretations of history resurfaces in bilateral relations, history no longer plays a leading role in directly molding the relationship between Poland and Germany. The current government in Warsaw conspicuously scrapped this subject from the bilateral agenda. This does not mean, however, that controversy over interpretations of history cannot return – especially considering that German actions in this area do not raise confidence in Poland.

On February 10, 2011 the Bundestag adopted a resolution on “60 years of the Charter of the Expelled from the Fatherland – complete reconciliation”<sup>16</sup>. This is not only a communiqué related to the anniversary of the “constitution” of the expelled, which fell on August 5. This resolution can be seen as a catalogue of the current priorities of Germany’s policy on history. The adopted document is dominated by the point of view promoted by, for example, the Federation of Expellees, which claims that the German nation belongs to World War II victims. The resolution was passed with the votes of the ruling coalition (CDU/CSU-FDP), whose MPs submitted the draft document in the Bundestag. In the resolution, MPs committed to promoting knowledge about the expellees, supporting scientific research on them and making every effort to keep the memory of “14 million

German expellees” alive. In German political discourse, the collective term “expellees” (Vertriebene in German) refers to the Germans who were evacuated (often forcibly), those who fled the approaching Soviet army, and to those who were already forced to leave before the Potsdam conference or as a result of the implementation of decisions made at the conference by the great powers regarding displacements of the German population. According to the resolution’s authors, displaced people from the East deserve to be remembered if only for the fact that they worked to reconstruct post-war Germany, contributed to the economic miracle of West Germany, offered an innovative approach to thinking about a unified Europe, and played a positive role in establishing friendly relations between West Germany and its eastern neighbors<sup>17</sup>.

The document’s authors state straightforwardly that their objective is to find a way to “enable discussion of the Holocaust and expulsions as two World War II crimes without exposing oneself to the threat of revisionism”. In the opinion of the MPs, the suffering and experiences of German expellees should also act as a “monument to the victims of all expulsions”. In order to achieve these goals, the government should follow a host of recommendations presented in the resolution. These include the establishment of a Day of Remembrance of the Victims of Expulsions (on August 5, 1950 the Charter of the Expelled was announced in Stuttgart), dedicating space to commemorate those that died “while fleeing and being expelled” in the Museum of Expulsions, which is under construction, and supporting scientific research on expulsions<sup>18</sup>.

The resolution was criticized by opposition parties. The SPD attacked the idea by arguing that the Charter features terms that “cannot be said to encourage reconciliation” (such as the declaration on foregoing revenge). It was not only opposition MPs that were critical of the resolution. For Stephan Kramer, the president of the Central Council of Jews in Germany (ZDJ), the idea is a manifestation of revanchism. Similarly, 68 historians from Germany, Poland, the Czech Republic, Slovakia, the US, and Israel (including five historians sitting on the scientific council of the Foundation “Escape, Expulsion, Reconciliation”) submitted a protest to the Bundestag arguing that glorifying the alleged merits of the expelled for the cause of reconciliation is inappropriate<sup>19</sup>.

14 “20. rocznica polsko-niemieckiego traktatu”, *Onet.pl*, 31.05.2011. <http://wiadomosci.onet.pl/kraj/20-rocznica-polsko-niemieckiego-traktatu,1,4401912,wiadomosc.html>

15 Lily Gardner Feldman, “German-Polish Reconciliation: How Similar, How Different?”. [http://csm.org.pl/fileadmin/files/csm/SPOTKANIA/Dr%20Lily%20Gardner%20Feldman\\_German%20Polish%20Reconciliation%20How%20Similar%20How%20Different.pdf](http://csm.org.pl/fileadmin/files/csm/SPOTKANIA/Dr%20Lily%20Gardner%20Feldman_German%20Polish%20Reconciliation%20How%20Similar%20How%20Different.pdf)

16 60 Jahre Charta der deutschen Heimatvertriebenen – Aussöhnung vollenden, <http://dip21.bundestag.de/dip21/btd/17/041/1704193.pdf>

17 Artur Ciechanowicz, “Bundestag uznaje wersję historii lansowaną przez “wypędzonych”, 16.02.2011. <http://www.osw.waw.pl/pl/publikacje/best/2011-02-16/bundestag-uznaje-wersje-historii-lansowana-przez-wypedzonych>

18 Ibid.

19 Ibid.

The possibility of the establishment of a Day of Remembrance of the Victims of Expulsions or a commemoration for the victims in the Museum of Expulsions will depend on the government's decision. Angela Merkel may ignore the Bundestag's recommendations because of Germany's relations with its neighbors. Nevertheless, the creation of a Day of the Expelled (and disputes over the specific date) is a secondary issue that diverts attention from the real meaning of the resolution. The document includes a clear interpretation of expulsions, which the Bundestag has accepted and committed to promoting and thereby, in a way, recognized as a binding version of history. The resolution adopted by the German parliament promotes the version of the events in which the expellees are innocent victims that suffered undeserved – and disproportionately greater than the rest of German society – punishment for the crimes of National Socialism. From the text of the document it can be inferred that the expulsions of Germans should be put in the same category as other crimes of this type, such as the expulsions of Armenians or Kosovo's Albanians. However, it was Germans from the East that were victims of the largest expulsion in history, which implies the conclusion, not explicitly expressed, that Germans are among the victims of World War II. At the same time, questions surrounding Germany's blame in provoking the war was treated quite summarily in the resolution, with merely one sentence in a four-page document<sup>20</sup>.

## 2. Economic relations

Poland is the second largest neighbor of Germany (after France) and the biggest market among the new EU Member States, and as such it occupies a key position in Central and Eastern Europe. Since Poland's accession to the European Union in 2004, trade between Poland and Germany began to develop even more rapidly than before. While Germany for years had been Poland's most important trading partner, the new EU member was also steadily gaining importance for the German economy. In 2011, Poland reached 10<sup>th</sup> place among Germany's biggest trading partners (ahead of the Czech Republic and Russia).

Despite the international financial crisis, bilateral trade in 2011 increased again. According to the Federal Statistical Office, trade turnover

20 Artur Ciechanowicz, "Bundestag uznaje wersję historii lansowaną przez "wypędzonych", 16.02.2011. <http://www.osw.waw.pl/pl/publikacje/best/2011-02-16/bundestag-uznaje-wersje-historii-lansowana-przez-wypedzonych>

in 2011 amounted to 75.9 billion euros (exports reached 43.5 billion euros). Germany's share in exports remained at the same level as in 2010 and amounted to 26.1% (35.4 billion euros), while imports increased slightly from 21.9% (2010) to 22.3% (2011), reaching 33.5 billion euros (CSO). German exports were dominated by machinery and electrical equipment, vehicles, chemicals, and plastics. Poland mainly exported machinery, vehicles, household appliances (refrigerators, TV sets, etc.), chemical products, food, and furniture.

### 2.1. German investment in Poland

In terms of the amount and value of foreign direct investment in Poland, German companies are in the second place, following Luxembourg. The value of German direct investment in Poland since the fall of the Communism in 1989/1990 amounts to over 21 billion euros. In 2010, German companies slightly (by about 1.6 billion) increased investments in Poland.

The largest part of German investment is so-called "Greenfield Investments". Only a small part of these are related to the takeover of private companies or the acquisition of state enterprises. Every year German companies invest more and more in scientific research and development. German investments in Poland are mainly carried out in the automotive industry, mechanical engineering, the chemical and pharmaceutical industry, banking and insurance, wholesale and retail trade, and energy. Poland has also gained weight as a site for business relocation (for the IT industry, among others).

German entrepreneurs perceive Poland as the most attractive location for investment in Central and Eastern Europe. Polish advantages include membership in the European Union, access to significant funding support, a large and dynamic internal market, geographic proximity, and access to well-educated university graduates as well as skilled and motivated professionals. The factors that contribute to this result include dozens of Special Economic Zones, which attract investors with financial incentives and good infrastructure, as well as a well-educated workforce, a growing economy, and increasing domestic demand. According to the Federation of German Industries (BDI), Poland has "become a role model in the entire region". The experiences of German companies doing business in Poland are almost entirely positive: 86% of German investors would again bring their money there, according to a survey by the Polish-German Chamber of Commerce in Warsaw. The survey also listed the main shortcomings that drive foreign investment away. The lowest-scoring factors leading to

investment in Poland were country's fiscal system, administration, the level of the tax burden. According to foreign investors, other weaknesses in Poland included a low level of transparency in public tenders, a lack of effectiveness in public administration, and unsatisfactory infrastructure.

The surveyed entrepreneurs mainly quoted the following factors as priorities for economic policy: the development and modernization of transport infrastructure (including rail infrastructure and express roads in particular), the improvement of efficiency in public administration and supervision over its costs, public finance reform (including public debt reduction), a stabilization of the zloty's exchange rate (or, alternatively, the introduction of the euro in Poland), combating corruption and increasing the transparency of public tenders, legislative deregulation of the economy and increasing the transparency of the laws, reforming the healthcare and social insurance systems, introducing a more flexible labor law, and reducing labor taxation. Other important factors included: building an effective vocational education system and eliminating un-employment among young people, opening dialogue with private businesses and supporting small enterprises, control of public expenditure, the economic promotion of Poland abroad and providing incentives for foreign investors, and a reduction of the tax burden<sup>21</sup>.

## 2.2. The Polish presence in Germany

The size of Polish-German economic relations is indeed impressive. In general, it can be assumed that about 10% of the Polish GDP depends on trade relations with Germany. In 2010, one in four (25%) of Polish export products hit Germany and one-fifth (21.6%) of Polish imports came from Germany. Germany is one of the biggest direct investors in Poland, while Polish investment in Germany is estimated at only 0.5–0.7 billion euros<sup>22</sup>. Although Polish direct investment in Germany comprises only a few percent of the capital brought to Poland by German companies, interest among potential Polish investors is very high. The phenomenon of direct investment abroad is still at an early stage for Polish companies. Existing studies in this regard indicate that among the main points for companies undertaking this type of activity are highly dependent on the size and

21 Investors pleased with Poland. Economic Survey of AHK Polska, 2012 edition, 29.03.2012. [http://ahk.pl/fileadmin/ahk\\_polen/OA/Pressemitteilungen/Press\\_release\\_AHK\\_29032012.pdf](http://ahk.pl/fileadmin/ahk_polen/OA/Pressemitteilungen/Press_release_AHK_29032012.pdf)

22 Brocka Palacz, "Ekonomiczne determinanty polskiej obecności gospodarczej na rynku niemieckim", in J. Olszyński (red.), *Polska i Niemcy w Unii Europejskiej. Gospodarki i przedsiębiorstwa w procesie integracji*, Warszawa 2010.

potential of foreign markets, the costs of labor, the proximity to customers, consolidation within the industry, and the ability to export and potentially expand into new markets<sup>23</sup>.

Investments made by Polish entities in Germany usually take the form of takeovers of existing companies. This is supposed to provide a favorable starting position in a tough market. Many companies operate in the border regions of Brandenburg and Berlin, and cooperate with local entities. In turn, the western German federal states of Bavaria and North Rhine-Westphalia witness investments from young, dynamic and competitive companies. Noticeably, investments abroad from Polish companies result from the proper use of opportunities offered by the world economic crisis. It seems, however, that growing investment is a constant trend that will not be reversed by external factors. For instance, PKN Orlen, Poland's largest oil company, wants to grow stronger in Germany. Since the 2003 acquisition of the BP network, it became Poland's largest investor in Germany<sup>24</sup>. Orlen already operates about 570 service stations under its brand name "Star" and has set the target to attain 750 or more. While PKN Orlen is indeed the largest Polish investor in Germany, it is not the only one<sup>25</sup>. Around 6.000 Polish companies are already registered in the Federal Republic, including the chemical giant Ciech, which saved Sodawerke Staßfurt from bankruptcy, as well as IT companies like Asseco, Comarch and Odratrans just to list the few. The Polish bus manufacturer Solaris from Poznan is now the largest foreign bus supplier in Germany. Buses with the green dachshund now operate in Berlin, Munich and almost all major cities<sup>26</sup>.

## 3. Relations between the two countries in the international context

On the issue of relations with the US and Russia, Germany and Poland sometimes disagree. Some such disagreements have been over the

23 Marta Götz, "Szczyt Gospodarczy Polska-Niemcy. Polskie inwestycje w Niemczech", Poznań 2011. [http://www.iz.poznan.pl/news/341\\_Nr%2062.%20Polskie%20inwestycje%20w%20Niemczech.pdf](http://www.iz.poznan.pl/news/341_Nr%2062.%20Polskie%20inwestycje%20w%20Niemczech.pdf)

24 Polnische Wirtschaftspräsenz in Deutschland wird größer, *Gtai.de* 19.07.2010. <http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=69536.html>

25 Deutsch-polnischer Handel boomt. Polen investiert immer mehr in Deutschland, 29.03.2012. <http://www.kolonia.trade.gov.pl/de/aktualnosci/article/a,24999.html>

26 Marta Götz, "Szczyt Gospodarczy Polska-Niemcy. Polskie inwestycje w Niemczech", Poznań 2011. [http://www.iz.poznan.pl/news/341\\_Nr%2062.%20Polskie%20inwestycje%20w%20Niemczech.pdf](http://www.iz.poznan.pl/news/341_Nr%2062.%20Polskie%20inwestycje%20w%20Niemczech.pdf)

German-Russian gas pipeline, over US policy in Iraq, and over missile defense (before the Russian invasion of Georgia), although the Tusk government is looking for a détente with Russia and for less of a lock-step with the US. It must be said, however, that these differences were/are mostly well tolerated at the highest political level. Although Germany has been the key advocate for Poland in every step toward membership in the EU, the reality of Poland's membership has revealed differences with Germany over the budget, constitutional questions, and the climate and energy package. Relations between Poland and Germany in an international context since Prime Minister Donald Tusk came to power can be described without much exaggeration as paradoxical. On the one hand, the two countries are fighting hard for their own interests, for example in the construction of the *Nord Stream* pipeline, or the EU Fiscal Pact. On the other hand, this does not preclude them from nursing friendly relations between Berlin and Warsaw. This is evidenced by not only the words of politicians on both sides of the Oder – to the effect that relations between Poland and Germany are the best in history – but also hard facts: where there is a convergence of interests between the two countries, they can work together as partners. The best examples of this is are the Kaliningrad triangle, a joint initiative of the two heads of the Ministry of Foreign Affairs on Belarus, and the invitation to participate in the meetings of the Future Group – Minister Sikorski was the only one in the group that represented one of the “new” members of the Union. A growing sense of common purpose can be seen in German-Polish efforts toward democratization in Ukraine (e.g., the joint visit by German and Polish foreign ministers to Kiev) and toward the EU's Eastern Partnership (with Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine).

### 3.1. False start

The coexistence of Germany and Poland in the EU began with a false start. Disputes, the main topic of which was historical issues, culminated in 2007 in a row over the Constitutional Treaty<sup>27</sup>. Merkel had made it one of the main objectives of her EU presidency – which ran for half a year until the end of June 2007 – to resurrect the bloc's constitution, which has been on ice since the Dutch and French rejected it in referendums in 2005<sup>28</sup>.

27 “The Fresh Impetus that Europe Desperately Needs”, *Spiegel Online*, 23.06.2007. <http://www.spiegel.de/international/europe/eu-hammers-out-a-deal-the-fresh-impetus-that-europe-desperately-needs-a-490304.html>

28 “Poland Blocking New EU Treaty”, *Spiegel Online*, 12.06.2007. <http://www.spiegel.de/international/europe/diplomatic-offensive-against-a-warsaw-veto-poland-blocking-new-eu-treaty-a-488056.html>

Merkel was hoping to get approval for a revised EU constitution, which would then be called a “treaty”<sup>29</sup>. Germany wanted the EU governments to agree to a roadmap to a slimmed down treaty, to be ratified by 2009<sup>30</sup>. If the draft treaty was adopted, the EU voting process would be changed so that it would be easier to make decisions in the expanded 27-member bloc<sup>31</sup>. The new system would significantly decrease Poland's influence and increase Germany's. German negotiators argued that Poland's population comprises only about 8 percent of the EU total of 490 million, compared to Germany's 17 percent. Unsurprisingly, Poland, worried about losing power relative to its neighbor, opposed the new system<sup>32</sup>. The country was threatening to use its veto to block any agreement on the treaty, and wanted to re-open discussions on how the voting system would work. It has proposed an alternative “square root” system, which would give Poland relatively more clout vis-à-vis Germany. Poland was receiving somewhat half-hearted support from only one other member state, the Czech Republic<sup>33</sup>. The issue triggered an unprecedented campaign in the German media against Poland, in which most substantive arguments were lost in the emotional atmosphere<sup>34</sup>. Press on the Vistula answered in a similar manner. The dispute over the treaty was finalized in fact after the parliamentary elections of October 21, 2007, which were won by the Civic Platform (PO)<sup>35</sup>. On April 1, 2008, the Polish Parliament passed a law on the ratification of the Treaty of Lisbon, amending the Treaty on European Union and the Treaty establishing the European Community, signed in Lisbon on December 13, 2007, which authorized the president to ratify it. On April 2, 2008, the law was passed by the Senate, and on April 9, 2008, it

29 “Merkel's Chance to Move on the EU Constitution”, *Spiegel Online*, 09.05.2007. <http://www.spiegel.de/international/europe/continental-divide-merkel-s-chance-to-move-on-the-eu-constitution-a-481925.html>

30 “Wooing a Paranoid Poland”, *Spiegel Online*, 15.06.2007. <http://www.spiegel.de/international/germany/the-world-from-berlin-wooing-a-paranoid-poland-a-488837.html>

31 “Europe Divided on How to Unite”, *Spiegel Online*, 21.06.2007. <http://www.spiegel.de/international/europe/all-for-one-and-one-for-all-europe-divided-on-how-to-unite-a-489922.html>

32 “Blair Taking a Tough Line on the EU Treaty”, *Spiegel Online*, 19.06.2007. <http://www.spiegel.de/international/europe/merkel-s-two-front-battle-blair-taking-a-tough-line-on-the-eu-treaty-a-489436.html>

33 “Will Germany Be Forced to Offer Delay on Vote Reform?” *Spiegel Online*, 18.06.2007. <http://www.spiegel.de/international/europe/poland-takes-hard-line-on-eu-treaty-will-germany-be-forced-to-offer-delay-on-vote-reform-a-489149.html>

34 “We Aren't Idiots”, *Spiegel Online*, 18.06.2007. <http://www.spiegel.de/international/europe/polish-diplomat-speaks-out-on-berlin-warsaw-spat-we-aren-t-idiots-a-489210.html>

35 “Europe Applauds Polish Poll”, *Spiegel Online*, 22.10.2007. <http://www.spiegel.de/international/europe/one-kaczynski-down-europe-applauds-polish-poll-a-512818.html>

was signed by President Lech Kaczyński. Under the provisions of the law, the President of the Republic was empowered to ratify the international agreement, which he did on October 10, 2009, after the second ratification referendum in Ireland. The ratification procedure was completed on October 12, 2009, when the instruments of ratification were deposited with the government of Italy – the depositary of the Treaty of Rome.

### 3.2. Pragmatic partnership

The Polish elections of 2007 marked a new style of relations between the two countries in the context of international organizations, but when it comes to the big picture little has changed: there is no unconditional sympathy, only each side struggling for their own interests. And it is these interests, in fact, that determine the quality of multilateral relations. There are in general (except for singular cases) no inappropriately alarmist media material on either side of the border. The way that litigation is handled can best be exemplified by looking at the most important issues on which the two countries differ:

- The Climate Package and energy is an important issue. For Poland, whose energy system is based on coal, the need for a drastic reduction of emissions within 10 years would be a serious problem. The country would suffer enormous economic costs in reducing energy consumption in the market, introducing new technologies, and purchasing CO<sub>2</sub> allowances. If the package is not changed in favor of the Polish, then adopting it would mean that energy prices could grow in 2013 by 27%. In the meantime, it would severely hamper the competitiveness of the economy. Firms paying the costs of the package could start curtailing investments in Poland and move elsewhere. Germany represents a completely different approach. Their economy makes living from exporting “green” technologies, and for them the package can be seen as an opportunity to increase sales<sup>36</sup>. Germany is saying farewell to its nuclear power plants, while Poland is gearing up to build their own<sup>37</sup>. And despite the fact that questions are raised over this type of energy

36 “EU’s climate and energy deals ‘disadvantageous for Poland’”, *Euractiv*, 19.06.2012. <http://www.euractiv.com/climate-environment/official-eu-climate-energy-packa-interview-513375>

37 “Elektrownia jądrowa w Polsce. Niemcy chcą, żebyśmy się wycofali”, *Money.pl*, 25.12.2011. <http://www.money.pl/gospodarka/wiadomosci/arttykul/elektrownia;jadrowa;w;polsce;niermcy;chca;zebyśmy;się;wycofali,49,0,996657.html>

in Poland, companies such as PGE do not intend to resign the project<sup>38</sup>.

- Angela Merkel and Donald Tusk in 2011 reported that the Polish and German governments agreed that the *Nord Stream* pipeline would not block the development of the port of Swinoujście. Angela Merkel assured her counterpart that if the port is expanded, the pipe would be dug deeper into the Baltic seabed. Experts suggest that it is very difficult to carry out such an operation when the gas is already running.<sup>39</sup> The Polish are building an LNG terminal and preparing for the extraction of shale gas. If the projects are successful, it may undermine the economic sense of a gas pipeline from Russia to Germany<sup>40</sup>.
- Their policies toward neighboring countries, especially Ukraine, may demonstrate some diverging positions. In the summer of 2012, before the start of the UEFA European Football Championship, Joachim Gauck, the president of Germany, canceled his visit to Ukraine<sup>41</sup>. The decision not to participate in the summit of presidents of Central European countries was made after a consultation with Chancellor Angela Merkel. Presidential spokesman Andreas Schulze explained that “foreign trips are always made in accordance with the political line of the German government.” The move was a protest against the proceedings taken by the Ukrainian authorities against former Prime Minister Yulia Tymoshenko, who is serving a seven-year term in prison<sup>42</sup>. From the beginning of Yulia Tymoshenko’s trial in 2011, Germany considered it “judicial revenge” by the current president Viktor Yanukovich. Calls for boycott of the football feast hosted jointly by Ukraine and Poland had been unprecedented, however<sup>43</sup>. Poland did not join the wave of ostracism from several European Union states and sought to maintain the position of mediator, assuming that a total rejection of Ukraine would

38 “Niemcy boją się polskich elektrowni atomowych. ‘Projekt niedbaty’”, *Gazeta Wyborcza*, 20.12.2011.

39 “Rura grzebie Świnoujście”, *Gazeta Wyborcza*, 13.10.2012.

40 “Merkel: Głębiej wkopiemy Nord Stream, nie zablokujemy Świnoujścia”, *Interia.pl*, 21.06.2011. <http://fakty.interia.pl/polska/news/merkel-glebiej-wkopiemy-nord-stream-nie-zablokujemy,1657601,3>

41 “Kolejne apele o bojkot. Steinbach chce przenieść Euro”, *Tvn24.pl*, 01.05.2012. <http://www.tvn24.pl/wiadomosci-ze-swiatea,2/kolejne-apele-o-bojkot-steinbach-chce-przenie-sc-euro,208567.html>

42 “Niemcy chcą, by Euro 2012 odbyło się tylko w Polsce. Bojkot Ukrainy?” *Dziennik.pl*, 01.05.2012. <http://euro2012.dziennik.pl/news/arttykuly/389044,niermcy-chca-by-euro-2012-odbylo-sie-tylko-w-polsce-bojkot-ukrainy.html>

43 “Sondaż: Niemcy chcą bojkotu Euro”, *Newsweek.pl*, 04.05.2012. <http://euro2012.newsweek.pl/sondaz--niermcy-chca-bojkotu-euro,91450,1,1.html>

mean pushing it into the Russian sphere of influence<sup>44</sup>.

The above mentioned controversies, however, did not and do not interfere with cooperation. Here are just three examples:

- The Kaliningrad Triangle has become an informal forum for exchanging views between the Foreign Ministers of Poland, Germany, and Russia. And although it is a relatively new initiative, it has already helped achieve a Polish-Russian agreement on local border traffic. German diplomacy contributed to the conclusion of this agreement. A new political figure is of paramount importance for the Polish. Warsaw has an impact on the subject of discussions, which may contribute to the expansion of Russian-German dialogue with Poland<sup>45</sup>.
- The term “Weimar Triangle” refers to the loose grouping of Poland, Germany, and France. The Weimar Triangle was established in the German city of Weimar in 1991, and is aimed at assisting with Poland’s emergence from Communist rule. The group is intended to promote cooperation between the three countries. It exists mostly in the form of summit meetings between the leaders of the three countries, the most recent of which occurred on February 7, 2011 in Warsaw. The Weimar Triangle also involves lower level connections, such as an annual meeting between Foreign Ministers. The most recent leaders’ summit was hosted by President Bronisław Komorowski of Poland and was attended by President Nicolas Sarkozy and Chancellor Angela Merkel. Issues such as renewing regular Weimar Triangle meetings, the developments in the Middle East, and improving relations with Russia were discussed (among other topics).
- The Group on the Future has also included both German and Polish representatives. Eleven European Ministers of Foreign Affairs met on March 20, 2012 in Berlin on invitation from their German counterpart, Guido Westerwelle. The aim of the meeting was to discuss “the future of the European Union”, the more efficient operation of EU institutions by granting them greater democratic legitimacy, the coordination of foreign, security, economic and financial policies of the member states, and also increasing the role of the European Parliament. The German Ministry of Foreign Affairs assured participants that the meeting was

44 “Ukraina odpowiada Komorowskiemu: Tymoszenko nie skazano za politykę”, *Newsweek.pl*, 09.05.2012. <http://swiat.newsweek.pl/ukraina-odpowiada-komorowskiemu--tymoszenko-nie-skazano-za-polityke,91692,1,1.html>

45 “Trójkąt Kaliningradzki ma się dobrze”, *rp.pl*, 21.03.2012. <http://www.rp.pl/artykul/118801,843078-Landsbergis-o-Rosji-i-Kaliningradzie.html>

informal and private.<sup>46</sup> The Group came up with a report that was presented to European Council President Herman Van Rompuy and European Commission President Jose Manuel Barroso on the margins of the UN General Assembly September 2012<sup>47</sup>.

## Conclusions

Polish Foreign Minister Radek Sikorski made an important speech dedicated to the Poland’s European policy and its vision of Europe on November 29, 2011. He warned that EU member states faced a choice “between deeper integration or a collapse of the eurozone”. Sikorski made an extraordinary appeal: ‘I will probably be the first Polish foreign minister in history to say so, but here it is: I fear German power less than I am beginning to fear German inactivity’<sup>48</sup>. Sikorski has called on Germany to do more to resolve the debt crisis in the eurozone and avert the euro’s collapse. In an unusually forthright speech, he said that such a collapse would be “the biggest threat to the security and prosperity of Poland”<sup>49</sup>. Although the speech caused quite a stir in Poland, as the minister was being accused by the parliamentary right-wing opposition of “degrading” his own country<sup>50</sup>, it actually symbolizes a certain model or pattern according to which things between Poland and Germany are handled. This pattern is characterized by utter frankness that is stripped of any grudge or resentment. It has proven effective in cases such as Germany’s leaning away from the principles of the Neighborhood Treaty or the dispute over the *Nord Stream*. This model should also pass the test regarding the looming challenges. These include the negotiations on the EU’s multiannual financial framework 2014–2020

46 Artur Ciechanowicz, “Niemcy: Westerwelle inicjuje spotkanie “grupy ds. przyszłości Unii Europejskiej”, 28.03.2012. <http://www.osw.waw.pl/pl/publikacje/best/2012-03-28/niemcy-westerwelle-inicjuje-spotkanie-grupy-ds-przyszlosci-unii-europejsk>

47 Die “Reflexions“- oder “Zukunftsgruppe” und ihre Europa-Pläne. Waldemar Hummer. 02.10.2012. <http://www.eu-infothek.com/article/die-reflexions-oder-zukunftsgruppe-und-ihre-europa-plaene>

48 “Poland and the future of the European Union” Radek Sikorski, Foreign Minister of Poland Berlin, 28.11.2011. [https://dgap.org/sites/default/files/event\\_downloads/radoslaw\\_sikorski\\_poland\\_and\\_the\\_future\\_of\\_the\\_eu\\_0.pdf](https://dgap.org/sites/default/files/event_downloads/radoslaw_sikorski_poland_and_the_future_of_the_eu_0.pdf)

49 “Sikorski: German inaction scarier than Germans in action”, *Economist.com*, 29.11.2011. <http://www.economist.com/blogs/easternapproaches/2011/11/polands-appeal-germany>

50 “Trybunał Stanu, odwołanie, poparcie - reakcje na wystąpienie Sikorskiego”, *Interia.pl*, 30.11.2011. <http://fakty.interia.pl/raport/polska-prezydencja-w-ue/news/trybunal-stanu-odwolanie-poparcie-reakcje-na-wystapienie,1728190,7580>

and the question of creating a separate eurozone budget, just to name the most important ones. Although these are issues of paramount importance for both countries and a clear split in their respective positions can be seen, they are unlikely to deteriorate the overall relationship between Berlin and Warsaw. This is mainly thanks to the fact that the above-mentioned “frankness and well-meaning” pattern of conduct is applied. This contributes considerably to sustaining the unprecedented pragmatic partnership.

## SLOVAK - GERMAN RELATIONS:

### From “Absence” to Discovery through Multilateral Integration

*Vladimír Bilčík*

## Introduction

This study explores Slovak-German relations, which have moved from a relative absence<sup>1</sup> of bilateral ties to a gradual mutual discovery of the two countries in the context of their NATO and EU memberships. Relations between Germany and Slovakia are relatively new, though official contacts date back to the recognition of an independent Slovak Republic. However, Germany, Germans and German thinking have been present in the territory of Slovakia much longer and the specific manifestations of this continues to bear influence on interactions between the two countries today. This contribution therefore first surveys the historical context of relations, and then briefly analyzes the political, multilateral and economic dimension of Slovak-German relations. While this study underlines the historical absence of conflicts, it also highlights the increasing institutional, economic and political interdependence of Slovakia and Germany, principally inside the European Union and the eurozone. Existing differences in political preferences have stemmed from such factors as size and the level of socio-economic development, rather than entrenched attitudes.

## 1. Frame of reference and historical context

The late historian Pavol Lukáč identified three factors that have framed relations between the Slovakia and Germany.<sup>2</sup> The first concerns the differing size of the two countries and the resulting differences in international positions. The second stems from historical developments in the

1 This term – as well as the contribution more broadly, especially the parts on history and the German minority – are drawn from an older study by Vladimír Bilčík & Juraj Buzalka, *Die nicht-existente Gemeinschaft. Die Slowakei und Deutschland in der EU. Osteuropa*, Vol. 56. No. 10/2006, pp. 65–75.

2 Pavol Lukáč, *Dejiny a zahraničná politika v strednej Európe*. Bratislava: Kalligram 2004, p. 90.

territories between Germany and Russia. The third is connected to wider changes following the fall of the Berlin Wall and includes Germany's reunification and the establishment of the Slovak Republic. These factors shaped the nature of Slovak-German relations prior to Slovakia's entry into the EU and NATO and continue to frame interactions between Slovakia and Germany within the European Union and the North Atlantic Alliance.

Slovakia is not a direct neighbor of Germany. It is a small, new country whose size (49,000 square km) and population of 5.4 million inhabitants correspond to a relatively small German federal state. As a regional power, Germany has strong interests in Central and Eastern Europe. Among the four Visegrad states, however, Slovakia has had the least intensive ties to Germany. Pavol Lukáč illustrated the differences in regional relations through political metaphors. For Poland, he found appropriate the words of former foreign minister Skubiszewski, who viewed Polish-German relations as a "community of interests". Relations between the Czech Republic and Germany could be aptly illustrated as a "community of conflicts" – a phrase used by Czech historian Jan Křen. Hungarian-German relations are best captured in former President Árpád Gönc's expression of a "community of feelings". In the case of Slovakia such metaphors are absent. Slovak-German relations could therefore be described as an "absence of community".<sup>3</sup>

Compared to the other Visegrad countries, Slovakia shares more limited direct historical ties with Germany. In the past, Germany figured less prominently in Slovak thinking about international relations than it did for Czech or Polish thinking. Bratislava's principal reference points in external relations were limited to Budapest and Prague instead of Berlin or Moscow. There is little tradition of mutual relations or strongly institutionalized interaction between the Slovak and German territories. At the same time, throughout history Germany has played a less visible yet often influential role in shaping Slovakia's political, cultural and social heritage. Modern bilateral relations have been largely framed by Germany's role in the Second World War, as well as by Germany's contemporary image of a successful and prosperous society that could serve as a model for post-communist transition in Central and Eastern Europe.

Germany became a reference point for early Slovak national movements. Leaders of Slovak political nationalism, such as Ľudovít Štúr, received their education in German universities. They also adopted Johann

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3 Lukáč, 2004, p. 106.

Gottfried von Herder's view of a nation being based on language, culture and literature. According to historian Dušan Kováč, while Western enlightenment already reached the territories of today's Slovakia in the 18<sup>th</sup> century, with Herder's ideas Slovak nationalism in the 19<sup>th</sup> century moved toward the "East".<sup>4</sup> The importance of a cultural understanding of nationalism in Central Europe contributed to the specific construction of Slovakia as a nation located between West and East.<sup>5</sup> This school of thought had important implications for practical politics throughout the 20<sup>th</sup> century. In Slovakia, more so than in other Visegrad countries, there was a distinct tendency to look up to Russia and to pan-Slavic ideas. For important segments of the political elite and population, communist repression was overshadowed by the positive effects of communist modernization. Moreover, between 1994 and 1998 Russia played a crucial role in Slovakia's external relations – this was during the government of Prime Minister Vladimír Mečiar who espoused the idea of Slovakia as a bridge between East and West.

Apart from the influence of German intellectual traditions on Slovakia's politics, it is difficult to speak of a Slovak position or Slovak views vis-à-vis Germany until the establishment of the First Czechoslovak Republic in 1918. The break-up of Austria-Hungary and the birth of Czechoslovakia domesticated the so-called German question – i.e., how to handle the German speaking population in Slovakia. The need to create a single Czechoslovak nation was in part justified by the necessity to outnumber the 3 million German speaking inhabitants of Czechoslovakia, concentrated in the Czech lands and Moravia. The German question was radicalized after Hitler's rise to power, and received a completely new impetus when Czechoslovakia fell apart in 1938 and 1939.

The issue of Germany and the German population resonated differently in Slovakia than in the Czech lands or in Poland. The establishment of the wartime Slovak Republic (1939–1945) marked a new era in Slovak-German relations. The wartime republic was labeled as a vassal or a puppet state. Contemporary writings and official state propaganda highlighted the power of Germany in Central Europe.<sup>6</sup> While Hitler used Slovakia

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4 Dušan Kováč, Slaviofilii" a "západníci" v slovenskom politickom myslení. In: Ivan Kamenec, Elena Mannová, Eva Kowalská (eds): Historik v čase a priestore – Laudatio Ľubomírovi Liptákovi. Bratislava: Veda 2000, pp. 121–128 and p. 123.

5 Juraj Buzalka, Is rural populism on the decline? Continuities and Changes in Twentieth Century Central Europe: the case of Slovakia. SEI Working Paper No 73, University of Sussex, Brighton, 2004, <http://www.sussex.ac.uk/sei/publications/seiworkingpapers99>.

6 Pavol Lukáč, 2004, p. 99.

however he needed<sup>7</sup>, the wartime period heavily influenced the relatively mild perception of Germany by the Slovak population. Unlike in the Czech territories, or even in Poland, Nazi power was more covert and indirect as it relied on domestic forces in Slovakia.<sup>8</sup> The wartime Slovak state provided fertile ground for Slovak nationalism. The Slovak National Uprising of August 29, 1944 against the puppet state's regime was mainly an attempt to democratize Slovakia in light of the country's developments since the Munich Agreement in 1938.<sup>9</sup> The Nazis suppressed the uprising and occupied the hitherto protected territory of Slovakia in 1944.<sup>10</sup> However, since the German occupation lasted only from September 1944 to April 1945 and did not cover the whole territory of Slovakia, Germany's aggression was a much shorter experience for Slovaks than for Czechs or Poles. Hence, Slovak and Czech elites viewed the German question rather differently in the run-up to Czechoslovakia's dissolution in 1993.

Slovak-German relations experienced a new, albeit limited, phase during the communist period. Slovaks and the citizens of East Germany (or the former German Democratic Republic [GDR]) faced similarly repressive regimes and restrictions on free movement abroad. Hence, the communist era turned Czechoslovakia and the GDR into mutually tolerated tourist destinations. The High Tatras, Slovakia's mountains, ski resorts and spa towns were frequented by East German visitors and remain popular with German tourists today. Additionally, thanks to the GDR's existence, German became the second most popular foreign tongue taught in Czechoslovakia. Also, modern Germany's political elite originating from the former GDR (like Angela Merkel), share in part a common perception and understanding of Central Europe's communist and post-communist experience.

Apart from the role of ideas and direct bilateral political and popular contacts, Germany's historical presence in Slovakia is tied to the country's German speaking population. German colonization reached Bratislava and its surroundings, areas in Central Slovakia around the town of Kremnica (Hauerland), the Zipser region in the east, and the southeastern plains of

7 Jörg K. Hoensch, Základné črty ríšskonemeckej politiky voči Slovensku pred "Salzburgom" (marec 1939 – júl 1940). In: Ivan Kamenec, Elena Mannová, Eva Kowalská (eds): *Historik v čase a priestore – Laudatio Ľubomírovi Liptákovi*. Bratislava: Veda 2000, pp. 225–252 and p. 226.

8 Ľubomír Lipták: *Storočie dlhšie ako sto rokov*. Bratislava: Kalligram, 1999, pp. 114–115.

9 Lipták, pp. 114–115

10 Jörg K. Hoensch, Základné črty ríšskonemeckej politiky voči Slovensku pred "Salzburgom" (marec 1939 – júl 1940). In: Ivan Kamenec, Elena Mannová, Eva Kowalská (eds): *Historik v čase a priestore – Laudatio Ľubomírovi Liptákovi*. Bratislava: Veda 2000, pp. 225–252 and p. 252.

Slovakia. In 1938 there were officially 128.000 Germans in Slovakia. These Carpathian Germans had limited group identity prior to the inception of Czechoslovakia. They had been relatively spread out across the Hungarian territory of the Habsburg monarchy and far from the German homeland. They forged their identity under Nazi influence during the WWII.<sup>11</sup> Yet the Carpathian Germans never gained the privileged position that some of its radicals wished for within the German Reich.<sup>12</sup> While the Third Reich privileged the German minority in the Czech lands and contributed to greater tension between Czechs and Germans, relations between Slovaks and Germans in the population remained comparatively conflict free. At the same time, not all Germans in Slovakia subscribed to Nazi ideology. The Ernst Thälman anti-Nazi guerilla resistance group operated near the town of Medzev in eastern Slovakia, for example. More recently, Rudolf Schuster, who was born in Medzev and became Slovakia's president from 1999 to 2004, openly declared his German roots.

The German army evacuated the majority of the German population prior to the arrival of the Red Army in the territory of Slovakia. The Czechoslovak deportation after the war in 1945 included more than 30.000 Germans from Slovakia. These deportations were accompanied by various forms of discrimination and notions of collective guilt. Uncompromising attitudes vis-à-vis Germans and Hungarians became a measure of political progress.<sup>13</sup> However, in general Slovaks were more radical toward the more populous Hungarian minority than the smaller group of Germans. According to the latest census data from 2011, there are currently 4.690 Germans living in Slovakia,<sup>14</sup> and the majority live in cities, such as Bratislava, Košice, and Trenčín.

## 2. Political relations

On February 12, 1991, the Slovak National Council (the Slovak Republic's parliament) passed a resolution in which members of parliament

11 Pavol Lukáč, *Súčasná podoba slovensko-nemeckých bilaterálnych vzťahov. Náčrt vývinu a stavu problematiky*. Bratislava: Výskumné centrum Slovenskej spoločnosti pre zahraničnú politiku 1996, pp. 69–70.

12 Jörg K. Hoensch, Základné črty ríšskonemeckej politiky voči Slovensku pred "Salzburgom" (marec 1939 – júl 1940). In: Ivan Kamenec, Elena Mannová, Eva Kowalská (eds): *Historik v čase a priestore – Laudatio Ľubomírovi Liptákovi*. Bratislava: Veda 2000, pp. 225–252 and p. 236–9.

13 Milan Olejník, *Postavenie nemeckej menšiny na Slovensku po porážke nacistického Nemecka, Človek a spoločnosť 2/1998*.

14 <http://portal.statistics.sk/files/tab-10.pdf>.

expressed remorse over the deportation of Carpathian Germans and rejected the principle of collective guilt. While the declaration did not question the validity of the so-called Beneš Decrees, which legitimated the deportation and confiscation of property of ethnic Germans and Hungarians after WWII, it complicated relations between Czechs and Slovaks inside Czechoslovakia<sup>15</sup>. The Second World War left behind a dramatically different traumatic effect on Czech-German and Polish-German relations than Slovak-German relations. In this sense, Slovakia is more similar to Hungary, whose relations with Germany are not blemished by historical trauma. While Poles and Czechs have historically seen as Germany as a source of tension and conflict, Slovaks have viewed Hungary, but not Germany, in such terms.

The country's comparatively unscathed historical experience with Germany has translated into relatively unproblematic bilateral political relations between the independent Slovak Republic and the reunified Berlin Republic. Germany was among the first countries to recognize an independent Slovakia, which was established after Czechoslovakia's negotiated breakup on January 1, 1993. Germany's political elite also supported both the EU and NATO enlargements and favored political, economic and social reforms in Central and Eastern Europe.

As the smallest of the Visegrad states, Slovakia had virtually no tradition of foreign policy. It had to cultivate new relations with Germany basically from scratch. In the early 1990s, Berlin was keen to settle historically difficult relations with Poland and the Czech Republic. While Germany viewed Slovakia as an integral part of Central Europe, it arguably paid less attention to the situation in Bratislava than to neighboring countries. In short, the quality and intensity of initial bilateral ties with Berlin depended upon Slovakia taking an active role and on domestic developments, especially vis-à-vis the officially declared goal of Euro-Atlantic integration.

When we examine more recent years, we see that Slovakia's political relations with Germany have progressed without protracted problems. However, there is at least one exception to this. During the 1990s the struggle of ideals between the Slovakia's Russophiles and Slovakia's Westerners dominated the official political arena.<sup>16</sup> The coalition government led by

15 Pavol Lukáč, *Súčasná podoba slovensko-nemeckých bilaterálnych vzťahov. Náčrt vývinu a stavu problematiky*. Bratislava: Výskumné centrum Slovenskej spoločnosti pre zahraničnú politiku 1996, p. 77.

16 Dušan Kováč: "Slaviofilii" a "západníci" v slovenskom politickom myslení. In: Ivan Kamenec, Elena Mannová, Eva Kowalská (eds): *Historik v čase a priestore – Laudatio Ľubomírovi Liptákovi*. Bratislava: Veda 2000, pp. 121–128.

Vladimír Mečiar (1994–1998) – composed of national, conservative and populist political movements<sup>17</sup> – gave the Russophiles an upper hand and for several years slowed the process of Slovakia's westernization. Due to unlawful domestic practices carried out by the Mečiar government, Slovakia fell behind its neighbors in Euro-Atlantic integration. Unlike Poland, the Czech Republic and Hungary, Slovakia was not invited to join NATO in 1997. Similarly, for political reasons Slovakia was blocked from opening accession talks with the EU following the Luxembourg summit in 1997.<sup>18</sup>

The Mečiar era represented a short-lived period of absent bilateral relations. Slovakia became internationally isolated due to contradictions in its official pro-EU stance and a series of undemocratic domestic acts that intensified Slovakia's internal conflict between the government and the pro-Western opposition. In 1996, Helmut Kohl for the first time publicly admitted that Slovakia would not be in the first group of candidate countries for EU accession.<sup>19</sup> Vladimír Mečiar never managed to meet the German Chancellor despite repeated attempts by Slovakia to secure a bilateral meeting. Mečiar's appointment of hitherto ambassador to Germany Pavol Hamžík as Slovakia's Foreign Minister in 1996 did not help. Hamžík resigned in 1997 after the country's referendum on NATO membership had been thwarted by Slovakia's Interior Minister.<sup>20</sup> Slovakia faced a more fundamental problem of quality of democracy and the legitimacy of its public institution. It was up to Bratislava to establish itself as a credible candidate for the EU and NATO and to start a new period of political relations with Germany.

### 3. Euro-Atlantic Integration

The year 1998 was a turning point in Slovakia's path to western integration. Center-right politician Mikuláš Dzurinda replaced Vladimír Mečiar as Prime Minister. Dzurinda managed to lead two different coalition governments from 1998 to 2006. Slovakia gradually overcame the period of

17 Alexander Duleba, *Slepý pragmatizmus slovenskej východnej politiky. Aktuálna agenda slovensko-ruských bilaterálnych vzťahov*, Bratislava: Výskumné centrum Slovenskej spoločnosti pre zahraničnú politiku 1996.

18 See more on Slovakia's exclusion in Vladimír Bilčík, *Can Slovakia Catch Up? The Implications of EU Accession Talks a Year after the Helsinki Summit*, DUPI Working Paper 1/2001.

19 See <http://www.sme.sk/c/2088785/statny-tajomnik-mzv-predpoklada-ze-stretnutie-kohl-meciar-by-malo-byt-do-konca-tohto-roka.html>.

20 For short history of Slovakia's referenda see [http://spectator.sme.sk/articles/view/40104/2/slovakia\\_to\\_hold\\_its\\_seventh\\_referendum.html](http://spectator.sme.sk/articles/view/40104/2/slovakia_to_hold_its_seventh_referendum.html).

international isolation, intensified its commitments to the EU and NATO, and joined the European Union along with the Visegrad neighbors, the Baltic states, Slovenia, Malta, and Cyprus in 2004. In 2004 Bratislava was also invited to join the North Atlantic Treaty Organization. While Germany's support for NATO membership was politically important, Slovakia viewed the United States as its greatest strategic ally in terms of security.

At the annual conference on Slovakia's foreign policy in 2003, Mikuláš Dzurinda underlined that "at the moment Germany is our most important trading partner and the biggest investor. [In] European politics [Germany] played the role...of a very good leader... and I think that we also expect this role from Germany in future years."<sup>21</sup> In 2005, Slovak Foreign Minister Eduard Kukan said that relations between Slovakia and Germany did not suffer negatively from their differing views on the war in Iraq in 2003 or from Slovakia's introduction of a flat tax during Dzurinda's second government.<sup>22</sup> What mattered more was Slovakia's firm place in western institutional structures. When German Chancellor Angela Merkel came to Slovakia at the end of Dzurinda's time in office, on May 12, 2006, she stressed that bilateral relations had never before been better than during her visit.<sup>23</sup> Slovakia also applauded Germany as a leader in the final negotiations on the EU financial framework for 2007–2013, when Angela Merkel's forthcoming gesture helped secure an agreement.<sup>24</sup> The guarantee of a flow of money from structural funds has been vitally important for successive Slovak governments.

Questions and uncertainty surrounding foreign and European policy accompanied the establishment of a coalition government in 2006 led by Robert Fico, leader of SMER-Social Democracy. Prime Minister Fico entered the coalition with the Movement for a Democratic Slovakia, led by Vladimír Mečiar, and the Slovak National Party of Ján Slota. Both Mečiar's and Slota's political forces were responsible for Slovakia's international isolation in the 1990s. Prime Minister Fico's biggest foreign policy problem was how to handle bilateral relations with Hungary. This was mainly due to Slota's position in governing coalition. More broadly, Fico declared his intent to be

21 Speech by Prime Minister Mikuláš Dzurinda In: Peter Brezáni (ed.) *Ročenka zahraničnej politiky SR 2003*, Bratislava: Výskumné centrum SFPA, 2004, p. 16 (author's translation).

22 Eduard Kukan, Slovak Foreign Minister delivering a speech in the Association of Slovak-German Friendship, March 1, 2005.

23 The daily Sme, May 12, 2006. It is also, however, true that one of the purposes of Merkel's visit was to support Dzurinda prior to parliamentary elections in June 2006.

24 In final negotiations on the financial perspective for 2007–2013, The German Chancellor offered the Polish Prime Minister part of the money originally allocated for East German regions.

different than Dzurinda. He favored a stronger "European" foreign policy and a weakening of the "Atlantic vector" by bringing Slovakia's troops home from Iraq. He also underscored Slovakia's new foreign policy principles, such as "global responsibility, international solidarity and social balance."<sup>25</sup>

In practice, Fico's coalition (2006–2010) opted for general continuity with respect to Slovakia's strategic priorities in the European Union.<sup>26</sup> Slovakia proved to be a relatively good pupil of European integration. The country moved from the political periphery of the EU into full-fledged membership. This transition was accompanied by a gradual shedding of several asymmetries regarding Slovakia and Germany inside the EU. Slovakia entered the Schengen regime in 2007 and successfully adopted the euro in 2009. By 2011, Germany and Austria lifted the final restrictions on the free movement of persons, thus allowing access to labor markets for workers from Slovakia and other new member states. Political relations with Germany reached a new milieu in the European context. With Slovakia's new obligations in the EU, Bratislava has come a step closer to the political core of the European Union.

At the same time, the Eurozone debt crisis, which has intensified since 2011, has revealed certain limitations on Slovakia's role at the EU's core. Iveta Radičová's center-right government (2010–2012) fell because one of the governing liberal parties (Freedom and Solidarity) refused to support an extension of the EU's bailout fund to Greece. At the same time, the largest opposition party, SMER-Social Democracy, was willing to vote in favor of the bailout fund's extension only once it secured an agreement on early parliamentary elections. The debt crisis has raised the stakes for Slovakia's membership in the EU. For the first time, the domestic debate dealt with the tangible and not insignificant costs of membership, and hitherto broad party political consensus on the EU became secondary to short-term domestic political gains.

Following the parliamentary elections of March 2012, Slovakia now has a new single party government composed of SMER-Social Democracy and led by Prime Minister Robert Fico. Fico possesses a comfortable majority of 83 out of 150 MPs, and his commitment to the EU project has so far been convincing. Slovakia, for instance, approved the EU's permanent

25 Prime Minister Fico's speech in the UN General Assembly, September 21, 2006. [http://www.vlada.gov.sk/aktuality\\_start.php3?id\\_ele=6760](http://www.vlada.gov.sk/aktuality_start.php3?id_ele=6760)

26 Vladimír Bilčík, *Slovenské priority v Európskej únii*. In: Peter Brezáni (ed.) *Ročenka zahraničnej politiky Slovenskej republiky 2008*, Bratislava, RC SFPA, 2009, pp. 23–36.

bailout fund – the European Stability Mechanism (ESM) – months before Germany's Constitutional Court ruled on the matter. It also supported the fiscal compact treaty as a basis for the EU's fiscal union, which was initiated by Germany. During debates on the so-called EU banking union, Slovakia pledged to support the project (but not at any price). Just like Germany, Bratislava would like to see a good agreement, rather than just a quick agreement. The Slovak government is keen to keep some competencies for the national banking regulator. It fears a scenario whereby the foreign owners of Slovakia's banks could freely transfer debts and deposits across the EU and thus undermine the relatively healthy state of Slovakia's banking sector.<sup>27</sup>

There are political issues where Germany and Slovakia diverge. Examples include the energy sector, where Slovakia fears the potential consequences of Germany's decision to get rid of nuclear power plants, particularly regarding the position of nuclear power in the EU and the availability and quality of the electricity supply in the Union. Slovakia's military and defense establishment would be keen to see Germany take on a more active and engaged role in NATO, especially in helping to build the alliance's capacities. However, on the whole, the process of integration, particularly in the EU, has led to greater common understanding of strategic priorities in both countries. The context of the eurozone crisis makes it especially clear that Germany remains Slovakia's crucial political partner in the European Union and Slovakia actively seeks out Germany's positions.

#### 4. Economic relations

The typical image of a German-speaking person in Slovakia is connected to the world of business. Companies such as Volkswagen, Siemens, Alcatel, and Telekom employ thousands of people in Slovakia.<sup>28</sup> According to official statistics, investors from Germany account for 12% of total foreign direct investment in Slovakia. Only companies from the Netherlands and Austria have a higher share of investment in Slovakia's market. Even more illustrative is the fact that Germany is Slovakia's biggest trading

27 See [http://m.hnonline.sk/c3-57981430-kw0000\\_d-politikov-aj-na-summite-rozdeli-bankova-unia](http://m.hnonline.sk/c3-57981430-kw0000_d-politikov-aj-na-summite-rozdeli-bankova-unia).

28 Major investments originating in Germany in Slovakia include companies such as Volkswagen, SPP-Ruhrigas, Slovak Telekom – Deutsche Telekom, INA Skalica, Hypovereinsbank and others.

partner. In 2010, 19.3% of Slovakia's total exports went to Germany. The second highest share of exports went to the Czech Republic, with a share of 14% of total exported goods and services. Similarly, the highest share of Slovakia's imports originated from Germany, which accounts for 15.3% of total imported goods and services. The second biggest share of imports came from the Czech Republic, with a share of 10.4% of the total volume.<sup>29</sup>

Slovakia's trade balance with Germany is positive. The trade surplus is largely due to Germany's strong consumer market, which buys Slovakia's most important export goods, namely cars<sup>30</sup> and electronics. Slovakia has become the Detroit of the European Union. It is one of the largest car producing economies in per-capita terms. Three major car industries have located their plants in the country: Volkswagen has an expanding operation just outside of Bratislava, PSA Peugeot-Citroën has a car production facility near Trnava in Western Slovakia, and Kia Motors makes cars in Žilina, a city in the north-central region of the country. On top of carmakers, Slovakia's most important export company is Samsung Electronics. If we add to these two industries the steelworks U.S. Steel Košice, the refinery Slovnaft and subsidiaries, Sony, and Continental Matador Truck Tires, we get a list of 10 companies that account for 40% of Slovakia's exports. Slovakia is a small and very open economy whose GDP depends primarily on trading a few commodities. Consumer demand in Germany is crucial to increasing Slovakia's gross domestic product. Germany's recession thus tends to slow down Slovakia's production and growth. Though successfully industrialized and modernized, Slovakia's economy is vulnerable to negative economic trends in the European Union and globally.

In the long-term, Slovakia's industrial base is unsustainable. The second Dzurinda government in 2002 already introduced the goal of industrial diversification and the building of a so-called knowledge based economy, whereby the latter should help Slovakia attract less volatile industries with a higher added value of production. However, so far Slovakia has made very little progress in transforming its production base. Hence, dependence on Germany's economy remains high. In addition to inter-state bilateral contacts, Slovakia maintains keen political and economic contacts with Germany's regional governments, most notably with Lower Saxony, Brandenburg, and Saxony.

29 The data for 2010 is from the Slovak Statistical Office available at [portal.statistics.sk](http://portal.statistics.sk).

30 See <http://ekonomika.sme.sk/c/6540888/auta-zo-slovenska-idu-najma-do-nemecka-aciny.html>.

## Conclusion

In the same way that by the end of the 1990s the United States represented Slovakia's most important hard security guarantor, Germany has become Slovakia's key political and economic partner in the European Union. The history of Slovak-German bilateral relations is relatively untarnished. The biggest crisis in mutual relations came in 1990s, during Vladimír Mečiar's term in office as Prime Minister. Mečiar thought that Slovakia's geography and business opportunities would automatically qualify the country for EU membership. However, Vladimir Mečiar and Helmut Kohl never met and it took several years for Mečiar's successor, Dzundza, to re-establish good working relations with Germany and convince the EU and NATO of Slovakia's ability to be a credible partner.

Eight years of Slovak membership in the EU have gradually removed the institutional and political obstacles to direct intensive contacts with Germany. In economic, monetary, fiscal, internal security, and political matters, Slovakia shares the same level of integration and commitment as Germany. Asymmetries stemming from the European Union accession process have largely disappeared. Slovakia's strategic goal at the end of 2012 and beyond is to help secure the survival of the EU and the euro. Bratislava's politicians are therefore likely to follow in Germany's political and economic steps in the eurozone even more than they have to date.

## CONCLUSIONS: Diversity of Making the Friendship

*Andris Sprūds*

Germany's role in the political considerations, and especially economic developments, of the Baltic and Visegrad countries has been recognizable and substantial in the last two decades. The economic recession in the EU has further enhanced Germany's relative standing in the European Union, both in general and among the Baltic and Visegrad countries in particular. Reinvigorated partnerships and new friendships are in the making. In the meantime, the research findings demonstrate a considerable diversity of bilateral and multilateral engagement patterns, characteristics, and expectations between Germany and the new EU members in East Central Europe. Moreover, some traditional and more recent challenges remain alongside the encouraging windows of opportunities, and questions pertaining to the future of bilateral relations are continuously valid and significant.

### 1. The transforming regional role of Germany in the transforming EU

The EU has been facing one of its most fundamental and acute financial, social and political crises in years. The fiscal and economic challenges have exposed a widely perceived deficit of democracy in the European institutions and, more importantly, a lack of strategic vision and political leadership. The risk of a further endangering the sustainability and credibility of the European project, however, has encouraged changes more recently. Although far from providing a coherent and consensual long term strategy, the leaders of European institutions and nation states are competing in proposing a number of visions and instruments for political, economic, monetary, fiscal and banking unions.<sup>1</sup>

Germany has unequivocally transformed into the most indispensable European nation. Although Germany has been known as the "Reluctant

<sup>1</sup> See, for instance, Report by the President of the European Council Herman Van Rompuy "Towards a Genuine Economic and Monetary Union", EUCO 120/12, 26 June 2012.

Big Power" in EU foreign policy, the country has also been rather hesitant to assume a dominant role in leading Europe out of the community's internal challenges.<sup>2</sup> This is the case even though – initially by default rather than by design – the economic crisis has impelled Germany to change from a large economic but reluctant political player to a reluctant and vital stabilizing power and further to an increasingly resolute political leader. The country is also expected by its partners to act within the European Union and to take more responsibility globally. The initiative of German Foreign Minister Guido Westerwelle to gather the Future of Europe Group and produce a report has been indicative of Germany's increasing readiness to assume a greater responsibility for the European project.<sup>3</sup> Timothy Garthon Ash summarizes eloquently the transformation of both Germany and Europe: "At the time of German reunification, German politicians never tired of characterizing their goal in the finely turned words of the writer Thomas Mann: 'Not a German Europe but a European Germany. What we see today, however, is a European Germany in a German Europe.'<sup>4</sup>

Where Germany's increasingly important role may be best discerned is the neighbouring region, such as that formed by the Visegrad and Baltic countries. As Kai-Olaf Lang succinctly observes: "Relations between Germany and the countries in Central Eastern Europe, and their development after 1989 and 1991, are rather rare examples of success stories in international relations." Germany proved to be instrumental for the region's economic recovery and growth, as the country has become a major trade and investment partner for all these countries. In the meantime, the transformative character of regional developments – and Germany's role therein – has also been apparent in the context of the wider European transformation processes. Although the Baltic and Visegrad countries have formed the core of the "new Europe" in the aftermath of the largest EU enlargement wave, it is far from becoming an integral and consolidated region. However, more recently the advancement of prospective infrastructural and energy interconnections may contribute to an increasing overlap of these integrative spaces within the EU. More importantly, some structural similarities and economic philosophies among the Baltic and Visegrad countries in dealing with the economic crisis have contributed to the converging regional perspective, which may further facilitate Germany's regional presence and intensify its role.

2 Stefan Lehne, "The Big Three in EU Foreign Policy", The Carnegie Papers, July 2012.

3 Final Report of the Future of Europe Group, 17 September 2012.

4 Timothy Garton Ash, "The Crisis of Europe. How the Union Came Together and Why It's Falling Apart" in *Foreign Affairs*, September–October 2012, 12.

## 2. The diversity of partnerships

The increasing convergence and Germany's growing regional role notwithstanding, a diversity of partnerships continues to exist. Vladimir Bilcik refers to Pavol Lukáč, who has aptly illustrated the differences in regional relations between Germany and the Visegrad countries. He has described Polish-German relations as a "community of interests", Hungarian-German relations as a "community of feelings", and relations between the Czech Republic and Germany as a "community of conflicts", while less intensive Slovak-German relations could be portrayed as an "absence in community". Against this backdrop, the Baltic countries have largely resembled German-Slovak engagement patterns, with intensive economic interaction but rather undeveloped communal perceptions. The relations, however, have been undergoing some transformative adjustments in recent years.

Poland has unequivocally forged the closest relations and has established a "special relationship" with Germany. Historical reconciliation between the two nations has its roots in the 1960s. After the Cold War, Germany actively supported Poland's EU and NATO membership quest. Although German and Polish engagement within the EU began with a "false start", it has obtained increasingly positive momentum in recent years. Indicatively, the Weimar Triangle has been reinvigorated and Polish Foreign Minister Radoslaw Sikorsky was invited to join the Group on the Future of Europe as the sole representative of the "new Europe". The "special relationship" comes close to what could be defined as friendship, though some controversies still remain. As Artur Ciechanowicz indicates, "relations between Poland and Germany in an international context since Prime Minister Donald Tusk came to power can be described without much exaggeration as paradoxical. On the one hand, the two countries are fighting hard for their own interests... On the other hand, this does not preclude them from nursing the most friendly relations between Berlin and Warsaw."

Although Germany's relations with Slovakia, as well as Estonia and Latvia, may be described as an "absence in community", this has been transforming. Unlike the other three Visegrad countries, Slovakia and the Baltic countries were relatively late comers in the NATO, indicating controversies surrounding their membership in the military alliance. However, now Slovakia and Estonia are full-fledged members of NATO and the EU and the only eurozone members in the region, while Latvia is determined to join the monetary union in 2014. This encourages mutual interaction under an additional and important multilateral framework that is increasingly

perceived as a venue for a core Europe to make decisions on the future of Europe. Their economic philosophies and respective policies have increasingly demonstrated converging positions. As Julian Tupay indicates, "Estonian-German relations are, broadly speaking, devoid of any major disputes. On the contrary, within the EU the economic and fiscal policy of the two countries seem to be converging... [Estonia] is overall a strong supporter of fiscal discipline and supports the Chancellor's course concerning the financial and sovereign debt crisis." Latvia has also sided with Germany in the austerity and growth debate within the European Union. Trade and investment volumes are rising. In the case of Slovakia, as Vladimir Bilcik indicates, the country has become a "Detroit of the European Union", with close ties to Germany's car industry and market. Moreover, the Baltic countries and Slovakia, unlike Poland and the Czech Republic, do not have historical grievances. As a result of this, Karlis Bukovskis observes, "Latvia's friendship with Germany becomes a logical foreign policy option" and intensifying cooperation has already led to a "routine partnership". To apply the previous analogy, the bilateral relationships between Germany and Slovakia, Estonia, and Latvia may increasingly reveal the parameters of a community of mutual interests and feelings.

This positive engagement notwithstanding, one should, however, realize and identify the limits of mutual interest and reciprocity. The asymmetry of size and influence is obvious. Slovakia, Estonia, and potentially Latvia are among the smallest eurozone economies and are net takers rather than contributors to the EU budget. Karlis Bukovskis points out that "Latvia has been – and evidently will continue to be – seen in Germany as simply one of the partners and never as 'the core partner'". Moreover, Germany's special relationship with Russia has frequently caused some concern for the Visegrad, and especially the Baltic, countries. As Julian Tupay remarks, "what still causes unease is the impression that Germany – and other large central European states – maintain and develop bilateral relations with Russia without informing or consulting their eastern European partners on the often important issues that are discussed and decided on".

Germany's engagements with Hungary, the Czech Republic, and Lithuania demonstrate a number of common interests, as well as some aspects of contention and divergence. The economic interaction is intensive and growing. In trade volumes, the Czech Republic and Hungary have surpassed global players such as Brazil, India, Turkey and Indonesia, and trail only Russia and Poland in the region. However, a few complicating factors have remained or occasionally appear. Germany has been critical of some practices of Hungary's Viktor Orbán government. Moreover, as Andras Racz

and Andras Hettyey identify, "in the ongoing debates on the future of Europe, official German and Hungarian positions differ significantly. While Germany acts as an engine of economic and fiscal integration, Viktor Orbán's government uses a much more skeptical and cautious discourse." The Czech Republic follows suit and alongside the United Kingdom rejected signing the Fiscal Pact agreement. The German-Czech historical background and grievances may not be ignored. However, even in this case progress has been obvious. Petr Kratochvil and Zdenek Sychra state that "although historically the Czech Lands and Germany have a long track record of disputes and misunderstandings, the current state of relations between the two countries is arguably the best ever... [T]he relationship between the Czech Republic and Germany is an example of a successful transition from centuries of difficult cohabitation and occasional enmity to peaceful and mutually beneficial cooperation." German-Lithuanian relations have largely followed the pattern and character of relations between Germany and the other two Baltic countries. It is also expected, as Liudas Zdanavicius indicates "that the forthcoming Lithuanian presidency of the Council of the European Union in the second half of 2013 will further intensify Lithuanian-German relations." Yet Lithuania's more uncompromising stance on relations with Russia, and especially Gazprom, and the related quest for "energy independence" have added more complexity to the country's generally constructive engagement with Germany.

### **3. Remaining challenges and windows of opportunities**

The diversity of partnerships notwithstanding, a number of challenges are shared by the majority of the nations in their bilateral engagement with Germany. The asymmetry of size and influence is obvious. Germany is unequivocally a European economic and political heavyweight, while most of the Baltic and Visegrad countries, apart from Poland, are incomparable to Germany's potential. Germany may reach beyond the regional constraints and adopt multi-vector policies, while the majority of the Baltic and Visegrad nations mostly focus on regional activities in Central Europe and the Baltic Sea region. However, this asymmetry also has its own transformational dynamic. As the Hungarian colleagues indicate, "while Hungary is undeniably heavily dependent on Germany as an economic partner, one might also conclude that this relatively small country carries a proportionally huge importance for the German economy as well. In this sense, one can cautiously suggest that the relationship between the two

countries, while dominated by the giant Germany, carries a slight hint of interdependence." Moreover, as Karlis Bukovskis adds, "asymmetry in Latvian-German relations is unavoidable in political and economic terms, but not in emotional terms...Germany could be Latvia's "older brother" in this friendship, as long as the "younger brother" does not lose self-confidence and a pragmatic understanding of the unavoidability of the asymmetry..." These observations may be attributed to other countries as well.

As indicated, Germany's Russia policy has remained a source of concern for smaller countries in the region. However, these concerns have been increasingly alleviated and less sensitive. The German domestic decision-making environment is far from being homogenous and a plurality of voices and attitudes exist with regard to Russia, especially its energy strategy. Gunther Oettinger, a German conservative and EU commissioner for energy, has branded Russia's energy reserves as "Putin's new Red Army". Germany's official position has also evolved and has become more critical toward Russia under Putin 2.0.<sup>5</sup> Moreover, in the context of the Nord-Stream pipeline project Germany may have realized the political costs of a bilaterally exclusive "special relationship" with Russia, as the pipeline was perceived by Poland and the Baltic countries as a project at their expense. As a result, Germany made a number of steps to consult and include "new Europeans" and alleviate their concerns on both a regional and EU level. Germany's diplomatic adjustments have also contributed to the evolution of the foreign policies of the Baltic and Visegrad countries and encouraged them to enter their own reset and modernization agendas and search for a *modus operandi* in their economic and political engagement with Russia.

Actually, a more important axis of the relationship in need of some reassurance is the transatlantic link. Although "it should be a marriage made in heaven", fissures have been identified in Germany's and the U.S.'s global and regional political, military and trade agendas.<sup>6</sup> Some reservations about the U.S.'s global and regional policies among East Central European nations notwithstanding, the Baltic and Visegrad countries have perceived a U.S. dominated NATO as a major precondition of their sovereignty. Hence, the means and goals of maintaining a strong and credible transatlantic link will be a point of discussion in the near future. A stronger and "smarter" European foreign and security policy with a leading German role may

5 Judy Dempsey, "Is Germany Getting Tough on Russia?" 25 October 2012; <http://carnegeeeurope.eu/strategieurope/?fa=49795>

6 Ian Bremmer and Mark Leonard, "U.S.-German relationship on the rocks", *Washington Post*, 18 October 2012

become a complementary rather than complicating factor for maintaining a viable transatlantic partnership. As Kai-Olaf Lang indicates: "In contrast with other member states, for most of these countries "more Europe" is a desirable solution, and "more Germany" as a part of "more Europe" is not a problem, but rather a contribution to more stability in the EU."

At the very end, the domestic situation in all the countries matters and may both complicate and facilitate mutual engagement. A change of governments in Germany or its partner countries may influence common approaches to economic challenges – which have been the important basis of the recent intensive engagement – foreign policy inclinations or mutual perceptions. At the same time, this would hopefully not transform the positive and fundamental trends. The friendship remains in the making and is clearly unfinished. But almost all our authors conclude that relations are the best ever. And this is a very solid fundament to further strengthen the existing constructive and intensive partnerships between the indispensable European nation and the core of the "new Europe".

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