

**Change and Continuity  
in German Foreign Policy:**

**A Study of German Foreign Policy  
in East Central Europe, 1990-2002**

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## **Abstract**

From the Kaiser Reich to the Berlin Republic, the weight of German foreign policy has shifted from national greatness to international co-operation. As international factors have played the major part in foreign policy making, the distinctive principle of German foreign policy has been multilateralism since the end of WWII. The thesis investigates Germany's foreign policy in East Central Europe in the period from 1990 to 2002 to explore whether and to what extent Germany's present foreign policy corresponds to multilateralism and if there has been continuity in German foreign policy since WWII. It employs modified neo-realist foreign policy theory assuming that Germany's post-unification foreign policy behaviour will choose to strengthen international institutions in which it itself participates and join in multilateral actions. The thesis argues that the German government assists in the political and economic reforms of the eastern candidates countries in order to speed up their entry to the EU. The major contribution is to provide information and analysis on Germany's East Central European policy after the demise of communism. The thesis demonstrates that Germany's policy in East Central Europe best fits the modified neo-realist prediction of loss of both influence and autonomy because Germany has chosen to multilateralise its relations with weaker states (i.e. East Central European countries), aiming at dealing with them within a multilateral framework (i.e. EU). The overall conclusion is that with the Berlin Republic there has been some change in German foreign policy, but underlying this is a basic continuity in the multilateralism of German post Second World War political culture.

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## **Abbreviations**

CBC – cross-border co-operation

ECE – East Central Europe

EBRD – European Bank of Reconstruction and Development

EU – European Union

KfW – *Kreditanstalt für Wiederaufbau* (German Development Bank)

SME – small and medium-sized enterprise

SOE – state-owned enterprise

## **German Terms**

*Europapolitik* – European policy

*Ostpolitik* – East policy

*Westpolitik* – West policy

*Westbindung* – West integration

## Introduction

The end of Communism in the East opened three opportunities for the Federal Republic of Germany: the unification of Germany, reconciliation with East Europe, and European integration. German unification was quickly achieved after the collapse of Communism in Eastern Europe. The official relations and various co-operations between Germany and Central and Eastern Europe were gradually established throughout the 1990s. European integration will now be reached through EU eastern enlargement in 2004. The East has become more and more important in Germany's foreign policy over the years and as it does so the geopolitical division in the middle of Europe no longer exists, leading to a loosening in the separation of West and East as distinct entities. Traditionally, due to its geographic location, German foreign policy always faced a dilemma – looking to the West or the East (*Westpolitik oder Ostpolitik*). European integration (especially with the eastern enlargement) offers Germany an opportunity to form a single European policy (*Europapolitik*). However, the dilemma of German foreign policy seems have developed into a dilemma of the EU deepening and widening. Yet, there are clear indications of an emerging German European foreign policy in which the east-central policy is embedded.

### Research Question

The main research task in this dissertation is to investigate Germany's foreign policy in East Central Europe after the demise of Communism and to explore whether and to what extent the contemporary east-central policy corresponds to the principle of Germany's foreign policy, which is multilateralism. The issues to be addressed in the

thesis include the pattern/principle of German foreign policy, the change and continuity of German foreign policy in the last few decades, Germany's participation in the transformation process in East Central Europe, and Germany's pivotal role in European integration and enlargement. The research question can be formulated as follows: what are the main characteristics of German foreign policy in East Central Europe since 1990, especially with regard to the wider multilateralism of German foreign policy? Does this demonstrate change or continuity?

### **The Argument**

Germany is a unique country, owing to its unique geographic position. Its foreign policy has evolved through history and is still evolving. From the Kaiser Reich to Berlin Republic, the Germans have learned to live with their neighbours peacefully by taking international factors into their foreign policy making. The emphasis of German foreign policy has shifted from national greatness to international co-operation. Only when international factors play the major part in foreign policy making, the country has peace and prosperity. Thus, the distinctive pattern/principle of German foreign policy has been multilateralism since the end of WWII; it was formed to contain or diffuse the German power and to win the trust of its allies. Multilateralism has remained as the foreign policy principle after German unification and the inauguration of the new Schröder- Fischer government. Germany's foreign policy in East Central Europe also follows the policy principle of multilateralism and aims at including the region within a multilateral framework. The German government assists in the political and economic reforms of the candidate states in order to speed up their entries to the EU and facilitate EU eastern enlargement. It is in Germany's great



interest to expand the EU territory eastwards, and thus Germany has become the main advocate of the eastern candidate states. On the basis of its foreign policy principle – multilateralism - Germany has played the leading role in European integration and created the preconditions for European unity.

### **Contribution of the Research**

The current existing literature regarding Germany's foreign policy focuses more on Germany's relations with the West<sup>1</sup>. Germany's diplomatic relations with the East did not attract much European attention (except for *Ostpolitik*<sup>2</sup> in the 1970s), due to the division of Europe into the democratic and capitalist West and communist East. The demise of Communism and the EU eastern enlargement have drawn attention to East Central Europe, but most of research investigates the EU's relations with the candidate states<sup>3</sup> or the transformation process in individual eastern states<sup>4</sup>. There has not been much literature looking into the details of Germany's relations with East Central Europe in the last decade. The contribution of this thesis is to provide much needed information and analysis on Germany's East Central European policy in the period from 1990 to 2002. As such it is a case study of contemporary German foreign policy and confirms the general view that there has been continuity<sup>5</sup>.

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<sup>1</sup> Katzenstein, P. J. (ed.), *Tamed Power: Germany in Europe* (Ithaca and London: Cornell University Press, 1997) and Bulmer, S et al., *Germany's European Diplomacy: Shaping the Regional Milieu* (Manchester University Press, 2000)

<sup>2</sup> Byrnes, R. F., *Germany and the East* (London: Indiana University Press, 1973)

<sup>3</sup> Croft, S et al., *The Enlargement of Europe* (Manchester University Press, 1999)

<sup>4</sup> Crawford, K., *East Central Europe Politics Today: From Chaos to Stability?* (Manchester: Manchester University Press, 1996)

<sup>5</sup> Harnish, S., 'Change and continuity in post-unification German foreign policy' in *German Politics* Vol.10 April 2001, No.1

## Thesis Structure

The thesis is in three parts. Part 1, chapters one to four, seek to set the scene for the research question by discussing the context – historical and theoretical – of German foreign policy. The second part, chapters five to eight, look in detail at German foreign policy in East Central Europe. These are the empirical parts of the dissertation. The final part, chapter nine, will analyse and conclude the research findings.

An overview of the historical context and the research question will be presented in the first chapter which will conclude with the formulation of the research question. The second chapter will discuss the theoretical grounding and research approach. The thesis intends to employ the conception of multilateralism and modified neo-realist foreign policy theory in international relations to theorise German foreign policy. Chapters three and four will give the historical background regarding *Ostpolitik* and the normalisation of Germany after unification. The chapters from five to seven will look into the details of Germany's policy in East Central Europe in the last decade. The eighth chapter will demonstrate Germany's pivotal role in European integration and the EU eastward enlargement. Chapter nine is an analysis of the research and illustrates Germany's vision of future Europe.

## **Part 1**

# **The Context of German Foreign Policy**

## **Chapter 1**

### **German Foreign Policy:**

#### **From National Greatness to International Co-operation**

The thesis is a study of German foreign policy, taking the policy in East Central Europe as a case study. Germany is a unique country, owing to its special geographic position. Its foreign policy has evolved through history and, as noted in the introduction, is continuing to evolve. Few countries have had such major shifts in their foreign policy. It might be suggested that the relative incompleteness of Germany's foreign policy is one of its special features. From the Kaiser Reich to Berlin Republic, Germany has had to learn to live with its neighbours peacefully by taking international factors into the foreign policy making. The emphasis of the policy has shifted from national greatness to international co-operation. It appears to have been the case that only when international factors play a major part in foreign policy can the country have peace and prosperity. Thus, it has come about that since the end of WWII, the distinctive pattern/principle of German foreign policy has been multilateralism. It was formed to contain or diffuse the German power and to win the trust of its allies. Multilateralism has remained as the foreign policy principle after German unification and the inauguration of the new Schröder- Fischer government. Germany's foreign policy in East Central Europe also follows this policy principle and aims at including the region within a multilateral framework. The German government assists in the political and economic reforms of the candidate states in order to speed up their entry to the EU and facilitate EU eastern enlargement. It is in

Germany's great interest to expand the EU territory eastwards. For this reason Germany has become the advocate of the eastern candidate states. In short, a result of its foreign policy principle, multilateralism, Germany has played the leading role in European integration.

This chapter gives a general historical background for the research question. The first section reviews German foreign policy from the Kaiser Reich to Berlin Republic. A diagram is used to illustrate the influence of national and international factors in German foreign policy making in different period of the German history. The second and third sections discuss about Germany's role in European integration and enlargement respectively. These sections explain how Germany is embedded in the European Union and why the European integration and enlargement are important for Germany.

### **German Foreign Policy Review**

A country's foreign policy is closely related to its geographic location. The factors of geopolitics in the evolution of foreign policy include the numbers and size of the neighbouring states and the existence of access to the sea. For centuries, Germany has struggled not to become the battlefield of its surrounding rivalry powers - France and Britain in the west, Sweden in the north, Russia in the east.<sup>6</sup> Germany's foreign policy cannot be independent as a consequence of its position in the centre of the continent. To understand Germany's foreign policy, one has to notice that Germany is not situated in a quite corner or in the edge of the continent, but in the centre surrounded

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<sup>6</sup> Brill, H., *Geopolitik Heute: Deutschlands Chance?* (Berlin: Verlag Ullstein GmbH, 1994) p.145

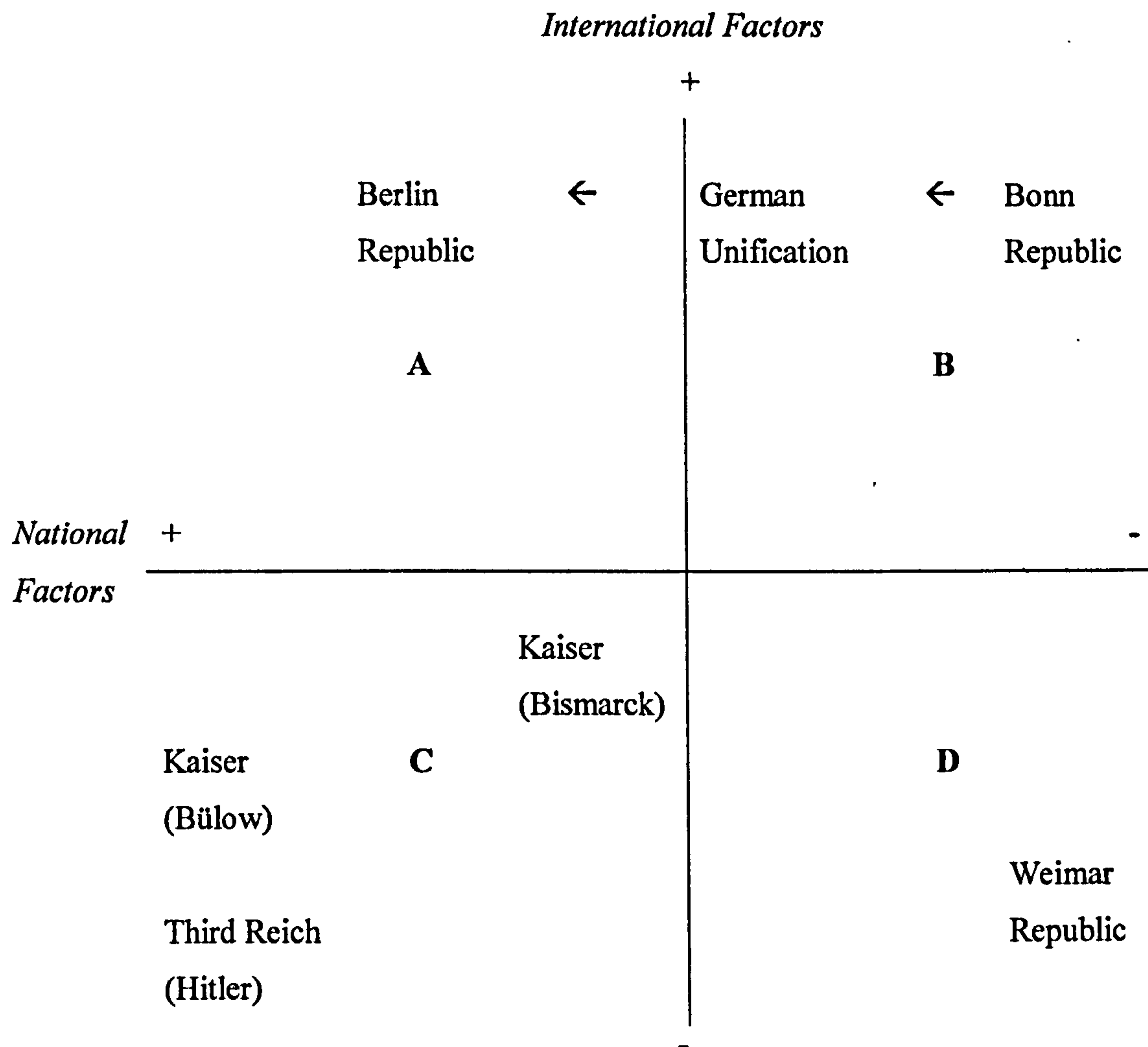
by superpowers. Its territory is connected jointly with other states, the relation with which forms the major concern of its foreign policy. The fate of central Europe has been marked as a field of struggle (*Kraftfeld*)<sup>7</sup>, which is an area that more states cross with each other and thus more possibly having conflicts. Why did Germany become such a destructive force in both World Wars? Some blamed it on Germany's ambitious national characters, while others blamed on its geographic location.

Due to the geographic position, Germany's foreign policy cannot be independent. The harmonisation between Germany and its external environment is crucial to the country's stability. Since the Bismarck era, German foreign policy has struggled to reach a balance between seeking national greatness and harmony with its neighbouring states. The shifts of German foreign policy in different eras can be illustrated in a diagram as follows:

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<sup>7</sup> Ibid, p.152

Figure 1.  
Shifts in German Foreign Policy



The vertical axis indicates the role of international factors in shaping German foreign policy, and the horizontal axis signifies the role of national factors, with strong and weak poles. The formative periods of German foreign policy are placed in each of these quadrants to show which factors prevail at particular points in history:

Quadrant A: in this period, both international and national factors have strong influences on foreign policy making.

Quadrant B: in this period the international factor has a stronger influence than the national factor in foreign policy making.

Quadrant C: in this period the national factor has the stronger influence in foreign policy making.

Quadrant D: in this period both international and national factors are weak in foreign policy making, allowing other forces to emerge.

Reading this diagram historically we can trace some of the major shifts in German foreign policy as one that has been shaped variously by national and international forces. Today, as the diagram shows, international factors are playing a leading role in German foreign policy making and uniquely, too, for the first time strong national and international factors are together at work. The following offers a brief outline of these historical paradigms and their shifts.

### *Kaiser Reich (Bismarck) [C]*

After Prime Minister Otto von Bismarck, the Iron Chancellor, defeated Denmark in 1864, Austria in 1866, and France in 1870, putting 'Small Germany'<sup>8</sup> solution under Prussian leadership. As a result the European powers were alerted to the prospect of a powerful Germany in the geopolitical centre of Europe. Constantin Frantz predicted the future development of Bismarck's Prussian-dominated German Empire:

'the geographic position and potential military and economic power of the unified national state would, sooner or later, tempt Germany to establish hegemony over its continental neighbours and lead it into a disastrous

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<sup>8</sup> Two solutions to the German Question of national identity and unity as a German nation-state in 1848 were: 'Great Germany' (*grossdeutsch*) solution includes Austria and the Hapsburgs (including non-German populations) in the nation-state, while 'Small Germany' (*kleindeutsch*) solution excludes



confrontation with another grand alliance of powers, like the ones that had gathered to defeat the hegemonial ambitions of Napoleon I and Louis XIV in centuries past.’<sup>9</sup>

Although Bismarck had achieved his goal of the unification of a German nation-state, he pursued a restrained policy in Europe and tried to avoid conflicts with the neighbouring powers. He constantly assured his neighbours that the Reich was ‘satisfied’. He avoided challenging England’s supremacy at sea and fought off domestic pressures for imperial conquest in Africa and Asia. He carefully cultivated foreign relations with Austria, Italy, and Russia in particular, as Russia was France’s most likely ally. His fear was that France and Russia could form a coalition against Germany. The Franco-Russia combination of forces might work as pincers and put Germany in a two-front war. Bismarck’s policy was to deal with Germany’s two major neighbours cautiously to avoid isolation.

Therefore, during Bismarck’s era, both the unification of a German nation-state and the harmonisation with neighbouring states were important in foreign policy making, although national factors accounted for a little more weight than international factor. The foreign policy of the period of time can be placed in quadrant C (see Figure A) and close to the centre of the diagram. The main international factors of this period were those of the balance of power arrangement, thus representing a degree of international influence, although not a very strong one and indeed one that did not prevent eventually the outbreak of World War One. This brings us to the second point.

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Austria. See Merkel, P. H., *German Unification in the European Context* (Pennsylvania: the Pennsylvania State University Press, 1993) p.p.32-33

*Kaiser Reich (Bülow) [C]*

However, Bismark's successor, Reich Chancellor von Bülow, did not inherit the Iron Chancellor's diplomatic skills. As a result of the extraordinary growth in German industrial strength, the authoritarian regime embarked on a distinctively separate German path, known as *Sonderweg*, to modernisation. Germany's belief in national greatness started to threaten the West in a major diplomatic confrontation. Bülow's Germany claimed 'a place in the sun' and the status of a world power. The Reich drifted into a collision course with the rest of Europe. Unfortunately, Constantin Frantz's prediction turned into reality, especially when Germany was under the rule of 'maniac on the throne', Kaiser Wilhelm II. Bismarck's diplomatic efforts turned out in vain, England, France, and Russia joined forces in the Triple Entente against Germany in 1907.

Germany's geographic position may have caused a burden in its foreign policy, especially as it is located between the Latin and Slavic faces of Europe. The First World War might have just demonstrated how Germany's geographic location and national ambition resulted in a political trouble. The German Empire used to politically support former Austria-Hungary, which embraced Austria, Hungary, south Poland (Ruthenia), Czechoslovakia, Slovenia, Croatia, and north-west Romania, while Russia was inclined to help Serbia. When the German Empire was ready to challenge the West, the tenseness between Germany and Russia was exacerbated by the political assassination in Sarajevo in 1914. With full German support, Austria sent an obviously unacceptable ultimatum to Balkans. The solid Austro-German

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<sup>9</sup> Ibid. p.33

combination tried to induce Russia to retreat in the face of force and to enable Austria to have her way with Serbia. However, Russia made it clear that it would not passively allow Serbia to be destroyed.

The Austro-Serbia conflict was enlarged into an Austro-Russia conflict. The partial mobilisation of Russia also provoked German general mobilisation. Thus, the Austro-Serbia conflict finally produced a Russo-German war.<sup>10</sup> As Russia was allied to France, which greatly resented German power, France entered the war, followed by Britain when Belgium was invaded by Germany. During the period of time, national greatness was the priority of the foreign policy, which should be placed in quadrant C. German Special Path (*Sonderweg*) eventually led the nation to isolation and self-destruction.

#### *Weimar Republic (interwar years) [D]*

After the First World War, it was evident that the 'Small Germany' solution to the German question led to decisive defeat. By the end of 1918, both German Empire and Austria-Hungary Empire collapsed. During the interwar years, Weimar Republic was weak and its foreign policy can be placed in quadrant D. The Fourteen Points, asserted by American President Wilson as a basis for peace, stated that subject nations must decide their own fate. East and Central European frontiers were re-drawn according to a general principle of self-determination. In Vienna, in Budapest, in Prague and in Zagreb, separate provisional governments came into existence. There were serious tensions as a variety of peoples had been under Austro-Hungarian and

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<sup>10</sup> Albrecht-Carrie, R., *A Diplomatic History of Europe Since the Congress of Vienna* (London: Harper & Row Publishers, 1973) p.p.321-327

Russian rule for a long period of time. The populations were mixed instead of being ethnically homogeneous. The much criticised peacemakers of that time never adopted the more humane approach of making the frontiers fit the people, rather than the reverse.<sup>11</sup> The new map of East Central Europe therefore had high potential in causing territorial and ethnic disputes between Germany and countries in the region in the next decades.

The countries in East Central Europe have shared the same geopolitical burden as Germany in their foreign policies, due to their neighbouring positions. However, there is never a superpower like Germany existing in the region. This region thus became a 'power vacuum'<sup>12</sup>. As a power vacuum, it is inevitably regarded as a playground for western powers to compete their influences. Traditionally, this region is seen as within the German cultural sphere. There are numerous German minorities through East Central Europe. The collapse of the Hapsburg, Prussia, and Russia Empires and the establishment of successor states left large population of ethnic Germans under the map of new Poland, Czechoslovakia, and Yugoslavia. German is an important foreign language in the region. Moreover, Germany has always traded with countries in the region, which has produced the interdependence and traditional relations. Historically Germany always looked to the East. Advancement towards the East (*Drang nach Osten*) has long existed in Germany history. It was criticised as Pan-Germanism or German colonisation in the East. The historical German-ECE relations can be described as 'an uncomfortable journey through time'.<sup>13</sup>

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<sup>11</sup> *ibid.* p.365

<sup>12</sup> Byrnes, R. F., *Germany and the East* (London: Indiana University Press, 1973) p.51

<sup>13</sup> Volgyes, I., 'Hungary and Germany: Two Actors in Search of a New Play', in Verheyen, D. et al. (eds.), *The Germans and Their Neighbours* (Oxford: Westview Press, 1993) p.280

During the interwar years, the new states which had emerged from the former Austro-Hungarian Empire were inherently weak. Isolation left them highly exposed to the ambitions of a revisionist nation. The Germans had always regarded the new states as transient phenomena destined to become part of the greater Reich, once Germany was in a position to enforce its claims to the territories of the former Austro-Hungarian Empire. The rise of Hitler's Germany attempted to undo the defeat in the First World War and renew the great national pride. Germany once again embarked on a crusade and claimed European hegemony. A revived Germany had more or less a free hand in Europe to turn the states into vassals of her empire, especially after the collapse of European security with the failure of the League of Nations, the decay of France, and the indifference of Britain.<sup>14</sup>

### *Third Reich (Hitler)* [C]

Adolf Hitler sought the 'Great Germany' solution and attempted to bring all ethnic German under one empire as the pan-Germans. Hitler's march across the continent began with the annexation of Austria and Czechoslovakia before hostilities started in September 1939. By the beginning of 1942, the new German Empire was virtually synonymous with that of continental Europe. All the East European states came within the orbit of the axis powers. Hungary, Romania and Bulgaria slipped from initial neutrality into a quasi-alliance with Germany. They retained a semblance of sovereignty by joining Hitler ostensibly as military allies, but they were very much like satellite dependencies of the German Reich in practice.

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<sup>14</sup> Aldcroft, D. H. and Morewood, S., *Economic Change in Eastern Europe Since 1918* (Aldershot: Edward Elgar, 1995) p.p.77-85

Czechoslovakia, Poland, and Yugoslavia, with the strongest pro-West leanings, were invaded and dismembered between 1938 and 1941. In October 1938, Czechoslovakia lost ethnic German Sudetenland to Germany. In 1939, Germany invaded the rest of Czechoslovakia, including south Slovakia and west Ruthenia. The sub-Carpathian Ukraine went to Hungary. Western Bohemia-Moravia became a protectorate of the Reich. Poland, including the Free City of Danzig, was incorporated into Germany in 1939. Central Poland became a protectorate under the General Government of Poland, while much of the remainder of Poland was absorbed by Russia in 1939. The 'Great Germany' solution was then completed.

In the summer of 1941, the Russia Polish territories were occupied by Germany. Yugoslavia's turn came in April 1941. Northern Slovenia and the major part of Serbia were incorporated into Germany. Southern Slovenia and most of the Dalmatian coast went in Italy. Other parts of Yugoslavia were distributed among Hungary, Bulgaria and Italian Albania, while Croatia (including Bosnia and Herzegovina) became an independent state under German and Italian military influence. Hitler's ambition was finally shattered by the western alliance in 1945. The defeat of the Third Reich seemed to end all German questions, but the fear towards a strong united Germany has deeply rooted in Europe.

Hitler's Germany was even more extreme and aggressive than Bülow's, due to the emphasis on national greatness. The harmonisation with the international society was almost ignored in foreign policy making. Thus, this period of German politics should be placed in quadrant C, but below the later Kaiser Reich. It was a period that demonstrated the most extreme power of the national factor and the total

marginalization of international factors. One may conclude that before the end of the second half of the 20<sup>th</sup> century, national factor in general played a bigger role than international factor in German foreign policy making, even to the point of leading to the destruction of international politics.

### *Bonn Republic – Westpolitik and Ostpolitik* [B]

After being defeated in the Second World War, Germany was divided into four occupational zones mandated to four western powers – the US, the UK, France and Russia. The spread of communism in Eastern Europe separated Europe into two blocs – NATO and the Warsaw Pact. As a consequence, Germany was cut into two states, the FRG and the GDR. During the period of the east-west conflict, two German states served the security function as a state on the front line. The opposing alliances concentrated huge armies and military actions in Germany. Its position in the front-line field of both blocs' defence systems made it become the potential battle area.<sup>15</sup> Dunn has observed Germany's front-line position, 'to cross the inner-German border was to enter the realm of the military and ideological "adversary". The towns and villages on the German-German border were outposts of western civilisation'.<sup>16</sup> The split of the continent had moved Germany from its central European position to the glacis and cordon of the two confronting alliances.

As a destabilising and destructive force in both World Wars in Europe, Germany was not only divided but also isolated. When Chancellor Konrad Adenauer assumed office in 1948, he sought to break through the isolation. Germany's central location put itself

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<sup>15</sup> Brill, H., *Geopolitik Heute: Deutschlands Chance?* (Berlin: Verlag Ullstein GmbH, 1994) p.144

<sup>16</sup> Dunn, J. F., *A New Germany in a New Europe* (London: Wilton Park, 1991) p.1

in a position confronting with two opposing blocs. Coalition could be the strategy to solve it and Adenauer chose *Westbindung* (West integration).<sup>17</sup> He actively participated in the major western organisations, namely the EU and NATO. His intention of integrating Germany in the west through its memberships was to prevent the restoration of national ambition.<sup>18</sup> Adenauer's prime concern was to obtain international acceptability. His effort to ensure that the FRG played a full part in the European economic and political integration process was to bring Germany back to the international community. In other words, the European Community was regarded as a means to re-establish Germany's international status in the world.<sup>19</sup> Therefore, since the end of the WWII, international factors have played a major part in foreign policy making. The Bonn Republic's foreign policy should be placed in quadrant B for this reason. It represents a period when the national factor, in the aftermath of the war when Germany was occupied, was relatively weak and the international factors, represented by the UN and the allies very strong and the determining factor in the forcible democratization of Germany.

Adenauer's firmly western-oriented foreign policy has been persisted by his successors and formed the German foreign policy principle in the next half century. He accepted the factual division of Germany and Europe. Since Germany was under the Soviet threat in the east-west tension, Adenauer made a radical pro-Western policy and turned his back on the East, which was opposite to Germany's traditional

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<sup>17</sup> Vogel, H., 'Osteuropa – Ein Schwerpunkt Deutscher Aussenpolitik' in Kaiser, K. and Krause, J. (eds.), *Deutschlands Neue Aussenpolitik, Band3: Interessen und Strategien* (München: Oldenbourg Verlag, 1996) p.170

<sup>18</sup> Brill, H., *Geopolitik Heute: Deutschlands Chance?* (Berlin: Verlag Ullstein GmbH, 1994) p.152

<sup>19</sup> Blacksell, M., 'Germany as a European Power' in Lewis, D. and McKenzie, J. R. P. (eds.), *The New Germany: Social, Political and Cultural Challenges of Unification* (University of Exeter, 1995) p.91



*Schaukelpolitik*<sup>20</sup> ('see-saw' policy). His policy toward the East was a refusal to contact or to negotiate a settlement. In 1955 the FRG's *Hallstein Doctrine*<sup>21</sup> broke off diplomatic relations with any states giving official recognition to the GDR in order to isolate the GDR in the hope that the Soviet Union would find it too much of a burden.<sup>22</sup> The purpose of containment policy was to stop the further spread of the communist influence. The FRG's hostile east policy came to an end following Adenauer's resignation in 1963.

A country's changing foreign policy normally is brought about by changes in the external environment. The international atmosphere of Western détente diplomacy (removal of tensions) contributed to Willy Brandt's Ostpolitik. Chancellor Brandt observed the ups and downs of Soviet-German relations and realised that the refusal of the legitimisation of Eastern Europe's political orientation had greatly weakened Germany's international bargaining power. The FRG should not only deal with one side of Europe and ignore the other. He also realised that to ease the tensions with Eastern Europe, the USSR should be the first country to negotiate with. Willy Brandt was determined to revitalise relations with Moscow by offering significant concessions and adopting a more flexible position.<sup>23</sup> For the purpose of 'breaking the ice', Brandt's government made major concessions including recognition of the existing territorial status quo and renunciation of Hallstein Doctrine. Brandt's government agreed that the development of relations between the GDR and the FRG

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<sup>20</sup> *Schaukelpolitik*: traditionally Germany's foreign policy always looks to both East and West, which aims to maximise German autonomy and influence by oscillating as the occasion required. See Webber, D., 'Introduction: German European and Foreign Policy Before and After Unification', *German Politics* Vol.10 April 2001 No.1, p.3

<sup>21</sup> Hallstein Doctrine was named after Walter Hallstein who was a senior official in the Foreign Office.

<sup>22</sup> Pittman, A., *From Ostpolitik to Reunification: West German-Soviet Political Relations Since 1974* (Cambridge: Cambridge University Press, 1992) p.p.6-7

<sup>23</sup> Stent, A., *From Embargo to Ostpolitik* (Cambridge: Cambridge University Press, 1981) p.155

were to be based on full equality and mutual respect, and neither side could represent the other in foreign affairs or act on its behalf.<sup>24</sup>

In order to clear Moscow's suspicion that the FRG's Ostpolitik would threaten Moscow's influence, the FRG signed the Moscow treaty in 1970. The treaty enabled the Brandt regime to pursue accommodation with Eastern Europe, particularly with the GDR, without receiving obstructions from Moscow. In the early 1970s, the FRG negotiated treaties containing renunciation of force with Poland, the GDR and Czechoslovakia. The treaties also resolved problems concerning pre-war German territories and populations. After the ratification of the treaties, Soviet-German relations continued to improve. Brandt's Ostpolitik not only normalised Germany's relations with Eastern Europe, but also normalised Germany's foreign policy, looking to both East and West. Ostpolitik was not an alternative to Adenauer's Western integration policy. It was actually based on and facilitated by this policy. As Webber noted that Ostpolitik did not replace, rather subordinating to the Western integration policy.<sup>25</sup>

### *German Unification [B]*

Ostpolitik led to later Germany's unification, which was also built on Germany's firm anchorage in the West.<sup>26</sup> There were twenty-nine summits and meetings at ministerial level in Western Europe regarding the question of unification. Every step of German unification was co-ordinated and planned with Western allies. Kohl carefully paved

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<sup>24</sup> Pfetsch, F. R., *West Germany: Internal Structures and External Relations – Foreign Policy of the Federal Republic of Germany* (London: Praeger, 1988) p.p.218-219

<sup>25</sup> Webber, D., 'Introduction: German European and Foreign Policy Before and After Unification', *German Politics* Vol.10 April 2001 No.1, p.3

the way for the Two plus Four Treaty. In Kohl's Ten Point Plan on 28 November 1989, he put the utmost importance of the unification process on anchoring firmly in the European Community and NATO:

'The development of inner-German relations remains an integral part of the pan-European process...The future structure of Germany must fit into the future of Europe as a whole. The attraction and the image of the European Community is and remains a constant feature in the pan-European development. We want to strengthen this further.'<sup>27</sup>

Germany attempted to convey their views through the EC and NATO to rally support, because its remaining in both Western institutions was the basic condition of unification.<sup>28</sup> In 1991, Foreign Minister Genscher assured the European partners that 'we wanted to commit united Germany to Europe, not to the nation-state ideal'.<sup>29</sup> Kohl and Genscher emphasised the embedding of the German unification process into Europe as a whole to dispel the fears of the European allies of an enlarged and sovereign Germany. Since Adenauer, Germany's self-integration into European structures has been a fundamental pattern of German foreign policy. The Germans need to be tightly integrated to the West in order to avoid suspicion and opposition aroused among its western allies, which is particularly important when the German government promotes its East policy. Germany's urge for the EU eastern enlargement to achieve European unity also demonstrated the same tendency, although widening

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<sup>26</sup> Dunn, J. F., *A New Germany in a New Europe* (London: Wilton Park, 1991) p.15

<sup>27</sup> Neuss, B., 'The European Community: How to Counterbalance the Germans' in Grosser, D. (ed.), *German Unification: the Unexpected Challenge* (Oxford: Berg Publishers Ltd., 1992) p.140

<sup>28</sup> Müller, H., 'German Foreign Policy after Unification' in Stares, P. B. (ed.), *The New Germany and the New Europe* (Washington, D. C.: the Brookings Institution, 1992) p.p.128-129

and deepening seem to have caused a dilemma in Germany. In the period under consideration national factors are growing in strength, but are not opposing the wider international – and the growing importance of the European - context which is still the dominant factor.

### *Berlin Republic [A]*

After being defeated in two World Wars, German foreign policy has followed the principle of multilateralism. International factors increasingly are coming to the fore in shaping foreign policy making. Germany has attempted to embed itself within multilateral frameworks to prevent it acting alone. The Germans have learned from the history that the obsession with national greatness would only lead to isolation and self-destruction. Thus, the Bonn Republic emphasised international co-operation and regional integration to preserve peace. (see below)

<b>national factor</b>	<b>Third Reich (Hitler)</b>	<b>Kaiser (Bismarck)</b>	<b>German Unification</b>	<b>international factor</b>
<b>(isolation &amp; self-destruction)</b>	<b>Kaiser (Bülow)</b>		<b>Berlin Republic</b>	<b>Bonn Republic (integration &amp; peace)</b>

In the 1980s, German economy had been the most successful in Europe. The national confidence began to be restored and the national factor began to gain weight in foreign policy, leading to a confluence of national and international factors. Since German unification, the country has gradually transformed itself towards a ‘normal’

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<sup>29</sup> Merkel, P. H., *German Unification in the European Context* (Pennsylvania: the Pennsylvania State University Press, 1993) p.p.380

state. From Bonn Republic to Berlin Republic, multilateralism (international factor) remains an unchanged principle of German foreign policy. However, national factors (e.g. national interests and domestic opinions) have gained more weight in foreign policy making. The Berlin Republic's foreign policy should be placed in quadrant A, because both international and national factors have reached a good balance in the foreign policy making and are complementary. Germany has finally learned to live with its neighbours peacefully and found itself a place in Europe. The argument of this dissertation is that the complementary – but at times tense - relation of the national to international factors is shaping German foreign policy and this is evident in its East Central European policy.

### **Germany and the EU Integration**

The origin of European integration was that American aid of the Marshall Plan in 1947 required European economic co-operation as a condition. Four years later, a new Pan-European identity emerged through the establishment of the European Coal and Steel Community in 1951. Hence economic motive was the initial driving force for European integration. The FRG was one of the original six members and has always kept itself on the path to European integration which has since led to the creation of the single market and the single currency under economic and monetary union (EMU). Having the US taking care of its national security, the FRG could concentrate the national energy on economic recovery. From the outset the FRG wished to be closely involved with European integration in order to revive German economy and put German mining and heavy industry back to the mainstream of economic activity after the Second World War. As a result of the division of Europe, the FRG lost its

traditional East European markets. The West German enthusiasm for European integration was reinforced by looking for a replacement for the lost markets. The economic integration could help German business with a new start in the EU sphere. The development of the single market was particularly important, given the FRG had a strong export-oriented economy.<sup>30</sup>

Throughout the post-war era, Germany has tried to promote greater integration of a single European market. It is Germany's interest and goal to develop a non-tariff environment for prosperity. A significant barrier to the free movement of goods, services, capital, and labour is the transaction costs of converting currencies when crossing national frontiers. Exchange rate movements even create a more serious obstacle to trade and investment. In 1985 the EC member states committed to the liberalisation of the movement of goods, services, capital and labour within the Community by ratifying the Single European Act, which moved the EC beyond free trade to further economic integration. It was recognised that the restrictions on intra-Community trade must be reduced to achieve European prosperity.

Germany's share of world trade holding second place in the world (next to the USA) has won itself the reputation of a trading power. The stability of the D-Mark and the success of the economic policy also enabled Germany emerge as a strong economic power. What a trading state or an economic power cannot afford is isolation. A European-oriented foreign policy is, thus, becoming more and more important for Germany. German foreign policy has focused on all-European interests. The willingness and economic strength of Germany has put the country in the leading role

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<sup>30</sup> Merkl, P. H., *German Unification in the European Context* (Pennsylvania: the Pennsylvania State University Press, 1993) p.382

of the European economic integration, given that the EU was initially moving towards an economic entity. The strong D-Mark and the success of the Bundesbank enabled Germany to shape the economic institutions and structures in the EU. Since 1980s, the Bundesbank had become Europe's de facto Central Bank and Germany's European trading partners all gauged their exchange rates on the D-Mark. The goal of the German economy was to lead the EU towards economic stability, which could be reached by an independent central bank and price stability. Due to the outstanding achievement of German monetary policy, it was recognised as a model for the designation of the EMU.

While Germany was keen on the 'Europeanisation' of its foreign policy, France welcomed the idea of the integration of German institutions in the EU. Traditionally, France has always resented a strong Germany in its eastern border. To tie down Germany in the EU thus became the motive of the French in favour of European integration. The distinctive feature of multilateralism in German foreign policy was actually based on a solid Franco-German axis. For Germany, France is the 'alliance within the alliance'.<sup>31</sup> The axis has provided the 'motor' for European integration for decades. The Franco-German entente was founded by the close personal rapport developing between Chancellor Adenauer and President Charles de Gaulle in the sixties.

Following the evolving open market within the EU, the FRG's economy was becoming reliant on its European trading partners. Germany realised the necessity to create managed exchange rates and even a single currency. The Franco-German axis

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<sup>31</sup> Schönbaum, D. and Pond, E., *The German Question and other German Questions* (London: Macmillan Press Ltd., 1996) p.184

was refreshed in the seventies, especially under Chancellor Schmidt. In 1979, Helmut Kohl and Valérie Giscard d'Estaing joined forces to set up the European Monetary System (EMS). Since then, the D-Mark has achieved the status of an unofficial reserve currency, which facilitated the dominance of the FRG's economy in the monetary policy throughout the EU.<sup>32</sup> Although Germany's economic power had prevailed in the EU, the German government sought an ever closer union. After the adoption of the Single European Act (1986), a Mitterrand-Kohl initiative proposed European Political Union. The argument was that the economic and monetary union (EMU) could not operate efficiently without a political union. Germany's renunciation of D-Mark and declaration that 'Germany's future is in Europe' showed the determination of Germany to be deeply integrated in Europe. In April 1997, Chancellor Kohl and President Chirac, another Franco-German initiative, reaffirmed to introduce the European single currency on schedule on 1 January 1999.<sup>33</sup> The Franco-German alliance finally made EURO become reality. However, France and Germany seem have drifted apart since late 1990s, due to their disagreements open EU issues regarding enlargement and budget reform. The crack appeared apparent in Nice Summit in 2000. Is the most solid alliance in the EU able to compromise their differences? If the EU loses its 'motor', how would the integration be affected?

For half a century, Germany has deeply anchored in the western integration. While Germany and West Europe are becoming inseparable in the process of integration, a pattern of multilateralism has grown in Germany's foreign policy. Karl Kaiser described Germany as a 'nation that with her values, political institutions, her economic survival and her foreign policy is deeply interwoven with the West –

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<sup>32</sup> Blacksell, M., 'Germany as a European Power' in Lewis, D. and McKenzie, J. R. P. (eds.), *The New Germany: Social, Political and Cultural Challenges of Unification* (University of Exeter, 1995) p.93



especially Western Europe'.<sup>34</sup> Webber also noted that, German foreign policy's strong multilateral orientation was 'the other side of the coin' of its *Westpolitik*. He pointed out that multilateral orientation in a country's foreign policy making means that the country has to concede national decision-making competence to supranational organisations and to renounce independent initiatives on important international issues in favour of joint action with its allies.<sup>35</sup> As an occupied country with semi-sovereignty, it was easier for Germany than any other Western European countries to transfer the national sovereignty to international organisations. Most importantly, Germany needed a strong Western military unity, given its incapacity of defending itself against the communist bloc.

Germany has been actively facilitating European and Atlantic strategic transformation towards a collective security policy to strengthen the European integration. As Reinhardt Rummel put it, if the European integration remains the Germany's prime objective, the CFSP (common foreign and security policy) would be the major vehicle.<sup>36</sup> Germany regards the expansion of the Union towards the East as the CFSP's first priority, which can only be achieved successfully via a substantial deepening of the European Union. Chancellor Kohl urged the Maastricht Treaty conclude the formation of a Common Foreign and Security Policy. In the 1996 Intergovernmental Conference, the German government called for a further development of the European Common Foreign and Security Policy. As a consequence of the German effort, the Maastricht treaty contains the development of a common foreign

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<sup>33</sup> Webb, A., *Germany since 1945* (London: Longman, 1998) p.177

<sup>34</sup> Kaiser, K., 'Das vereinigte Deutschland in der internationalen Politik' in Kaiser, K. and Maul, H. W. (eds.), *Deutschlands neue Aussenpolitik Band I: Grundlagen* (München: Oldenberg Verlag, 1994)

p.2

<sup>35</sup> Webber, D., 'Introduction: German European and Foreign Policy Before and After Unification', *German Politics* Vol.10 April 2001 No.1, p.3

and security policy. It reviews progress towards greater West Europe security and defence co-operation, and confirms that an enhanced West European security and defence co-operation would contribute to the solidarity within the Atlantic Alliance. Meanwhile, the German government was also an enthusiastic supporter of the gradual development of the European military. 'Eurocorps', a multinational force of 35000, became operational in 1995, as a result of Franco-German efforts.

Germany also consistently supports the process of the Conference on Security and Co-operation in Europe (CSCE) with its belief that the CSCE would provide the institutional setting for a pan-European framework to handle the East-West conflict. Hans-Dietrich Genscher advocated the CSCE as an institutional framework to integrate Eastern Europe into a more co-operative security structure. The German government expected the CSCE function preventive diplomacy and crisis management in Europe to stabilise Germany's eastern neighbours. At the Budapest Summit of December 1994, the CSCE was renamed the Organisation for Security and Co-operation in Europe (OSCE). The functions of the OSCE include offering common standards for human rights, peaceful resolution for conflicts, and a framework for pan-European multilateral diplomacy across a wide range of issues.

The nature of German power in the post war era has worried European countries, both in the east and the west. The past has burdened Germany's European policy. Europe seems to watch closely whether the nationalist Germany could be resurrected. Therefore, Germany has to make a strong effort to ensure its European allies that Germany itself is opposed to a revival of nationalism in Europe. The German Basic

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<sup>36</sup> Rummel, R., 'Germany's Role in the CFSP: *Normalität or Sonderweg?*' in Hill, C. (ed.), *The Actors in Europe's Foreign Policy* (London: Routledge, 1996) p.41

Law shows the roots of democracy and self-restraint of military forces. Article 26 states that 'acts tending to and undertaken with the intent to disturb the peaceful relations, especially to prepare for war of aggression, shall be unconstitutional', accompanied by a declaration that 'the united Germany will never employ any of its weapons except in accordance with its constitution and the charter of the United Nations'. Moreover, article 24 confirms that the Federation 'may enter a system of mutual collective security...in doing so it shall consent to such limitations upon its rights of sovereignty as will bring about and secure a peaceful and lasting order in Europe and among the nations of the world'. Although the German Bundeswehr's involvement in out-of-area later became inevitable (i.e. in Gulf War), German troops were to participate in out-of-area missions only and strictly in a multilateral framework. The German government wanted to make their troops well integrated within NATO.

Germany is facing a diverse security environment. After the fall of the Berlin Wall and the dramatic collapse of communism not only caused massive movements of eastern Germans to West Germany but also brought the immigration 'flood' in from Eastern Europe. Article 16 of the Basic Law had obliged the Federal Republic to offer asylum for all 'persons persecuted on political grounds' without restrictions. The transformation after the collapse of communism and the ethnic conflicts in Eastern Europe and the Balkans have produced numerous refugees immigrating legally and illegally into Germany, which has burdened German society and domestic economy. Germany had their commitment to the principles of free movement of people and the protection of human rights, but the government also had to calm public fears about the effects of uncontrolled immigration. The German government has increasingly

stressed the importance to secure the community's external borders against illegal immigrants.

Chancellor Kohl sought to achieve a European solution to solve this problem at a supranational level by a harmonisation of the rules related to asylum requests across the member states of the European Community. He persuaded the Bundestag that the European solution required Germany to amend Article 16 of the Constitution: 'we must establish the conditions in Germany [for European solution]. We cannot allow ourselves to act in such a way that we stand in the way of European decision', which resulted in the amendment of Article 16 in July 1993. The new clause entirely excluded the protection of the would-be asylum seekers reaching Germany from 'safe countries'.

Additionally, Germany has been a driving force behind the conclusion of the Schengen treaties. The Schengen treaties are the most ambitious attempt to formalise police co-operation between European countries. They include police and security, free movement of people, judicial co-operation, external relations, asylum, visas, external and internal frontiers and airports. The Schengen Accord was firstly signed by Germany, France, and the Benelux countries in 1985. The number of participating states has continuously grown since then. It pursued agreements on visa policies and co-ordination of crime prevention.

Immigration policy is also closely linked with the free movement provisions of the 1986 Single European Act (SEA), whose primary goal is to create a customs union and eventually remove all tariff and non-tariff barriers amongst the member states.

The development of the European single market has generated pressure for tighter external frontier control and a restrictive immigration policy, because the abolition of internal controls is to strengthen the external borders for the creation of a 'hard outer shell'<sup>37</sup>, so that an influx of immigrants and associated crime can be avoided. Therefore, as internal boundaries are reduced, external ones should be secured within a co-ordinated policy framework at the EU level.

The second Schengen Agreement of 1990 still emphasised security issues and immigration control over the free movement of people. It included the provisions on police co-operation within the European Union (the Third Pillar of the Maastricht Treaty). An intra-EU police agency – the European Police Office (Europol), dealing with drug trafficking, illicit trafficking in radioactive and nuclear materials, illegal immigration, money laundering, organised crime, and terrorist activities, has been strongly promoted by the German government. It offers advanced institutionalised police co-operation, including international investigations between police liaison offers for the EU member states.

In June 1991, Chancellor Kohl suggested 'communitisation' to incorporate the immigration and asylum policy within the Community's institutional framework. He urged the immigration ministers to develop a programme regulating concerning the crossing of internal borders. The Ad Hoc Group later identified priority objectives in the area of immigration and asylum policies.<sup>38</sup> The European Commission described Schengen as 'a laboratory of what the Twelve will have to implement by the end of

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<sup>37</sup> Benyon, J., 'Policing the European Union: the Changing Basis of Co-operation on Law Enforcement', *International Affairs* 70, 3 (1994) p.501

<sup>38</sup> Geddes, A., 'Minorities and the "Democratic Deficit"'. *Journal of Common Market Studies* Vol.33 No.2 (June 1995) p.208

1992'. Schengen was designed to be a laboratory for developing practical experience, which could later be transferred to the European Union.

Acting jointly with allied states helped Germany avoid the risk of being isolated diplomatically. Multilateralism started off as indispensable in Adenauer's era but then turned out serving Germany's foreign policy well in the post war era. It was natural for German foreign policy to stress its commitment to multilateral approach when it was divided and working towards unification. The purpose was to allay the fear that Germany's possible re-embarkation on dangerous nationalist paths in foreign policy by demonstrating Germany's determination and willingness to be tied down in the mechanism of 'self-entanglement'.<sup>39</sup> The other purpose to integrate Germany in a multilateral framework was to ensure its own stability and prevent re-nationalisation. However, after German unification, with its population, size, and economic prevalence, would it be possible for German leaders to restrain Germany in a multilateral framework? Germany's attempt to pursue foreign policy in a multilateral framework seems to be getting arm-twisting and muscle-flexing. No one can deny that a united Germany has become stronger than ever. Although European integration is undoubtedly still the centrepiece of German foreign policy, is the multilateral mechanism, EU, able to restrict a growing German power? Will the giant (Germany) break away the web (the EU)?

### **Germany and the EU Eastward Enlargement**

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<sup>39</sup> Müller, H., 'German Foreign Policy after Unification' in Stares, P. B. (ed.), *The New Germany and the New Europe* (Washington, D. C.: the Brookings Institution, 1992) p.158

The disintegration of the Communist bloc and German unification have altered Germany's geopolitical position from one on the periphery of two blocs during the Cold War to one at the heart of Europe. The united Germany is situated in central Europe as the major transit land between the Scandinavian and the Mediterranean, as the bridge between the East and the West. As a trading state, Germany can economically benefit from its location. To increase its economic and political interests, Germany has been allied with the West and the North and befriended with the East and the South. The Germans have attempted to build good partnership with its neighbours after unification.<sup>40</sup> The demise of Communism has made the unification of Germany come true and the unity of Europe possible. Although the 'iron curtain' has collapsed, Germany is worried about the erection of a 'golden curtain' or a 'welfare curtain' dividing Europe into the poor and the rich. If the EU becomes an exclusive 'rich man's club', Germany would be once again the front-line country facing the instability of the former East bloc. Germany's East policy after unification, thus, emphasises economic assistance. Germany's economic assistance to the East not only demonstrate to its West allies that the German economic power can be a contribution to Europe, but also to persuade people in the East to 'stay at home'. Germany's commitment to assist East countries in their economic and political transformation was to promote political stability and economic prosperity.

As Germany's foreign policy goal pursues stability, the Germans would not feel comfortable with the East in turmoil. Germany's concern was the political and economic instability in Eastern Europe, ethical conflicts and possibly resulting migration movements towards the West. If Germany wants to avoid being in the

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<sup>40</sup> Brill, H., *Geopolitik Heute: Deutschlands Chance?* (Berlin: Verlag Ullstein GmbH, 1994) p.152

front-line confronting unstable neighbouring countries, it would be in Germany's interest to 'push European borders further east', so that Germany does not have to remain 'the east of the West'. Hence apart from the development of economic and monetary union, another key policy issue for Germany in recent years has been the expansion of the EU to the East. The German government is more worried that other West allies take no interest in Eastern Europe and leave Germany to deal with the huge task alone, rather than seeking to set up a sphere of German influence perceived by the West as a threat.<sup>41</sup> To urge their European partners for a larger contribution to help Eastern Europe, the Germans cried out, 'you and the French must help these countries too – it is in your interest as well as ours'.<sup>42</sup> Germany took the lead in asking for international aid for Eastern Europe and argued that it was for the Western security interests. German politicians have been trying to open up the EU eastwards rather than making deals of their own. Therefore, German foreign policy toward Eastern Europe still sticks to the principle of multilateralism. The German government has set itself the task of being East Central Europe's advocate within the EU and urged its allies to open the prospect of eventual EU membership to countries in the former communist bloc. Germany has promoted the EU eastward enlargement to bring in multilateral assistance and as well to mitigate the European suspicion of Germany's unilateralism.

Setting the goal of stabilising the enormous East might be too ambitious for Germany or even for the EU multinational assistance. As Schönbaum and Pond noted that 'the eastern Slavs in Russia and Ukraine might be too big a mass and too removed from the Western mentality to be able to absorb much financial or institutional help from

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<sup>41</sup> Berghahn, V. et al., 'Germany and Europe: Finding an International Role' in Jarausch, K. H. (ed.), *After Unification: Reconfiguring German Identities* (Oxford: Berghahn Books, 1997) p.185



the West'.<sup>43</sup> Thus the Western assistance focuses on more Western-oriented East Central Europeans, such as Baltic countries, Poland, Hungary, the Czech Republic and Slovenia. Germany tries to help the East Central Europeans to help themselves with technical and legal training. The countries in East Central Europe (the prospective EU members), striving to qualify for EU membership, welcomed all sorts of Western assistance to find some shortcuts to their political, economic, social and institutional transformation in adopting ready-made EU or German models.

Germany has taken over responsibility for the transformation process in the GDR and has gained some experiences from the process. The German government wishes to use the experience of assisting transformation in the GDR to help the eastern countries. A government programme, TRANSFORM Programme, was therefore organised and aimed at participating in the transformation process in East Central Europe. The German government intensified its efforts to support the 'new democracies' in the East for a rapid approach to the European Union.<sup>44</sup> The focal point of the German economic assistance in the East is economic transformation to shape and strengthen the structures of their market economy. It is the transformation that the states need to improve their economic institutions up to the EU standard for obtaining membership. The German government offers not only capital and financial assistance but also consultancy and training to help the eastern countries build up the necessary institutions (i.e. private sectors) for a market economy and to assist in the liberalisation of government regulations for a free market. The content of German

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<sup>42</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.179

<sup>43</sup> Schönbaum, D. and Pond, E., *The German Question and Other German Questions* (London: Macmillan Press Ltd., 1996) p.198

<sup>44</sup> Pradetto, A., 'After the Bipolar World: Germany and her European Neighbours' in Glaessner, G. (ed.), *Germany after Unification: Coming to Terms with the Recent Past* (Amsterdam: Rodopi B. V., 1996) p.180

consultancy and training programmes stress on a few important elements of the German model, such as an independent central bank, cartel prevention, and a combination of competitive efficiency with high economic equality and social cohesion. The German government has made the most efforts to help the east than any Western governments, because Germany has the closest economic and cultural links with the region and is the largest trading partner in the region. Germany is also the main resource of foreign investment. Nevertheless, all the German bilateral assistance aims at including the region into the EU multilateral framework.

The dissolution of the Council for Mutual Economic Assistance (CMEA) resumed Germany's traditional economic and trading relations with its eastern neighbours. German unification opened up a channel for Germany to extend its economic relations to the East. The integration of East Germany into the European Community has been achieved. The next objective is to integrate East Central European countries into the EU. Germany's assistance is a way to seek accommodation with the East and to press for the European Unity. Chancellor Kohl, quoting Konrad Adenauer, said 'the unity of Germany and European unification are two sides of the same coin'. He believed that 'German unity as a historical event will be wasted if we do not press ahead in parallel with the European unity',<sup>45</sup> although the European unity was much more sophisticated than German unity. However, Germany does inevitably have a key role to play as a team leader in the EU and it is definitely the EU's lead player in Eastern Europe because of its economic power and geographic position. It is also vital for the whole of Europe that Germany could successfully unite its Eastern and Western parts economically, socially, and psychologically. While Germany tries to include its

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<sup>45</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.174

Eastern neighbours into the framework in the European Union, some problems have occurred. Germany's promotion of eastern enlargement is supposed to base on a deeper integrated West Europe. Has 'deepening' and 'widening' been a contradiction for Germany? What would be the issues concern the Germans?

### *Europapolitik?*

The collapse of Communism in the East and the dynamic of European integration present Europe in a new image towards the new century. After half-century long division, how does a united Germany refine and redefine itself in the new Europe? Following German unification, are the East and the West able to be 'united' as well through European integration? Will Germany, located at the heart of Europe, play a pivotal role to join its Western allies and its eastern neighbours together? In Germany's foreign policy, there always exists a dilemma, as a result of its geopolitical location, *Ostpolitik oder Westpolitik* (East policy or West policy)? For the first time in history, there is a possibility to look into both East and West in an international framework, the EU. It has been pointed out that the problem in Europe is above all the problem of Germany's relations with its neighbours, because neither the Germans nor their neighbours have succeeded in creating structures to accommodate the energies and ambitions of German people.<sup>46</sup> Has the European integration and enlargement process offered Germany a chance to form a single European policy (*Europapolitik*), rather than *Westpolitik* and *Ostpolitik*, within an international framework? Whether Germany will remain as a multilateralist after unification?

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<sup>46</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.p.167-168

The next chapter will present the research approach. Multilateralism, the principle of German foreign policy, will be looked into depth. The chapter will then discuss three foreign policy theories in international relations – utilitarian liberalism, constructivism, and neo-realism. It argues that modified neo-realism is the best to examine German foreign policy after unification. The research question focuses on whether Germany will still be a multilateralist and the change and continuity in German foreign policy. The thesis starts from the historical relations between Germany and East Central Europe (chapter three) to offer readers a comprehensive background of German-ECE relations. Because German East policy is increasingly built on western integration it is necessary to look at Germany's normalisation and integration in the European Union (chapter four) before exploring Germany's contemporary East Central European policy (chapters five to seven). In other words, Germany's *Ostpolitik* is always based on its firm anchorage in the West. However, the EU eastward enlargement may have offered Germany an opportunity to look at both sides of Europe in an international framework (chapter eight). Finally, the thesis will look into Germany's future vision of Europe in the 21<sup>st</sup> century and conclude the research findings in chapter nine.

## **Chapter 2**

### **Theorising German Foreign Policy:**

#### **Change or Continuity?**

The significant change in German foreign policy after WWII is that, due to the division, of the country international factors dominate policy making. Meanwhile, the nature of the German power has been transformed from military power to economic power. Being a military power for territory expansion is no longer the priority of foreign policy, because the Germans have realised that the pursuit of national greatness costs peace of the nation. Instead, a new civilian power based on a domestic civil society has emerged. Although it started with the submission of Germany's national power to the international community, it turned out that power 'by stealth' shaped its milieu. Following the unification, Germany has been able to return to a 'normal state'. The German military strength is to a degree restored (due to the recovery of sovereignty), while its economic power is diffusing (due to European economic integration). Will Germany continue to pursue power 'by stealth'? How does the new German power interact with the international community?

When Joschka Fischer became the foreign minister in 1998, he pointed out that the German dilemma - on one hand the power of the united Germany and the collective memory of the German past on the other. A question has thus been asked, namely how German foreign policy behaviour is affected by the contradiction between the power inherent in the country due to its strength and meanwhile the collective

memory of a destructive national history? To overcome the deep mistrust of Germany in Europe, Fischer advocated a self-restrained foreign policy pursuing national interests indirectly and including a clear rejection of any power-state politics, which showed great continuity in German foreign policy between Bonn Republic and Berlin Republic. The constrained foreign policy and the renouncement of power-hegemon are to prevent the revivification of balance of power and coalitions against Germany in Europe. Therefore, Fischer reaffirmed the self-restraint policy through strengthening a multilateral pan-European structure and the lasting rejection of any form of 'great power' thinking.<sup>47</sup>

Germany is a unique country with an evolving foreign policy. The unique geographic position caused difficulty for the powerful country to find a place in Europe. Without a proper solution, Germany became the destructive force in both World Wars, which made it even more difficult for Germany to survive in the European community. It was thus crucial to find a way to have Germany's national power and its milieu co-exist peacefully. The thesis argues that German foreign policy has been evolving through reaching a balance between national greatness (power-hegemon) and international co-operation (multilateralism). The German government has employed multilateralism under the cover of European integration to contain and diffuse the inherent German power, so that Germany will not be isolated again.

This chapter clarifies some of the theoretical issues that are at stake in the analysis of change and continuity in German foreign policy after unification. The first section looks into the broad question whether the united Germany will remain a multilateralist

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<sup>47</sup> Fischer, J., 'the self-restraint of power must be maintained: Germany's role and objective in the globalised world of the 21<sup>st</sup> century' addressed to the German Society for Foreign Affairs Berlin, June

as this is the central problem addressed in this dissertation. The second section locates the approach adopted in theories of foreign policy. Three foreign policy theories (utilitarian-liberalism, constructivism, and neo-realism) in international relations are outlined. The third section argues that modified neo-realist foreign policy theory is the most suitable approach for the analysis of German foreign policy. The methods and approaches of the thesis will be discussed in the final section of the chapter.

### **The United Germany – Still a Multilateralist in Europe?**

Multilateralism is not a concept that has been central to traditional international relations theory. Caporaso asks, ‘why is multilateralism neglected in international relations theory?’ He argued that this might be due to there being little multilateralism in practice and, moreover, the importance of the United Nations (UN) was declining.<sup>48</sup> Nevertheless, some scholars have tried to define multilateralism in the context of international relations. Ruggie defined multilateralism as ‘a generic institutional form of modern international life’.<sup>49</sup> In other words, multilateralism normally appears in an institutional form. Keohane sees multilateralism as ‘the practice of co-ordinating national policies in groups of three or more states’.<sup>50</sup> Therefore, a multilateral institution ‘co-ordinates behaviour among three or more states on the basis of generalised principles of conducts’.<sup>51</sup>

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<sup>48</sup> Caporaso, J. A., ‘International relations theory and multilateralism: the search for foundations’ in *International Organisation* 46,3, Summer 1992, p.600

<sup>49</sup> Ruggie, J. G., ‘Multilateralism: the anatomy of an institution’ in *International Organisation* 46, 3, Summer 1992, p.567

<sup>50</sup> *ibid.* p.565

<sup>51</sup> *ibid.* p.574

Multilateralism has recently drawn more attentions, because America has designed some multilateral organisations, such as the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the World Bank, to solve international problems and maintain rules for trade and investment. Multilateralism, presuming co-operation, is often required to solve international problems. Caporaso noted that 'what makes a problem international is that often it cannot be dealt with effectively within the national arena. Costs and benefits spill into the external arena. These external effects are frequently so great that domestic goals cannot be accomplished without co-ordinated multilateral action'.<sup>52</sup> That is how multilateralism was constructed as a concept and as a normative idea in international relations. Caporaso sought to search for a theoretical foundation for multilateralism and concluded that it was not extensively employed as a theoretical category but perhaps could be used as an explanatory concept providing conceptual focus on co-operation or institution. He conceptualised multilateralism as an ideology 'designed' for the promotions of multilateral activities, which may combine principles and beliefs.<sup>53</sup>

The main feature of multilateralism is an international institutional arrangement based on co-operation between states. Multilateralism is treated more like a means rather than a goal.<sup>54</sup> As a result of being a destructive force in both World Wars, Germany was isolated diplomatically. In order to break through this isolation, Chancellor Adenauer actively led Germany to joining major western organisations, such as the EU and NATO. His efforts ensured Germany play a full part in the European economic and political integration and helped Germany be accepted again in the

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<sup>52</sup> Caporaso, J. A., 'International relations theory and multilateralism: the search for foundations' in *International Organisation* 46,3, Summer 1992, p.599

<sup>53</sup> *ibid.* p.p.601-603



international community. The firmly western-oriented foreign policy has been persisted by Adenauer's successors and formed the principle of German foreign policy. For half a century, Germany has deeply anchored in west integration. As Germany and West Europe are becoming inseparable in the process of integration, a pattern of multilateralism has been formed in Germany's foreign policy. Karl Kaiser described Germany as 'a nation that with her values, political institutions, her economic survival and her foreign policy is deeply interwoven with the West – especially Western Europe'.<sup>55</sup>

The incentives to arrange multilateral institutions can be to facilitate co-operation on international trade or international security. Multilateralism has served Germany's foreign policy well on the purpose of restructuring its external relations with Western allies in the post war era, due to Germany's dependence on international trade and security. After the Second World War, the German economy had the urgent need to put German mining and heavy industry back to the mainstream of economic activity. The establishment of the European Coal and Steel Community was important for the German economy to revive through economic co-operation in Europe. Moreover, the FRG suffered from losing its traditional East European markets, because of the hostility between West Europe and the COMECON. Under the circumstance of the strong export-oriented German economy's need to redirect its business to the EU area, German foreign policy would tend to agree with setting up a multilateral architecture, such as a European institution, for economic integration and co-operation.

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<sup>54</sup> Martin, L. L., 'Interests, power, and multilateralism' in *International Organisation* 46, 4, Autumn 1992, p.767

Trade is the second most important matter (next to war) for a state. As a trading state, Germany has been keen on the development of a non-barrier environment. The Single European Act (SEA) in 1987 represented the most ambitious example of multilateral co-operation to move the European Community beyond free trade to further economic integration by the removal of a wide range of non-tariff barriers. The liberalisation of the movement of goods, services, capital and labour within the Community has definitely benefited Germany. The completion of the European internal market gave the German government the confidence to lead Europe to a further economic integration – the European Economic and Monetary Union - in order to eliminate the transaction costs caused by exchange rate movements. Germany has been the leading power shaping and urging European economic co-operation and integration from the outset. It employed the European Union as the institution and multilateralism as the means to reconstruct and develop its economy domestically and facilitate its trade internationally.

The multilateral institution employed by Germany for national security is mainly NATO. NATO is a formal institution based on general organising principle that the external boundaries of alliance territory are completely inviolable and that an attack on any border is an attack on all. After the Second World War, Germany was divided into four occupational zones. With the threat of the Soviet Union in the East and not being able to defend itself, it was particularly important for Germany to be integrated into NATO. Despite the collapse of the Warsaw Pact, NATO is still the major institution on which Germany's external security relies. After German unification, the German government tends to pursue a more assertive foreign policy on military

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<sup>55</sup> Kaiser, K., 'Das vereinigte Deutschland in der internationalen Politik' in Kaiser, K. and Maul, H. W. (eds.), *Deutschlands neue Aussenpolitik Band I: Grundlagen* (München: Oldenberg Verlag, 1994)

issues. Nevertheless, to prevent the resurrection of nationalism and assure its Western allies, the German government insists on the integration of German troops within NATO, especially when deploying German army abroad. Germany's military operation abroad, for example in the Gulf, Kosovo, Macedonia, Afghanistan, are always within multilateral frameworks (within NATO or UN).

Multilateralism is opposed to bilateral and discriminatory arrangements which would enhance the leverage of the powerful over the weak. It is regarded as being the international governance of the 'many' and implies relatively low barriers to joining in these arrangements. Thus, the price of the ticket to entry should not be set too high, so that the weaker and the poorer can also participate. A multilateral institution should be based on the principle of non-discrimination and open admission. Smaller states are hence granted advantages on playing a larger role in decision making. Contrarily, great powers would risk domination by the many in institutions.<sup>56</sup> Therefore, there must be a very good reason for great powers to support multilateralism, because bigger powers would not wish to be equal with smaller powers.

Martin has argued that states should be self-interested and they only turn to multilateralism when it serves their purposes.<sup>57</sup> This is particularly true for great powers. According to realist arguments, it would not be possible that a state desires to minimise its power within a multilateral institution.<sup>58</sup> Neo-realism also argues that international institutions are regarded as constraints on state autonomy, only when

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<sup>56</sup> Kahler, M., 'Multilateralism with small and large numbers' in *International Organisation* 46, 3, Summer 1992, p.p.681-682

<sup>57</sup> Martin, L. L., 'Interests, power, and multilateralism' in *International Organisation* 46,4, Autumn 1992, p.767

neither gains nor losses in autonomy are to be made, a state would pursue influence-seeking policy and join international institutions.<sup>59</sup> NATO provides security to the member states and reflects the multilateral principle of collective security and self-defence. However, NATO seems to be disguised as a multilateral institution while the United States commands most decision-making power and responsibility. The United States supports multilateralism for some potential benefits (e.g. lower transition costs and deflection of challenges to the institution by its weaker members to increase stability).<sup>60</sup> Some transaction costs within the alliance can be reduced through multilateralism by enhancing its legitimacy in the eyes of West European countries. It is a long-term 'investment' for the US in the allies' changing defence capabilities over time to facilitate co-operation between member states and eventually lead to increasingly efficient collective security. Additionally, to inspire smaller powers taking a part in NATO can prevent 'free riders' in the international society.<sup>61</sup>

Like the US, Germany's motivation to support multilateral institutions is also questioned. However, its background is different from the US. Germany is more of an economic power (a 'soft' power), rather than a military super power as the US. Although Germany was defeated and divided after the Second World War, the strong national character and social foundation (German people's respect for law and order) helped the nation recover quickly and try to return to the international community with good will. Seeking for acceptance was the main motive for Germany's wish to

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<sup>58</sup> Caporaso, J. A., 'International relations theory and multilateralism: the search for foundations' in *International Organisation* 46,3, Summer 1992, p.601

<sup>59</sup> Baumann, R., Rittberger, V., Wagner, W., 'Neo-realist foreign policy theory' in Rittberger, V. (ed.), *German Foreign Policy since Unification: Theories and Case Studies* (Manchester University Press, 2001) p.54

<sup>60</sup> Martin, L. L., 'Interests, power, and multilateralism' in *International Organisation* 46,4, Autumn 1992, p.783

<sup>61</sup> Weber, S., 'Shaping the post war balance of power: multilateralism in NATO' in *International Organisation* 46, 3, Summer 1992, p.637

minimise its power intentionally; it did not seem to be enough to assure West Europe by minimise German power, because German power still existed; it would be a matter of whether Germany wanted to exert its power or not, which would still make West Europe feel threatened. Multilateral institutions offer Germany the tools to tie down itself. Being deeply integrated in the EU and NATO can assure Western allies that Germany will not embark on its dangerous special path (*Sonderweg*) as it did in the past. However, after the unification, will Germany remain as a multilateralist in Europe? Is there a danger that the re-nationalization of foreign policy is will undermine its basic commitment to multilateralism. The argument in this dissertation is that there is no evidence that this will not occur and that there is a basic continuity in German post-war foreign policy which demonstrates the flexible nature of multilateralism.

### **German Foreign Policy Theories in International Relations**

I will follow Rittberger in arguing that there are three main foreign policy theories which could be used to explain Germany's foreign policy behaviour after unification. These are: neo-realism, utilitarian-liberalism, and constructivism. Each theory has different independent variables, assumptions and approaches. They explain how the proposed independent variables - power (neo-realism), domestic interests (utilitarian-liberalism), and international and societal norms (constructivism) - shape foreign policy behaviour. (see the table below)

## Foreign Policy Theories:

Theory	Utilitarian-liberalism	Constructivism	Neo-realism
Independent valuable	Domestic factors	Social norms	Power
Assumption /hypothesis	Domestic interests shape the foreign policy behaviour of a country. Different kind of domestic actors with different basic interests assert their preferences, which leads to different policy options.	Actors follow the logic of appropriateness rather than the logic of consequentiality. The more influential the societal norms are shared among the units of a social system, the more precisely they distinguish between appropriate and inappropriate behaviour.	States are unitary actors with 'national interest' that can be derived from the international condition of anarchy and the distribution of power among states. A state's foreign policy behaviour depends on its power situation in the international system. A state's power position is the function of its share in certain resources available in the international system.
Method	Identifying domestic interests which are applicable to all issue areas of the foreign policy, and identifying the dominant domestic actors who are capable of asserting their preferences most successfully in the foreign policy-making process.	Identifying indicators for societal and international norms, and integrating both international and societal norms into a norm-consistent foreign policy.	Autonomy-seeking policy and influence-seeking policy can be distinguished as two forms of power politics. Gains or losses in autonomy and influence must be weighed against each other. Identifying possible forms of autonomy and influence and relating them to different policy options.

### *Utilitarian-liberal Foreign Policy Theory*

Utilitarian-liberalist foreign policy explains states' foreign policy behaviour based on domestic factors. It assumes that different kinds of actor hold different basic interests and identifies which domestic actors will be able to assert their preferences in a given

situation. The theory hypothesises the influence of domestic interests on foreign policy and is able to predict foreign policy behaviour in a given situation. Utilitarian liberalism follows the tradition of methodological individualism. It is always individuals not collectives that act. The utilitarian-liberalist assumes that all actors act rationally and seek to maximise their utilities (interests) to secure actors' survival. In a given issue area of foreign policy, more specific policy preferences can be derived from the basic interests. Actors act to achieve their goals with the minimum of effort or cost. They are assumed to strive for both financial means (i.e. income and assets) and policy-making power.

Two types of utilitarian-liberal approach to foreign policy are structural and agency-based analytical approaches. Structural explanations of foreign policy behaviour refer to domestic structures – a state's level of modernity and the classification states as democratic or authoritarian. As a result of a higher level of internal differentiation of a state's socio-economic structures, 'modern' states are assumed to pursue a more peaceful and co-operative foreign policy than 'traditional' states. Also, democratic states will pursue a more co-operative foreign policy than authoritarian ones, because democratic states tend to encourage the peaceful settlement of conflicts whereas authoritarian state tend to settle conflicts by the threat or use of force.

Agency-based approach explains foreign policy behaviour through foreign policy preferences. It attributes pre-eminence to domestic interests. The demands of individuals and societal groups are treated as priorities. The approach takes domestic interests as the independent variable shaping foreign policy behaviour and domestic structures as intervening variables because they can facilitate or hinder

individual/group action. Moreover, a state's structures of interest influence foreign policy behaviour by allowing certain domestic actors to assert their political preferences more successfully than others.

Agency-based approach is more suitable for the longitudinal study of a country's foreign policy than structural approach. Structural approach is not sufficiently differentiated to allow for predictions of foreign policy behaviour of one state in various issue areas of foreign policy over time, while agency-based approach provides a highly disaggregated analysis of foreign policy. Agency-based approach also offers the possibility to investigate the interests of domestic actors and the structures of interest intermediation on a policy-specific basis. Therefore, agency-based approach forms the departure for utilitarian-liberal foreign policy theory.

Utilitarian-liberalism takes the approach of foreign policy network analysis. Foreign policy network analysis is based on additional utilitarian-liberal assumptions concerning the questions of what domestic actors' preferences are and who the dominant actors are. The utilitarian-liberalist employs the resource dependency theory in organisation theory to define domestic actors' preferences. According to the resource dependency theory, organisations above all strive for their survival, and many of those resources necessary for ensuring organisations' survival are controlled by actors in the environment of the organisation. Thus, investigating the specific resource dependencies of the organisation can explain the preferences of an organisation. The relationships between an organisation and its environment are characterised by interdependence.



To determine who are the dominant domestic actors in a foreign policy network, one must identify the most assertive private actors and the most assertive 'political-administrative system' (PAS), and the interaction between them in the process of interest intermediation. The level of 'autonomy' of the most assertive private actors should be examined to identify which actors will be the dominant actors within a given policy network. The concept of 'administrative interest intermediation' is introduced to explain the dependencies between the private and PAS actors in the process of interest intermediation. Domestic actors are rational and involved in inter-organisational exchange processes based on a 'self-interested exchange calculus'. The autonomy of PAS actors from private actors depends on PAS actors' level of resource dependency from private actors and on the level of institutionalisation of private influence.

Utilitarian liberalism assumes that actors have certain basic interests (securing their social survival), and thus they make decisions based on individual utility/interest maximisation. Their interests can be expressed concretely in terms of policy preferences. Two methods are established to ascertain actors' policy preferences – the theoretical-deductive approach and the empirical-inductive approach. The theoretical-deductive approach deduces actors' policy preferences logically from their theoretically assumed basic interests on the basis of substantial rationality, while the empirical-inductive approach draws actors' preferences based on actors' observed behaviour, actors' statements about their preferences or expert opinion about actors' foreign policy preferences. The empirical-inductive approach is less preferred, because if preferences are ascertained on the basis of actors' statements, there is a danger that an actor will not always reveal his true preferences.

To safeguard their survival, domestic actors require material (financial means) and immaterial (policy-making power) resources. Hence, domestic actors' basic interest is to increase their financial means (i.e. income, assets) and extend their policy-making power. Domestic actors include PAS actors (political actors, administrative actors, and political-administrative actors) and private actors (companies, economic pressure groups, and political advocacy groups). Their basic interests and foreign policy preferences can be illustrated in the table below:

<i>Domestic actors</i>		<i>Specification of basic interests</i>	<i>Foreign policy preferences</i>
PAS actors	Political actors (e.g. the Chancellor)	-Ensure prospects for re-election -Retain policy-making power vis-à-vis international institutions -Increase organisation budget	-Satisfy expectations of voters -Avoid transfer of policy-making power to international institution -Take on new responsibilities or acquire additional resources for existing responsibilities
	Administrative actors (e.g. civil servants)	-Retain policy-making power vis-à-vis international institutions -Extend/retain significance as executive organ for political actors -Increase organisation budget	-Avoid transfer of policy-making power to international institution -Fulfil the organisational purpose -Take on new responsibilities or acquire additional resources for existing responsibilities
	Political-administrative actors (e.g. federal ministers)	-Retain policy-making power vis-à-vis international institutions -Extend/retain significance as executive organ for political actors -Ensure prospects for re-election -Increase organisation budget	-Avoid transfer of policy-making power to international institution -Fulfil the organisational purpose -Satisfy expectations of voters -Take on new responsibilities or acquire additional resources for existing responsibilities
Private actors	Companies	-Increase company profits	-Provide the best opportunities for company profit, taking international competitiveness into account
	Economic pressure groups	-Increase membership contributions	-Fulfil the organisational purpose (e.g. increase members' opportunities for material gains)
	Political advocacy groups	-Increase donations, grants and membership contributions	-Fulfil the organisational purpose (e.g. increase immaterial or material gains)

From a utilitarian liberal point of view, there are three features of policy networks in Germany. Firstly, Germany's private interests are highly mobilised in the economic issue areas. The private actors play a visible part particularly in Germany's foreign trade policy. Secondly, the German political-administrative system has high level of

fragmentation. The reasons are that Germany has always been governed by a coalition government and its federal structure accords an important role to the Länder governments in the policy-making process.

Thirdly, Germany's PAS actors maintain stable and close working relationships with private actors. Germany's political system has been described as sectoral corporatist, because it is characterised by issue area-specific policy networks based on close communication, co-ordination and co-operation between PAS and private actors. Sectoral corporatism occurs in societies characterised by a fragmented PAS, because private actors can access to the PAS easily and also public officials are interested in co-operation with private actors in order to get access to the political resources controlled by them.

Therefore, utilitarian liberalism labels German foreign policy as gain-seeking policy, because it is always geared to achieve gains for the dominant domestic actors. The utilitarian liberalist argues that changes in German foreign policy after unification depend on either changed foreign policy preferences of the dominant actors or changed composition of the set of dominant actors in a policy network. Firstly, unification may have resulted in changes of preferences of Germany's economic pressure groups, due to grown socio-economic heterogeneity. Although the disparity of interests has increased, disagreements within economic interest groups have mainly concerned domestic policy. Secondly, the financial burden after unification has caused increasingly scarce financial resources. Domestic actors have altered policy preferences regarding the issues of financial resources flowing from Germany to other countries. Germany's domestic actors have been less willing to make net

contributions to international organisations and have called for a reduction (e.g. the EU budget).<sup>62</sup>

### *Constructivist Foreign Policy Theory*

Constructivism sees a state's foreign policy behaviour as norm-consistent foreign policy. International and societal norms, which are widely shared among a community of actors, will shape a state's foreign policy behaviour.<sup>63</sup> According to the constructivist view, individual actor's behaviour is guided by value-based shared expectations of appropriate behaviour. It is assumed that individual actors make decisions based on norms and rules on the background of historical-cultural experience and subjective factors. The theory is in contrast to rationalist models, norms are not a function of interests but precede them. Norms act as 'motives' prescribing the goals towards which states legitimately strive.

Constructivism sees social norms best suited to explain foreign policy behaviour because of two important characteristics of social norms – 'immediate orientation to behaviour' and 'counterfactual validity'. The former distinguishes social norms from some terms that are too abstract for generating actual expectations of behaviour, such as ideas, identity, and culture. The latter distinguishes norms from non-value-based expectations of behaviour that result from consequentialist considerations, such as prudence. It involves issues of justice and rights of a moral or ethical character.

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<sup>62</sup> Freund, C. & Rittberger, V., 'Utilitarian-liberal foreign policy theory' in Rittberger, V. (ed.), *German Foreign Policy since Unification: Theories and Case Studies* (Manchester University Press, 2001) p.p.68-104

<sup>63</sup> *ibid.* p.p.2-5

From a constructivist point of view, the strength of a social norm's influence on foreign policy behaviour depends on its commonality (i.e. how many members of a social system share a value-based expectation of behaviour) and its specificity (i.e. how precisely a norm distinguishes appropriate from inappropriate behaviour). In constructivist foreign policy theory, the effect of social norms is attributed to socialisation processes. Socialisation can be interpreted as a 'process in which a person grows into the society and culture surrounding him and, by learning social norms and roles, becomes an independent, competent social being'.<sup>64</sup> It is a continuous process, because individuals are constantly confronted with new decision-making situations and they need to learn new expectations of behaviour.

The constructivist argues that two different socialisation processes of foreign policy decision makers occur simultaneously, because foreign policy makers face international society and domestic society at the same time. Two socialisation processes are trans-national socialisation and societal socialisation. According to constructivism, trans-national socialisation is a process that government decision makers internalise international norms, i.e. value-based expectations of appropriate behaviour shared among states.

States are the most important socialising agents within international society. They regard the norms shared within international society as standards of appropriate behaviour. International organisations are also seen as socialising agencies, because states recognise the expectations of appropriate behaviour formulated by international organisations as standards of appropriate behaviour. International organisations stand

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<sup>64</sup> *ibid.* p.110

for value communities, and thus their organs may act as 'teachers of norms'. As a result of increasing economic interdependence, trans-national interactions among international organisations have greatly increased, which implies an emerging 'trans-national civil society'. Expectations of appropriate behaviour regarding to state actors' foreign policies may also be shared in the trans-national civil society.

Trans-national advocacy coalitions are the central actors of the trans-national civil society. They play two roles in international society to propagate norms and foster norm-consistent foreign policy behaviour. The first role is 'norm entrepreneurs', because they develop further existing norms and help establish new ones. In the second role, they demand compliance with existing norms. International norms that defined collective goals and specify appropriate modes of behaviour for pursuing them have a socialising effect on states, because constructivists believe that states seek to preserve and consolidate their reputation as norm-compliant members of international society. The constructivist defines social socialisation as a process that government decision makers internalise societal norms (i.e. value-based expectations of appropriate behaviour shared by states' citizens). Society and its various groups are seen as socialising agencies, and they address expectations of appropriate behaviour to the political decision makers.

Societal expectations of appropriate behaviour influence the behaviour of foreign policy decision makers in three ways. Firstly, foreign policy decision makers internalise societal expectations of appropriate behaviour through the process of political socialisation which involves all the citizens of a state. Secondly, politicians internalise specific societal expectations of appropriate behaviour from their national

political careers before becoming representatives of their state in international society. Thirdly, decision makers behave consistently with societal expectations of appropriate behaviour, so that they can be recognised as representatives of their society when dealing with the international society.

Foreign policy decision makers are subject to both trans-national and societal socialisation processes. They receive expectations of appropriate behaviour from international society; meanwhile they are expected by domestic society to abide by societally shared expectations of appropriate behaviour on the international level. Converging international and societal expectations of appropriate behaviour reinforce each other, so that foreign policy decision makers can comply with the expectations of behaviour assigned to them as both members of international society and as representatives of their own society. Constructivist theory can be highly predictive only when there are convergent expectations of appropriate behaviour of a sufficient degree of commonality and specificity on both international and societal levels.

From a constructivist perspective, German foreign policy behaviour can be conceptualised as norm-consistent foreign policy, because of its continued enmeshment in a network of international institutions and its unaltered societal norms. It can be assumed that rapid norm change is unlikely, as the norms that are significant to foreign policy are firmly embedded in international and societal institutions. However, profound changes (e.g. German unification) may cause unexpected shifts in context, even for firmly institutionalised norms. Therefore, the pattern of continuity and change displayed by norms may vary across different issue areas. The



constructivist predicts German foreign policy behaviour after unification will change only if the norms pertaining to the issue in question have changed.<sup>65</sup>

### *Neo-realist Foreign Policy Theory*

Realism holds a particular view of the world defined by the assumption that the international realm is anarchic and consists of independent political units called states. States are the primary actors and inherently possess some offensive military capacity or power which makes them potentially dangerous to each other. They are instrumentally rational. The basic motive driving states is survival or the maintenance of sovereignty. Neo-realism further developed a systemic balance of power theory in which states do not seek to maximise power but merely balance it, because the international system is regarded as anarchic and based on self-help. The major powers are referred to as poles, and hence the international system may be characterised as unipolar, bipolar or multipolar.

Neo-realism believes that the interactions of states can be explained by the distribution of power in the international system. It sees a state's power position in the international system as the independent variable while a state's foreign policy behaviour as the dependent variable. A state's foreign policy behaviour is determined by its power position in the international system. Neo-realism interprets a state's foreign policy behaviour through its power position in the international system.

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<sup>65</sup> Boekle, H., Rittberger, V., Wagner, W., 'Constructivist foreign policy theory' in Rittberger, V. (ed.), *German Foreign Policy since Unification: Theories and Case Studies* (Manchester University Press, 2001) p.p.105-137

Krasner has noted that the behaviour of a state is constrained by its own capacity and the distribution of power in the system as a whole.<sup>66</sup>

Neo-realists establish relationship between power position and foreign policy by specifying the state's disposition to action. Neo-realism assumes that states make their decisions based on cost-benefit calculations. When states pursue their aims, they take into account certain restrictions and incentives created by the structure of the international system. In the neo-realist assumption of rationality, states generally behave sensibly according to structural constraints of the international system. In neo-realist foreign policy theory, the assumption of rationality is the decisive link between the structure of the international system and actors' behaviour.

Neo-realists argue that in the anarchic international system, the better a state's power position relative to other states, the more successfully a state can pursue its aims. In neo-realist foreign policy theory, anarchy plays a crucial role and underlies two fundamental interests of a state's foreign policy: security and power. As states are interested in their survival, security persistently determines states' behaviour. Security is related to the concept of autonomy. The struggle for autonomy is a result of the anarchic structure of the international system. A state can be more autonomous if its capacity for action is restricted by other states. It particularly needs to strive for autonomy in the policy areas in which its security is more likely to be threatened.

Another fundamental interest of a state's foreign policy is power. The concept of power is of central significance of neo-realism. Neo-realists define power as control

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<sup>66</sup> Baumann, R., Rittberger, V., Wagner, W., 'Neo-realist foreign policy theory' in Rittberger, V. (ed.), *German Foreign Policy since Unification: Theories and Case Studies* (Manchester University Press,

over resources when determining a state's power position, while power is defined as control over actors and outcomes when observing a state's behaviour. Neo-realism sees power as the ability to assert one's interests in the international system, and the ability of assertion derives from the possession of capacities. In comparison with power, neo-realism sees influence as a state's control over its international environment.

Neo-realists assume that power is the means for a state to secure and enhance its autonomy. Autonomy can be both a precondition and the result of power; because the autonomy it gains can improve its power position and thus give it increased opportunity to strive for further autonomy. Neo-realism claims that states' gains and losses in autonomy and influence must be weighed against each other. It interprets a state's autonomy as that other states and its environment/international organisations can exercise little control over it, while a state's influence means that how strongly the state itself can impact its environment, since a state is interested in influencing the behaviour of other states and the collective action of international organisation to suit its purposes.

Neo-realism assumes that a state strives for both autonomy and influence to maintain its security and survival, as security grows with increasing autonomy and influence. A more powerful state can achieve more autonomy and influence, and thus the assumption of neo-realist foreign policy theory is that all states in the international system should be interested in as much power as possible. The neo-realist focuses on the impact that a state's power position in the international system has on its foreign

policy and regards a state's foreign policy behaviour as power politics. In the neo-realist view, power politics results in two options for foreign policy – autonomy-seeking and influence-seeking. A state uses its given power position to strive for autonomy and for influence. The stronger a state's power position, the more its foreign policy is autonomy and influence oriented. In the neo-realist power politics, states in their foreign policies aim at gaining autonomy from, and influence on, their international environment.

Autonomy-seeking policy helps to reinforce a state's independence from other states. States implement autonomy-seeking policy to elude the influence of their environment, while influence-seeking policy serves to exert influence on the environment. International institutions are the most significant restraints on states' independence and freedom of action, meanwhile they are the most important arenas for influence-seeking policies of states. A state pursuing influence-seeking policy will try to shape interaction processes and policy outcomes with other states in its own interest. In international organisations, a great power will attempt to acquire a maximum of control over other states' behaviour, while a less power state will see to enhance voice opportunities in them.

The manifestations of autonomy-seeking and influence-seeking policies can be identified as follows<sup>67</sup>:

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<sup>67</sup> *ibid.* p.p.46-47

Autonomy-seeking policy	Influence-seeking policy
<ul style="list-style-type: none"> <li>● non-compliance with, or withdrawal from, existing obligations resulting from bilateral or multilateral international agreements</li> <li>● the refusal to transfer national material resources to international or supranational institutions, or the attempt to win back these resources</li> <li>● the refusal to transfer national decision-making powers to international or supranational institutions, or the attempt to win back these powers</li> <li>● the refusal to co-operate whenever co-operation threatens to create or reinforce asymmetric interdependence, i.e. dependence to the state's disadvantage</li> </ul>	<ul style="list-style-type: none"> <li>● an increase in voice opportunities in international organisations by increasing the state's own share in intra-organisational resources (e.g. voting rights)</li> <li>● preferences for those multilateral institutions which yield the most voice opportunities</li> <li>● securing voice opportunities regarding the policies of powerful states and groups of states</li> <li>● the establishment, maintenance or reinforcement of the dependence of weaker states (i.e. of influence on these states)</li> </ul>

Neo-realism argues that every foreign policy option may lead to gains or losses in autonomy or influence. For example, withdrawal from international organisations can cause autonomy to grow but influence to diminish, because the state is free from obligations arising from membership. Moreover, absence in multilateral actions means that the deployment of a state's own resources is not subject to any joint decision making, and thus the state gains in autonomy. However, the state meanwhile loses its opportunities to have its interests taken into consideration and to influence the results of the collective actions and multilateral decisions.

The strengthening of international organisations generally results in the loss of autonomy of the member states. Nevertheless, the member states gain in influence due to their enhanced voice opportunities over joint decisions. Powerful states can instrumentalise the dependence of weaker states to increase the influence on them through the control of development aid or diplomatic support. However, if the

relations between powerful and weaker states take place within multilateral framework (e.g. if development aid is granted by multilateral institutions, power states lose some autonomy as well as influence in their dealings with weaker states, because they lose positive and negative sanctions at their disposal.

According to neo-realism, the higher the security pressures on a state, the greater its concerns to preserve autonomy. While the lower the security pressures on a state, the more it would be willing to trade autonomy losses for gains in influence. Neo-realism assumes states always prefer autonomy over influence and they are not willing to participate in international institutions that constrain their autonomy, even if they can achieve influence on other states through international institutions. In other words, the more powerful states are, the more unlikely they will give up autonomy. Thus, neo-realist foreign policy predicts that Germany, a gaining power state, will choose to sever its relations with international institutions to enhance its autonomy<sup>68</sup>.

### **Towards a Modified Neo-realist Foreign Policy Theory**

All three foreign policy theories discussed in the previous section are useful, but modified neo-realism is the most advantageous for this study. Utilitarian liberalism looks at foreign policy behaviour from the domestic angle, and constructivism examines foreign policy behaviour from a sociological point of view. Neo-realism's emphasis on power politics in the international system is the most suitable to interpret the asymmetrical power relations between Germany and East Central Europe as the case study of this thesis. However, the neo-realist assumption does not well explain post-

unification German foreign policy. Modified neo-realism altered the predictions of neo-realist foreign policy behaviour and presents itself as the most suitable theory to interpret German foreign policy after unification. The thesis thus employs a modified neo-realist approach to theorise the foreign policy of the united Germany. The next section will discuss the differences between neo-realism and modified neo-realism in details.

### *Modified Neo-realism*

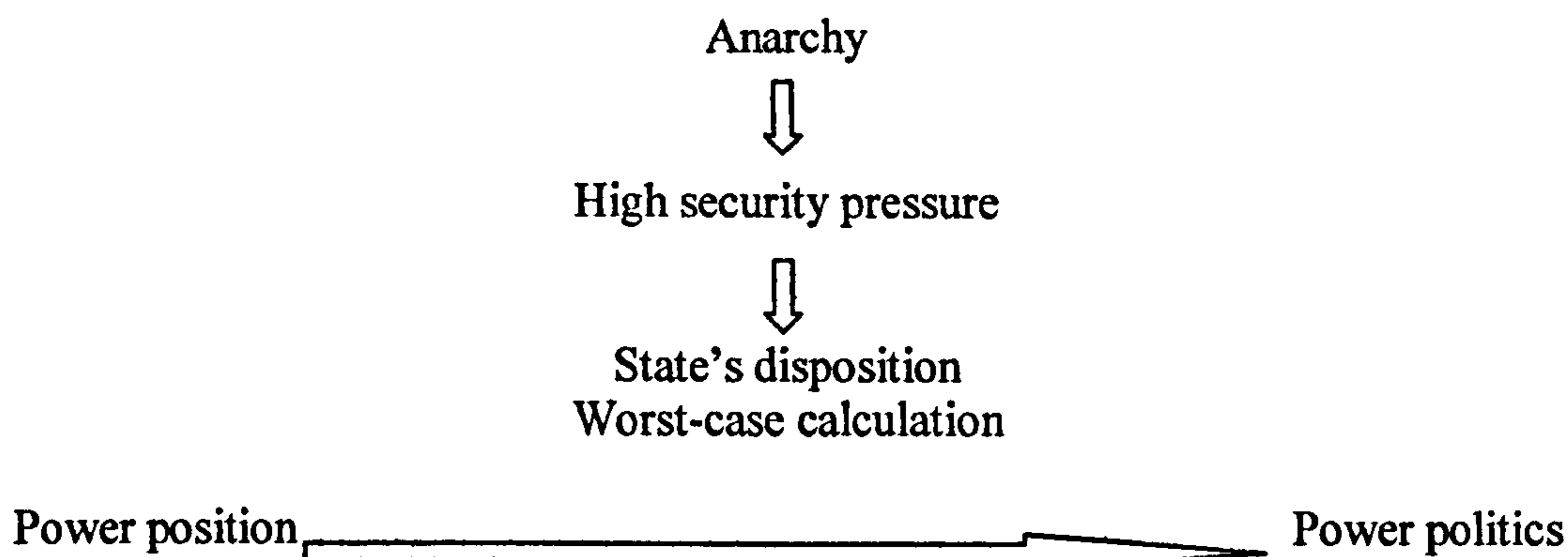
Modified neo-realism is in agreement with neo-realism in explaining the interactions between states through the distribution of power in the international system, but it modifies neo-realist's assumption of granting autonomy such a priority. Brooks clarified the difference between neo-realism and modified neo-realism: the neo-realists assume that states operate with worst-case scenarios – the permanent possibility of the use of force in the international system. By contrast, modified neo-realists assume that a state's policy is influenced by the probability of the use of force, i.e. by variable security pressures. Security pressures do not merely come from the distribution of capacities in the international system but also from other material factors which may lower the security pressures on a state in the anarchic international system. The variables, which have an impact on security pressures, are called intervening factors including technological, geographical and economic factors. They also affect a state's disposition to action, i.e. whether it will prefer to strive for

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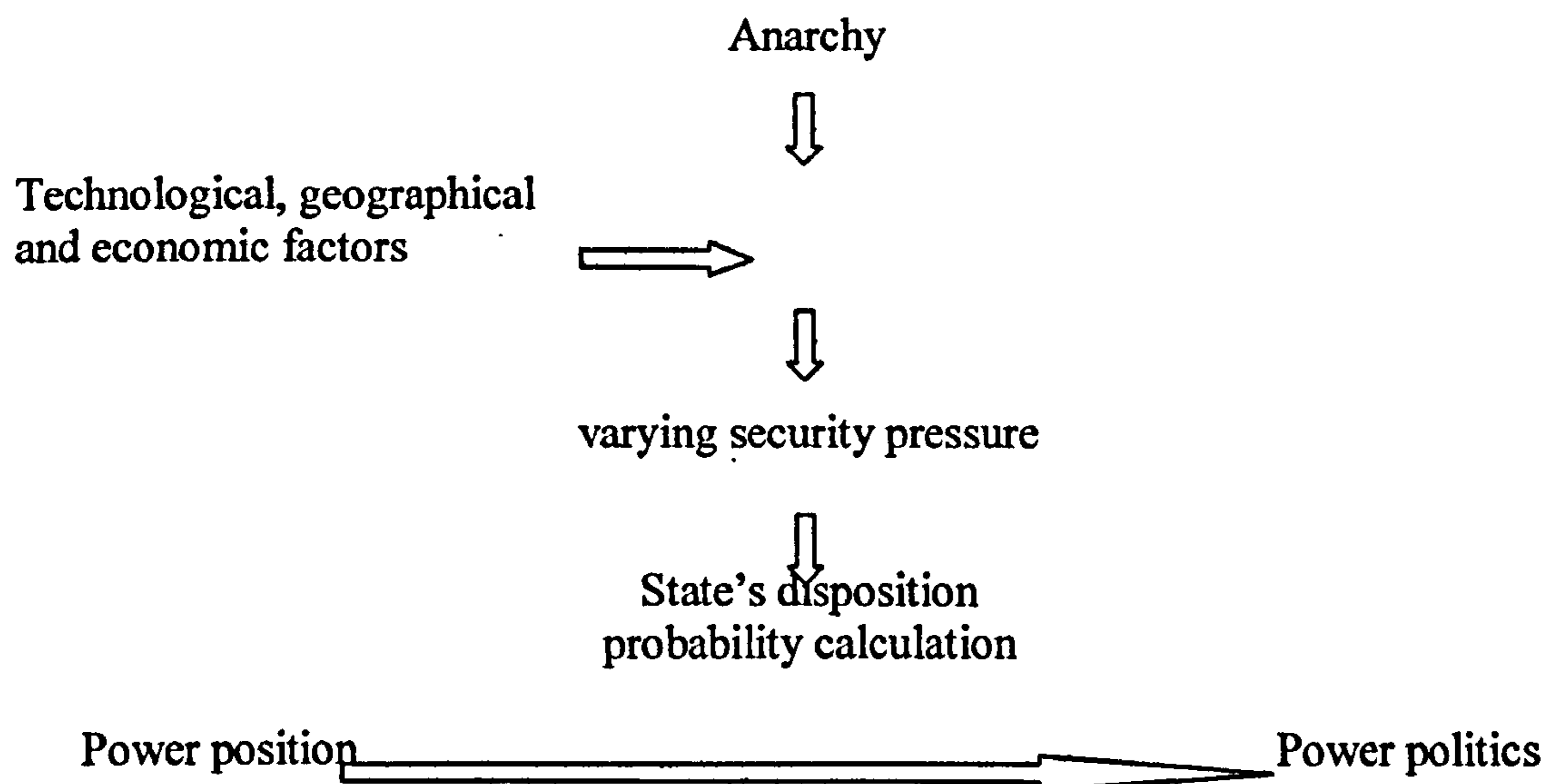
<sup>68</sup> Baumann, R., Rittberger, V., Wagner, W., 'Neo-realist foreign policy theory' in Rittberger, V. (ed.), *German Foreign Policy since Unification: Theories and Case Studies* (Manchester University Press, 2001) p.p.37-67

autonomy or influence.<sup>69</sup> The differences between neo-realism and modified neo-realism can be illustrated as follows<sup>70</sup>:

Neo-realism:



Modified neo-realism:



The intervening factors change the security pressures on a state and alter the priority of autonomy. Among the intervening factors, economic factors are particularly relevant in the case of Germany. Gilpin noted that the costs of territorial expansion

<sup>69</sup> *ibid.* p.p.54-55

<sup>70</sup> *ibid.* p.57



are very high for industrialised countries that are highly integrated in the global economy, and that for this reason these states primarily attempt to achieve political influence on other states and a dominant position in the global economic system.<sup>71</sup> It can be applied to interpret Germany's behaviour in the EU. A state, like Germany, surrounded by modern industrialised nations will be under less serious threat of military attack. Moreover, Germany's economy is highly integrated in the EU economic system. Therefore, Germany pursues influence instead of autonomy. The strength of German economy holds a dominant position in the EMU and thus Germany is able to seek for influence within the EU. As modified neo-realist pointed out, international institutions can be used by states as arenas for converting capacities into influence, and even weaker states may be successful in using institutions to secure influence by binding a strong state. It can explain why European states (particularly France) are keen to tie down Germany in the EU.

Modified neo-realism suggests an emphasis on power as influence and recognises the connection between a state's power and its inclination to pursue power politics. Germany's power position in the international environment has changed over the decades since the end of WWII. The next section will look into the development of Germany's power position in the international system.

### *The Development of Germany's Power Position*

The new German power in the new Europe has developed into different faces. A united Germany has become stronger than ever. As Ann Phillips put it, 'united

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<sup>71</sup> *ibid.*, p.p.55-56

Germany has been without equal in Europe since 1990'.<sup>72</sup> German power derived from the strength of its economy, the amount of German foreign investment, and its role as the EU budget paymaster.<sup>73</sup> The asymmetrical dependence of European countries on the German economy created German power. Simon Bulmer provided a useful framework to understand the multifaceted conception of German power. His theory is based on the work of Guzzini<sup>74</sup> and distinguishes four faces of German power as deliberate power, indirect institutional power, unintentional power, and empowerment.<sup>75</sup>

### Deliberate Power

Deliberate power can be seen 'as a function of the forceful articulation of interests, combined with valuable power resources for articulating leverage'.<sup>76</sup> The 'valuable power resources' are Germany's strong economic position, its political stability, its well-established domestic consensus on integration, and its effective administrative organisation. Bulmer interprets deliberate power as 'utilising power in multilateral negotiations'. German foreign policy is characterised by an emphasis on multilateralism, illustrating power sharing and consensus building. Anderson and Goodman note that Germany has relied on 'a web of international institutions to

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<sup>72</sup> Phillips, A. L., *Power and Influence after the Cold War: Germany in East-Central Europe* (Oxford: Rowman & Littlefield Publishers, 2000) p.2

<sup>73</sup> Markovits, A. S., Reich, S., and Westermann, F., 'Germany's Economic Power in Europe' in Markovits, A. S. and Reich, S., *The German Predicament: Memory and Power in the New Europe* (London: Cornell University Press, 1997) p.150

<sup>74</sup> Guzzini, S., 'Structural Power: the Limits of Neo-Realist Analysis', *International Organisation*, Vol.47 (1993)

<sup>75</sup> Bulmer, S. J., 'Shaping the Rules? The Constitutive Politics of the European Union and German Power' in Katzenstein, P.J. (ed.), *Tamed Power: Germany in Europe* (Ithaca and London: Cornell University Press, 1997) pp.61-76

<sup>76</sup> Bulmer, S. J., 'Shaping the Rules? The Constitutive Politics of the European Union and German Power' in Katzenstein, P.J. (ed.), *Tamed Power: Germany in Europe* (Ithaca and London: Cornell University Press, 1997) p.73

achieve its foreign policy goals'.<sup>77</sup> The strong orientation of multilateralism is to avoid projecting German national interests in a nakedly self-interested manner. Deliberate power, multi- or bilateral diffusion of power, is a subtle approach of German power. However, after being released from semi-sovereignty (the removal of the causes of constrained sovereignty), the united Germany would 'be in a position to articulate interests more forcefully and to mobilise greater resources in doing so'.<sup>78</sup>

### Institutional Power

Institutional power is 'a more subtle way of securing a powerful position in the EU'.<sup>79</sup> Paterson and Jeffery noted that 'the notion of institutional power suggested that Germany's particular domestic institutional configurations - political, legal, economic - might present it with inherent advantages in pursuing its external goals.'<sup>80</sup> Moreover, Germany may be able to exercise institutional power, because 'a state which is successful in its strong pursuit of supranational solutions to domestic problems is likely to have a disproportionately large impact upon the character of supranational governance'.<sup>81</sup> Bulmer claimed that 'this form of power may be exercised through efforts to shape the broad framework of the EU (its constitutive politics), or through shaping one of its governance regimes, such as relating to monetary co-operation. Once shaped - if German efforts succeed - a bias is mobilised in the character of the

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<sup>77</sup> *ibid.* p.73

<sup>78</sup> Paterson, W. E. and Jeffery, C., *Germany's Power in Europe*, ESRC-IGS Discussion Papers Series Number 2000/10, IGS, The University of Birmingham, p.11

<sup>79</sup> Bulmer, S., Jeffery, C., and Paterson, W. E., *Germany's European Diplomacy: Shaping the Regional Milieu* (Manchester University Press, 2000) p.13

<sup>80</sup> Paterson, W. E. and Jeffery, C., *Germany's Power in Europe*, ESRC-IGS Discussion Papers Series Number 2000/10, IGS, The University of Birmingham. p.11

<sup>81</sup> Bulmer, S., Jeffery, C., and Paterson, W. E., *Germany's European Diplomacy: Shaping the Regional Milieu* (Manchester University Press, 2000) p.13

governance of the EU'.<sup>82</sup> For example, the Bundesbank was taken as the model to be emulated during the negotiation of the European Central Bank statute. As Bulmer et al. pointed out that 'the prestige of negotiations from the Bundesbank facilitated the creation' of a European Central Bank Statute which bore strong resemblance to the Frankfurt model, and which formed the basis on which EMU was launched in 1999'.<sup>83</sup> Moreover, German budgetary power has enhanced Germany's economic influence in EU policy-making. Its capacity to shape major decisions and the constitutive rules of the EU is also called 'constitutive power'.<sup>84</sup>

### Unintended Power

The third face of German power is 'dispositional rather than the product of deliberate action'.<sup>85</sup> The scope for Germany's exercise of unintentional power is great, because it has the largest economic power and the strongest currency in Europe.<sup>86</sup> Germany's unification drove the federal budget into a deficit of DM 14bn in 1991, caused by the high cost of social security transfers and infrastructural expenditure for the five new Länder. Subsequently, taxes and social contributions were increased from July 1991 to the extent of DM 48bn over two years. The Bundesbank thereby adopted higher interest rates. Eventually it caused the currency crises on fellow member states in the ERM and exacerbated the European recession of 1992 and 1993, including the exit of

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<sup>82</sup> Bulmer, S. J., 'Shaping the Rules? The Constitutive Politics of the European Union and German Power' in Katzenstein, P. J. (ed.), *Tamed Power: Germany in Europe* (Ithaca and London: Cornell University Press, 1997) pp. 73-74

<sup>83</sup> Bulmer, S., Jeffery, C., and Paterson, W. E., *Germany's European Diplomacy: Shaping the Regional Milieu* (Manchester University Press, 2000) p.14

<sup>84</sup> Gloanec, A. M., 'Germany's power and the weakening of states in a globalised world: deconstructing a paradox' in *German Politics* Vol. 10 April 2001 No.1, p.123

<sup>85</sup> Bulmer, S. J., 'Shaping the Rules? The Constitutive Politics of the European Union and German Power' in Katzenstein, P.J. (ed.), *Tamed Power: Germany in Europe* (Ithaca and London: Cornell University Press, 1997) p.75

the Italian lira and the British pound from the ERM in 1992.<sup>87</sup> This example has demonstrated that the German economy, as the powerhouse of the European economy, has a strong influence in the EU.<sup>88</sup> ‘German power had come into play as a capacity, but in an unintended manner.’<sup>89</sup>

### Empowerment

The fourth face of German power is passive and dispositional, owing to the close correspondence between the EU’s character and German institutions and identity. This can be a result of Germany’s institutions embedding in the EU or Germany’s offer of its domestic institutions and policies as models to create a set of supranational institutions.<sup>90</sup> Bulmer’s assumption on empowerment is that ‘Germany’s institutional interdependence with the EU means that the exercise of power is not all one-way traffic, that is, from Germany as “agent” to the EU as “structure”. Rather, the EU as an evolving system of governance represents a framework within which Germany, as “agent”, manages its power dispositionally.’<sup>91</sup> Thus, ‘German power is not just the product of forces emanating from Germany, but may also be generated by particular features of the international system(s) with which Germany interacts’.<sup>92</sup> The fact that

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<sup>86</sup> Bulmer, S., Jeffery, C., and Paterson, W. E., *Germany’s European Diplomacy: Shaping the Regional Milieu* (Manchester University Press, 2000) p.15

<sup>87</sup> Edye, D. and Linter, V., *Contemporary Europe: Economics, Politics, and Society* (London: Prentice Hall 1996) p.p.169-170.

<sup>88</sup> Bulmer, S., Jeffery, C., and Paterson, W. E., *Germany’s European Diplomacy: Shaping the Regional Milieu* (Manchester University Press, 2000) p.15

<sup>89</sup> Bulmer, S. J., ‘Shaping the Rules? The Constitutive Politics of the European Union and German Power’ in Katzenstein, P.J. (ed.), *Tamed Power: Germany in Europe* (Ithaca and London: Cornell University Press, 1997) p.75

<sup>90</sup> Bulmer, S., Jeffery, C., and Paterson, W. E., *Germany’s European Diplomacy: Shaping the Regional Milieu* (Manchester University Press, 2000) p.16

<sup>91</sup> *ibid.* p.p.75-76

<sup>92</sup> Paterson, W. E. and Jeffery, C., *Germany’s Power in Europe*, ESRC-IGS Discussion Papers Series Number 2000/10, IGS, The University of Birmingham, p.11

'the EU facilitates the disposition of a German agent power' through the similarities in their respective political system resulted in empowerment.<sup>93</sup>

As Germany's power position has moderately improved, both neo-realism and modified neo-realism agree that a united Germany will step up its pursuit of power politics, but they give different predictions of a state's foreign policy behaviour, i.e. autonomy-seeking or influence-seeking. Next section will discuss about the different predictions.

### *The Predictions of Modified Neo-realist Foreign Policy*

The significant difference of modified neo-realism from neo-realism is that modified neo-realism gives priority to influence rather than autonomy. Neo-realism predicts that if there is a conflict between autonomy and influence, the united Germany will prefer autonomy over influence. Modified neo-realism argues that the lower the security pressures on a state, the greater the relative importance of influence will be as compared with autonomy, and the more that state will be ready to accept autonomy losses in return for substantial gains influence. Only when a state faces high security pressures, autonomy will be more important than influence. Therefore, the united Germany will prefer substantial influence over autonomy (if there is a conflict between influence and autonomy), as the security pressures on Germany have decreased.

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<sup>93</sup> Gloannec, A. M., 'Germany's power and the weakening of states in a globalised world: deconstructing a paradox' in *German Politics* Vol. 10 April 2001 No.1, p.123

Modified neo-realism puts more stress on international co-operation and thus is the most suitable approach to explain a power's multilateralist behaviour. According to modified neo-realism, international institutions can be used to solve collective action problems and to redress the unequal distribution of gains and losses resulting from international co-operation, hence international institutions allow states to pursue their national interests in co-ordinating with other states. Modified neo-realism assumes that a state gaining power will not attempt to disengage from international institutions but seek more influence by participating in them, which corresponds to Germany's foreign policy behaviour after unification. Some important perspectives of modified neo-realism are as follows<sup>94</sup>:

- Material obligations outweigh procedural obligations.
- Influence-gains vis-à-vis more powerful states are more important than influence-gains vis-à-vis less powerful states.
- An obligation to comply with decisions made by international organisations or bodies involves less of an autonomy loss if the state is itself a member.
- An obligation to comply with decisions made by international organisations or bodies involves less of an autonomy loss if the state has the right to veto.
- An obligation to comply with the provisions of a treaty involves less of an autonomy loss if the treaty's binding interpretation is not given by an independent arbitral or juridical authority but by each of the participating states themselves.

Modified neo-realists argue that states use international institutions to convert capacities into influence. Stronger states may gain influence through international

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<sup>94</sup> Baumann, R., Rittberger, V., Wagner, W., 'Neo-realist foreign policy theory' in Rittberger, V. (ed.), *German Foreign Policy since Unification: Theories and Case Studies* (Manchester University Press,

institutions, while weaker states may secure influence by binding stronger states in international institutions. Hence, when a strong state like Germany wants to gain in influence, it will choose to strengthen international institutions in which the state itself participates and join in multilateral actions.

Germany's foreign policy behaviour after unification chose to gain in influence but loss of autonomy, according to modified neo-realist options for foreign policy behaviour (see the table below). Modified neo-realism predicts that post-unification Germany will step up its pursuit of influence-seeking power politics, as the security pressures on Germany have decreased. Thus, Germany will prefer substantial influence over autonomy.<sup>95</sup> For the time being, Germany will not attempt to withdraw from common institutions but strengthen the EU institutions and actively participate in multilateral actions in order to exert more influence on the joint decisions within them. Therefore, Germany will make efforts for gains in influence and meanwhile prepare to accept losses in autonomy to trade for gains in influence. The thesis hypothesises that Germany's policy in East Central Europe fits in the category of loss of both influence and autonomy. Germany has chosen to multilateralise its relations with weaker states, namely East Central European countries, as it has become the advocate of the region to join the EU which aiming at dealing with them within the multilateral framework<sup>96</sup>. Therefore, Germany's foreign policy in East Central Europe is still on the basis of multilateral principle.

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2001) p.58

<sup>95</sup> *ibid.* p.65

<sup>96</sup> *ibid.* p.p. 37-67



## Options for foreign policy behaviour:

	<i>Gain in influence</i>	<i>Influence stays the same</i>	<i>Loss of influence</i>
<i>Gain in autonomy</i>	Bilateralisation of relations with weaker states	Weakening of supranational institutions	Withdrawal /exit from international organisations/bodies whose decisions apply to member states only  Non-participation in multilateral actions
<i>Autonomy stays the same</i>	Joining international organisations/bodies whose decisions are also binding for non-member states  Increase of own share of inner-organisational resources  More frequent use of positive/negative sanctions	Preservation of status quo	Withdrawal from international organisations/bodies whose decisions are also binding for non-member states  Decrease of own share of inner-organisation resources  Less frequent use of positive/negative sanctions
<i>Loss of autonomy</i>	Strengthening of international organisations/bodies in which the state itself participates  Participation in multilateral actions	Strengthening of supranational institutions	Multilateralisation of relations with weaker states

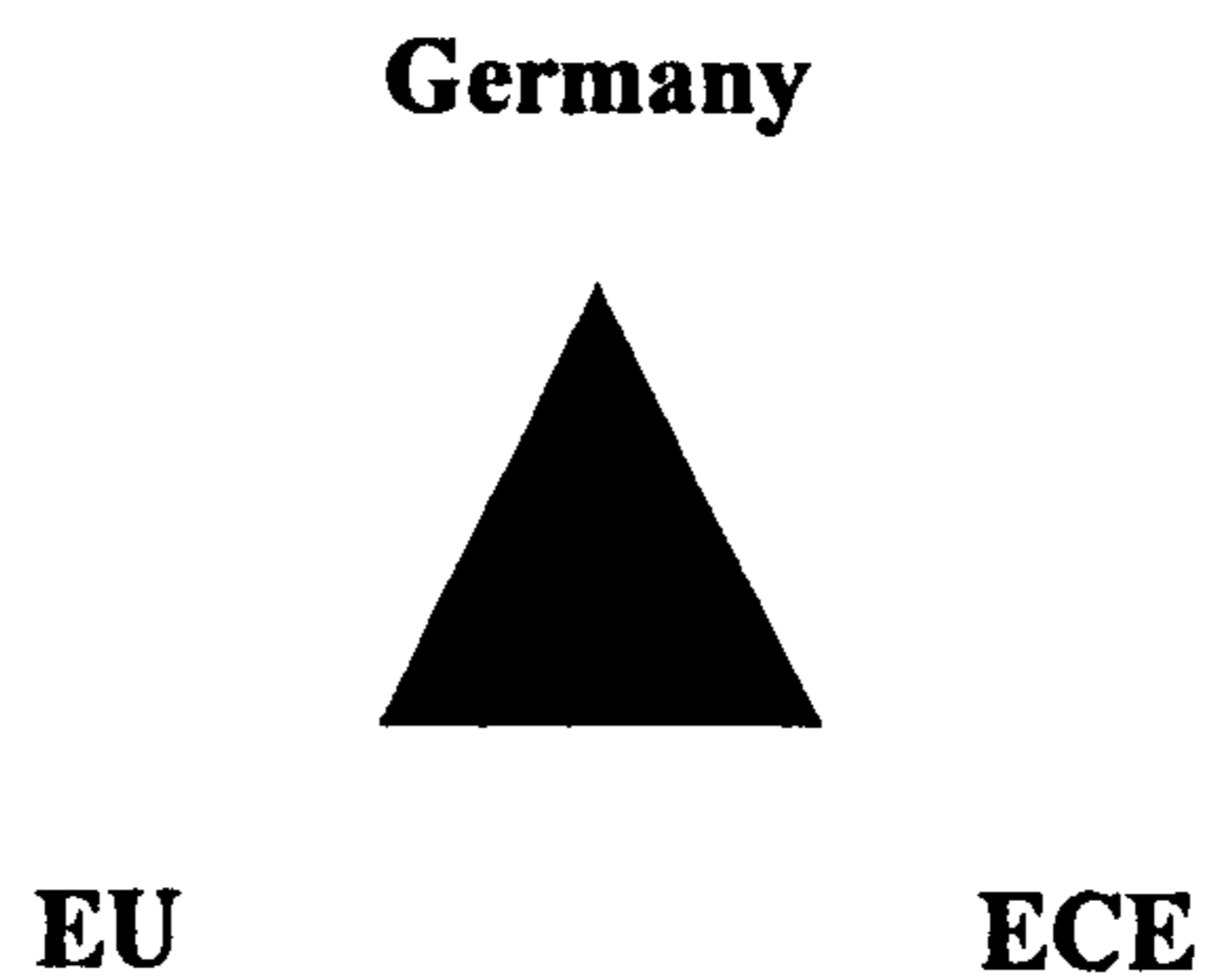
**Research Methods and Approach**

For this research there are three main sources of primary information. First, the German government web sites (e.g. the Week in Germany) and newspapers (e.g. the Guardian, the *Financial Times*, *Frankfurter Allegmeine Zeitung*, and *der Spiegel*) provide a source of information on government policies and official speeches. The second kind of source is information published or provided by government ministries and institutions such as official documents and government reports, which may be obtainable directly (by telephone or during an interview) from policy process participants. The third information source is interviews with policy process participants and institution employers. Interviews can help to acquire information

unavailable from the second information source. The secondary literature includes conference discussion papers, unpublished PhD thesis and papers.

The empirical work seeks to investigate what assistance Germany is offering to reconstruct the economic and political systems in East Central Europe, through which institutions, by using what strategies, and the political effects. The fieldwork undertaken in Germany attempts to investigate German policy towards ECE countries and its motives. The interviews are conducted in a semi-structured way to allow interviewees to answer questions in their own ways and for further points to be developed. Interviews are type recorded with the exception of a small number who may refuse or when it is thought that the interviewee may not be very forthcoming due to the sensitivity of issues under discussion.

Interview questions are tailored in relation to the empirical findings of German foreign policy in East Central Europe. They are designed to find out details about German assistance in economic structural reform and institutional reconstruction in ECE countries. A number of interviews were undertaken in Germany. The chosen institutions for interviews are government institutions both at federal level and at Land (state) level and non-government organisations (e.g. political foundations and economic research institutions) which are involved in operating economic assistance and consultancy programs (TRANSFORM-Programmes) in ECE countries.



Three major parties in the thesis are Germany, the EU and East Central Europe. Their relations could be illustrated by the structure of a triangle with Germany on the top and the EU and ECE on each end of the base. The thesis centres on Germany by looking at the relations between each side of the triangle from the German perspective. Firstly, the left, German-EU, side relates to Germany's role in EU integration and Germany's multilateral policy in the EU. The right side, Germany-ECE, embraces German power in ECE in the past up to 1989 and the period after the collapse of communism in Eastern Europe. This dimension claims the original part of the thesis. It argues that economic interest is the driving force behind Germany's reconciliation with the East, as a result of the fast growth of trade between Germany and the region. The thesis explores whether Germany's multilateralist policy in the EU will be extended to ECE through the EU enlargement. This part involves applying the modified neo-realist foreign policy theory and multilateralism in the EU to the area of East Central Europe. It argues that Germany's policy in the region is to assist their transformation in political and economic systems, so that the region can be expected to join the EU as soon as possible. The attempt is to bring in multilateral assistance to the region, in order to stabilise Germany's eastern border.

Is Germany capable of looking to both parts Europe at the same time? Here the question of the deepening and widening of the EU is relevant: which is Germany's

priority? Traditionally *Ostpolitik* is always based on *Westpolitik*. Several observers have also considered that there is more emphasis placed on EU deepening. The thesis basically agrees with this point, because only a deepened and stable EU could guarantee the transition of the East and incorporate the East successfully. The thesis examines whether Germany uses its influence in the EU to offer multilateral assistance in ECE. The base of the triangle relates to the above issues. Finally, the thesis looks to the future of Germany's European policy. After German unification, the empirical findings suggest that the German government pursue more assertive foreign policy, which is particularly true with the new Schröder Government. Nevertheless, German foreign policy in general will still be based on multilateral framework.

## Chapter 3

### *Ostpolitik*: The Road to Unification

After the Second World War, Germany's 'nightmare of coalition' returned, a situation that Chancellor Bismarck always feared, a coalition unified the European powers against Germany. In the 1950s and 1960s, the major task of German foreign policy was to restore the relations with Western allies. The policy was concentrated on the West (*westpolitik*) while the East was ignored. Joffe described this period as a historically abnormal phase that 'it had a Western but no Eastern face'.<sup>97</sup> However, Germany's traditional place in the centre of Europe cannot allow the government to turn its back on the East for long.

Willy Brandt's policy of reconciliation, known as *Ostpolitik*, diffused twenty years of tensions and confrontation and renewed the access to the East. *Ostpolitik* showed West German efforts to extend trade and diplomatic contacts to Eastern Europe. Most importantly, it also opened the possibility of German unification. It would be difficult to imagine the great events of 1989-1990 without *Ostpolitik*. *Ostpolitik* achieved a gradual normalisation of diplomatic relations between the two Germanys and eventually led to German unification.

This chapter will present Germany's foreign policy from the post-war era until German unification and discuss German Chancellors' policies towards the East from

Adenauer, Erhard, Schmidt, to Kohl. The focus will be on Germany's Ostpolitik and the changes in international environment over the decades. The issues to be explored in the chapter include the background of Ostpolitik, the German government's motives, and the result of Ostpolitik. The chapter also looks into how Ostpolitik led to Germany's unification.

### **From Adenauer to Erhard**

After Konrad Adenauer assumed office in 1948, his policy was strongly pro-western and anti-Communist, as a result of the FRG's needs of international rehabilitation, economic recovery and security provided by the West. The major points of Adenauer's East policy included: claims on territory in the East bloc (i.e. GDR and Oder-Neisse territories); solution of the 'German Question' only through free and democratic elections in the GDR; refusal of Bonn to recognise the legality of the communist government in the GDR and in the other Warsaw Pact countries (except for the Soviet Union) and the insistence on Bonn's sole right to speak for all Germans; usage of the term *Ostzone* (east zone) for the GDR; insistence that any step towards reducing tensions in Europe must be accompanied by progress towards reunification. Walter Hallstein, Adenauer's long-time advisor, introduced the Hallstein Doctrine that since the Federal Republic claimed the sole right of diplomatic representation of German (including East Germans) interests in the world, any Third World nation that recognised the GDR would lose West Germany's recognition and trade contacts.<sup>98</sup> Apparently the Hallstein Doctrine tended to block the international

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<sup>97</sup> Joffe, J., 'the foreign policy of the Federal Republic of Germany' in Macridis, R. C. (ed.), *Foreign Policy in World Politics*, 6<sup>th</sup> edition (London: Prentice-Hall, Inc., 1985) p.106

<sup>98</sup> Pittman, A., *From Ostpolitik to Reunification: West German-Soviet Political Relations Since 1974* (Cambridge: Cambridge University Press, 1992) pp.6-7

recognition of the GDR through the threat of severing diplomatic ties with Eastern Europe and deepened the division of Germany as a consequence.

Adenauer resigned in 1963. His successor Ludwig Erhard changed West German Eastern policy in order to be along the lines of Western détente diplomacy. On 25 March 1966 the Erhard – Schröder government began a ‘peace initiative’. Foreign Minister Gerhard Schröder urged to improve West German relations with Eastern Europe. His ‘policy of movement’ was a modest attempt to establish trade relations with Eastern Europe without negotiating the Hallstein Doctrine of diplomatic non-recognition of allies of the GDR. West German trade missions were established in Poland, Hungary, Romania, and Bulgaria. Schröder’s initiative suggested strengthened relations in all areas from trade to sport. The significant contribution was the Peace Memorandum (the Peace Note) of 1966, whereby Bonn proposed to exchange renunciation-of-force agreements with all the East states, and to enter agreements to reduce the nuclear potential of Central Europe. It appeared that political interest in Eastern Europe followed economic interest. Trade and economic development served as an instrument to pierce the barriers of partition.

Nevertheless, Erhard still insisted on the recognition of the borders of 31 December 1937, which was criticised by the Soviet Union as the West Germany's revanchism. Moscow demanded that Bonn recognised all existing borders and renounced all its nuclear ambitions by threatening the status of West Berlin in the end of 1967, which led to the Berlin crisis of 1968 as the Soviet troops massed across the border in Czech Bohemia. Bonn urgently called for strengthening of NATO forces and appealed to the West Allies for a change in the uncertain status in Central Europe. The tension of the

Soviet's invasion in West Germany was finally deterred by Washington's coercion and resolution.<sup>99</sup> As the USSR was the leading country of the Warsaw Pact, it would be wise to deal with Moscow before dealing with East states. Eastern Europe had been included in the USSR-led Warsaw Pact since the cold war. If the FRG wanted to ease the tensions with Eastern Europe, the USSR should be regarded as the first priority to negotiate with.

### **Willy Brandt's Ostpolitik**

Willy Brandt was the most important person who carried out the rapprochement with the East. As the Mayor of Berlin from 1960 to 1963, he was able to observe the East more closely. When Brandt became the Foreign Minister, he continued developing Schöder's Ostpolitik and quietly dismantled the Hallstein Doctrine. The first major success of Ostpolitik was the exchange of ambassadors with Romania in early 1967. After being elected as German Chancellor, Willy Brandt was determined to revitalise relations with Moscow by offering significant concessions and adopting a more flexible position.<sup>100</sup> In order to eliminate suspicion rose in Moscow that the FRG's Ostpolitik would threaten Moscow's dominant influence in the region, the FRG signed the Moscow treaty in 1970, which enabled the Brandt regime to pursue accommodation with Eastern Europe, particularly with the GDR, without obstruction from Moscow.

Following almost a year of negotiations, Brandt flew to Warsaw in December 1970 and signed the Warsaw Treaty, which finally recognised the Oder-Neisse boundary

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<sup>99</sup> Merkl, P.H., *German Foreign Policies, West & East* (Oxford: Clio Press 1974) pp.117-129

<sup>100</sup> Stent, A., *From Embargo to Ostpolitik* (Cambridge: Cambridge University Press 1981) pp.155



and resolved problems concerning pre-war German territories and populations. The FRG renounced all territorial claims on Poland and accepted the transfer of 104,000 square kilometres of pre-war German territory to Poland. The treaty also renounced force, using a clause similar to that in the Moscow treaty. In Brandt's visit to Moscow he announced that the future ratification of the Moscow and Warsaw treaties in the West German Bundestag would rather depend on a satisfactory solution to the Berlin problem. The USSR later agreed to stabilise and legitimise West Berlin's existence as an entity, with ties to the FRG.

When Willy Brandt took power in 1969, relations between the two German states had reached an impasse. The apparent obstacles were the issues of the GDR diplomatic (de jure) recognition and border inviolability. Willy Brandt allowed the flexibility in his East policy, in order to 'break the ice' and 'bring a sense of realism to West Germany's dealings with her eastern neighbours'.<sup>101</sup> The development of relations between the GDR and the FRG was 'on the basis of full equality, non-discrimination, and mutual respect of the independence and self-government of either state,' neither of them could 'represent the other in foreign affairs or act on its behalf'. The major concessions made by Brandt's government included recognition of the existing territorial status quo and renunciation of Hallstein Doctrine. Brandt's East policy was much more flexible, comparing with Adenauer:<sup>102</sup>

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<sup>101</sup> Tilford, R. (ed.), *The Ostpolitik and Political Change in Germany* (Hants: Saxon House 1975) pp.80-81

<sup>102</sup> Pfetsch, F. R., *West Germany: Internal Structures and External Relations – Foreign Policy of the Federal Republic of Germany* (London: Pradger 1988) pp.218-219

**Adenauer**

Status quo must be changed (revision)

FRG is the only legitimate German state

'Policy of strength'

Sole representation of the FRG

Reunification as a precondition for détente

Relations characterised by mutual disregard

Final border to be established within a  
peace treaty

**Brandt**

Acceptance of status quo

Two German states of one nation

Conciliatory policy

Renunciation of the Hallstein Doctrine

Détente as a precondition for reunification

Relations characterised by mutual  
exchanges

Respect for territorial integrity respected  
inviolability of borders

Geoffrey Roberts claimed that Brandt's new approach to the German question was based on realism rather than dogma.<sup>103</sup> Brandt's government declaration showed his willingness to seek better and closer relations with East Germany, as well as Russia and other East bloc countries. To release tensions and reduce hostility between the two sides by making concessions was realistic and it could foster a friendly negotiation environment. His concessions were to trade for the improvement of contacts and communication between East and West Germans. The strategy was *Wandel Durch Annäherung*<sup>104</sup> (gradual change through rapprochement) with East Germany. Brandt accepted the reality that a German nation was divided into two quite independent states. Although his government refused the diplomatic recognition, it recognised the GDR as one of 'two states within one nation', in the realisation that the *de facto* international recognition would soon be granted by other Western governments. Thus, recognition of the borders between the two German states and the independent status of the GDR should not be excluded as means of facilitating German national unity. Brandt noted that, 'détente in Europe...must include détente in

Germany, we aspire to an 'organised coexistence in Germany'.<sup>105</sup> Inter-German relations constituted a specific dimension of East-West relations, as Germany was where the Atlantic Alliance and the Warsaw Pact met and hence tended to be the power struggle arena of the two hostile allies.

The West Germans firstly approached the Soviet, offering a series of treaties regarding mutual renunciation of force, and the recognition of the eastern borders (including the Oder-Neisse line and the German-Czech border). Brandt's concessions gained the security in East frontiers and made the 1970 meetings between two German government possible, but also put the GDR in a very difficult position. The GDR was indeed faced with the spectre of isolation. East German leader Ulbricht was strongly against the rapprochement between Bonn and Moscow. He called on GDR's allies to make diplomatic ties with the FRG on the condition of its recognition of the GDR. Ulbricht also erected an 'Iron Triangle' against West German advances by concluding twenty-year treaties of friendship with Czechoslovakia and Poland. In the FRG-GDR meeting in March 1971, GDR Premier Willi Stoph demanded diplomatic recognition of the GDR and DM100 billion compensation for the pre-1961 loss of East German refugees and the economic discrimination under the Hallstein Doctrine. Despite the hostilities of the GDR, with the support of the Soviet Union and Germany's eastern neighbours, the FRG targeted at the GDR as the object of Brandt's 'embracing strategy' of rapprochement.<sup>106</sup>

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<sup>103</sup> *ibid.* p.86

<sup>104</sup> It was advocated by Egon Bahr who was Brandt's brains trust and special negotiator.

<sup>105</sup> Joffe, J., 'The foreign policy of the Federal Republic of Germany' in Macridis, R. C. (ed.), *Foreign Policy in World Politics*, 6<sup>th</sup> edition (London: Prentice-Hall, Inc., 1985) p.100

Brandt's special negotiator Bahr and the GDR's State Secretary Kohl managed to state a series of negotiations on transit traffic, as well as tourist and commercial traffic, between West Germany and West Berlin. Simultaneously the Four-Power Agreement (the Berlin Agreement) was also under way and concluded on 3 September 1971, which secured and guaranteed the communications and traffic ties between Berlin and the Federal Republic. For the first time since the war, the Soviet Union pledged to ensure 'unimpeded access' to Berlin. As the Four-Power Agreement was settled, the political parties in the Bundestag issued a joint declaration approving of 'normalisation of relations' between two German states, even though Ostpolitik meant a barefaced attempt at subversion of communist rule and principles to the GDR.<sup>107</sup> The agreement improved the relations between the USSR and the FRG, but worsened the intra-German relations. Brandt reckoned that perhaps it was about time to give a further concession - de facto recognition of the GDR - to trade for the future hope of German unification.

Thanks to the efforts of Bahr and Kohl, the Treaty on the Basis of Relations between the Federal Republic of Germany and the German Democratic Republic (the Basic Treaty, approved by the Bundestag) was finally initialled in Bonn on 8 November 1972 and signed on 21 December 1972. Article 1, 4 and 6 regulated state-to-state coexistence and formalised the FRG's full diplomatic recognition of the GDR as a state. Article 3 contributed to the mutual renunciation of force. Article 7 and 8 implied the opening of co-operations between the two republics. The main clauses are as follows:

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<sup>106</sup> *Umarmungsstrategie* (embracing strategy) was to dilute Marxist ideology with humanism and Christianity as philosophical bases. See Merkl, P. H., *German Unification in the European Context* (Pennsylvania: the Pennsylvania State University Press, 1993) p.61

Article 1: the two German republics should develop normal relations with each other on the basis of equal rights.

Article 4: neither state could represent the other internationally.

Article 6: both republics should proceed on the principle that the sovereign jurisdiction of each state is confined to its own territory.

Article 3: disputes between the two states should be settled by peaceful means and not by the threat or use of force, the frontiers between the two states being inviolable, and each state under an obligation to respect the other's territorial integrity.

Article 7: co-operation should be developed in such fields as science, transport, judicial relations, and sport, the details being regulated by supplementary protocols.

Article 8: permanent missions would be exchanged.

The supplementary protocols of the Basic Treaty gave more details on the co-operation between two republics. Existing agreements in traffic and telecommunications were to be extended. Negotiations on the co-operations in judicial relations, health, cultural, sport, and environmental protections were to begin. Discussions about the exchange of publications and radio and television programmes were envisaged. The increased contact and co-operations between two Germanys were the FRG's prize for a painful recognition of reality. The win-win results led to the increased West German tourist traffic to the GDR, both governments' membership in the United Nations, and the exchange of permanent representatives. Between 1970 and 1973, the FRG successfully normalised relations with Poland, the GDR, and Czechoslovakia by negotiating treaties. These treaties all contained renunciation of

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<sup>107</sup> Merkl, P. H., *German Unification in the European Context* (Pennsylvania: the Pennsylvania State University Press, 1993) p.61

force, inviolability of borders, and settlement of controversies by peaceful means. After the ratification of the treaties, the Soviet-German relations continued to improve. In July 1973, Bonn and Prague finally buried the Munich Agreement in their bilateral treaty. Two visits by Soviet Premier Brezhnev to Bonn in 1973 and in 1978 gradually stabilised Soviet-West German political relations.

Apart from paving the road to future unification, the reality required the normalisation of relations could be trade developments between Germany and East Central Europe. Michael Kreil noted that the main economic goals of the FRG were diversification of export markets for the iron and steel industry, development of new sources of raw materials and energy, and the relocation of war material and labour-intensive production lines. He claimed that the closer economic co-operation had created links of economic interdependence,<sup>108</sup> which was a growing reality between East European states and West Germany. East European states had a desire to promote economic progress and participate in Western technology, while West Germany needed to export industrial products and secure new markets in the East. It appeared that the German government had an optimistic view of the economic potential of East-West trade and the ability of trade incentives to influence political developments in eastern countries.

Besides, the main Western European countries, such as Italy, Britain and France, had adopted a more pragmatic approach to East-West trade and were keen to reap the commercial benefits of détente. German, as a trading state, would not risk losing Eastern markets to Western competitors. A 'de-politicisation' of East trade policy was

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<sup>108</sup> Rittberger, V. et.al. (eds.), *The Foreign Policy of West Germany* (London: SAGE Publications 1980) p.138

thus advocated by the *Ostausschuss der deutschen Wirtschaft*<sup>109</sup> (the Eastern Committee of the German Economy). Brandt's Ostpolitik reduced political barriers to trade expansion and started long-term economic co-operation with the East. Therefore, Ostpolitik could also be seen as an economic policy to secure and expand Eastern markets for the interests of West German industries.

Frank Pfetsch quoted Willy Brandt's statement that 'I do not want to conceal that from the very beginning I had real, economic interests in mind'. He argued that the economic interpretation of the Ostpolitik stressed on the economic motives, as business had to look for new markets at the end of the restoration phase.<sup>110</sup> Export-oriented industry associations, such as *Verein Deutscher Maschinenbau-Anstalten* [VDMA] and *Ostausschuss der Deutschen Industrie im BDI*, indeed had an interest in expanding trade with the East. William Griffith also noted that West Germany's intensified drive for diplomatic relations with Eastern Europe was coupled with an intention greatly to increase West German trade with Eastern Europe in order to improve the Federal Republic's exports and thus help overcome an economic recession.<sup>111</sup>

The Soviet Union and Eastern Europe comprised the single largest export market for the West Germany's machine-tool industry. About one-third of the FRG's machine-tool exports went to the region. The FRG also imported a considerable amount of energy, with oil and natural gas, from the region. The USSR earned 75 percent of its

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<sup>109</sup> It was set up in 1952 as the sole representative organ of the peak associations of industry, trade, and banking. Its tasks were to advise the government on questions of East-West trade and to prepare documents for official trade negotiations. In the absence of diplomatic relations, it was authorised to conduct trade talks on its own. Its executive office was in Cologne.

<sup>110</sup> Pfetsch, F. R., *West Germany: Internal Structures and External Relations – Foreign Policy of the Federal Republic of Germany* (London: Praeger 1988) p.209

hard currency from West Germany through the sale of energy raw materials, chemical materials, wood, and cotton. The USSR became West Germany's tenth largest export market and its most important communist trading partner (see the table on the next page).<sup>112</sup> West Germany's growing trade with the East could create mutually beneficial interdependencies and have a stabilising effect on the German economy.

Willy Brandt's Ostpolitik (1969-74) had greatly improved German exports with the East and achieved its main goal – the normalisation of relations leading to greater political and economic opportunities. In 1969, there were dramatic increases in FRG exports to the USSR (from DM1.09b in 1968 to DM1.58b in 1969 and to the DDR (from DM1.34b in 1968 to DM2.27b in 1969). The FRG exports to East Central Europe increased steadily but did not have a significant rise until 1974. The FRG exports to Czechoslovakia rose from DM1.48b in 1973 to DM1.78b in 1974. It reached DM1.76b in 1974 from DM1.05b the previous year in Hungary. During Brandt's administration, two export peaks occurred with Poland. The exports almost doubled in 1972 (from DM0.73b in 1971 to DM1.45b in 1972) and increased 1b in 1974 (from 2.6b in 1973 to 3.6b in 1974). Therefore, one could argue that the German-ECE trade relations were relied on positive German-Russia relations. If the FRG wanted to make reconciliation with the region, they would have to cope with the USSR first. After the conclusion of Moscow Treaty in 1970, other East Treaties were also settled by 1973. Following the establishment of the peace treaties was the blooming trade between the FRG the East Central European states. The significant

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<sup>111</sup> Griffith, W. E., *The Ostpolitik of the Federal Republic of Germany* (London: the MIT Press 1978) p.135

<sup>112</sup> Strent, A., *From Embargo to Ostpolitik* (Cambridge: Cambridge University Press, 1981) pp. 173-216



increase in Germany's exports to East Central Europe happened in 1974. (see the table below)

West Germany, Export in DM (million)

	Poland	CSSR	Hungary	USSR
1963	261	234	252	614
1964	314	332	296	774
1965	366	403	308	586
1966	376	503	371	541
1967	492	525	421	792
1968	593	707	339	1,094
1969	612	823	354	1,582
1970	658	1,058	522	1,547
1971	737	1,289	710	1,608
1972	1,450	1,230	850	2,300
1973	2,634	1,486	1,056	3,114
1974	3,615	1,782	1,766	4,774
1975	3,213	1,678	1,417	6,947
1976	3,219	2,021	1,550	6,755
1979	2,464	1,982	2,140	6,624
1980	2,661	1,892	2,194	7,943
1981	2,160	2,007	2,657	7,621
1982	2,142	1,953	2,628	9,398

Source: *Statistisches Jahrbuch für die Bundesrepublik Deutschland 1963-1982*

There developed a hope of détente and growing trade between East and West from the 1970s. Yet, despite of a remarkable increase in East-West trade, the share of East-West trade in world trade as a whole was still small. Comecom countries' debts to the West in some cases represented a serious burden. Eastern Europe convertible currency debt continued to grow throughout the 1970s and reached a peak of \$67b in 1981. Among this, Poland accounted for \$25b and Romania \$10b.<sup>113</sup> Eastern European

<sup>113</sup> Smith, A. H., 'Eastern European Economies' in *Eastern Europe and the Commonwealth of Independent States*. (London: Europa Publications Ltd., 1992) p.48

countries' inability to pay off has hindered their domestic economic growth. Western banks also became hesitating of lending money to the East. Although some modernisation had been carried out in Comecon countries, their overall technological level had not come closer to that of the most advanced countries, which made them heavily reliant on technological imports from the West. Poland's debts reached crisis level by 1980. Romania, Hungary and East Germany also had serious debt-service ratios by the end of the 1970s. The East European countries had desperately needed to export their products to Western markets in order to earn hard currencies to repay their debts. They also needed modern technology that they could not provide for themselves.<sup>114</sup>

### **Post-Ostpolitik**

The best achievement of Ostpolitik was the normalisation of relations with the East, which led to a considerably expanded margin of manoeuvre within the West. In Helmut Schmidt's era (1974-1982), the FRG was able to start conducting a more 'normal' foreign policy that reflected the country's weaker dependence on the West. As Schmidt put it, 'Ostpolitik...gave us a much greater freedom of action'.<sup>115</sup> In 1974, Schmidt informed France that West Germany would no longer automatically pay the bill for the European Community's Common Agricultural Policy (CAP) while French farmers tended to be the primary beneficiaries. In 1975, Bonn ignored President Carter's pressures and went ahead with the sale of a multibillion complete-fuel-cycle nuclear industry to Brazil which might enable the latter to produce its own nuclear

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<sup>114</sup> Wallace., W. V. & Clarke, R. A., *Comecon, Trade and the West* (New York: St. Martin's Press, 1986) pp.161-162

<sup>115</sup> Joffe, J., 'the foreign policy of the Federal Republic of Germany' in Macridis, R. C. (ed.), *Foreign Policy in World Politics*, 6<sup>th</sup> edition (London: Prentice-Hall, Inc., 1985) p.105

weapons in the future. In 1982, Schmidt refused to give in to American sanctions against the Yamal pipeline which started to transport Siberian natural gas to Western Europe in 1984. Joffe commented that 'if in 1950s and 1961s, German Chancellors acted as America's most loyal junior partners in Europe, Helmut Schmidt became one of Jimmy Carter's harshest critics, opposing him on the full range of Western policy from human rights via nuclear strategy to the management of the world economy.'<sup>116</sup> Another factor allowed the FRG to conduct a less-dependent policy in the 1980s was its pre-eminent economic role in Europe.

Helmut Schmidt carried on Brandt's Ostpolitik and stressed that post-Ostpolitik was 'not merely to respect the existing treaties in a legal sense', but also 'constantly to fill them with life and reality'<sup>117</sup>. The main task of Schmidt's Ostpolitik was to put the Eastern Treaties into practice. Nevertheless, Ostpolitik in this period was in fact relatively inactive, because what needed to be done with the East had been mostly achieved. Moreover, Schmidt had more important problems to tackle, such as the 'oil price shock' and the EC integration. Unfortunately, the USSR invasion in Afghanistan soured the East-West positive climate of détente in 1981 and affected German rapprochement to the East. Additionally, a significant fall in FRG-Polish trade happened in 1979. The amount of German exports to Poland dropped about 1 b caused by the enforcement of Marshall Law in Poland and the economic embargo reacted by the Western countries.

Schmidt placed the emphasis on the security and moved into a multilateral phase dealing with security issue through the CSCE (Conference on Security and Co-

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<sup>116</sup> *ibid.* p.105

operation). Pittman noted that Schmidt's government was a period when East-West relations became increasingly dominated by security issues.<sup>118</sup> The CSCE, founded in 1975, provided a pan-European framework for resolving East-West conflict and a multilateral forum for pursuing Germany's Ostpolitik. Hans-Dietrich Genscher, the Foreign Minister and key supporter of Ostpolitik in both the Schmidt and Kohl governments, was also an advocate of the CSCE. He believed that the CSCE could be a multilateral framework to integrate Eastern Europe into a more co-operative security structure, which could encourage further contacts between the FRG and its eastern neighbours on a wider range of issues, including the issue of economic co-operation.<sup>119</sup>

Schmidt developed a concept of security partnership<sup>120</sup> to establish a more stable relationship between the two blocs. Security partnership emphasised that there should not be any military solutions to the East-West conflict. The Party Congress in Nuremberg adopted the SPD's party platform on security in 1986. The platform was that 'the common feeling of being threatened, which is both caused and effect of the Arms race, can only be overcome through a policy of mutual security between the blocs.'<sup>121</sup> Proposals for the elimination of chemical and nuclear weapons from Central Europe in 1986 were concrete examples of mutual security, which were offered as models for agreement between Bonn and East Berlin. Further arms control issues on conventional and nuclear weapons started to be discussed in April 1988. The

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<sup>117</sup> Cited from *Der Spiegel*, 29 Sept. 1980 by Morgan, R., 'Dimensions of West German Foreign Policy' in Paterson, W. E., et al. (eds.), *The German Model* (Frank Cass 1981) p.8

<sup>118</sup> Pittman, A., *From Ostpolitik to Reunification* (Cambridge: Cambridge University Press 1992) p.150

<sup>119</sup> Edwards, G., 'The Conference on Security and Co-operation in Europe after Ten Years', *International Relations*, Vol. VIII, No.4, Nov. 1985, pp. 398-402

<sup>120</sup> Schmidt firstly used it at the United Nations in 1978.

<sup>121</sup> Phillips, A. L., 'The West German Social Democrats' Second Phase of Ostpolitik in Historical Perspective' in Merkl, P. H. (ed.), *The Federal Republic of Germany at Forty* (London: New York University Press 1989) p.411

European peace system promoted by the FRG resulted in a steady growth of the FRG-ECE trade. Moreover, among West European countries Genscher took the lead to support Gorbachev's reform program and urged the West to 'initiate a comprehensive process of disarmament and set up co-operative security structure; launch large scale economic co-operation to help the Soviet Union modernise; and take up a concept of a "common European edifice" where the divisions between East and West are overcome'.<sup>122</sup>

Back to the economic issues, the problem of debt servicing caused distinct curtailments of imports from the West in the early 1980s. The Eastern European countries had to reduce convertible currency imports, because they were getting incapable of making payments. Moreover, they also became incapable of expanding exports, due to the requirement of their convertible currency debt. The consequence of the vicious cycle was that the Eastern Europeans imports from the Organisation for Economic Co-operation and Development (OECD) fell from USD20b in 1980 to USD12b in 1984. The major impact of the reduction was on imports of machinery and equipment. This happened while the Eastern European states urgently needed to import industrial materials and components for keeping industrial plants in operation.

As a result of different degrees of indebtedness, Hungary, Poland, and Romania had to impose a much more restrictive debt-servicing policy than did Czechoslovakia, East Germany, Bulgaria, and the Soviet Union. In mid-1980s, import restraints could not be sustained, because the East had to re-expand their economies. The emphasis changed to an increase in the exports to the West, but with little regard to service and

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<sup>122</sup> *ibid.* pp.421-422.

quality. By the end of 1980s, Comecon countries had been successful in increasing their exports to the West and the East-West trade began to be more buoyant. However, a further growth of indebtedness reached to \$90b in the end of 1989.

German unification caused Comecon losing its second most important member - the GDR, which was the primary supplier of machinery and equipment. A framework agreement between the EC and Comecon in June 1988 cleared the way for the EC Commission to negotiate bilateral agreements with individual Comecon members on tariff rates, import quotas, and other state-imposed restrictions on trade. More comprehensive trade and co-operative agreement followed with Hungary and Czechoslovakia in 1988, and with Poland in 1989. Being associated with the EC meant that the entire industrial, environmental, agricultural, and in particular, trade policy of Eastern Europe would gradually be oriented towards West Europe. In 1990, Comecon inevitably ceased to exist.

The western countries, especially Germany, have made considerable efforts to encourage economic and political reforms in their East counterparts. The European Community has been charged with the task of co-ordinating the Western aid programme to Eastern Europe. This programme had increased the interest in the composition of trade with these countries. Moreover, to stimulate the reforms in the East, it would be necessary to export advanced technology for economic reconstruction. In November 1989, the EC foreign ministers at the Paris summit agreed to liberalise high-technology export restrictions, because the Eastern European economies urgently needed technologies to modernise their transportation, infrastructure, and communication systems in order to create the necessary

preconditions for economic recovery. The improvement in the standards of living through economic recovery could support the political reforms, and the open flow of information and operating communication systems would be necessary for modern democratic societies.<sup>123</sup>

## **German Unification**

While the balance (East & West) in the German foreign policy was restored, the FRG's next task would be German unification - the primary goal of the 'Unification Chancellor', Chancellor Helmut Kohl. Since Chancellor Kohl took power in 1985, he carefully planned for the possibility of German unification. He understood that the achievement of unification would need the supports of the four victorious powers, the US, the USSR, the UK, and France. By mid-1980s, the FRG has normalised its relations with the West and reconciled with the East. It appeared to be the right time for the discussion of unification. In Kohl's original plan, he proposed a protracted process of confederation, with 'federation' as a vague long-term goal. Meanwhile, Kohl accepted a proposal made by Hans Modrow, the Prime Minister of the GDR, whose intention was a 'contractual community between German states'.

On 28 November 1989, Kohl announced his Ten-Point Plan to overcome the division of Germany and Europe. His plan was to embed intra-German rapprochement into the process of West European integration and all-European accommodation. In other words, the German government placed the utmost importance on anchoring the unification process firmly in Western institutions. Kohl tried to assure the West that

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<sup>123</sup> Bertsch, G. K. et al. (eds.), *After the Revolutions: East-West Trade and Technology Transfer in the 1990s* (Oxford: Westview Press, 1991) pp.106-116

every step of the unification process was carefully co-ordinated with the Western allies. In the first quarter of 1990 alone, there were twenty-nine meetings on German unification at the head of state and ministerial level with the country's European partners, paving the road to later the conclusion of 'Two plus Four Treaty'. The basic condition of unification was that Germany remaining in NATO and the EU, which was something the German government also desired. The German question should depend on the multilateral process and structures in Europe was stressed in the Ten-Point Plan:

'the development of inner-German relations remains an integral part of the pan-European process...the future structure of Germany must fit into the future of Europe as a whole. The attraction and the image of the European Community is and remains a constant feature in the pan-European development. We want to strength this further.'<sup>124</sup>

The dramatic and rapid change in the GDR seemed not allow the unification process to move slowly. East German Prime Minister Hans Modrow declared his country was virtually bankrupt and the economic situation was much worse than what the West German government could have imagined. The movement for unification with the FRG in the GDR became more and more pressing. The demonstrators in Berlin, Leipzig, and Dresden chanted the slogan even more massively and loudly: 'we are one people!' The movement implemented itself in the increasing migration of GDR citizens to the FRG. Public opinion polls revealed that between 2 million and 4.5 million East Germans were literally sitting on their luggage and ready to enter West

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<sup>124</sup> Neuss, B., 'The European Community: How to Counterbalance the Germans' in Grosser, D. (ed.), *German Unification: the Unexpected Challenge* (Oxford: Berg Publishers Ltd., 1992) p.140



Germany if change did not come.<sup>125</sup> Additionally, the result of the March elections in East Germany showed that all the winning parties endorsed unification and the reason why the CDU won was that it was seen as the force most capable of achieving unification quickly. Under the circumstance, Kohl and Foreign Minister Hans-Dietrich Genscher realised that unification had become not a matter of choice, but an economic and political necessity. Also, the process had to be accelerated, otherwise stability in Central and Eastern Europe could be lost for good.

Dealing with the East should go through the USSR first. What was decisive on the eastern side was that the Soviet leadership agreed to German unification. When the first signals emerged from Moscow indicating that there was no real opposition to unification in the end of January. Kohl believed that he should seize the 'window of opportunity' for unification while Gorbachev remained in power. In 1989, at least half a million Warsaw Pact troops, drawn mainly from the Soviet Union, were stationed in the GDR. By the middle of 1990, agreement had been reached on a phased withdrawal of them all. The USSR consented to the unification of the two German states. Also, the Soviet Union no longer objected to the unified Germany joining NATO, but it would be on the condition that no NATO troops could be stationed in the new federal states until 1995, accompanied with the compensation to the Soviet Union for the costs of the reduction of its garrison in the former GDR.<sup>126</sup> Another concession made by Germany was reaffirmation of Germany's renunciation of all nuclear weapons and a ceiling on its armed forces of 370,000 troops (reduction from

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<sup>125</sup> Müller, H., 'German foreign policy after unification' in Stares, P. B. (ed.), *The New Germany and the New Europe* (Washington D.C.: the Brookings Institution, 1992) p.127

<sup>126</sup> Blacksell, M., 'Germany as a European power' in Lewis, D. and McKenzie, J. (eds.), *The New Germany: Social, Political and Cultural Challenges of Unification* (Exeter: University of Exeter Press, 1995) p.97

600,000 troops). The German government also promised to enhance the integration of German troops within NATO to allay the fears of the West.

On the Western side, it was crucial for Germany to win the full support of the United States. As a matter of fact, the US leadership did not see in the united Germany so much a rival but rather a potential stabilising factor.<sup>127</sup> After making sure of having the backing of Washington, Kohl and Genscher proceeded on the assumption that unification was the right course, even though French support came rather reluctantly and the absence of British support.

With unification Germany could become the strongest country in West Europe as regards size of population as well as the economic ability. From the rise of Germany to become one again a dominant power and as a restriction of their own power in Europe. French President Mitterrand yielded to the inevitable, because the East German election had left no doubt about a rapid unification of the two Germanys. French Prime Minister Michael Rocard admitted that the French were not very enthusiastic about German unification, but they thought that the fewer problems the Germans had between themselves, the fewer they would have with the rest of the world. After all, Germany was actually liberating 16 million of its people from 57 years of Communism. Since the United States were pushing for it and the Soviet Union was not opposing it, there was not much that the French could do about it.

From the French perspective, 'being a partner in a united Europe dominated by Germany is better than being part of a Europe that is un-united and still dominated by

Germany'.<sup>128</sup> However, out of economic jealousy the French were more or less hoping that the unification would cause some problems for the German economy and depreciate the D-Mark. There was a mixed feeling in France toward German unification. In 1989, forty-two per cent of the French felt that the Germans were the most dangerous economic competitor of France (after Japan), while sixty per cent answered that they had sympathy toward West Germany.<sup>129</sup>

For decades, Germany and France had been holding hands to provide the 'motor' for the European integration. The major reason that France supported the European integration was to tie down Germany in Europe. Mitterrand had sought to build irreversible ties between France and Germany as well as between Germany and the EU before German unification would take place. To demonstrate his determination to further integrate Germany into the EU, Kohl fixed the date for the second stage of European Monetary Union (EMU) in summer 1990, disregard of the warnings of Karl-Otto Pöhl, the President of the Bundesbank.<sup>130</sup> As a return, Mitterrand agreed to cut by nearly half French troops stationed on German soil at the 56<sup>th</sup> Franco-German summit of September 1990. During the joint press conference with Chancellor Kohl after the summit, President Mitterrand reaffirmed his support for German unification:

'...What has been achieved since has gone with the grain of what is an inescapable history, both for our continent's future and simply as regards the

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<sup>127</sup> Pradetto, A., 'After the Bipolar World: Germany and her European Neighbours' in Glaessner, G. (ed.), *Germany after Unification: Coming to Terms with the Recent Past* (Amsterdam: Rodopi, B. V., 1996) p.171

<sup>128</sup> Poulard, J. V. cited from US News & World Report, 30 July, 1990, 25 in his article 'The French Perception of German Unification' in Glaessner, G. (ed.), *Germany after Unification: Coming to Terms with the Recent Past* (Amsterdam: Rodopi, B. V., 1996) p.161

<sup>129</sup> *ibid.* p.162

<sup>130</sup> Neuss, B., 'The European Community: How to Counterbalance the Germans' in Grosser, D. (ed.), *German Unification: the Unexpected Challenge* (Oxford: Berg Publishers Ltd., 1992) p.141

rendering of justice to a people that had been torn apart. This naturally confers new duties on Germany, and we clearly see how she looks upon them. For her, German development is still linked to that of the [European] Community, particularly in the context of her friendship with France.<sup>131</sup>

Among the four powers, British Prime Minister Thatcher held the most sceptical or even hostile view against German unification. She suggested the Germans wait another generation before even thinking of unification, otherwise they would topple Gorbachev, imbalance Europe, and jeopardise the growth of new democracies in Central Europe.<sup>132</sup> Nicholas Ridley, a member of Thatcher's cabinet, even predicted that the EU would be taken over by the Germans. He criticised that the EMU was 'a German racket design to take over the whole Europe' with the French 'behaving like poodles to the Germans'.<sup>133</sup> No matter how much the British detested German unification, the Two-Plus-Four negotiations were finally completed and the 'Treaty on the final settlement with respect to Germany' was signed in Moscow in September 1990. With this treaty the rights and responsibilities of the four powers with respect to Berlin and Germany as a whole ended. On 3 October 1990, Germany was again a sovereign state.

## Conclusion

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<sup>131</sup> cited by Poulard, J. V. in his article 'The French Perception of German Unification' in Glaessner, G. (ed.), *Germany after Unification: Coming to Terms with the Recent Past* (Amsterdam: Rodopi, B. V., 1996) p.161

<sup>132</sup> Schönbaum, D. and Pond, E., *The German Question and other German Questions* (Oxford: Macmillan Press, 1996) p.178

<sup>133</sup> cited by Neuss, B. 'The European Community: How to Counterbalance the Germans' in Grosser, D. (ed.), *German Unification: the Unexpected Challenge* (Oxford: Berg Publishers Ltd., 1992) p.149

In the post-war era, the German government had to handle the division of the country and isolation in international community. The war had a devastating impact on Germany - one-third of the population perished and German economic development was set back by one hundred years.<sup>134</sup> Chancellor Adenauer's foreign policy put Germany's Western allies prior to the East bloc. His priority was to reconstruct German domestic economy and diplomatic relations through the West integration, while showing no interests in the East. His successor Chancellor Erhard started to reconsider the balance of German foreign policy and the necessity to reopen the access to the East.

Willy Brandt was the first Chancellor who put an emphasis on Eastern Europe and made considerable efforts to reconcile with Germany's eastern neighbours. His willingness to negotiate with the governments in the Communist bloc brought the hope of real peace in Europe through reconciliation. The result of his Ostpolitik was a dramatic increase in East-West trade and a glimmer of hope for German unification. Ostpolitik also won more independence for Germany while dealing with the West and gradually 'normalised' German foreign policy (looking into both the West and the East).

The increased contacts between the two German republics and the improvement of the Soviet-German relations led to the possibility of German unification. Moreover, over decades of demonstration of Germany's determination to be integrated into the West lessened the Western fears of German power little by little. Chancellor Kohl successfully convinced the four powers (perhaps except for the UK) that a united

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<sup>134</sup> Joffe, J., 'the foreign policy of the Federal Republic of Germany' in Macridis, R. C. (ed.), *Foreign Policy in World Politics*, 6<sup>th</sup> edition (London: Prentice-Hall, Inc., 1985) p.73

Germany would not threaten Europe again. The agreement of the four powers on German unification finally ended the tragic division in the past half a century.

The success of German foreign policy after the Second World War, Westpolitik and Ostpolitik, won the trust of its Western allies and reconciled with its Eastern neighbours. Germany achieved unification and regained its sovereignty. However, after unification, there are still important tasks ahead which needed to be tackled in the foreign policy of the newly united Germany.

## **Chapter 4**

### **Still an Economic Giant but a Political Dwarf?:**

#### **The Normalisation of Germany**

The Federal Republic of Germany used to be an economic giant but a political dwarf in the post-war era. Germany was transformed from a military power to a 'civilian power', due to the external restraint on its sovereignty and internal confinement of the constitution. It also resulted from the reluctant attitudes of both the government and the public towards military activities, as a consequence of Germany's past. The post-war Germany became co-operative with the West and advocated integration in Europe. After decades of concentration on economic development, Germany's economic performance showed another form of dominance in Europe, while remaining quiet on the stage of world politics.

Fifty years passed by and Germany has finally been reunited. Since the unification, Germany has been expected to take more responsibility in international affairs, given its size and central position. While German economic power has been diffused following the implementation of the European single currency, Germany's military role has been gradually restored. The German government has become more active in involving humanitarian interventions abroad, and the public also have been more concerned about foreign affairs. German power used to cause world wars in the past, but now the united Germany has dedicated itself in international peacekeeping.

Neo-realists argue that economic and military strength as the main components of a state's power. The chapter looks at the re-balance between Germany's economic power and its military strength, which can be referred to as a process of 'normalisation'. The chapter contains two sections. The first section discusses the prominence of the German model, looking at its advantages and disadvantages. The second section investigates the restoration of German military strength. It looks at whether this indicates the 'normalisation' of Germany and how Germany re-defines its military role. Finally, the chapter deals with question whether Germany is able to remain as a 'civilian power'.

### **Economic Giant? – Prominence of the German Model and German Monetary Policy**

Since the Second World War, three major capitalist models of economic thought and practice have emerged due to their superior economic performances: the Anglo-American model, the Asia-Pacific model, and the German model. The Anglo-American model is the model of deregulation and privatisation. The Asia-Pacific model (Japanese model) emphasises work-centred cultures and on ethos of group values and discipline.<sup>135</sup> The German model is the model of a social market economy, whose essence is the welfare state. The social market economy is 'a combination of free market economics and the maintenance of a strong welfare state'.<sup>136</sup> The German social welfare system (*sozialstaat*), built on Bismarckian tradition and laid down in the basic law of the Federal Republic in 1949, offers generous pensions, mandatory health insurance for most workers, compulsory unemployment insurance for all, and

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<sup>135</sup> Dyson, K., 'The Economic Order – Still Modell Deutschland?' in Smith G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd., 1996) p.196



compulsory insurance against workplace injury.<sup>137</sup> Germany has been a high per capita spender on welfare since the late 1940s. Its social insurance system is among the best in the world. The concept of the social market model is based on the idea that

‘if the market is the fundamental means of allocating resources, then, in order to work properly, it must be regulated and administered in such a fashion as to produce a socially acceptable outcome. This is not merely a matter of equality or social justice, but also a matter of efficiency.... The social market is an effective way of creating wealth, while at the same time producing a cohesive and just society.’<sup>138</sup>

The social market model has advantages and disadvantages. This section will discuss about the model’s features as well as its problems.

### *The Features of the German Model*

The distinctive features of the German model, including the regulatory culture, corporate governance, and dual vocational system, compose the strength of the German economy. European prosperity is closely linked to the soundness of the German economy. Radice has commented that ‘if Germany is economically successful, then the rest of Europe prospers. But if Germany falters, all Europeans will suffer too.’<sup>139</sup>

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<sup>136</sup> Wilson, G. K., *Business and Politics* (London: Macmillian Press Ltd., 2<sup>nd</sup> edition, 1990) p.88

<sup>137</sup> Edye, D. and Lintner, V., *Contemporary Europe: Economics, Politics and Society* (London: Prentice Hall, 1996) p.167

<sup>138</sup> *ibid.* p.p.165-166

i) the regulatory culture:

The regulatory culture is deep-seated in Germany's state tradition, which values order, consistency, predictability, and integration. In the post war era, regulations were imposed on closing hours in the retail sector, mandatory minimum wages, and protection of workers against dismissal.<sup>140</sup> Social markets are socially regulated to serve public purposes. Wolfgang Streeck described social markets as 'competitive markets coexist with an extensive social welfare state, and political intervention and social regulation often interfere with the distributive outcome of markets'.<sup>141</sup> A key to the social market is the concept of the company as an alliance of 'stakeholders' - employees, customers and suppliers as well as shareholders, who are represented on the supervisory board which approves many of the strategic decisions. In any workplace when more than five people are hired, employees can elect a works council to be consulted over important issues (e.g. working hours). In companies employing more than eight hundred employees, they have rights to seats on the supervisory board.<sup>142</sup>

In social markets, employers and trade unions co-operate in decision making through works councils and supervisory board on the issues regarding the labour market and industrial affairs. The purpose is to produce a compromise between capital and labour, between managers and their workers, so that both sides recognise each other's rights and interests and follow a collective agreement for the common good. Managers thus

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<sup>139</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.137

<sup>140</sup> Dyson, K., 'The Economic Order – Still Modell Deutschland?' in Smith G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd., 1996) p.199

<sup>141</sup> Streeck, W., 'German Capitalism: Does It Exist? Can It Survive?' in Streeck, W. and Crouch, C. (eds.), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (London: Sage Publications, 1997) p.37

cannot run their firms only for the interest of shareholders. Both capital and labour can participate directly in the daily operation and the progress of the firm. Decisions take longer, but are easier to implement once taken.

The wage bargaining mechanism is collective, which can increase sector solidarity. Most of German workers are represented by trade unions, while employers are represented by employers' organisations. Workers renounce the rights to strike and pursue wage claims, and in return 75 per cent of them are covered by industry-wide wage agreement (*Tarifvertrag*). The collective agreements between employers' organisations and trade unions can only be altered locally when it is favoured the interests of employees,<sup>143</sup> which results in generally high wages in Germany. Therefore, collective bargaining (e.g. wage bargaining), legal regulation (e.g. dismissal legislation), and co-determination<sup>144</sup> constrain the practice of co-operative industrial relations and creates employment stability (often lifetime employment), which encourages high employer investment in skills.<sup>145</sup>

ii) corporate governance (partnership)

The corporate decisions of German firms have two levels: the supervisory board (representational and strategic function) and the management board (day-to-day management of the firm). German banks have been prepared to lend over the long

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<sup>142</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.138

<sup>143</sup> Edye, D. and Lintner, V., *Contemporary Europe: Economics, Politics and Society* (London: Prentice Hall, 1996) p.166

<sup>144</sup> *Mitbestimmung*: consultation and consent within management. In contrast to Anglo-American model, the German co-determination system and works council law gives labour a statutory say in the management of the company.

<sup>145</sup> Streeck, W., 'German Capitalism: Does It Exist? Can It Survive?' in Streeck, W. and Crouch, C. (eds.), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (London: Sage Publications, 1997) p.37

term and, in return, have been closely involved in the company as shareholders. They assume a key role on supervisory boards. They supply a major portion of investment capital in exchange for stocks and seats on the supervisory boards of firms. In general, banks hold 33 per cent of the seats for non-employees on the supervisory boards of West Germany's 318 largest companies.<sup>146</sup> German banks are also the main sources of finance for firms. Hence the German banks not only lend money to German industry but they are significant shareholders in German firms. The result is a tradition of building up long-term relationships between banks and key firms.

The shareholder system of corporate governance has given a stable character to German industrial management. As a result of cross-holdings of shares, a stable core of owners can reduce threats of external takeover.<sup>147</sup> The banks are normally regionally based and aware of local needs. They are also close to small and medium-sized firms and thereby understand their prospects and requirements. This system encourages high rates of investment, because it is in the interests of the banks themselves (as owners of firms) to accept longer payback periods and lower rates of return on loans for investment projects.<sup>148</sup> Dyson has pointed out that in Germany the key focus of social partnership is the firm. The supervisory board and the works councils have provided institutional mechanisms for developing practice of collaboration between management and employees for the common interest at the

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<sup>146</sup> Wilson, G. K., *Business and Politics* (London: Macmillan Press Ltd., 2<sup>nd</sup> edition, 1990) p.91

<sup>147</sup> Dyson, K., 'The Economic Order – Still Modell Deutschland?' in Smith G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd., 1996) p.200

<sup>148</sup> Edye, D. and Lintner, V., *Contemporary Europe: Economics, Politics and Society* (London: Prentice Hall, 1996) p.167

level of the firm. The goal is to reconcile the management of industrial change with the maintenance of social peace.<sup>149</sup>

iii) dual vocational system

The strength of the German economy partly comes from the small and medium-sized enterprises which 'concentrate on what they know that they do well and make sure that it is good enough to be among the best in the world'.<sup>150</sup> There are 10,000 such companies in Germany, compared to 1,700 in Britain. All German companies, from Volkswagen and Siemens to family-owned business, are used to co-operating in the widely admired 'dual' training system (school-based and workplace courses) through compulsory membership of the regional chambers of commerce which supervise and examine company-level training.

It is 'the system of corporate funding for university professorships that formed the basis of the technology transfer system'.<sup>151</sup> A comprehensive education and training system combines academic education with workplace experience. Training programmes were run jointly by the unions and employers. The result is that 70 per cent of German employees are technically qualified, compared with 30 per cent in the UK.<sup>152</sup> 'Dual' training procures the skill base that the firms need to be competitive in

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<sup>149</sup> Dyson, K., 'The Economic Order – Still Modell Deutschland?' in Smith G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd., 1996) p.200

<sup>150</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.139

<sup>151</sup> Harding, R., 'Standort Deutschland in the Globalising Economy: A End to the Economic Miracle?', *German Politics*, Vol. 8, No.1 (April 1999) p.74

<sup>152</sup> Edye, D. and Lintner, V., *Contemporary Europe: Economics, Politics and Society* (London: Prentice Hall, 1996) p.168

quality markets. Firms also organise co-operative research and technology transfer.<sup>153</sup>

As a result, German companies have a constant supply of highly skilled labour, which leads to high levels of German productivity.

### *The Weakness and Reformation of the German Model*

Although the German model is rather successful, there are some drawbacks. Firstly, the social market economy requires high labour costs and high social costs, including high levels of taxes and social contributions on the part of both employers and employees. It is particularly true when the unemployment rate is high. The high level of unemployment is a major threat to German social market system - 2.5 million in West Germany and a further 1.2 million in the East, which has caused a heavy cost to taxpayers. Radice noted that 'a large pool of potential workers remain idle, which is economically wasteful and socially divisive.'<sup>154</sup>

Moreover, the regulatory framework of social market economy may discourage foreign direct investment, since multilateral companies prefer to operate on more deregulated environment. In 1988, the Federation of German Industry (BDI) launched a campaign for job flexibility and deregulation under the slogan *Standort Deutschland* (Germany as a place in which to invest), which pointed to the growing world wide competition and the need of reform in the social market system.

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<sup>153</sup> Streeck, W., 'German Capitalism: Does It Exist? Can It Survive?' in Streeck, W. and Crouch, C. (eds.), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (London: Sage Publications, 1997) p.39

<sup>154</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.150

Furthermore, the rigidity and inflexibility of the trade unions and works councils in social market economy can not effectively cope with rapid changes and large external shocks, because when a fast and flexible response was required, the emphasis on consensus became an obstacle. Power is widely spread in the system and the extensive regulatory system slows down firms' response to change in their external environment.<sup>155</sup> Since 1990 the regulatory capacity of adjusting social partnership (between trade unions and employers) to external economic and social change has decreased. It is particularly true in East Germany, only half of the companies pay wages according to industry-wide norms of remuneration. The practices of co-determination seemed have declined.

In addition, German banks, both shareholders and creditors of companies, can face conflicts of interest and cause difficulties for companies. The Deutsch Bank holds a dominant position on the supervisory board of some companies, including Metallgesellschaft and the Schneider property group. When the former had huge losses sustained through oil trading in the United States in the end of 1993, the Deutsch Bank had to bail it out. In April 1994, the latter went bankrupt after the Deutsch Bank had lent DM 1 billion to the company. The German model has been criticised about the weakness of the internal control within the system of the corporate governance. In other words, management boards are given too much freedom. As a consequence, German style of supervision can shield company from the discipline which should otherwise be exerted by financial markets.<sup>156</sup>

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<sup>155</sup> Edye, D. and Lintner, V., *Contemporary Europe: Economics, Politics and Society* (London: Prentice Hall, 1996) p.169

<sup>156</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.144

Besides, two major problems have existed in the system. Since the 1960s, relative decline in the growth of real GDP has occurred. The growth rates lagged behind France, Italy and Japan in 1960s and 1970s. During the period 1980-89, German annual growth of real GDP was 1.9 per cent, behind not only the above mentioned countries, but also Britain and the US. Germany's economic growth rate in the post-1990 era (except for the unification boom) is even lower than the pre-1990 growth rate. Therefore, the economic miracle of the German model seemed have been failing.<sup>157</sup> It was caused by the ambivalence between high social spending and economic growth. While the German policy makers managed to maintain a high level of social protection and employment protection, the economic growth rate remained low. As Schmidt pointed out, 'the larger share of the welfare state as a per cent of GDP, the smaller the employment content of economic growth.'<sup>158</sup> Owing to the costs for funding German unification, the share of public expenditure as a percentage of GDP was raised from 45.8 per cent in 1989 to 50.6 per cent in 1993.<sup>159</sup>

The other problem is persistent structural unemployment, which is related to the structure of particular parts of the economy. In Germany, its institutionalised commitment to social cohesion has posed a fundamental problem. The economy may be structured in such a way that in one region there is a shortage of jobs but in another region there is a surplus, or that the skills and experience of people who wish to be employed do not match the demand for labour. The overall result is that the number of job vacancies may equal the number unemployed. Structural unemployment can not be solved, as people may be unwilling or unable to retain or to move to a different

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<sup>157</sup> Dyson, K., 'The Economic Order – Still Modell Deutschland?' in Smith G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd., 1996) p.201

<sup>158</sup> Schmidt, M. G., 'Still on the Middle Way? Germany's Political Economy at the Beginning of the Twenty-First Century', *German Politics* Vol.10, No.3 (December 2001) p.10



area. By the end of 1995, unemployment rate was 9.7 per cent (compared with 6.3 per cent in 1991), approaching the four million level.<sup>160</sup> The increased unemployment put burdens on employers and employees. In 1994, employer/employee deductions amounted to 39 per cent of gross incomes, compared to 26 per cent in 1970.<sup>161</sup>

Over the last two decades, the German model has faced the challenge of globalisation and European economic integration. Globalisation, as Streeck defined it, 'by increasing the mobility of capital and labour across national borders, extricates the labour supply from national control and enables the financial sector to refuse doing services as a national utility'.<sup>162</sup> Strategic and fast-growing sectors, such as financial services, have been affected. Due to the features of its regulatory culture and corporate governance in these sectors, Germany has confronted with globalisation. Globalisation places a stress on speed of decision, reduction of costs, deregulation to open up markets and employment opportunities, liberalisation of retail opening hours, and reduction of barriers to market entry in financial services.<sup>163</sup> Under the pressure of global competition, the German model needs reforms to adopt to change and modernise.

An important task to reform the model is to bring down the costs. There are various ways to reduce the costs. Most of small and medium-sized companies and some big companies as Volkswagen drove down costs by simplifying productions. Daimler-Benz reduced its workforce. Bosch negotiated reduced wage costs. Mercedes and

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<sup>159</sup> *ibid.* p.8

<sup>160</sup> *ibid.* p.202

<sup>161</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.145

<sup>162</sup> Streeck, W., 'German Capitalism: Does It Exist? Can It Survive?' in Streeck, W. and Crouch, C. (eds.), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (London: Sage Publications, 1997) p.49

BMW look for a low-cost production base in Eastern Europe. Around thirty per cent of the German labour force is in manufacture. To cut labour cost, more and more manufacturing companies transfer part of the production outside of Germany. Siegfried Utzig, senior economist at the BDI, commented that 'German companies have to reduce total costs by twenty to thirty per cent to remain competitive in global markets. Eastern Europe, which is on their doorsteps, offers them a chance to do this.'<sup>164</sup> Meanwhile, the trade unions co-operated in the reforms. Several collective agreements were reached between 1993 and 1994, which not only reduced real wages but also allowed firms to deploy labour more effectively. As a result, since 1993 Germany's average wages have fallen one per cent and unit labour costs have fallen an unprecedented six per cent.<sup>165</sup>

Another task to reform the German model is liberalisation. The European integration project aims at unleashing a new economic dynamism by moving towards a more liberal market economy. The European Commission's insistence on market liberalisation has facilitated a productive reform of the German model. The enforcement of European competition policy from Brussels forbids governments of wealthier states provide assistance and subsidies to domestic companies, which establishes a rigorous regime of control of state aid to industry. The process of market liberalisation and privatisation has thus been hastened. Proponents of European integration have advocated sectoral liberalisation in order to reduce costs, improve services, foster external competitiveness, and promote cross-border economic activity.

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<sup>163</sup> Dyson, K., 'The Economic Order – Still Modell Deutschland?' in Smith G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd., 1996) p.202-203

<sup>164</sup> cited by Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.147

<sup>165</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.146

Post services liberalisation in Deutsch Post has in fact become a good example supporting the European Commission's liberalisation proposal.<sup>166</sup>

Innovations, such as the introduction of new technology, support the reforms. The young Germans have been criticised not taken as readily to the new electronics-based disciplines as their counterparts in the United States and Japan, and there is now an old-fashioned feel too much of the technology of daily life in Germany.<sup>167</sup> The technology transfer structure within Germany can reinforce areas of traditional strength in electronics, chemicals and pharmaceuticals, mechanical engineering and automobiles. Also, the figure of high unemployment needs to be reduced through labour market reforms, which is one of the major concerns of the Schröder government. In Germany, part-time jobs only take fifteen per cent of overall employment, compared with twenty-five per cent of that in Britain. The proportion is lower than in the United States, Japan, Netherlands and Scandinavian countries.<sup>168</sup> More jobs can be created in the service sectors and part-time employment. Adjustment of the social market economy is a deliberate process. The German model has responded to external challenges and shown itself capable of adaptation to radical change over time.

### *German Monetary Policy*

Apart from the German model, another strength of German economy came from its sound monetary policy run by the Bundesbank. The Bundesbank operates

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<sup>166</sup> Smith, M. P., 'Europe and the German Model: Growing Tension or Symbiosis?' in *German Politics* Vol.10, No.3 (December 2001) p.p.120-122

<sup>167</sup> Radice, G., *The New Germans* (London: Michael Joseph, 1995) p.p.148-149

<sup>168</sup> *ibid.* p.151

independently, because ‘the bank is only obliged to support the economic policies of the government to the extent that these are compatible with price stability, and it can only provide credit for state budgets within strict limits’.<sup>169</sup> The major principle of the de-politicisation of monetary policy is to safeguard the currency, which can be achieved by enforcing anti-inflation policy. The Bundesbank ‘attempts to make policy by building the greatest possible degree of consensus – the membership of its governing council includes the presidents of the state banks of each of the German regions (Bundesländer), each of whom is appointed by regional governments’.<sup>170</sup> This type of model for a central bank is able to ensure the conduct of monetary policy to be removed from the direct political influence, thereby a significant degree of price stability is also ensured. Owing to price stability and anti-inflation policy, the D-Mark had never been devalued and thus became a strong international currency. By 1992, the D-Mark had become the second most important world currency, accounting for around 38 per cent of daily foreign exchange market turnover. As Dyson put it, ‘the European Monetary System (EMS) had *de facto* emerged as a “Deutsche Mark zone” in which the Deutsche Mark had become the “anchor currency” of the exchange rate mechanism (ERM)’. Due to the combination of policy credibility and the anchor role in the ERM, the Bundesbank could maintain German short-term and long-term interest rates at a lower level than its EU major trading partners, which had benefited German industry.<sup>171</sup>

Since 1980s the Bundesbank had become Europe’s *de facto* Central bank, because Germany’s European trade partners gauged their exchange rates on the D-Mark. The

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<sup>169</sup> Edye, D. and Lintner, V., *Contemporary Europe: Economics, Politics and Society* (London: Prentice Hall, 1996) p.168

<sup>170</sup> *ibid.* p.168

Bundesbank's autonomy had contributed to the stabilisation of the German economy. The European governments thus hitched their currencies with the D-Mark for the import of price stability. The successful Bundesbank was chosen as the model for the establishment of the European Central Bank (ECB). During the European boom of 1988-90, the Bundesbank was incorporated into a wider European System of Central Bank (ESCB). The Bundesbank's monetary policy was regarded as a model to shape and supervise the European monetary and exchange rate conditions. The ECB, endorsed by the Bundesbank, had been authorised to determine monetary and exchange rate policies for Europe as a whole.

The reputation of the Bundesbank and the stability of the D-Mark are EMU's important pillars. As Dyson and Featherstone pointed out, 'the D-Mark become de facto the anchor of the ERM, with Bundesbank policies setting the standards for the ERM area as a whole.'<sup>172</sup> As Europe's de facto financial manager, the Bundesbank's statutory responsibility was to ensure the independent monetary policy. Dyson and Featherstone noted that 'Bundesbank strategy was to gain acceptance of the German model of monetary policy as the basis for the ECB'.<sup>173</sup> Bundesbank drafting became the foundation of the ECB statute negotiations, and its basic principle was that a single currency would require a single monetary policy with an ECB endowed with sufficient authority. The Bundesbank needed to get a detailed agreement on the draft of ECB statute. In order to safeguard the European single currency, the Bundesbank insisted that the primary objective of the ESCB should be maintaining price stability.

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<sup>171</sup>Dyson, K., 'The Economic Order – Still Modell Deutschland?' in Smith G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd., 1996) p.198

<sup>172</sup> Dyson, K. and Featherstone, K., 'EMU and Economic Governance in Germany', *German Politics Vol.5 No.3* (DEC. 1996) p.329

<sup>173</sup> *ibid.* p.386

Also a notable provision was that the ESCB had to act in accordance with the principle of an open market economy with free competition and favour an efficient allocation of resources. The Bundesbank insisted that the ECB should be granted the same autonomy and independence as the Bundesbank, because the Bundesbank actually saw the danger that the European Council would use the political authority over the exchange rate regime and endanger the stability policy of the ECB. Therefore, although the European Council is empowered to take the decision on the exchange rate regime, the Council has to consult with the ECB in advance to reach a consensus which has to be consistent with the principle of price stability. The German goal is always an independent ECB, so that price stability could be assured.

Monetary targets would be difficult to reconcile with autonomous national target setting, if they are set at the European level. The national central bank governors of the European Bank might bargain with each other on the allocation of national targets. To prevent the situation, the ECB must have greater independence of action and it should be independent of the governments of the member states with a number of different views. The economic policy under the single European governance could make the ECB a coherent policy-making organ at the EU level. The central bank governors are not democratically elected, which can be easier for them to work together at the supranational level. The six members of the executive board, including the president, have no national allegiances, so that the independence of the ECB can be strengthened.

Why is the German government willing to give up monetary autonomy and their national pride, the D-Mark? Wolfgang Schauble said that 'the soul of Germany is

Europe'. Germany's future is in the deeper integration of Europe. The establishment of EMU can not only facilitate European integration but also embed Germany's institutions in Europe.

The German interest in prosperity is bound up with European integration. EMU can be the highest stage prior to the European political integration. Germany regards European integration as a good opportunity to return to the international community. During the monetary negotiations, German negotiators showed an aversion to being isolated. This also reflected German's emphasis on the principle of multilateralism in its external relations. The European monetary co-operation could increase German access to multilateral instruments.

In addition, tying the D-Mark with weaker currencies might restrict the room for future appreciation of the D-Mark, which could secure the competitiveness of German business and enterprises. This encouraged the economic groups to support and defend the government's policy relating to the EMU more actively in the mid-1990s. The Bundesbank could also use the revaluation of the D-Mark through the exchange rate as a means to adjust domestic inflation. Therefore, participating in EMU not only corresponded to German foreign policy's principle of multilateralism and facilitated European integration, but also benefited German business groups and the domestic economy. For Europe as a whole, the member states would benefit from a zone of currency stability by eliminating the risk of competitive devaluation to benefit the European internal trade. As Emil J. Kirchner pointed out, stable exchange rates, low inflation and low interest rates would lead to a boost of trade, which would increase

investment, output, and create more jobs. The single currency also could improve the efficiency of the single market.<sup>174</sup>

Germany's success in economic and monetary policy had paved its way to the EU's leadership, since EMU modelled on German monetary policy implied greater German influence in the EU. To secure Germany's position in Europe, the German government would not let EMU break down. The Bundesbank would not submit its powerful authority to European Central Bank, unless similar monetary conditions had prevailed at the EU level. The German government also needed to assure the domestic public that the Euro would be as strong as the D-Mark to gain public support. Due to the German interests in EMU, the Bundesbank insisted on convergence conditions. Germany had played the role of a 'watchdog' over maintenance requirements of EMU, in order to make sure that the Euro would not to be less stable than the Deutschmark. The Bundesbank's low tolerance of inflation and the Maastricht criteria could avoid EMU breaking down in the medium term. The conditions to qualify for EMU include conservative levels of public debts (60 per cent of GDP), budget deficits of no more than 3 per cent, low inflation, and two years of exchange rate stability. However, the convergence criteria were difficult to meet for the EU member states. The tight entry for EMU could only allow very few members to be participants. The convergence criteria were likely to be posed as barriers for the memberships even for the core members of the EU. The Bundesbank thus made efforts to help the member states to meet the entry requirements, particularly the French franc.

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<sup>174</sup> Kirchner, E. J., 'Germany and the European Union: From Junior to Senior Role' in Smith, G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd 1996) p.162



When the member states are able to meet the conditions, their abilities to maintain them beyond entry can still be a problem. The Treaty of Maastricht includes not only the criteria, but also financial penalties for countries that are unable to maintain their qualifications. The German Financial Minister Theo Waigel advocated fiscal discipline and sanctions as a necessary condition to defend the stability of the single currency. A qualified participant state should keep the budget deficit less than 3 per cent of GDP during periods of economic difficulty and target on the deficit within 1 per cent of GDP in normal economic circumstances. If a country exceeds the deficit limits, it will have to pay into the EU budget a non-interest-bearing stability deposit of 0.25 per cent of its GDP for each percentage point by which it exceeds the limit.

The Bundesbank's successful financial market experiences earned itself an advisory role in EMU negotiations. Its policy was also chosen to be the policy model for the European Central Bank. As a matter of fact, Germany has shaped a monetary policy for Europe on German terms. EMU could be an indirect German instrument to shape the environment in which other states must adjust to German references, as Peter J. Katzenstein pointed out.<sup>175</sup> The criticism that EMU has become a clone of Germany policies has emerged. In order to reassure its European partners, Germany remains committed to European integration. The German policy to facilitate a deeper integration is through EMU and Political Union.<sup>176</sup>

Those who are concerned about the German Question are worried about a powerful German role mainly in the monetary area. Bulmer, Jeffery, and Paterson noted that

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<sup>175</sup> Katzenstein, P. J. (ed.), *Tamed Power: Germany in Europe* (Ithaca and London: Cornell University Press, 1997) p.71

<sup>176</sup> Bulmer, S., Jeffery, C. and Paterson, W. E., *Germany's European Diplomacy: Shaping the Regional Milieu* (Manchester University Press, 2000) p.1

'European monetary integration has provided a basis for Germany to become powerful because of the central role of the Deutschmark (DM) in the Exchange Rate Mechanism (ERM) and, subsequently, the weight of the German economy in European EMU.'<sup>177</sup> Germany's powerful role in respect of the integration of European EMU has embedded German economic institutions in the EU and meanwhile shaped the EU economic institutions. Through the process of the deepening of European economic integration, Germany was able to shape terms and conditions beyond national borders. In other words, 'German governments have been successful in shaping the broad structural characteristics of European integration'.<sup>178</sup> German integration policy and its ability of shaping the 'regional milieu' formed German structural power in the EU.

Moreover, the 'anchor' role of the D-Mark of the ERM and the ECB's adaptation of Bundesbank's stringent monetary policies present an example of the 'export' of German institutions to the EU, which has influenced the future development of the EU.<sup>179</sup> As Bulmer, Jeffery, and Paterson put it, 'EMU was the defining element in German European policy and its continuity aspiration to effect milieu change'.<sup>180</sup> The German effects upon the governance of EMU include the Maastricht convergence criteria, rules on central bank independence, and the symbolic location of the European Monetary Institute in Frankfurt. As Germany exported a pattern of monetary policy governance of the Bundesbank, the monetary policy authorities of most other member states of the EU welcomed the process of export. The committee of EC Central Bank Governors was keen to create a Bundesbank 'writ large' in order

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<sup>177</sup> *ibid.* p.4

<sup>178</sup> *ibid.* p.7

<sup>179</sup> *ibid.* p.p.41-42

<sup>180</sup> *ibid.* p.92

to gain credibility from the Bundesbank and the DM. Exporting German institutions into the EU has created systemic empowerment by the institutional structure of the EU, which facilitates the pursuit of German milieu goals.<sup>181</sup> Bulmer, Jeffery, and Paterson argued that 'Germany has pursued, in a more strategic sense, broad-based and diffuse milieu goals, directed at shaping wider conditions of inter-state interaction and, above-all, co-operation beyond national boundaries'.<sup>182</sup>

German power in the EU is 'a combination of an influential vision, valuable institutional models to export to the EU, a solid domestic political consensus and an important set of bilateral relationships'.<sup>183</sup> Germany's European policy is not based on the pursuit of realist power, but institutional power. The Bundesbank, as the main source of Germany's 'unintentional power', has exerted institutional power through exporting its monetary policy norms into the framework for EMU governance. While Germany's institutional power structured the configuration of European institutions, a virtuous circle happened through systemic empowerment. Therefore, a 'European Germany' and a 'German Europe' are both true, 'as a Europeanised Germany, continues to make its distinctive mark on the institutional character of the EU'.<sup>184</sup>

However, German power has been diffused after the demise of the D-Mark and the realisation of the European single currency. While Germany's economic power was contained by further European economic integration, its military power has been restored.

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<sup>181</sup> *ibid.* p.p.46-47

<sup>182</sup> *ibid.* p.124

<sup>183</sup> *ibid.* p.134

<sup>184</sup> *ibid.* p.135

## Political Dwarf? - Restoration of German Military Role

The section will present the significant change of German military role from early 1990s into the new century. During the period of time, Germany experienced the Persian Gulf War, Yugoslav Crisis, Bosnian Crisis, Kosovo War, and Afghanistan War against terrorism. While Germany is trying to adjust its military strength towards a normal state, is Germany able to remain as a civilian power at the same time?

### *The Persian Gulf War*

The first international conflict that Germany faced after unification was the Persian Gulf War. The War raised some important questions in Germany, including the debates on out-of-area missions and constitutional reforms. For Germany, the use of military force was not just a political but also a constitutional question. It was also the first time after the Second World War that the German troops were sent abroad. Both the German government and the public showed a great reluctance to be involved (especially militarily) in the War. Only half (56%) of German public opinion supported the Western operation in the Gulf, while tens of thousands of Germans demonstrated against the allied military intervention.<sup>185</sup> Kohl condemned the Iraqi dictator Saddam Hussein's invasion in Kuwait but hesitated to deploy German troops abroad.

With the strongest economy in Europe and the majority of the public's support, the German government paid DM 16 billion to the US for Desert Storm's defence and to

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<sup>185</sup> Schönbaum, D. and Pond, E., *The German Question and other German Questions* (Oxford: Macmillan Press Ltd., 1996) p.189

Iraqi neighbour states hardest hit by the embargo. It also offered ammunition stocks and tanks with chemical weapons sensors to the alliance. A unit of German minesweepers and seven supply ships with 570 sailors were deployed in the eastern Mediterranean to free allied vessels for use in the Gulf.<sup>186</sup> In addition, German territory was open for US re-supply activities and transport (i.e. over-flight) without restriction. However, while the government tried to assist the alliance in the Gulf against Iraq, German firms were exporting chemical weapons to Iraq's 'Auschwitz in the sand'. The contributions that German firms made to Iraq's missile and chemical arsenals once again made Jews become victims of German poison gas, which seriously embarrassed the German government. Bonn further tightened bans on export of chemical and nuclear weapons components and their enforcement. It showed that the German government was willing to sacrifice economic interests for political reasons. Moreover, the German government immediately expressed solidarity with Israel and offered DM 250 million in humanitarian aid, special Fuchs armoured vehicles for anti-chemical warfare, and Patriot air defence missiles. German politicians from all parties, with the explicit support of the government, visited Israel to show solidarity.<sup>187</sup>

As the War continued, the pressure on Germany's troops deployment increased. Germany was required (particularly by the US<sup>188</sup>) to play a bigger part and be more involved in the War, including providing troops for multinational force in Gulf.

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<sup>186</sup> *ibid.* p.189

<sup>187</sup> Müller, H., 'German Foreign Policy after Unification' in Stares, P. B. (ed.), *The New Germany and the New Europe* (Washington, D. C.: the Brookings Institution, 1992) p.p.137-138

<sup>188</sup> In May 1989, President Bush called for a 'partnership in leadership' between Germany and America, which signalled American expectation to see Germany assume a larger role in Europe. After ten years, Strobe Talbott, the US Deputy Secretary of State addressed in Bonn, 'we recognise and welcome the role of the Federal Republic at the epicentre of these processes – expansion and integration, broadening and deepening', although the Germans prefer to describe themselves as a

Germany's avoidance in direct participation was criticised by its allies as unwillingness to take the international responsibilities entailed by unification. The U.S. and Western allies were not satisfied with Germany's 'check-book diplomacy'.<sup>189</sup> The Kohl government was struggling between the restraint of the Basic Law and the policy of 'new responsibility' in the world. Washington argued that previous limitations on the West German military no longer applied to the united Germany, while the German government was uncertain of its constitutional grounding. The Gulf War initiated a revision in the use of force and urged policy maker to clarify the constitutional basis and the political condition for 'out-of-area' deployment. Kohl repeatedly emphasised Germany's interest in a peaceful solution to the Gulf crisis, but he fully supported the alliance and rejected appeasement and neutrality. When the Turkish requested for assistance for the alliance, the German government responded and deployed 18 Alpha Jet fighters and 212 German soldiers.<sup>190</sup>

It was a controversial issue, because Germany could risk to be drawn into the War. Although the German government tried to justify German support that an attack on Turkey in retaliation for the alliance's actions constituted the kind of attack on a NATO member state, it declared that the German soldiers would not engage in active combat unless the government gave the order to fight. Meanwhile, the German government supported Mitterrand's effort at last-minute mediation, resisted American proposals to add ground troops to the air defence units in Turkey, and refused to move

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'motor' rather than a 'leader' of European integration. See Denison, A., 'German Foreign Policy and Transatlantic Relations since Unification', *German Politics* vol.10 April 2001 no.1, p.160

<sup>189</sup> Hyde-Price, A., *Germany and European Order: Enlarging NATO and the EU* (Manchester University Press, 2000) p.144

<sup>190</sup> Müller, H., 'German Foreign Policy after Unification' in Stares, P. B. (ed.), *The New Germany and the New Europe* (Washington, D. C.: the Brookings Institution, 1992) p.137

the units closer to the border. Kohl and Genscher stated that 'the determination to maintain international law must not automatically lead to a war. Everything must be done to give diplomacy a chance. He who does not want to shoot must talk'.<sup>191</sup> Apparently the German government was one of those 'who does not want to shoot' and made efforts to avoid a war.

Germany's reluctance to be involved in the war resulted from the constitutional impediments which did not allow German soldiers to directly participate in military operations but permitted Germany to take part in a system of collective security for defence activities. The UN mission in Gulf could be interpreted as 'collective security', but the Gulf was outside the area covered by the North Atlantic Treaty and thus could not be legitimised by the Constitution. The involvement of German soldiers in NATO out-of-area units was to be confined to cases for that a UN mandate existed. In other words, the deployment of German troops should be under a specific mandate. Although German politicians agreed that a new policy could not be based on the Basic Law, no one could agree on what the change should entail. The government preferred to use terms like 'clarification' of the law, on the basis of a broad interpretation of collective security, rather than 'change' of the law. As Müller noted, 'all relevant parts of the political establishment see that a change is necessary, but the divergence remains so large that it is uncertain whether any position can attract the two-thirds majority needed for constitutional change'.<sup>192</sup> The questions raised in the Gulf War regarding the necessity of constitutional revision has been encountered each time when Germany is involved in possible military activities.

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<sup>191</sup> *ibid.* p. 137

<sup>192</sup> *ibid.* p.141

However, the problem was not just the restriction of the Basic Law, but also the attitude of German people towards military confrontations. The Germans had tried to assure the world that the new united Germany would be non-militaristic and peaceful. In their minds, they were still trying to atone for the German crimes in the World Wars. Therefore, the Germans were mentally unprepared for the real fighting in the early 1990s. The German policy during the Gulf War focused on mediation, peacemaking, and diplomatic efforts to prevent war and military intervention.<sup>193</sup>

### *Yugoslav Crisis*

Yugoslav Crisis could be the most high profile case in post-unification German foreign policy. Some observers interpreted it as a case of Germany's new assertiveness, while others criticised the interpretation as an overreaction. The German government was more concerned about the crisis than it was in the Gulf War, partly because Yugoslavia was located in its backyard. Germany's major concern was that the violence in Yugoslavia had threatened European stability, which would affect German security, if only in the form of waves of refugees.

The European Community and the US aimed at keeping Yugoslavia intact and requested a three-month suspension on the declaration of independence of Slovenia and Croatia. The German government was worried about the effects of the dissolution of Yugoslavia on the Soviet Union. Kohl warned the allies that Yugoslavia could not be kept united by military force in the long run. When the demise of the USSR became increasingly inevitable and the troubled Balkans began to destabilise Europe,

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<sup>193</sup> *ibid.* p.140



Germany urged the EC to press Serbia and the Yugoslav People's Army to stop the advances, particularly the shelling of civilian targets. The German government also requested the West to act in concert and grant official recognition to Slovenia and Croatia. The purpose to push for diplomatic recognition was to move the issue of the legal grey zone 'meddling in international affairs' behind and stop the violence in the Balkans, as Serbia argued that intervention in Yugoslavia lacked legitimacy.<sup>194</sup>

However, memories of Nazi collaboration with Croatian puppets raised suspicion of Bonn in Paris and London, because Croatia was a protectorate of Nazi Germany in the Second World War. The British perceived Germany's initiative to press for EC recognition of Slovenia and Croatia as an attempt to reconstitute a special German sphere of geopolitical influence in the Balkans in collaboration with Croatian heirs of the old Ustashi and the half million Croats in Germany. From the British view, Germany attempted to legitimate mistreatment by Croatia of its Serb minority and risk the spread of conflict to Bosnia by forcing the EC allies to recognise the new states.<sup>195</sup>

However, Hyde-Price argued that Bonn's policy did not seek to a great power ambition in the Balkans. He noted that Bonn's interests in the region are a shared European interest in the political stability and economic accessibility of the Balkans. Michael Libal also claimed that the motives of the Germans were moral values to support Slovenia and Croatia striving for self-determination under totalitarian regime and reject violence as a means of politics.<sup>196</sup>

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<sup>194</sup> *ibid.* p.154

<sup>195</sup> Schönbaum, D. and Pond, E., *The German Question and other German Questions* (Oxford: Macmillan Press Ltd., 1996) p.190

<sup>196</sup> Hyde-Price, A., *Germany and European Order: Enlarging NATO and the EU* (Manchester University Press, 2000) p.146

To allay its European partners' suspicion, Germany pursued multilateral possibilities to end the violence. The German government sought to attract international attention on the issue and work for Croat and Slovene right to self-determination through the European Community, by invoking the established CSCE 'crisis mechanism' and bringing the matter before the UN Security Council for added legitimacy and a further method to maintain peace. Germany also put Yugoslav Crisis on the WEU agenda to demonstrate the urgency of the situation for European security. The decision within the WEU focused on the possibility of the deployment of peacekeeping forces. Germany once again faced the same dilemma they had during the Gulf War, due to the constitutional restraints of sending German troops abroad. Alternatively, Germany proposed to impose economic sanctions on Serbia. By July 1991, economic aid was suspended for all of Yugoslavia. Also, weapon deliveries were ceased and an oil embargo was later initiated. In December, Germany unilaterally suspended the bilateral German-Yugoslav transport agreement (only for Serbia and Montenegro) to show Germany's determination.<sup>197</sup>

In spite of all the efforts to use multilateral frameworks to resolve the crisis, Germany was frustrated with resistance from some of its European partners, where minority conflicts could become severe if secession is encouraged. The EC resisted on recognition and blocked a German resolution in the UN Security Council.<sup>198</sup> The failure to reach a common EC position seemed leave the German government no choice but to recognise Slovenia and Croatia unilaterally, especially when Serbia's policy became apparently aggressive in the end of 1991. Bonn was forced to choose

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<sup>197</sup> Müller, H., 'German Foreign Policy after Unification' in Stares, P. B. (ed.), *The New Germany and the New Europe* (Washington, D. C.: the Brookings Institution, 1992) p.151

<sup>198</sup> Phillips, A. L., *Power and Influence after the Cold War: Germany in East-Central Europe* (Oxford: Rowman and Littlefield Publishers, 2000) p.39

between Germany's commitment to self-determination and its commitment to multilateralism. The majority of the German public showed great sympathy for the new states struggling for independence, and half a million Croats in Germany pled their host government to act. Self-determination finally trumped multilateralism in Bonn's decision.

If the West's concession resulted in a military victory for the Serbs in Yugoslavia, the remaining hard-line totalitarian regimes in other countries could be encouraged to use violence against change. Germany believed that withholding recognition would be seen as appeasement. The German government regarded the Yugoslav conflict as democracy and self-determination against communist authoritarian and violence. It felt compelled to take the new responsibility came with unification, after being criticised during the Gulf War. Now that the West was undecided and irresponsible on the issue of Yugoslav crisis, Kohl and Genscher believed that Germany had to provide the leadership that was otherwise lacking to achieve the goal of recognition. The German government upheld the principles of the Paris Charter – renunciation of the use of force and respect for human and minority rights – to explain Germany's insistence on its position despite US, UN, and some European opposition. Germany argued that the EC Council of Foreign Ministers had given the Serbs two months to stop fighting, and if the EC failed to act after imposing the deadline, it would be condoning Serbian aggression.

In early December, Germany unilaterally offered recognition to Slovenia and Croatia (with the support of Italy) on the condition that minority rights in both countries had to be guaranteed. The announcement shocked the EC member as Germany expected.

The Europeans had to acquiesce to avoid a public failure of EC efforts to develop a common foreign and security policy. France also wanted to avoid a possible split in the crucial Maastricht summit and was willing to act on the issue. Mitterrand suggested drafting a common set of criteria for the recognition of new countries with Germany. In mid-December, the EC member states were persuaded (with a lot of arm-twisting) by Germany to set up a five-member commission to look into whether Slovenia and Croatia met the new criteria.

As the German government promised to grant recognition by Christmas, Germany extended recognition to Croatia and Slovenia on December 23 and exchanged ambassadors with both new republics on January 15, 1992. Germany's behaviour was not the formal procedure agreed on by the EC, but driven by its open commitment to self-determination in the Balkans and recognise Slovenia and Croatia and by domestic pressure and support.<sup>199</sup> Some observers commented that this case just confirmed that when the united Germany wanted to act unilaterally, they were actually able to browbeat its European allies into following its lead. However, the case cannot be seen as the prelude to a new unilateralism. Germany's behaviour in foreign affairs in the next ten years has proven that it is still committed to multilateralism. Nevertheless, the case did show that Germany was more willing to act when the crisis was more likely to affect its national interests.

### *Humanitarian Intervention and out-of-area Operation*

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<sup>199</sup> *ibid.*p.152

After the Gulf War ended, the German government sent minesweepers to clear the Gulf of remaining Iraqi mines, which was justified as humanitarian purposes. Seven ships with 570 sailors operated in Gulf waters set a precedent of German out-of-area operations. Germany also provided the UN Special Commission with German pilots flying helicopters to search and destruct Iraqi's weapons as a humanitarian mission. Humanitarian intervention or 'blue-helmet' has since then been used by the German government as a 'step-by-step' strategy to commit German force personnel to multilateral humanitarian and military crisis management operations, for example, participation in UN-mandated humanitarian missions in 'out-of-area' to support medical and technical supplies. It can also help the German public gradually familiarise the involvement of German troops in the 'out-of-area' missions.

In April 1991 the Luftwaffe was deployed to distribute relief supplies to Kurdish refugees, and in July 1992 participated in the humanitarian airlift to Sarajevo. Between 1992 and 1993, the first 'blue-helmet' of *Bundeswehr* (German force) was deployed to contribute a medical unit to the United Nations Transitional Authority in Cambodia. During the same period of time, *Bundeswehr* units were also committed in the United Nations Operation in Somalia (UNOSOM) and played a non-combat role. This out-of-area deployment was later clarified by a decision of the Federal Constitutional Court (*Bundesverfassungsgericht*) on 12 July 1994. After the failure of the military UN-sponsored Somalia mission, the German government formulated a set of criteria for future deployment, including the need for a legitimate international mandate, multilateral involvement, a clear political concept underlying the military

operation, a limited time frame, and German involvement in the decision-making process.<sup>200</sup>

### *Bosnian Crisis*

The tragedy in the Balkans did not end with the independence of the two new republics, but deepened by more and more atrocities, ethnic cleansing, and massacre in Bosnia, which attracted a growing concern in German public opinion. In April 1993, the German government decided to deploy German crews and participate in Airborne Warning and Control Systems (AWACs) to enforce the UN-mandated 'no-fly' zone in Bosnia. The German public and political parties were divided on the issue. Forty-eight percent of CDU/CSU voters opposed deployment, while forty-seven percent approved.<sup>201</sup> The Federal Constitutional Court permitted the deployment in Bosnia, along with the deployment in Somalia, in July 1994. The rulings were based on Article 24 (2) of the Basic Law, which allowed the Bundeswehr to be involved in operations associated with membership of a mutual collective security organisation, including NATO and WEU. The Court stated that the German forces could participate in military missions outside the NATO area as long as they were under UN mandate and approved by the Bundestag (543 in favour, 107 against).<sup>202</sup> Although the Constitutional Court ruled out constitutional barriers, the government remained cautious and defined the deployment on humanitarian grounding to persuade those who were in opposition.

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<sup>200</sup> Hyde-Price, A., *Germany and European Order: Enlarging NATO and the EU* (Manchester University Press, 2000) p.147

<sup>201</sup> Phillips, A. L., *Power and Influence after the Cold War: Germany in East-Central Europe* (Oxford: Rowman and Littlefield Publishers, 2000) p.38

The event that fundamentally changed the German attitude on the issue of military intervention was the massacre in Srebrenica in 1995, which was the largest mass killing since the Second World War. Serb forces shelled the UN 'Safe Area' at Srebrenica, where over 30,000 Muslims had sought refuge. Thousands of Muslims were murdered by Serb troops.<sup>203</sup> On July 30, 1995, Joschka Fischer, a leading member of the Bündnis 90/Greens, presented a *Grundsatzpapier* to support military defence of UN safe havens in Bosnia and stated that military force sometimes is indispensable to protect human life. He argued that Germany had a special responsibility to stop 'ethnic cleansing', because of its history.<sup>204</sup> In August 1995, he addressed to his party colleagues that the German left should intervene to stop the genocide, which was the political and moral duty of the Greens. He advocated that the German troops should be included in multilateral forces to support military intervention. On 6 December 1995, Fischer spoke to the Bundestag to round support in the issue of German participation in NATO operations:

'We are in a real conflict between basic values. On the one hand, there is the renunciation of force as a vision of a world in which conflicts are resolved rationally, through recourse to laws and majority decisions, through the constitutional process and no longer through brute force; a world in which military means are rejected, and in which the aim is to create structures to replace them and make them redundant. On the other hand, there is the bloody dilemma that human beings may be able to survive only with the use of military

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<sup>202</sup> *ibid.* p.148

<sup>203</sup> details see 'Day of Shame', *the Guardian*, 17 November 1999, p.p.2-3

<sup>204</sup> Phillips, A. L., *Power and Influence after the Cold War: Germany in East-Central Europe* (Oxford: Rowman and Littlefield Publishers, 2000) p.38

force. Between solidarity for survival and our commitment to non-violence – that is our dilemma’.<sup>205</sup>

Despite the opposition of numerous SPD and Green deputies to Germany’s participation in Deliberate Force in September 1995, German aircraft armed with anti-air defence missile was deployed flying over Bosnia (without firing any weapons). The limitations of cheque book diplomacy and public concerns about violence in the Balkans led to a new cross-party consensus on the Bundeswehr’s participation in the NATO-led Dayton Agreement Implementation Force (IFOR) in 1996 to implement the US-brokered Dayton peace accords signed in November 1995. Hyde-Price noted that ‘the commitment of 4000 troops to IFOR constituted the largest out-of-area operation in the history of the Bundeswehr, and was thus an important landmark in the evolution of post-unification German security policy’.<sup>206</sup>

NATO’s follow on Stabilisation Force (SFOR) included 3000 German soldiers in Bosnia for combat missions. The deployment was approved by the Bundestag without much of debate (499 in favour, 93 against). Germany’s participation in the multilateral stabilisation force, such as IFOR/SFOR model of NATO, can help legitimise out-of-area deployment for the Bundeswehr. It also can be seen as an important step towards the normalisation of post-unification German foreign policy. As Calic pointed out, the IFOR/SFOR model serves military and institutional interests simultaneously and efficiently.<sup>207</sup>

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<sup>205</sup> Maull, H. W., ‘German Foreign Policy, Post-Kosovo: Still a Civilian Power?’, *German Politics* vol.9, no.2 (August 2000) p.7

<sup>206</sup> cited in Hyde-Price, A., *Germany and European Order: Enlarging NATO and the EU* (Manchester University Press, 2000) p.148



## *Kosovo War*

When the new government took power in late 1998, Germany's allies were watching closely whether the leaders of new generation (with less burden of Germany's military past), Schröder and Fischer, would seek for a more assertive or even militarisation of foreign policy. The Red-Green coalition government declared that

'The participation of German armed forces in measures to maintain world peace and international security is tied to the observance of international law and German constitutional law. The new federal government will actively support maintaining the United Nations' monopoly on the use of force and strengthening the role of the Secretary General'.<sup>208</sup>

The first crisis that tested the newly formed coalition's policy was the Kosovo War, which happened soon after the inauguration. Bonn received a request from Washington asking for the German commitment in full Bundeswehr participation in NATO's AWACs and other indirect forms of combat in order to increase the pressure on Milosevic. However, this operation was not under the UN Security Council mandate and thus against the new government's declaration or even violate international law.

The instability in the Balkans has always been a concern to prevent a wave of refugees heading for Germany. Although the German government had urged the EU to develop a coherent foreign and security policy towards the Balkans, it was

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<sup>207</sup> *ibid.* p. 170

understood that the region would continuously need US engagement. When the conflict between the Kosovo Liberation Army and Serbian security forces was growing, the German Foreign Ministry lobbied Washington to offer 'political leadership'. Therefore, once Washington decided to use NATO as an instrument to exercise US leadership in reshaping European security, Germany felt obliged to provide support, including military deployments. Humanitarian intervention was used by the government to give legitimacy for their foreign policy objectives,<sup>209</sup> although the involvement in Kosovo operation was not UN-sponsored but self-mandating by NATO. Opposed to the Gulf War, there were few demonstrations in Germany. The deployment of the Bundeswehr to participate in NATO combat operations was supported by the majority of the German public.<sup>210</sup>

In response to Serbian violence in Kosovo, NATO launched Operation Deliberate Force, including the German air forces for intensive air campaign in the Yugoslav Federation. An overall clear majority of the electorate supported German participation in the air strikes, and fifty percent were willing to see them continued even if German soldiers would be killed.<sup>211</sup> It was for the first time since 1945 that German forces engaged in offensive military missions against a sovereign state. However, it needs to be stressed that the Bundeswehr operated only as part of multilateral NATO operation and took up arms solely for humanitarian purposes. The aerial assault on Yugoslav military units and military-related civic infrastructure, without a UN mandate, was condemned by Russia, and soured the relations between Russia and the West.

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<sup>208</sup> Denison, A., 'German Foreign Policy and Transatlantic Relations since Unification', *German Politics* vol.10 April 2001 no.1, p.163

<sup>209</sup> Hyde-Price, A., *Germany and European Order: Enlarging NATO and the EU* (Manchester University Press, 2000) p.158

<sup>210</sup> Harnisch, S., 'Change and Continuity in Post-Unification German Foreign Policy', *German Politics* vol.10 April 2001, no.1, p.41

Germany was aware that a pan-European security system could not exclude Russia as a partner and the relations needed to be amended as soon as possible. Hence, German representatives from the government visited Moscow for political dialogues. The German government also used the G8<sup>212</sup> summit in Bonn as the forum to settle differences and reach an agreement. Given its presidency of the EU, Germany took initiative and proposed the 'Stability Pact for Southeast Europe' aiming at stabilising the region through economic investment and support. With the former head of the German Federal Chancellor, Bobo Hombach as the special co-ordinator, the Stability Pact promoted economic reform and a new pan-European security system based on conflict prevention and supported the process of democratisation in the region.<sup>213</sup> German policy in Kosovo related to Germany's concern about stability in southeastern Europe, since European stability had always been a major concern of German post-war foreign policy.

After one year of co-ordination, the Red-Green coalition had managed to deliver important reforms in taxation, pensions, citizenship and other areas. The Greens had been liberal enough to support the SPD's corporatist pro-business tendencies. However, the Chancellor's determination to normalise German foreign policy, meaning more Bundeswehr deployments, has made the Greens to face the crisis of betraying its roots – pacifism. The problem of normalisation now lies within the ruling coalition. Germany's role in the Kosovo conflict nearly split the Greens in 1999. Nevertheless, in the case of Kosovo, many Greens were fundamentally in

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<sup>211</sup> Maull, H. W., 'German Foreign Policy, Post-Kosovo: Still a Civilian Power?', *German Politics* vol.9, no.2 (August 2000) p.10

<sup>212</sup> the seven leading economic nations plus Russia.

favour of German deployment, but they were much less convinced over Afghanistan.<sup>214</sup>

### *Afghanistan War on Terrorism*

After the terrorist attack on the United States shocked the world, the US invoked Article 5 of the North Atlantic Treaty which stated that an armed attack against one or more of its allies is an attack against them all. The US interpreted the definition of 'attack' should include terrorism, sabotage and organised crime.<sup>215</sup> European governments, including Germany, expressed their sympathies and condemned the terrorists. However, Germany, which had always declined to commit combat troops to international peacekeeping missions until the Kosovo conflict of 1999, once again faced the dilemma.

Chancellor Schröder has realised that Germany needs to play a more significant role in the international affairs and determined to move on from Germany's post-war constraints on overseas military activity. His vision of extending Germany's international role is broadly shared with the Foreign Minister, Joschka Fischer. In August 2001, just one month before the terrorist attack, Schröder confronted the opposition of seven Green and 28 SPD MPs on the initial vote regarding German military involvement<sup>216</sup> (550 troops and support personnel) in the UN mandate, NATO-led peacekeeping operations to disarm Albania rebels in Macedonia. The

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<sup>213</sup> Hyde-Price, A., *Germany and European Order: Enlarging NATO and the EU* (Manchester University Press, 2000) p.p.158-159

<sup>214</sup> 'Germany's passionate Green', *Financial Times*, 28 December 2001, p.13

<sup>215</sup> 'Assault on America Politics: EU doubts grow over switch in NATO role', *Financial Times*, 19 Sep. 2001, p.4

opposition embarrassed Schröder by losing the majority vote and having to rely on opposition support. Germany's participation in the NATO's missions in Afghanistan had drawn international attention, given the size and scope of Schröder's commitment to offer unlimited support for the US, including possible military participation. The stakes were much higher if Schröder could not get the support of the junior partner in coalition.

While Fischer had backed Schröder, the Greens risked a division in the party. Fischer sought for solidarity in the Bundestag and stressed that evading the responsibility would much more likely to fuel the terror. He addressed to the Bundestag:

'We should have realised ... that economic globalisation alone is not enough, if the number of political conflicts in the world continues to increase, if injustices remain untackled and if there is not multilateral effort by the international community ... to create an order based on human rights, democracy, justice and sustainability which attempts to reconcile different interests in the burning conflicts of this world.'<sup>217</sup>

In his speech, he repeatedly mentioned that open and democratic society should be able to support humanitarian commitment. His attempt was to find a common ground shared with the Greens. He said that military intervention was not for the purpose of implementing a policy of war, but of preventing unpredictable consequences, by using

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<sup>216</sup> 'Berlin coalition seeks to rally support on Macedonia troop deployment SPD and Greens need to persuade mavericks in their own ranks to back Bundeswehr role in NATO', *Financial Times*, 20 August 2001, p.4

<sup>217</sup> Speech by Federal Foreign Minister Fischer before the German Bundestag on 26 September 2001 on the international consequences of the terrorist attacks in the US and their effects on the foreign policy of the Federal Republic of Germany.

all the means from the military side to the humanitarian, including economy, politics and culture.

The EU has shown a remarkable sense of solidarity with the US, based on the realisation that if there was any sign of weakness of the Europeans, the terrorist could be encouraged to hit at Europe as well. In an event like this, military deployment seemed to be inevitable. Chancellor Schröder planned to deploy nearly 4000 troops to join in the US-led coalition against terrorism, but the international discussions among the Greens alerted Schröder that he might have to depend on opposition votes to support military involvement in the attack on terrorism. Fischer made a plea to his pacifist party for support, 'if the answer is no, it will have wide-range consequences for the Federal Republic, its credibility as an alliance partner and even for the European Union.'<sup>218</sup> He also threatened to resign if the Greens failed to give sufficient support to the government. The reason was that if Schröder had to rely on the opposition on such a crucial issue would be a devastating blow to the government's credibility at home and abroad.

The Chancellor's call for a vote of confidence in his leadership was seen as a way to impose discipline on his own party and the Greens. The message sent was that they should not shirk responsibility if they wanted to stay in government. Schröder had to crack the whip, otherwise he could face further parliamentary embarrassment over troop deployments. For the SPD's leadership, the vote would also oblige the pacifist Greens once and for all to decide whether to accept the deployment of German

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<sup>218</sup> 'Greens may not back Schröder's line on War', *Financial Times*, 9 November, 2001, p.12

soldiers outside the NATO area, so that a repetition of government crises could be prevented.

Some Greens MPs accused Schröder of 'blackmailing' the Greens with their extinction in the government. It was not entirely true. Schröder expressed his preference to continue the current coalition, because the other possible coalition partner, the FDP, could neither nurture a leader to match the long-serving former foreign minister Hans-Dietrich Genscher, nor provide someone who was as charismatic as Fischer. Schröder also showed willingness to amend the government's troop deployment plans to include a more precise definition of the mandate and clarification of the regions where German soldiers may serve. Fischer also announced additional humanitarian aid for Afghanistan as an additional inducement to appeal to his colleague's moral values.<sup>219</sup>

To everyone's relief, the Greens agreed with an unexpectedly large majority to support the deployment of up to 3900 German troops. The result would ensure the survival of the Red-Green coalition until general election in autumn 2002. It also indicated the Green Party's growing recognition or adaptation of the role of military force, albeit in limited circumstances, which would be very helpful for Schröder-Fischer determination to return Germany to a 'normal' military power if it is to be a stronger player on the world stage. The 'Fischer factor' contributed a lot to unite the coalition government. From Kosovo war to Afghanistan was, his passionate speeches at party conferences and adroit behind-the-scenes lobbying successfully won the sceptics round. Fischer showed the courage to take on controversial issues,

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<sup>219</sup> 'Schröder's Showdown', *Financial Times*, 15 November 2001, p.22

irrespective of compromising core values – notably pacifism – of his Green Party, in order to demonstrate Germany's greater willingness to share military burden with its international partners.

Fischer recalled that 'Schröder and I were fully convinced that, if we did not manage to rise to the challenge, it would have been a tragedy not just for Germany ... there would also have been consequences for Europe as a whole.' Meanwhile, he reassured Germany's commitment to multilateralism, 'our readiness to take on new roles is based on the core values of post-war Germany: no missions just for prestige; and everything rooted in the European and Atlantic alliances'.<sup>220</sup> His statement seemed to have answered the question raised in the world: is Germany still a civilian power?

### *Still a Civilian Power?*

In the last decade, German foreign policy showed a tendency moving towards 'normalcy'. The 'normalisation' process includes Bundeswehr reform<sup>221</sup> and constitutional clarification. The purpose was to normalise the capacity of German troops and legitimise our-of-area deployments. There were also differences in the attitudes of the government and the public. From Yugoslav crisis to Kosovo War, the government policy changed from 'check-diplomacy' to Bundeswehr deployment for combat missions. The demonstrations of German people were greatly reduced.

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<sup>220</sup> 'Germany's Passionate Greens', *Financial Times*, 28 December 2001, p.13

<sup>221</sup> The Ministry of Defence proposed to cut total Bundeswehr strength by a third to 255,000 but to triple the size of crisis reaction force from 50,000 to 140,000. See Denison, A., 'German Foreign Policy and Transatlantic Relations since Unification', *German Politics* vol.10 April 2001 no.1, p.p.162-164



Instead, the public concern about human rights and support government's humanitarian intervention have grown.

The big step towards normalcy was led under the Schröder-Fischer government. During the Kohl era, the government tended to hold back on troop deployment. Even when Bundeswehr was deployed, the missions were strictly limited on humanitarian assistance. The first Bundeswehr forces' participation in combat missions was deployed by Chancellor Schröder in Kosovo War. The use of military force was part of normalisation. Although German foreign policy is becoming more assertive, especially under the new government, the main principle – humanitarian interventions within multilateral framework – is generally unchanged. Therefore, Germany is still a civilian power. When Fischer addressed UN General Assemble on 10 November 2001, he appealed to the UN to strengthen its ability and take appropriate actions when necessary. He said that 'the future will belong to a policy of responsibility for our One World, a policy based not on hegemonial claims but rather on co-operations, solidarity, and multilateralsim'.<sup>222</sup>

Additionally, *Westbindung* remained a distinctive feature in German foreign policy. The wars in Kosovo and Afghanistan did not have a clear mandate, but Germany deployed troops and legitimised it as humanitarian intervention. There was another important reason behind - for 'alliance solidarity'. The expectation of its allies (particularly the US) was one of the important factor to push Germany assume a greater role in world affairs. Germany's post-unification policy is no more assertive than its Western allies. The normalisation of German foreign policy came with the

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<sup>222</sup> Fischer addressed the 56<sup>th</sup> General Assembly of the United Nations on 10 November 2001.

recovery of sovereignty after unification. What accompanied the normalisation of the united Germany was the new responsibility for the world, given its size, population, and economic strength.

## **Conclusion**

The German economic power was derived from its distinctive economic system (known as the German model) and monetary policy. The success of German economy was chosen as a model to establish the European monetary system. However, while the German model was shaping its milieu, the model itself needed reforms to meet external challenges, namely globalisation and European integration. The Germans, thus, have made an effort in economic reform to adjust the German system making it compatible with the external environment. At the same time, Germany has striven for the realisation of the single European market and European single currency to fulfil its commitment to European integration.

Meanwhile, Germany also required political-military reforms for return to a normal state. It is important not only for Germany but also for Europe, given the size and central position of Germany. Facing the instability in the Balkans and in the Middle East, Germany is no longer allowed to stay in its own shell. The united Germany, as one of the powerful countries in Europe, has been expected to take more responsibility, including military contributions, for international peacekeeping and humanitarian interventions. Hence, the constitutional and military reforms have been inevitable to legitimise Bundeswehr deployments, particularly for out-of-area missions.

The united Germany in the European Union is neither an economic giant nor a political dwarf. It has tried to normalise itself for being a normal state. Although Germany's economy is still strong in Europe, its economic institutions have embedded in the EU and its economic power has also been diffused in the EU. Germany and the EU have become inseparable. While Germany's military capacity has been slowly normalised, the troop deployments still stick to the principle of multilateralism and are only limited on humanitarian purposes. The importance of the EU for Germany only can be increasing, because Germany, as a multilateralist, needs European political union to guarantee the implementation of EMU and the development of European common foreign and security policy in the near future.

## **Part 2**

# **Germany's Foreign Policy in East Central Europe**

## **Chapter 5**

### **Germany's Policy in East Central Europe I:**

#### **Policy Motives and Policy Goals**

The demise of Communism in Eastern Europe was particularly significant for countries used to be situated along the dividing frontier of Germany and East Central Europe because they are no longer the outposts of the superpowers and the reconciliation of the relations became possible. Traditionally, there have been natural economic interdependence and cultural links between these countries. After half a century of division, the differences in their political ideologies and economic systems would need to be adjusted, and thus the German government has committed itself in participation in the transformation process of the region and offering necessary assistance. East Central European countries are particularly important for Germany, because they are its nearest neighbours and will soon be admitted to the European Union.

Chapter five, six, and seven will look into Germany's policy in East Central Europe after 1989. To understand the policy in the region, it is necessary to investigate what motivated the German government to pay more attention to its eastern neighbours and what the policy goals that the German government attempts to achieve (chapter five). To attain the policy goals, the government needs to launch some programmes coordinated by government institutions as the instruments of the policy. The efforts made by non-governmental institutions are also notable (chapter six). Privatisation

and the establishment of small and medium-sized enterprises (SMEs) are regarded as crucial strategies to transform the former communist economies to market economies, and thus they are taken as an example of the German government's policy strategy in East Central Europe (chapter seven).

The chapter is arranged into three sections. The first section defines the region 'East Central Europe' and discusses its unique geopolitical position. The second section discusses the policy motives of the German government. It explores the reasons why the East Policy regains its importance in Germany's foreign policy and Germany's interests and concerns in East Central Europe. The final section explores the policy goals towards East Central Europe. It looks at the aim of East Central European Policy and how the German government attempts to achieve the policy goals.

### **Where is East Central Europe?**

- The term 'East Central Europe' has been used to cover the area between Germany and Russia since the end of the Cold War. Before the World Wars it was called 'Central Europe' and then re-named 'Eastern Europe' together with the other Warsaw Pact countries in the post-war era. To distinguish from West Central European states – Germany and Austria, East Central Europe consists of the Visegrad countries – Poland, Hungary, the Czech Republic and Slovakia. These countries have formed a distinct group due to their relatively advanced economic and political reforms and close relations with the West.<sup>223</sup>

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<sup>223</sup> Hyde-Price, A., *The International Politics of East Central Europe* (Manchester University Press, 1996) p.p. 6-7

East Central Europe has a unique geographic position in Europe. It is located between the Teutonic people of Germany and Austria in the West and the Slavic peoples of Eastern Europe. The majorities are either western Slavs or Magyars, with minorities of Germans, Jews, and Gypsies. Keith Crawford described East Central Europe as a land of 'in-between'.<sup>224</sup> He argued that the region more properly belonged to the West than to the East culturally. From the historical view, the Poles, Czechs, and Hungarians were very much part of Western Europe from the tenth to the fifteenth centuries. They were mainly tied to the Roman Catholic Church, which was predominant in Western Europe.

After the Second World War, the region was 'kidnapped, displaced, and brainwashed' and became 'Eastern Europe', as noted in the article 'The Tragedy of Central Europe' by the exiled Czech writer Milan Kundera in 1983. East Central Europe was 'kidnapped' without too much resistance, because of its unfortunate geopolitical location – a land between two strong powers (Germany and Russia). Without an equivalent power in the region, East Central Europe became a 'power vacuum'.<sup>225</sup> Traditionally, the region is regarded as within the German cultural sphere. As a result of numerous German minorities through ECE, German became an important foreign language in the region. Additionally, Germany has always traded with ECE, which has produced the interdependence and traditional relations. *Drang nach Osten* (advancement towards the East) has long existed in German history, which was often

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<sup>224</sup> Crawford, K., *East Central Europe Politics Today: From Chaos to Stability?* (Manchester: Manchester University Press, 1996), p.3

<sup>225</sup> Byrnes, R.F., (ed.), *Germany and the East* (London: Indiana University Press, 1973) p.51

criticised as Pan-Germanism or German colonisation in the East. When we visit the history of German-ECE relations, it is 'an uncomfortable journey through time'<sup>226</sup>.

Actually, East Central European countries share the military and strategic location with Germany. During the Cold War, the region also acted as a glacis in the front line for a superpower – the USSR. Although the collapse of communism ends its position as a staging post for the Soviet Union, the region seems have become a 'buffer zone' between the EU and the instability of Eastern Europe and the Balkans. As a consequence of the fact that the region straddles the national, ethnic and religious fault lines in Europe, it is vulnerable to its neighbouring break-up of the USSR and the civil war in former Yugoslavia. The unique geopolitical position of Germany and the region has enabled them to share their common interests. While the region is striving for being integrated into the mainstream of European affairs, Germany has been assisting and giving support, partly because of Germany's interest to have the region as an extension of the West. Hence it is particularly true for Germany that this area can be a buffer zone to safeguard Germany from the waves of eastern immigrants and the uncertainties in the East.

Since the end of the Cold War, some authors have argued that the region should 'return to Europe' by full integration into the economic, political and security structures of the West. East Central Europe has obtained more influence from the West, which results in their most advanced reforms in market economies and democracies. Poland, Hungary, and the Czech Republic have been included in the first round EU eastward enlargement. They have reoriented their international

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<sup>226</sup> Volgyes, I., 'Hungary and Germany: Two Actors in Search of a New Play', in Verheyen, D. et al.



relations towards the West in the aspects of foreign trade, political allegiance, diplomatic alliances and security relationship, due to the profound and dramatic changes of domestic and international environment.<sup>227</sup> Domestically, the East Central European countries have been transformed by the spread of democratic values, accelerating technological innovation and rising living standards. Meanwhile, their external relations have transformed by regional integration and multilateral institutions.

### **Policy Motives**

German policy motives can be summed up as the concerns over the closer economic relations between Germany and East Central Europe and the foreign workers migrating from the region.

#### *Ever-closer economic relations*

Germany is the second biggest trading state in the world. Its share of world trade was 9.6% in 1999, only next to the 12.4% of the USA (see Table 1). Its trade surplus exceeded one hundred thousand billion Deutschmarks in 1997 and reached DM136,099 billion in 1998 (see Table 2). To protect its economic interest, German foreign policy gives political stability and economic prosperity priorities. ECE and Eastern Europe accounted for 10% of the German export market in 1999.<sup>228</sup> About half of German export products to the world are motor vehicles (20%), electronic

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(eds.), *The Germans and Their Neighbours* (Oxford: Westview Press, 1993) p.280

<sup>227</sup> Hyde-Price, A., *The International Politics of East Central Europe* (Manchester University Press, 1996) p.3

<sup>228</sup> *Economic Fact Sheet on Germany*, April 2000 (Information Centre, German Embassy, London), p.4

goods (13%), and mechanical engineering (13%),<sup>229</sup> which also predominates in the ECE imports from Germany.

Table 1: World's Largest Trading Countries in 1999

Country	Share of World Trade
USA	12.4%
Germany	9.6%
Japan	7.5%
France	5.3%
UK	4.8%

Source: Economic Fact Sheet on Germany, April 2000

Table 2: German Trade Surplus 1991-1998 (DM billion)

Year	Export	Import	Trade surplus
1991	643,914	665,813	+21,899
1992	637,546	671,203	+33,656
1993	566,495	628,387	+61,891
1994	616,955	690,573	+73,617
1995	664,234	749,537	+85,303
1996	690,399	788,937	+98,538
1997	772,149	888,616	+116,467
1998	814,028	950,127	+136,099

Source: *Statistisches Jahrbuch für die Bundesrepublik Deutschland 1999*, p.269

As a trading state, German economic interests in its eastern neighbours have been highlighted. German-ECE relations in the new century should rise above the emotions generated by a burdensome past to the level of business like relations, if they are to prosper. Ann Phillips described the contemporary relations of Germany and Central-East Europe as the politics of reconciliation. She defined reconciliation as restoring friendship and generating a reservoir of mutual trust and friendly relations.<sup>230</sup> Andrei

<sup>229</sup> *ibid.* p.5

<sup>230</sup> Phillips, A. L., 'The Politics of Reconciliation: Germany in Central-East Europe', in *German Politics*, vol.7 no.2, Aug 98, p.66

Markovits and Simon Reich argued that German influence towards its eastern neighbours should be in the areas of economic co-operation and conflict reduction, rather than political bullying.<sup>231</sup>

German exports have won the best market positions in ECE markets. In the early 1990s, less than one-fifth of the imports in ECE was from Germany. German export markets in ECE have grown rapidly in the last 10 years. By the end of 1990s, German products have accounted for over one-third imported goods in ECE, which shows Germany's dominance in the ECE markets<sup>232</sup>. (see Table 3)

Table 3: German Position in ECE Market

	The biggest supplier	Market Position	1998 (%)*	1992 (%)*
Czech Republic	Germany	1	37.1	25.0
Hungary	Germany	1	34.5	23.5
Poland	Germany	1	32.2	23.1

Source: *Institut der deutschen Wirtschaft, Köln*

\*Percentage of imports from Germany

The sharp increase in German-ECE trade in the 1990s is dramatic. Over the past decade, the amount of German exports to ECE tripled to over DM 60 billion, compared with DM 20 billion in 1990. It is striking how the development of the ECE markets has caught up with Germany's western trading partners, i.e. Denmark, Japan, and Sweden, in the last 10 years. They have become even more important than Germany's southern neighbour the Switzerland and northern neighbour Denmark. In the early 1990s, German exports to Sweden, Japan, and Denmark were double to triple those to the ECE states. However, German exports to Poland exceeded those to

<sup>231</sup> Markovits, A. S. and Reich, S., 'Should Europe Fear the Germans?', in Huelshoff, M. G. et al. (eds.), *From Bundesrepublik to Deutschland: German Politics after Unification* (The University of Michigan Press, 1993) p.p.282-283

Sweden and Japan and became Germany's tenth export market in 1997. German exports to the Czech Republic exceeded those to Denmark in the same year. In 1999, Denmark's imports from Germany fell behind the ECE states. The trend suggests that the Czech Republic and Hungary would soon become more important export markets than Sweden and Japan (see Table 4).

Table 4: German Exports to the Major Trading Partners in 1990s (DM million)

Country	90	91	92	93	94	95	96	97	98	99	% <sup>1)</sup>
France	84,608	87,501	86,999	77,323	82,129	87,862	87,213	94,420	105,775	112,936	33.5
USA	47,007	41,727	42,704	46,751	54,159	54,611	60,114	76,617	89,303	100,837	114.5
UK	55,277	50,685	51,952	50,284	54,753	61,912	63,667	74,962	81,850	83,275	50.7
Italy	60,313	61,289	62,395	47,466	51,891	56,874	59,271	65,053	70,355	73,341	21.6
Holland	54,888	56,069	55,748	48,317	51,447	57,118	60,278	63,054	65,062	64,464	17.4
Austria	37,208	39,555	39,922	37,257	39,739	41,702	45,506	46,680	50,101	52,693	41.6
Belgium	48,104	48,730	49,579	42,745	45,868	49,139	49,832	51,666	53,896	51,217	.
Switzer.	38,853	37,644	35,605	33,797	37,067	39,681	37,791	39,847	42,636	44,679	15.0
Spain	22,882	26,508	27,425	20,493	21,659	25,795	28,640	33,071	38,414	43,359	89.5
Poland	7,635	8,475	8,233	9,702	10,353	12,695	16,366	21,666	24,113	24,157	216.4
Sweden	17,077	14,983	14,631	12,677	15,321	18,399	19,042	20,630	21,722	22,301	30.6
Japan	17,504	16,494	14,701	15,773	17,917	18,842	21,191	20,476	18,294	20,457	16.9
Czech <sup>2)</sup>	6,485	4,966	8,241	7,655	9,650	11,819	13,853	16,499	18,691	19,636	156.5
Hungary	6,061	4,220	4,687	5,158	6,376	7,028	8,349	11,665	15,254	16,597	173.8
Denmark	12,156	12,406	12,977	11,302	12,603	14,363	14,484	16,023	16,379	16,534	36.0

Source: *Statistische Jahrbücher für die Bundesrepublik Deutschland, 1990-1999*

- 1) Changes for the last 10 years (changes for the last 7 years in the case of the Czech Republic)
- 2) 90-92 including Slovakia
- 3) Up to and including 1998, Belgium and Luxembourg were covered and represented as one country unit. Since 1999, it has been possible to show the result for the two countries separately.

Nearly half of German export goods to the Czech Republic and Hungary, or more than one-third of German export goods to Poland are machinery, electronic products, and motor vehicles (see Table 5). Moreover, around 90% of German exports to ECE are finished products (see Table 6). The statistics show that ECE relies on Germany for the supplies of high-technology products. German strong industrial products have found receptive markets in ECE.

<sup>232</sup> 'Aussenhandelstrends in Mittel- und Osteuropa und die Marktposition Deutschlands',

Table 5: Top Ten Products of German Exports to ECE

	Poland	The Czech Republic	Hungary
1	Machinery (17.7%)	Machinery (19.1%)	Machinery (17.1%)
2	Textile/clothing (15.5%)	Electronic products (17.2%)	Electronic products (16%)
3	Chemical products (10.8%)	Motor vehicles (9.6%)	Motor vehicles (14.8%)
4	Motor vehicles (9.8%)	Chemical products (8.4%)	Textile/clothing (10.2%)
5	Electronic products (9.4%)	Iron & steel products(8.4%)	Chemical products (9.3%)
6	Plastic products (7.5%)	Textile/clothing (8.1%)	Plastic products (5.8%)
7	Iron & steel products(6.2%)	Plastic products (6.7%)	Iron & steel products(5.6%)
8	Metal products (2.9%)	Metal products (3.3%)	Metal products (3%)
9	Paper (1.6%)	Precise/optical products (2.4%)	Precise/optical products (2.2%)
10	Precise/optical products (1.6%)	Rubber products (1.2%)	Leather (2%)

Source: *Bundesministerium für Wirtschaft Dokumentation Nr.403 'Wirtschaftsbeziehungen mit Mittel- und Osteuropa 1995'*, p.p.42,44,48

Table 6:

	Poland	The Czech Republic	Hungary
Raw materials	1.7%	1.2%	1.1%
Semi-finished products	4.6%	4.7%	2.7%
Finished products	87.2%	89.7%	93.1%

Source: *Bundesministerium für Wirtschaft Dokumentation Nr.403 'Wirtschaftsbeziehungen mit Mittel- und Osteuropa 1995'*, p.p.42,44,48

The value of German imports from ECE is also impressive. It increased from DM16 billion in 1990 to DM55 billion in 1999 (see Table 7). The low-priced products from ECE have attracted German buyers, which has enabled ECE to keep a small amount of trade imbalance with Germany. Moreover, the increase of German imports from ECE enables the ECE states to earn hard currency to reconstruct their economies. Before 1997, among the ECE states, Poland exported the most to Germany. However, Germany has imported more from the Czech Republic than from Poland since 1998. Although Hungary's exports to Germany have been always less than those of Poland

and the Czech Republic, its growth of exports to Germany (290%) is the highest among the region. Despite the quick growth of ECE exports to Germany, they are still far behind Germany's tenth import supplier, Spain. The above evidence demonstrates that the value of the ECE states for Germany is more of export markets, rather than import suppliers.

Table 7: German Imports from the Major Trading Partners in 1990s (DM million)

Country	90	91	92	93	94	95	96	97	98	99	% <sup>1)</sup>
France	65,835	78,877	76,423	65,433	67,653	73,086	73,634	81,090	91,145	89,689	36.2
USA	37,220	42,220	42,358	40,342	44,442	45,289	49,488	59,039	67,311	71,170	91.2
Holland	56,582	62,663	61,166	49,955	50,090	58,176	61,097	67,537	65,561	68,908	21.8
Italy	52,170	59,710	58,468	48,179	51,592	56,825	58,343	61,074	63,307	63,342	21.4
UK	37,405	42,693	43,572	35,462	38,134	43,569	47,486	54,342	56,226	59,431	58.9
Belgium	40,077	45,891	44,823	34,010	37,459	43,965	43,906	47,421	45,915	42,497	.
Japan	33,000	39,664	38,038	34,106	33,999	35,411	34,440	37,478	40,651	41,985	27.2
Austria	24,747	26,908	28,009	26,405	29,390	26,034	27,275	29,082	32,055	34,550	40.0
Switzer.	24,083	25,327	25,352	24,114	26,615	28,168	27,397	29,858	32,487	33,412	38.7
Spain	13,038	16,878	17,088	14,675	17,023	20,837	22,637	25,941	28,290	27,783	113.1
China	.	11,559	11,651	13,809	15,355	15,989	18,012	21,534	22,965	26,750	.
Czech <sup>2)</sup>	4,423	5,099	7,281	6,418	8,494	10,588	11,385	13,831	17,163	19,856	209.4
Poland	6,964	7,250	8,287	8,639	10,121	12,413	12,203	14,357	16,443	18,009	158.6
Hungary	4,488	4,277	4,624	4,526	5,408	6,909	7,945	10,857	14,548	17,503	290.0

Source: *Statistische Jahrbücher für die Bundesrepublik Deutschland, 1990-1999*

- 1) Changes for the last 10 years (changes for the last 7 years in the case of the Czech Republic)
- 2) 90-92 including Slovakia
- 3) Up to and including 1998, Belgium and Luxembourg were covered and represented as one country unit. Since 1999, it has been possible to show the result for the two countries separately.

Among the imported goods, about 80% are finished products, while only 3% are raw materials (see Table 9), which indicates that the ECE states are no more just raw materials suppliers. The Czech Republic and Hungary have developed quite developed industries. Forty percent of their exports to Germany are industrial goods, i.e. iron and steel products, electronic products, machinery and motor vehicles. However, over 35% of Polish exports to Germany are textile and wooden products (see Table 8). This fact can explain the reason why the growth of German imports

from Poland (158.6%) is not as fast as the growing imports from the Czech Republic (more than 200%)<sup>233</sup> and from Hungary (290.0%) over the last decade.

Table 8: Top Ten Products of German Imports from ECE

	Poland	The Czech Republic	Hungary
1	Textile/clothing (19%)	Iron & steel products(17%)	Electronic products (17.6%)
2	Wooden products (16.1%)	Electronic products (12.3%)	Motor vehicles (13.3%)
3	Iron & steel products(12.7%)	Textile/clothing (10.5%)	Textile/clothing (12.1%)
4	Electronic products (6.4%)	Machinery (10.4%)	Iron & steel products(10%)
5	Motor vehicles (6.3%)	Motor vehicles (7.4%)	Machinery (9.7%)
6	Metal products (5.7%)	Wooden products (6.9%)	Meat products (4.8%)
7	Chemical products (4.5%)	Chemical products (4.8%)	Metal products (4%)
8	Machinery (3.5%)	Plastic products (4.3%)	Leather shoes (3.4%)
9	Vegetable, fruit, food (3.5%)	Metal products (3.1%)	Wooden products (3.4%)
10	Coal (3.1%)	Coal (2.3%)	Plastic products (3.2%)

Source: *Bundesministerium fürWirtschaft Dokumentation Nr.403 'Wirtschaftsbeziehungen mit Mittel- und Osteuropa 1995'*, p.p.42, 44, 48

Table 9:

	Poland	The Czech Republic	Hungary
Raw materials	3.9%	3.5%	1.1%
Semi-finished products	12.5%	10.1%	4.7%
Finished products	75.1%	81.1%	81.5%

Source: *Bundesministerium fürWirtschaft Dokumentation Nr.403 'Wirtschaftsbeziehungen mit Mittel- und Osteuropa 1995'*, p.p.42, 44, 48

The transformation of the reform states to efficient market economies and democratic societies requires a large amount of foreign capital inputs and capital flows to finance the reconstruction. Among Eastern European states, Hungary, the Czech Republic, and Poland are the most successful states in attracting foreign investments. The decrease of political risk has increased German investment in the region. Poland is the most popular destination of German investment among the ECE states, while the

<sup>233</sup> The author cannot be specific about the percentage, because the statistics of German imports from

Germans are the biggest foreign investors in the Czech Republic. In 1996, German direct investment in Poland was DM1.95 billion and DM1.07 billion in the Czech Republic and DM 0.92 billion in Hungary.<sup>234</sup> Poland is the fifth most popular German investment destinations. Three percent of German investment went to Poland, compared with 2% to the USA in 1999 (see Table 10). In ECE, Germany accounted for 25% of FDI in the Czech Republic, 10.8% of FDI in Poland, and only 6% of FDI in Hungary.<sup>235</sup>

Table10: German Investment Abroad by Country in 1999

UK	Sweden	France	Italy	Poland	USA	Others
45%	23%	6%	4%	3%	2%	17%

Source: Economic Fact Sheet on Germany, April 2000

The ever-closer economic relations with ECE suggests that the German government chose to assist the economic structural reform in ECE in order to improve the business environment of ECE in the interest of German enterprises. A successful economic reform can improve local infrastructures and law systems (i.e. property rights and free transfer of capitals and profits abroad) in ECE to correspond to western standards. It may be easier to do business with the partner states which have similar economic systems. Hence, over one-fifth of the German budget for the transformation consulting programme in 2002 went to the business sector and nearly one-fifth of that was spent on training (see table 11). Details about the TRANSFORM Programme will be discussed in next chapter. The economic element has played an important part in German interests in ECE.

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the Czech Republic alone before 1992 is not available.

<sup>234</sup> 5 Jahr TRANSFORM Beratung für Mittel- und Osteuropa Bilanz und Ausblick, Publikation von Bundesministerium für Wirtschaft, Bonn, June 1998, p.20

<sup>235</sup> ASGP Conference Paper, Institute for German Studies, the University of Birmingham, April 2000



Table 11: Fund Distribution of TRANSFORM Programme 2002

Sectors	%
Government and law consultation	12
<b>Business sector</b>	<b>21</b>
Financial sector	4
<b>Training</b>	<b>17</b>
Agricultural sector	2
Administrative co-operation	3
Experts with Centre for International Migration & Development	15
Others (i.e. trans-regional funds and mandate costs, etc.)	28
Sum	100

Source: *TRANSFORM: Beratung für Mittel- und Osteuropa, Bericht von BMZ*, Bonn, March 2002, p.5

### *Foreign Workers from East Central Europe*

German immigration policy was originally labour-market policy to counteract the inflationary pressure of a full employment economy.<sup>236</sup> Foreign workers take up around 10 per cent of German labour market, and about half of them work in the construction or construction-related sectors.<sup>237</sup> The majority is from Eastern Europe taking 42.2% of the total foreign workers in 2001. Next to Eastern European workers are the workers from Asia accounting for 22.5% in the same year. (see table 12) The fact that the Eastern Europeans contribute the most to German foreign labour forces has drawn the German government's attention.

<sup>236</sup> Joppke, C., *Immigration and the Nation-State: the United States, Germany, and Great Britain* (Oxford University Press, 1999) p.65

<sup>237</sup> Interview at *Bundesministerium für Arbeit und Sozialordnung*, October 2001

Table 12: Work Permits Issued during the Period of 01.08.00 – 07.09.01

	Work permits issued	Percentage
Eastern Europe	3,957	42.2%
Asia	2,107	22.5%
North Africa	314	3.3%
South America	236	2.5%
Others	2,771	29.5%
<b>Totality</b>	<b>9,385</b>	<b>100%</b>

Source: BMA report August 2001

The German government banned the recruitment of foreign workers (except for EU nationals) back in November 1973, which was confirmed and enacted into law through the 1991 amendment of Germany's legislative provisions regarding foreigners. Since 1989, there have been exceptions to the recruitment ban. Agreements on contract workers and guest workers have been negotiated and achieved with the reforming states in Central and Eastern Europe as assistance in supporting their reform processes. The purpose is to introduce foreign workers from the region to western technologies, improve their language skills, increase their chances of finding a job in their local labour markets, and to lay a foundation for setting up a business of their own in their home countries. It is also a method for the German government to combat illegal migrations by close co-operations with the transit countries to tackle the problem fundamentally and offering people good living conditions in their home countries.<sup>238</sup>

There are three categories of agreements on contract workers, guest workers and seasonal workers. Contract worker agreements are part of inter-company co-operations. Workers who are sent by their employers in their home countries to

Germany are allowed to work for a period of maximum three years under a contract for work and services. The contracting states set quotas for the number of workers who can be employed under these provisions, and the relevant ministry in the respective home country allocates these quotas upon application by individual firms. Guest worker agreements are specific forms of assistance for Central and Eastern Europeans. A limited number of skilled workers between the age of 18 and 40 may be employed in Germany for a period of 12 to 18 months in order to improve their language and occupational skills, so that their personal chances in the labour markets of their respective home countries can be improved.

A guest worker's employment is based on the labour and social regulations and issued work permits regardless of the situation on the labour markets. However, the employment of seasonal workers must depend on the current situation of the labour markets. Since 1991, workers from certain non-EU states have been allowed to work as seasonal workers in Germany for up to three months a year. Seasonal workers are employed in economic sectors with seasonal demand for labour, such as agriculture and forestry, hotel and catering, saw milling, fruit growing, horticulture, and viticulture.<sup>239</sup>

Table 13 shows the distribution of foreign workers in the economic sectors. Nearly half of Polish workers are in construction and construction-related sectors. More than one quarter of Polish workers works in iron or steel industries, while less than two percent of them work in restaurants. Similar to Polish workers, over sixty percent of the Czech workers are engaged in construction and construction-related business, but

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<sup>238</sup> *BMA SOPEMI 2000 Report on International Migrations*, p.41

<sup>239</sup> *ibid.* p.p.38-40

only three percent of them work for restaurants. The distribution of Hungarian workers is different from the above countries. The majority operates in processing industries and around one-third contributes in construction and construction-related companies. Surprisingly, no Hungarian workers work in restaurants.

Table 13: Distribution of foreign workers in the economic sectors:

	Agri -culture, forestry, energy, mining	Iron/ steel	Process -ing	Construc -tion	Construc -tion- related	Not specified	Restau -rants	totality
Poland	1,656 (8%)	5,591 (27.3%)	2,068 (10.1%)	6,669 (32.6%)	2,592 (12.7%)	1,539 (7.5%)	339 (1.7%)	20,454 (100%)
The CR	71 (4.4%)	97 (5.9%)	202 (12.4%)	668 (40.9%)	423 (25.9%)	117 (7.2%)	54 (3.3%)	1,632 (100%)
Hungary	45 (0.7%)	616 (9%)	3,973 (58%)	1,134 (16.6%)	998 (14.6%)	82 (1.2%)	0 (0%)	6,848 (100%)

Source: *Bundesanstalt für Arbeit Statistik III-1.3* July 2000

From table 14 to table 16, we can see that the majority of foreign workers from East Central Europe are seasonal workers. The actual amount of seasonal workers often exceeds the quota granted by the German government. Seasonal workers are welcome by German employers, because they cost less in social security and demand less wages. Also, they do not affect the German labour market, because they work only for a short period of time and their jobs are often undesirable for the local people. Seasonal workers are normally quiet and do not cause problems in the society. The majority works in agricultural sectors. The numbers of seasonal workers from Poland increase constantly, while the numbers decrease in the case of the workers from the Czech Republic and remain roughly the same for Hungarian workers.

In contrast, the numbers of guest workers are often far below the quotas. Guest workers in German firms are required to have basic language skills and qualifications. The conditions are more difficult for foreign workers to meet. Guest workers are not so welcome by German employers, because they cost the same as local employees in social security and German firms are required to offer them vocational training. Guest workers from East Central Europe have declined dramatically, which is particularly true for the Czech workers.

The trends relating to contract workers are similar to those of guest workers. The numbers are often lower than the quotas and reducing. Contract workers have professional qualifications and experiences and thus tend to demand fair salaries. Their companies in the home countries are usually the partners of joint ventures with German firms. International co-operation and partnership are stressed. Over half of them work in construction and construction-related sectors. Contract workers' skills can be in need of Germany, notably the mining industry. The German labour market will open to East Central Europe step by step after their admissions in the EU. However, the transitional period will perhaps take about seven years.<sup>240</sup>

Table 14: Contract Workers: (highly skilled; maximum three years)

	Quota	94	95	96	97	98	99	00
Poland	22,710	13,774	24,499	24,423	21,104	16,942	18,243	18,537
The Czech Republic	2,970	1,693	2,150	1,947	1,439	1,060	1,399	1,445
Hungary	6,980	8,890	9,165	8,993	5,813	5,036	6,429	6,705

Source: BMA, SOPEMI 2000 & 2001 Report on International Migrations

<sup>240</sup> Interview at the *Bundesministerium für Arbeit und Sozialordnung*, October 2001

Table 15: Guest Workers: (skilled; 12-18 months)

	Quota	93	94	95	96	97	98	99	00
Poland	1,000	943	1,002	967	722	654	579	592	654
The Czech Republic	1,400	1,577	1,209	1,224	754	381	330	422	701
Hungary	2,000	1,370	1,450	1,289	1,072	829	790	922	1,226

Source: *Bundesanstalt für Arbeit* January 2001

Table 16: Seasonal workers (non-skilled; three months a year)

	Quota	94	95	96	97	98	99	00
Poland	199,500	136,659	170,576	196,278	202,198	187,690	205,439	229,135
The CR	1,900	3,465	3,722	3,391	2,347	1,956	2,029	3,235
Hungary	3,330	2,458	2,841	3,516	3,572	2,828	3,485	4,139

Source: BMA *publikation Nr. 50* on December 2000 p. 5128 & SOPEMI 2001 Report on International Migrations, table 19

Why do East Central Europeans come to work in Germany? A possible answer is that Germany is the closest western country for them. The wages in Germany are much higher than that in East Central European countries. Table 17 presents that if the salary level in Germany stands for 100, then it is 25.7 in Poland, 29.7 in the Czech Republic, and 23.1 in Hungary. Although the level of salary in the Czech Republic is the closest to that in Germany, Germany's average monthly salary is 3-4 times higher than that of the Czech Republic. The average monthly salary in Hungary is the lowest among East Central European countries. Hungarian companies offer less than a quarter of the wages that German companies offer. Polish workers can earn almost four times more if they work in Germany.

Table 17: Monthly Salary in Comparison on the Basis of Purchase Power Proportion, 1996

	Monthly Salary in USD	Germany=100
Germany	2,011	100.0
Poland	518	25.7
The Czech Republic	598	29.7
Hungary	464	23.1

Source: *EU-Erweiterung und Arbeitskräftemigration, Forschungsbericht 286* (München: ifo Institut für Wirtschaftsforschung, 2000) p.34

Table 18 tells us the salary developments in the second half of the 1990s. The level of salary in Hungary had not been improved but worsened. The salary development in Poland was the most promising, while salaries increase steadily in the Czech Republic. The reason why people seek to work abroad can relate to domestic unemployment. Unemployment rates in Poland and Hungary are over 10% but both are decreasing. The Czech Republic has the lowest unemployment rate among the region, but it was doubled in 1998. (see table 19)

Table 18: Salary Developments in Industries, 1995=100 (in uniform currency)

	94	95	96	97	98	99
Poland	84.2	100	102.7	102.3	110.0	126.4
The Czech Republic	96.9	100	108.8	107.9	119.9	119.2
Hungary	122.7	100	92.8	92.0	86.4	89.3

Source: *EU-Erweiterung und Arbeitskräftemigration, Forschungsbericht 286 (München: ifo Institut für Wirtschaftsforschung, 2000) p.38*

Table 19: Unemployment Rates in East Central Europe

	94	96	98
Poland	16.0%	13.2%	10.4%
The Czech Republic	3.2%	3.5%	7.5%
Hungary	12.0%	11.4%	9.6%

Source: *EU-Erweiterung und Arbeitskräftemigration, Forschungsbericht 286 (München: ifo Institut für Wirtschaftsforschung, 2000) p.33*

In comparison, the Czech Republic is able to provide the best working environment and conditions, i.e. better and increasing salaries and higher employment rate. It explains the reason why less and less Czech workers work in Germany. Lower salaries and higher unemployment rates in Poland and Hungary still encourage people to look for jobs in Germany for higher income and more employment opportunities.

## Germany Policy Goal: Stabilisation and EU Eastward Enlargement

The contemporary German East Policy aims at stabilisation (*Stabilisierungspolitik*). The policy of stabilisation seeks to assist in creating a basis for structural reforms in the region.<sup>241</sup> The development of the structural reforms can stabilise the economy by constructing a sound economic structure. In fact, it has widened the gaps of economic developments between individual former communist states. The global financial turmoil of 1998 affected and challenged the political and economic stability of the new markets in southeastern Asia and other former socialist states, as a result of the interdependence of the world economy. It has been demonstrated that the more advanced economic reforms the states have achieved, the more capable the states are to resist the impact of global financial storm.

A successful transition, particularly structural reform, can be seen as the medicine to cure the structural weakness of the developing markets against external shocks. For example, the EBRD estimated that both the economies of Russia and Romania had contracted by 5 percent by the end of 1998, while that of the Czech Republic by 1 percent. Therefore, when economies confront global financial crises, strongly growing economies would slow down and the weaker ones would slide into recession.<sup>242</sup> The capacity for 'crisis resistance' (*Krisenresistenz*) rely on a successful transition. The gaps between advanced and less advanced transformation states have been continuously widened through the event of 1998. The German government intended to strengthen the 'crisis resistance' abilities of the ECE states by improving their economic structures, in order to stabilise the region.

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<sup>241</sup> *TRANSFORM: Beratung für Mittel- und Osteuropa Fortschreibung 1999, Publikation von BMZ, Nr.104 / Aug 99, p.6*



The German government has been consistently granting aid to the reform states for the purpose of stabilisation. The total amount of German assistance to the countries of Central and Eastern Europe and Russia, from 1990 to the end of 1998, was DM210.3 billion, including Germany's assistance in withdrawing and re-housing the Soviet troops once stationed in East Germany as well as investment protection and export guarantee.<sup>243</sup> Germany accounted for over 50 percent of the total funding made available by the G7 to the region for supporting the transformation of their economies.<sup>244</sup> It clearly reflected the importance that the German government attached to foster economic development on Germany's neighbours to the east.

Financial aid alone is not enough. The efficient way to fundamentally help the transition countries is to offer consulting services for the transfer of new knowledge and new skills in every field of economic and government activities. German experts with specialist backgrounds in public administration, private industry, scientific institutions, and associations and foundations are responsible for consulting services. German consultants draw on the specific German experience of reconstruction after the Second World War and also apply pertinent lessons learnt from the economic integration of eastern Germany after reunification. The core element of Germany's consulting model is a social market economy which is competition-oriented and stresses a pluralistic society. The specific objectives are a stable Europe in peace,

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<sup>242</sup> 'East Fails to live up to early promise' / Business, The Observer, 06 Dec. 1998, p.4

<sup>243</sup> 'Creating Market Economies: Germany's Assistance to the Countries of Central and Eastern Europe', Business Update at [http://www.germany-info.org/newcontent/be/be\\_4e.html](http://www.germany-info.org/newcontent/be/be_4e.html)

<sup>244</sup> *TRANSFORM: Beratung für Mittel- und Osteuropa Fortschreibung 1999, Publikation von BMZ, Nr.104 / Aug 99, p.7*

freedom and prosperity, the opening of new markets, and cultural exchange between the peoples.<sup>245</sup>

Due to the region's potential importance to Germany's economy, Germany is concerned about political stability and economic development in ECE. German exports of high-technology products to the region can be seen as means of aiding the transition towards the market economy. On the other hand, the growing abilities of the ECE states to exploit market opportunities in Germany have showed their potential to make a successful transition to the market economy. A market-oriented restructuring of the economies in ECE has gradually emerged through the intensive trade with the west, especially with Germany. Moreover, the ECE states are able to earn hard currency, which is essential for economic restructuring, through economic interaction with Germany. As James Sperling and Emil Kirchner pointed out, trade is an efficient transmission belt of economic growth and development.<sup>246</sup>

Additionally, liberalisation and decentralisation under the economic reforms in ECE have made a great contribution to the transition for a market economy. The decentralisation and liberalisation of the economy and the promotion of foreign trade and investment have resulted in a geographic reorientation of foreign trade toward Germany. Germany stepped into the vacuum caused by the collapse of Comecon. The dramatic increase of German-ECE trade implies that German interests in the region

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<sup>245</sup> *Transfer of Knowledge and Skills: the TRANSFORM Programme of the German Federal Government for the Central and Eastern European Countries in Transition*, BASIS-INFO IN-PRESS 28-1999/Development Policy, p.1

<sup>246</sup> Sperling, J. and Kirchner, E., *Recasting the European Order: Security Architectures and Economic Co-operation* (Manchester: Manchester University Press, 1997) p.p.130-134

has greatly risen, which are a stable Europe and a new market<sup>247</sup>. The increased economic activities between Germany and ECE would not only stabilise the region but also integrate the ECE states into a broader global economy.

Germany has supported the transformation process in a large number of ways right from the start through the TRANSFORM Programme. The TRANSFORM Programme is incorporated in international and other bilateral support measures for the transformation states in the East. At international level, the German projects are co-ordinated with other measures taken by the World Bank, the International Monetary Fund and the European Bank for Reconstruction and Development, as well the European Union and the European Investment Bank (such as the PHARE and TACIS Programmes).

Co-ordination also takes place at bilateral level with regard to similar programmes operated from the USA, the UK, France, the Netherlands, Canada, Sweden, and Japan. The TRANSFORM Programme co-operates with other multilateral institutions or states to assist in transformation process in Central and Eastern Europe. The ultimate goal of the German government is to help the region become eligible members of the European Union as soon as possible. The TRANSFORM Programme appears more like the German government's bilateral assistance to the East, but it aims at bringing the region in a multilateral framework.<sup>248</sup> More details regarding the programme will be presented in next chapter.

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<sup>247</sup> *5 Jahr TRANSFORM Beratung für Mittel- und Osteuropa Bilanz und Ausblick, Publikation von Bundesministerium für Wirtschaft, Bonn, June 1998, p.2*

<sup>248</sup> Interview at the *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*, August 2001

## Conclusion

Germany is the state with the closest economic and cultural links with the East within the EU states. It is the largest trade partner in the region and the main source of foreign investment. Germany accounted for more than half of the total EU flows with the region, providing 50 percent of exports and taking 54 percent of imports in mid-1990s. Germany has been regarded as an interpreter of interests and problems in countries of East Central Europe and its remarkable economic role carries a certain responsibility in this region.<sup>249</sup> The ECE states depend on German supplies of high-technology products, German investments in the main industries, and German assistance in market economy reforms. Although Germany has long been a natural hegemon in the region, it is no longer a military power or a political bully in ECE. The Germans pursue their national interests through co-operations with other states and use economics as their means. With its strong economic capacity, Germany can assist the economic development and has involved itself in the economic transformation to shape and strengthen the structures of the market economy in East Central Europe.

In 1990s German interests in ECE have increased dramatically, largely because of the reorientation of ECE trade with Germany, a growing ECE market for Germany, and a low-wage labour pool for German investments. The ever-closer German-ECE economic relations and notable amount of East Central European workers in Germany have motivated the German government to make more efforts on the protection of Germany's business interests and the regulations for foreign workers from East

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<sup>249</sup> Mark Fischer, *the Washington Post*, Sep. 18, 1999

Central Europe. Apart from business interests, the German government intends to improve living conditions in ECE through a successful transformation, because stabilisation and prosperity may alleviate the pressure of massive immigration from the East. The German government offers not only capital and financial aid but also consultation and training to help ECE build up the necessary institutions (i.e. private sectors) for a market economy and to assist in the liberalisation of government regulations for a free market. The TRANSFORM Programme was thus created to coordinate the government ministries' activities regarding Germany's assistance in the political and economic transformation in the region. The purpose is to help East Central European countries transform towards market economy and democracy, so that Germany would be able to worry less about East Central Europeans migrating to seek for a better life. Therefore, the policy aims at stabilisation in the area and eventually bringing them into the European Union.

To achieve its policy goals, the German government needs to organise some programmes and institutions as its instruments. This will be presented in next chapter.

## Chapter 6

### Germany's Policy in East Central Europe II:

#### Policy Instruments / Institutions

Joel Hellman, an economist at the EBRD, pointed out the problem of the centralised communist state economies was that they were not based on economic incentives but on political orders and the consequence was a distorted system<sup>250</sup>. Lord Robert Skidelsky, Chairman of the Centre for Post Collective Studies at the Social Market Foundation Think-tank, also commented that before the restructure of the economies, seventy percent of the industries would have to be destroyed and re-organised, because the whole economies were mis-developed<sup>251</sup>. Germany chose to offer help to reconstruct the fundamental structures of socio-economic systems, because only the structural reforms could correct the distorted systems and mis-developed economies. From the early 1990s, Germany started to run a consulting programme as an instrument to assist the structural reforms in ECE. Moreover, there are some instrumental institutions, such as the German Development Bank, the Hermes Export Credit Insurance Institution, and local chambers of commerce, responsible for the development and finance of German assistance. Non-governmental institutions, the *Carl Duisberg Gesellschaft* and political foundations, also serve as instruments to participate in the region's transformation process more flexibly.

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<sup>250</sup> 'East Fails to live up to early promise' / Business, *The Observer*, 6 Dec. 1998, p.4

<sup>251</sup> *ibid.*

This chapter investigates the government programmes organised to assist the transition process in East Central Europe, as well as the governmental and non-governmental institutions that are involved in the German assistance to the region. The most important government programme implementing in the region – *TRANSFORM Program* – will be presented in the first section. The second section will look into the most important government institution in charge of financing and advising the region – the *Kreditanstalt für Wiederaufbau* – and its associate institution *Hermes Kreditversicherungs* which promotes trade between Germany and East Central Europe in the third section. Non-governmental institutions that are participated in Germany's assistance in the region will be discussed in the final two sections.

### **TRANSFORM Consulting Programme**

While the reform states need new knowledge and skills in all areas of government and business, western industrial states can provide them with the availability of knowledge and skills. Germany's own experience of reconstruction after the World War II and the insights gained in integrating the Eastern German economy following unification may be offered as a valuable contribution. The German government set up its programme to offer direct help for economic transition in Central and Eastern Europe in 1990, immediately after the collapse of communist rule.

The TRANSFORM Programme – the Federal Government bundles its activities under this title – is an important instrument of the federal government to support the transition process in ECE and Eastern Europe. It aims to establish new structures and

to re-invent the entire economic system from planned economy towards market economy. From 1993 to 1999, the German government spent DM 1.64 billion for consultancy services in Central and Eastern Europe, including DM 296 million in ECE<sup>252</sup>. (see tables 1 and 2) From 1993 to 2001, around EUR 1 billion had been granted to Central and Eastern Europe, plus EUR 30.7 million budget in 2002.<sup>253</sup> Criteria such as demands, population size, absorption capacity, willingness to implement reform, and progress made in implementing reform are used to determine how available funds to be located.

Table 1: German Funds for TRANSFORM Programme 1993-1999

Year	1993	1994	1995	1996	1997	1998	1999	Totality
DM (mi)	300	300	300	285	178	150	130	1,643

Table 2: The Distribution of Total German Funds for TRANSFORM Programme 1993-1999

State	DM (billion)	Percentage
Russia	427	26%
Ukraine	181	11%
Poland	148	9%
Hungary	99	6%
Bulgaria	99	6%
White Russia	82	5%
Slovakia	66	4%
The Czech Republic	49	3%
Estonia	49	3%
Lithuania	49	3%
Latvia	49	3%
Other transition states	345	21%

From 1993 to 1998, the State Secretary Walter Kittel was appointed as the 'representative of the federal government for consultation in Eastern Europe' (*Beauftragte der Bundesregierung für die Beratung in Osteuropa*) to offer professional and political assistance. From the end of 1998, the responsibility and co-

<sup>252</sup> 5 Jahr TRANSFORM Beratung für Mittel- und Osteuropa Bilanz und Ausblick, Publikation von Bundesministerium für Wirtschaft, Bonn, June 1998, p.10

<sup>253</sup> TRANSFORM: Beratung für Mittel- und Osteuropa, BMZ, Bonn, March 2002, p.4



ordination of consultation were placed under the Federal Ministry of Economics and Technology (BMWt) for the consultation in economics, the Foreign Ministry (AA) for the consultation in foreign affairs, and the Ministry of Economic Co-operation and Development (BMZ) for the consultation in development co-operation. The government announcement of 27 October 1998 put the Ministry of Economic Co-operation and Development in charge of the TRANSFORM Programme.

The three main themes of the programme aim at strengthening bilateral economic relations and facilitating market and job potentials for both sides. They are to:

- Improve the necessary conditions and frameworks for social market economies through consultation at the level of governments, and establish the autonomy of economic service departments.
- Assist the structural reform on privatisation and create private enterprises and a middle class.
- Help the CEEC to join the EU by training and harmonising the socio-economic systems of the region.

Through the government-funded programme, German experts from academia, business communities, and public sectors help in the region's transformation by serving as consultants. Germany is not only a successful model of a social market economy (openness and competitiveness, combined with social welfare) with economics as the first element and the social security system as the second, but also of a strong federal structure. The German consulting services provide expert assistance in the following areas.

- Establishing necessary economic and political conditions and structures for a social market economy.
- Developing small and medium-sized business, in company structuring, privatisation, and in breaking cartels.
- Establishing tax, tariff, budget, banking, and insurance systems to create public finances and private financial service industries.
- Developing commercially oriented and privately owned agricultural sectors.
- Government and legal consultation in the area of commercial and labour policies.
- Establishing and reforming the administrative structures.
- Consultation in the areas of social policy, environmental protection, and urban planning.

Progress is monitored during the course of the individual consulting projects, and a final review is carried out at the conclusion of each project. An overall evaluation of the sectors of the states are made by the independent experts in the areas of partnership, the exchange system, social security, vocational training, the labour market, and social insurance. The results show that the large majority of projects so far have accomplished their goals with the help of German consulting services.

The basic principle of the programme is 'help for self-help' (*die Hilfe zu Selbsthilfe*)<sup>254</sup>. The German government expects the partner states to be able to continue the project without its support. The recipient states should be able to apply the experience gained from German-supported projects to other undertakings in the

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<sup>254</sup> *ibid.* p.3

public and private sectors. Besides, Germany hopes the more successful partner states would help other transition states which have similar problems by providing well-trained local experts.<sup>255</sup>

Table 4 shows that the major funding goes to the corporate sectors particularly to support small and medium-sized firms. The corporate sectors are promoted through chamber partnerships, building up a joint business promotion association in the areas adjoining the border to Germany, initial and further training courses for business and the crafts, and through advice to small and medium-sized firms. For example, the German-Polish Economic Promotion Association promotes corporate co-operation and investment projects, especially for small and medium-sized firms on both sides of the German-Polish border. Between 1994-1998, the Association has helped to establish 54 joint ventures and more than 50 co-operation projects.<sup>256</sup> Another main area of the funding is government consultation and legal advice especially on the EU and social policy issues, such as pensions, labour market and healthy policy. Over half of the funding is spent in corporate sectors and government consultation and legal advice sectors in the case of Poland and Hungary. Next to the above sectors, two important focuses are on initial and further training in the private sectors and agricultural sectors. (see table 4)

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<sup>255</sup> Translation and summary of the German government documentation: *TRANSFORM: Beratung für Mittel- und Osteuropa Fortschreibung 1999, Publikation von BMZ, Nr.104 / Aug 99*

<sup>256</sup> *5 Jahr TRANSFORM Beratung für Mittel- und Osteuropa Bilanz und Ausblick, Publikation von Bundesministerium für Wirtschaft, Bonn, June 1998, p.31*

Table 4: The Distribution of Funds for Technical Assistance in Poland and Hungary in 1997  
- in DM1000s and Percentage

	Poland	Hungary
Corporate sector	4,778 (42.1%)	1,887 (27.1%)
Government consultation & legal advice	1,291 (11.4%)	1,972 (28.3%)
Initial & further training in the private sector	1,350 (11.9%)	1,035 (14.9%)
Agriculture	1,160 (10.2%)	840 (12.1%)
Labour and social affairs	1,380 (12.2%)	590 (8.5%)
Research	500 (4.4%)	400 (5.7%)
Administration	885 (7.8%)	0 (0%)
Financial sector	0 (0%)	240 (3.4%)

Source: *5 Jahr TRANSFORM Beratung für Mittel- und Osteuropa Bilanz und Ausblick, Publikation von Bundesministerium für Wirtschaft, Bonn, June 1998, p.30&32*

\*The funds for technical assistance in the Czech Republic were almost finished by 1997, because of the country's more advanced development. The statistics are thus not available.

Among the East Central European countries, the transformation processes in the Czech Republic and Hungary have been quite advanced. Hence, the German government decided that no more funds for the Czech Republic from 1999 and for Hungary from 2001 under the TRANSFORM Programme and a noticeably reduction in funds was possible because of very little need for technical assistance on general questions of restructuring the economic system. The budget for Poland in 2002 was reduced from 9% to 7% of the total funds.<sup>257</sup> During the period of 1994-1998, DM 110 million had been granted to Poland, DM 70 million had been given to Hungary, and DM 39 million had been placed to the Czech Republic. (see table 3)

Table 3: Funds under German Technical Assistance Programme between 1994 and 1998

Poland	The Czech Republic	Hungary
DM 110 million	DM 39 million	DM 70 million

Source: *5 Jahr TRANSFORM Beratung für Mittel- und Osteuropa Bilanz und Ausblick, Publikation von Bundesministerium für Wirtschaft, Bonn, June 1998, p.30, 32, 35*

<sup>257</sup> *TRANSFORM Beratung für Mittel- und Osteuropa, BMZ, Bonn, March 2002, p.p.2-5*

After a decade, the Programme in East Central Europe has nearly come to an end. The economic structures have been well adjusted and reconstructed to be compatible with the EU systems. These countries have also been put on the right track towards democracy and market economies. The region will be included in the EU soon and the EU commission has provided lots of grants for developments. The German bilateral assistance thus can rest, but its assistance to the region through multilateral institutions continues. Now the German bilateral assistance concentrates on less-developed Eastern European countries which are more in need, such as Russia, Ukraine, and Belarus. Russia, as the leading country of the former communist bloc, will need more assistance, because it is crucial for the stability in the East.<sup>258</sup>

#### **German Development Bank (Kreditanstalt für Wiederaufbau, KfW)**

The KfW was founded in Frankfurt am Main in 1948. Its statutory functions are those of a promotional bank for the domestic economy and a development bank for the developing countries. The KfW extends long-term loans at preferential interest rates to finance exports of capital goods by German enterprises. Since the early 1960s, the KfW has promoted investments and exports to developing countries with favourable loans and grants on behalf of the German government.

The development policy of the German government intends to improve economic and social living conditions in the developing countries, including the ECE states. This goal is pursued mainly by bilateral, government-to-government assistance. The Ministry for Economic Co-operation and Development (BMZ) is responsible for

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<sup>258</sup> Interview at *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*, Bonn, August 2001

conducting and monitoring the assistance. It co-ordinates its measures with other federal ministries, including the German Agency for Technical Co-operation (GTZ). There are two forms of bilateral assistance, government-to-government co-operation with developing countries funded by the federal budget: financial co-operation and technical co-operation.

The Ministry for Economic Co-operation and Development represents the German government in all matters of financial co-operation. The KfW is its instrument to carry out financial co-operation. On behalf of the Federal Government, the KfW finances investment and reform programmes in developing countries and transition countries. In the year 2000, the KfW committed funds in the total amount of EUR 1.5 billion (EUR 1.6 billion in 1999) for the promotion of developing countries. Of the sum, EUR 0.9 billion for 95 projects was funded by the BMZ (EUR 1.3 billion for 110 projects in 1999). These commitments included EUR 51 million for the Stability Pact<sup>259</sup> of Southeast Europe.<sup>260</sup>

Under the financial co-operation of the German government with developing countries, the KfW finances investments to expand the economic and social infrastructure, agriculture, manufacturing industry, and to develop financial systems. Technical co-operation is intended to improve manpower and organisational efficiency in the developing countries by sending German experts. It is conducted by the German Agency for Technical Co-operation with which the KfW works closely on joint co-operation projects and technical matters.

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<sup>259</sup> The Stability Pact was drawn up in 1999 to create a political and institutional framework for international efforts to secure lasting peace in poor and restless Southeast Europe.

<sup>260</sup> *2000 Annual Report on Financial Co-operation with Developing and Transition Countries*, KfW, Frankfurt am Main, May 2001, p.10

The KfW's co-operation with the GTZ has now reached a very high level. The GTZ contributes to enhancing the capacities and efficiency of people and organisations in developing countries by transferring expertise and deploying qualified experts as advisers and by supporting the partner countries with training measures. The most important form of co-operation between the KfW and the GTZ is the joint country-specific strategic and conceptual advice to the BMZ in preparation and implementation of country strategy papers and priority strategies. In light of the privatisation and main-focus areas of operation introduced by the BMZ in 2000, this form of co-operation will continue to grow in importance.<sup>261</sup> In next chapter, more details regarding the privatisation strategy in East Central Europe will be discussed.

The KfW also supports project-related consulting services and promotes sectoral and structural economic reforms. Structural assistance is intended to contribute directly to structural adjustments and economic reforms in the developing countries. Its purpose is to support actions taken by the developing countries themselves in individual sectors (sector adjustment programmes) or in the economy at large (structural adjustment programmes). Structural adjustment programmes are designed to improve the overall economic and institutional framework in the developing countries and to encourage the mobilisation and efficient use of domestic and foreign funds.<sup>262</sup> The programmes have been extended to cover East Central Europe.

Under a mandate from the Federal Government, the KfW also plays a significant part in co-ordinating and implementing the TRANSFORM Programme with over EUR

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<sup>261</sup> *ibid*, p.12

<sup>262</sup> *Co-operation with Developing Countries*, KfW brochure, Frankfurt am Main, August 1999

29million. The programme, endowed with a total of EUR 56million, was designed primarily to advice 11 Central and Eastern European transition countries regarding the reform policies.<sup>263</sup> The KfW's main focal areas are improving the economic and legal conditions, the promotion of mainly small and medium-sized enterprises (including joint ventures), promoting the banking sectors, and preparing the advanced reform countries for EU membership.

Since autumn 1998, the KfW, acting under a mandate, had assisted the Federal Ministry of Finance in co-ordinating the partnership financed by the EU between public institutions in Germany and corresponding institutions in countries wishing to join the EU (Twinning Programme). Under the programme, public institutions in the EU member states advise their counterparts in the candidate countries on developing their activities.<sup>264</sup> In addition to the general co-ordination and support work, the KfW has been also able to prepare its own Twinning project in 1999. An environment loan fund in Hungary has been set up and launched successfully.

The growth of small and medium-sized enterprises (SMEs) is the basic constituent of the transition to a market economy. Since the beginning of the 1990s, overall liberation and deregulation occurred in ECE, which was reflected in free entry to and exit from business and in free trade. It resulted in the mushrooming of new SMEs in ECE. The SMEs in ECE are mainly trade companies, because of trade liberation and

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<sup>263</sup> *2000 Annual Report on Financial Co-operation with Developing and Transition Countries*, KfW, Frankfurt am Main, May 2001, p.10

<sup>264</sup> *Annual Report 2000*, KfW, p.54 and *Annual Report 1999*, KfW, p.69



demand for consumer goods. Moreover, it is easier to begin with trade than manufacture in the early stage of liberation.<sup>265</sup>

To assist market economy transition in ECE and facilitate trade relations with the area, Germany decided to help the growth and expansion of SMEs in the region. The KfW has played the same role in ECE as in East Germany. During the reconstruction of the East German economy, the KfW has financed the SMEs in East Germany. Since 1991, the KfW has supported and advised in the establishment of Promotional Banks and the development of local promotional programmes, especially for the SMEs.<sup>266</sup> It has urged the governments of ECE states to set up promotional banks, so that it can provide financing lines for SME and other loan programmes developed jointly with local promotional banks. Promotional banks are non-profit institutions. Their tasks are the promotion of the preferable economic policies, which include supporting small and medium sized enterprises in competition with large enterprises (SME programme), financing local infrastructure investments, and environmental protection.

The KfW has increasingly promoted the development of the private sectors, particularly small and medium-sized enterprises in developing and transition countries, through targeted loan programmes offered by local banks. The KfW offers loans at preferential interest rates to local promotional banks and shares responsibilities with them. The promotional banks in the developing countries are the project-executing agencies of the KfW and responsible for the evaluation of the

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<sup>265</sup> Kolodko, G. W., 'Transition to a market and entrepreneurship: the systemic factors and policy options', in *Communist and Post-Communist Studies* 33, 2000, p.p.279-282

<sup>266</sup> *European Aspects in Investment Financing: Co-operation of Banks in Central and Eastern Europe* (Investment Finance Europe July 2001), KfW, p.7

commercial viability of the projects and their conformity with other goals (ex. environmental protection). They give loans through local banks to investors. To make sure of the abilities of local promotional banks to deliver loans to profitable SMEs, the KfW is involved in designing promotional banks, developing promotional loan programmes, and training staff to implement the loan programmes. The KfW expects the promotional banks to be able to design and implement promotional loan programmes independently. It is important that promotional banks operate with banking professionalism, uninfluenced by politics.

The KfW started to establish financing lines for SMEs and other promotional programmes with partner promotional banks in East Central Europe since 1992.<sup>267</sup> Hungary responded firstly, by creating the Hungary Development Bank in Budapest. The programmes run by this bank included a SME programme, an infrastructure programme, and an energy conservation programme.<sup>268</sup> The KfW also encourages the transition states to establish their own development banks to finance local small and medium-sized companies. It attempts to build local development banks according to its own image. For instance, the Hungarian Development Banks (MFB) was advised by the KfW to set up a loan programme for small and medium-sized firms.<sup>269</sup> With the assistance of the KfW, a contract for DM 50 million to be underwritten by the German government to fund the Hungarian Development Bank's programme for small and medium-sized firms was signed in August 1995. Subsequently, funding for

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<sup>267</sup> Interview at the *Kreditanstalt für Wiederaufbau*, Frankfurt am Main, September 2001

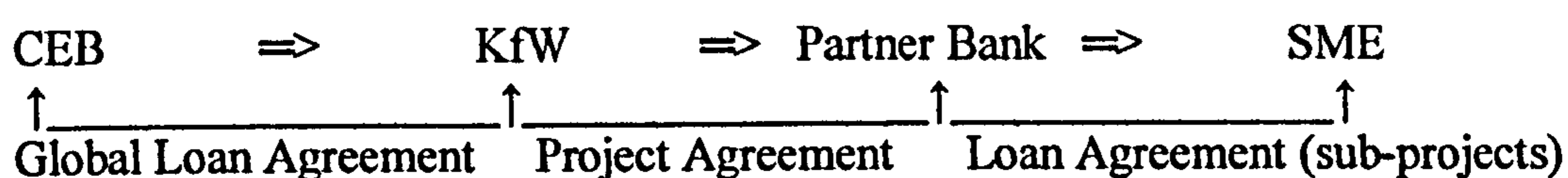
<sup>268</sup> The KfW web site at [http://www.kfw.de/e\\_kfw.beratung/content/c\\_beratung9.htm](http://www.kfw.de/e_kfw.beratung/content/c_beratung9.htm)

<sup>269</sup> Interview at *Kreditanstalt für Wiederaufbau*, Frankfurt am Main, September 2001

this credit line increased by DM 30 million in March 1997 under a supplementary agreement.<sup>270</sup>

Other partner banks in East Central Europe include Bank Handlowy, BOS and BRE in Poland (funded EUR 70 million by the KfW) and Czech-Moravian Guarantee and Development Bank (CMZRB) in the Czech Republic (a contract of Euro 15 million in September 2001). In 2000, the KfW was selected by the Council of European Development Bank (CEB) using EU grants to help SMEs (risky businesses and less-experienced commercial banks) in East Central Europe via credit lines with commercial banks in these countries.<sup>271</sup>

SME Finance Facility – Co-operation between CEB, KfW, and Partner Bank<sup>272</sup>:



The key principles for a global loan by the KfW include maximum project size of EUR 15 million, maximum credit amount eligible for EU funds per sub-project EUR 250,000, and specific conditions of project agreements for the EU funds. The eligible criteria are as follows:

- Partner banks have to be committed to SME lending
  - a) no more than 250 employees

<sup>270</sup> 5 Jahr TRANSFORM Beratung für Mittel- und Osteuropa Bilanz und Ausblick, Publikation von Bundesministerium für Wirtschaft, Bonn, June 1998, p.33

<sup>271</sup> Interview at the Kreditanstalt für Wiederaufbau, Frankfurt am Main, September 2001

<sup>272</sup> European Aspects in Investment Financing: Co-operation of Banks in Central and Eastern Europe (Investment Finance Europe July 2001, KfW) p.14

- b) an annual turnover up to EUR 40 million or
- c) total assets up to EUR 27 million
- Investments in
  - a) fixed assets: funded by the KfW/CEB
  - b) working capital: funded by the KfW<sup>273</sup>

### **Hermes Export Credit Insurance Institution in Hamburg (Hermes Kreditversicherungs-AG)**

During the economic transition, the ECE states are in need of western high-technology products. The instability of ECE in the early 1990s discouraged German businessmen from exporting to the region. Hermes Institution is a government instrument to promote German exports. State export promotion plays an important part in the KfW's business. The KfW grants export loans with Hermes Cover to finance exports in developing countries. In 2000, Hermes accounted for 37% of the KfW's export finance.<sup>274</sup> It encourages exports by reducing the risk that companies have to take in exporting to countries of lower political stability, because the exporters could receive compensation from the export guarantee system if they lost contract payments. However, the criteria for granting export guarantees for a business transaction is that the risk has to be under a certain level. The Hermes Institution only provides insurance coverage for those transactions, which could be successfully completed with low risks. The exporters who are granted the loans have the duty to inform the KfW on details of the export transaction and the creditworthiness of

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<sup>273</sup> *ibid.* p.p.15-16

<sup>274</sup> *Annual Report 2000*, KfW, Frankfurt am Main, p.44

foreign buyers. The Eastern transition states accounted for about one-fifth of the insurance coverage.<sup>275</sup>

The extension of the Hermes programme to ECE and Eastern Europe shows German political and economic support for the market economy transition of its eastern neighbours.<sup>276</sup> German industries of machinery and electronic products could provide their needs. The Hermes export credit guarantees did facilitate German exports to ECE. However, Hermes export credit guarantees have been rarely applied in German exports to the region since the late 1990s. The ECE states have reached a certain degree of political stability, owing to their relatively successful political and economic transformation.<sup>277</sup>

Besides, the KfW has concluded basic agreements with Ceskoslovenska Obchodni Banka in Prague, Hungarian National Bank and Hungarian Foreign Trade Bank in Budapest, in order to simplify and speed up business transactions and facilitate the exports of German capital goods to these countries. The basic agreements include the general conditions of the finance, such as general legal provisions, interest rate options, and disbursement procedure. The individual loan agreements were concluded under the basic agreements contain only the relevant data of the export financing transaction, i.e. order value, loan amount, repayment schedule, etc..

In addition to the above mentioned institutions, Germany has established chambers of commerce in the region, in order to facilitate the development of German-ECE

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<sup>275</sup> The KfW site at [http://kfw.de/e\\_kfw/export/content/c\\_export1.htm](http://kfw.de/e_kfw/export/content/c_export1.htm)

<sup>276</sup> Davis, P. and Dombrowski, P., 'Appetite of the Wolf: German Foreign Assistance for Central and Eastern Europe, *German Politics*, vol.6 no.1, April 1997, p.13

<sup>277</sup> Interview at *Sächsisches Staatsministerium für Wirtschaft und Arbeit*, Dresden, June 2000

economic co-operation in industries, business, and privatisation. They are the German-Polish Economic Development Agency (*Deutsch-Polnische Wirtschaftsförderungsgesellschaft*) in Poland, the German-Czech Chamber of Industry and Commerce (*Deutsch-Tscheschische Industrie- und Handelskammer*) in the Czech Republic, and the German-Hungarian Chamber of Industry and Commerce (*Deutsch-Ungarische Industrie-und Handelskammer*) in Hungary.

### **Carl Duisberg Gesellschaft e.V. (CDG)**

The CDG has established relations with Central and Eastern Europe through intensive co-operation in advanced training since 1988. More than 30,000 people have attended various CDG programmes aiming at helping the formerly socialist countries in their economic and social transition process. Already in the early 1990s, at the beginning of market economic reforms, it became obvious that there was a shortage of experts, who were needed to implement these reforms effectively, yet there was no qualification and training system that met the demands of the market. Initially, the states of the European Union and the European Union itself were not able to provide the necessary assistance within existing programmes. In this situation, the CDG played a pivotal role. Over the years of its commitment the foundation had been able to gain a lot of experience in the field of training experts from a variety of professional areas and coming from all over the world. That was the reason why at the end of the 1980s the German government asked the CDG to support the Eastern European states in the field of professional training.

The first groups of managers consisted of qualified experts coming from their respective jobs. They were, however, still influenced by the stereotypes of a planned economy and the command system. That was why the training of employees in the post-socialist administration focused primarily on eliminating 'market economic illiteracy'. In the beginning, it was of utmost importance to get rid of outdated ideas and to persuade the executives to think in different economic terms. The participants had to be made acquainted with the basic ideas of a market economy. They had to learn how to see the activities of their companies from a different perspective. During that time, the participants were mostly director generals and their deputies. Later on, the main focus was put on learning how to use market economic instruments in practical terms. More and more participants came from the community of new entrepreneurs. The next phase was governed by the realisation that national peculiarities of the reform process in the respective Eastern European states had to be included into the programmes to a greater extent. With regard to the different levels of management that were represented the composition of participants changed – more and more participants came from the second and third management level. Now, the logical continuation of the training processes that had been started before follows. The programmes perfectly reflect the demands and expectations of the participants under the conditions of the ongoing reforms.<sup>278</sup>

In the beginning of 1997, German Foreign Ministry authorised Carl Duisberg Gesellschaft e.V. (CDG) to take over the ministry's complete range of training programmes in ECE and Eastern Europe. The part of training in the 'TRANSFORM' Programme is co-ordinated by the CDG that is a German-based foundation for

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<sup>278</sup> *Weltweit Lernen für die Zukunft, 50 Jahre Carl Duisberg Gesellschaft, 1999, p.p.52-53*

international training and development. The CDG contributes substantially to the implementation of this programme as far as first and advanced training are concerned. As a mandatory, the CDG assists the Federal Foreign Ministry in preparing, directing, and monitoring measures of first and advanced training for managers. The purpose of the training is to assist the people of Central and Eastern Europe in creating democracy and efficient economic structures. The trainees from the region are mainly managers and future executives from companies, administrative bodies, and the finance sector. The training programmes accounted for 17% of German funds for TRANSFORM Programme 2002, which was the second highest fund-located area (see table 11 in chapter 5).

The training of managers of different levels and from various sectors of the economy is characteristic to the programmes of the CDG. The programmes are directly linked to the restructuring of state-owned and formerly state-owned enterprises. They also help young entrepreneurs to start their own businesses. The CDG training for Central and Eastern European states focuses on business management, environmental management, qualifications of business-related administrations, the establishment of business structures, and professional training. The training programmes aim at strengthening managerial staff from industry and commerce in the fields of market-oriented management and foreign trade. They help trainees become familiar with international standards and ecological product requirements on global markets. Its tools range from seminars and training for individual advanced training to restructuring projects for entire companies and sectors.



In the year 2000, the CDG sponsored advanced training for 5,354 specialised and managerial staff from Eastern European transition countries (previous year: 4,570). In 1999, the CDG spent in total of DM 22.6 million on its co-operation with Central and Eastern Europe. Its programmes, funded by the Federal Foreign Office, the Federal Ministry for Economic Co-operation and Development, and the Federal Ministry of Education and Research, focused on the restructuring of Eastern European enterprises, the training of trainers, lecturers, and the accession to the EU.<sup>279</sup>

The trainee programme is CDG's central instrument. It gives experts and managers from Central and Eastern Europe the opportunity to spend several months in Germany's companies or institutions engaged in areas similar to their own enterprises or which correspond to their professional qualifications, and here they work while learning or learn while working under supervision. Additional seminars provide a theoretical background to the lessons learned. Long-term trainee programmes offer internships in German companies and institutions to promote junior executives. Young trainees may practice management and receive vocational training in German companies and institutions. Seminars and workshops are held for senior executives and decision-makers from business and government institutions, which offers opportunities for the exchange of experiences and the development of contacts.

'Train the trainer' programmes are to provide transition states with qualified local trainers by training local trainers. It has brought together over many years a group of qualified trainers and business consultants in Central and Eastern European countries. The multipliers passing on their own know-how and who, to some extent, operate

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<sup>279</sup> CDG: *Geschäftsbericht 2000 Zahlen und Fakten*, Bonn, p.13

freely on the market in their own countries, but who are also commissioned by the CDG for training projects. The consultant programme evolved from the 'train the trainer' programme. Consultants are trained and employed to support businesses in the market orientation of their products and structures. Complementary consulting is a pivotal element in the implementation of the training results.

'In-house' training is for industrial key sectors. It is designed to respond to the specific needs of individual companies and different branches. German experts help managerial and specialised staff of participating companies to find solutions for structural problems. The training serves the restructuring of companies and sectors, matching different training components with each other and using them on all hierarchical levels of a company and in the various technical areas.

Thousands of managers that were trained by the CDG have obtained the necessary tools to build a new critical generation of managers, which will help the reforms in Eastern Europe to succeed. The first group of participants in these training programmes, which included several thousands of persons, played an important role during the beginning of the reform processes in their respective countries. Many have taken leading positions in industries and also become reformers in government.

The CDG is also involved in international projects financed by the European Union. On behalf of the EU, the CDG organises special training activities for executives and specialists from administrative bodies, in order to prepare ECE states for EU membership. The programme for EU-accession covers an important issue of training co-operation for the accession candidates. The participants are prepared for the

negotiations with the EU through seminars, visiting programmes, and internships. They also get support in the adjustment of their systems.<sup>280</sup>

### **Political Foundations**

The political foundations of the Federal Republic of Germany are Konrad Adenauer Foundation, Friedrich Ebert Foundation, Friedrich Naumann Foundation, Hanns Seidel Foundation, and Heinrich Böll Foundation. Political foundations mainly contribute to the development of democracy, particularly assisting in strengthening the idea of human rights and implementing social justice. They do a lot of preliminary spadework meeting with non-democratic governments in many countries of the south hemisphere, and more recently in the countries of Central and Eastern Europe. In the field of promoting the creation of democratic structures and the rule of law world wide, political foundations are among the most effective and reliable instruments of German foreign policy, which goes beyond the traditional methods and skills of the foreign services.<sup>281</sup> This section will look into Konrad Adenauer Foundation and Friedrich Ebert Foundation, which are affiliated with the two major political parties – the CDU and the SPD.

#### *Konrad Adenauer Foundation*

The Konrad Adenauer Foundation, named after the first Chancellor of the Federal Republic in 1964, is related to the Christian Democratic movement, emerged from the

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<sup>280</sup> Interview at *CDG-Landesstelle Sachsen*, Dresden, June 2000 and at the CDG Headquarter, Köln, September 2001

<sup>281</sup> *Partners in One World – The International Co-operation Activities of the Konrad Adenauer Foundation*, Konrad Adenauer Stiftung, Bonn, 1999, p.7

'Society for Christian Democratic Education Work' founded in 1956. It offers political education, conducts scientific fact-finding research for political projects, and supports European unification and development-policy co-operation. When the Berlin Wall fell and transformation processes began in the former communist states, new problems arose in Central, Eastern, and South Eastern Europe. The Foundation responded by establishing new programmes to promote democracy and economic development and by opening branch offices in the countries concerned.

The advantage that a political foundation has to work in host countries is that it is a non-governmental organisation which is allowed to co-operate with local political parties in political fields, while government institutions cannot interfere with local internal affairs. Political foundations are more flexible and efficient in handling politically sensitive activities. Since political parties are indispensable in democratic societies, the Konrad Adenauer Foundation seeks to establish contact and co-operation with political parties in host countries where political parties are not yet firmly embedded in the political system.

The Foundation actively promotes the formation and consolidation of democratic parties by offering training seminars and consultation programmes to civil servants, scientists, and politicians, and by deploying experts to partner countries for short-term assistance. The Foundation's activities also include modifications of national laws covering elections and political parties, miscellaneous changes in legislation and the creation of forums for exchanges between government representatives from former communist transformation countries and German parliament, government, business and society representatives. Much attention has been devoted to the formation of a

wide, pluralist, and democratic range of political parties in the countries of Central and Eastern Europe.

The Foundation's branch office in Warsaw was the first to be opened in a former communist country. In Poland, the Foundation focuses on supporting the integration of the countries into the European structures of the EU and NATO. The main concerns of the Foundation include:

- Preparing Poland for membership in the EU and lending its support in the process of negotiations.
- Enhancing the political strength of Christian Democratic, liberal, and conservative political parties.
- Improving and intensifying relations between Germany and Poland.
- Developing market-economy and democratic structures; investigating the role of the Church in society; and developing local self-government and decentralisation.

In the Czech Republic, the foundation has contributed before towards deepening bilateral relations and reconciling positions in European policy through initiating dialogues, encounters, and open discussions especially among political and societal decision-makers. Special efforts will be required to enhance bilateral relations in the future, and the objective is to set up continuous close contacts among the decision-makers of the two countries on the basis of the Joint German-Czech Declaration. Moreover, the Foundation is cultivating a dialogue on European policy. Against the current backdrop of economic challenges, issues of social and ecological responsibility in market economy remain its importance.

Hungary is preparing to join the European Union, a process in which the foundation is involved through its political education programmes. The central issues that are discussed with local partners include the rule of law, parliamentary democracy, federalism, social and ecological market economy, and the freedom of the media. Prominents among the Foundation's partners are the Budapest University of Economics, the Hungarian Association of Local Governments (MÖSZ), *the Batthyány Foundation*, the Catholic University of Budapest, and the Christian Intelligence League. Nation-wide education programmes are being organised by its partner foundation, *Haza'és Haidás Alapítváni* (HAA). These events are attended by local MPs from all parliamentary levels, political mandate holders and their parties, economists, sociologists, lawyers, journalists, SME entrepreneurs, and other groups of social relevance.<sup>282</sup>

### *Friedrich Ebert Foundation*

The Friedrich Ebert Foundation, named after Germany's first democratically elected president, was established in 1925. It was banned by the Nazis in 1933 but rebuilt in 1947. The Foundation is committed to the basic values of social democracy and labour movement. It also contributes to international understanding and co-operation. The Foundation has representative offices all over the world that promotes democracy, development, and peace. It provides its local partners with training, consultation, and experience exchange through the short-term deployment of experts, conferences, seminars, and workshops. The goal is to facilitate democratisation in host countries.

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<sup>282</sup> interview at *Konrad-Adenauer-Stiftung*, Bonn, September 2001

In the reform states of Central and Eastern Europe, it is involved in supporting the transition to a market economy and establishing a civil society, particularly in the fields of labour market and politics regarding societies, environment, and the media. Since 1989, the Friedrich Ebert Foundation has supported the transformation process and development in East Central Europe. In 2000, DM 16.8 million budget (out of DM 204 million annual budget) was granted to support the activities in the region.<sup>283</sup> Currently, East Central European states are on their way joining the EU, and thus the Foundation's activities in the region focus in the following themes:

- European integration (economic integration, preparation for EU membership, closer relations with Germany)
- Modernisation and social participation (social policy dialog on social security and environment, structural changes, civil society and good governance, political parties, legislation reforms, the media)
- Trade union and labour relations (social partnership, co-operation with regional trade unions, training)
- Foreign and security policy (integration to the West and international relations, civil society and army, dialog on foreign and security policy)

Poland, as Germany's biggest eastern neighbour, is regarded as a focal area for the Foundation. In the past seventy years, there have been exchange programmes for journalists from both sides and projects co-operating with the Polish government and research institutions, as well as non-governmental institutions. At the regional level,

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<sup>283</sup> *Jahresbericht der Friedrich-Ebert-Stiftung*, 2000, Bonn, p.42

the Foundation works with local commercial chambers and agencies for regional development. It also co-operates with representatives of trade unions and local consulting companies. The Foundation supports German-Polish social dialog to strengthen democracy, pluralism, and decentralisation, as well as contributing to economic reconstruction and social stabilisation. The activities have intensified the German-Polish co-operations and integrated Poland into the European Union.

The Foundation's work in the Czech Republic focuses on cross-border co-operation and tariff agreements. It also offers consultation to enterprises and encourages joint ventures and co-operations with trade unions. Another main task is to prepare the country to join the EU through necessary reforms. The Foundation's local branch conducts seminars for topics regarding western integration and international relations.

In Hungary, the Foundation's branch is based in Kampala. It follows the objective to promote democracy and social justice through capacity building, programmes of civic education, policy-development and dialogue. In the attempt to assist transformation processes and pluralism, the Foundation runs programmes with NGOs, trade unions, parliament, as well as government bodies on democratisation/ good governance, local government, media rights, and press freedom as well as regional integration. The main task of the branch is to give assistance in the field of privatisation, advise small and medium-sized enterprises, and help them deal with social and political upheavals. Seminars are organised to discuss issues about European integration, economic and social policies, and reforms of social security. The Foundation also works with local trade unions to offer training and facilitate international co-operation.<sup>284</sup>

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<sup>284</sup> Interview at *Friedrich-Ebert-Stiftung*, Bonn, October 2001



## **Conclusion**

In the last decade, system reform and transformation have been the major tasks for East Central European countries. The transition states need not only financial aid but also advice and consulting services of the Western governments. The German government responded to their demands by setting up the TRANSFORM Programme to offer consultation ranging from government structures to private business. The implementation of the programme involved both governmental institutions and non-governmental institutions to participate in the transition process of the region.

Since financial support is indispensable in the process of transformation, the German Development Bank (the KfW) became the most important governmental institution under the TRANSFORM Programme. It was later chosen by the EU to finance the region. An important project run by the KfW was the SME programme which is crucial in the establishment of market economies. Associated with the KfW, Hermes Export Credit Institution was responsible for the promotion of trade with the Central and Eastern transition countries.

Apart from governmental institutions, non-governmental institutions, such as foundations, play a more flexible role in assisting transformation process. The CDG, with good experience and reputation on training, has successfully trained and provided necessary personnel to conduct reforms in government and business. Political foundations also take a part in training by offering seminars. Their notable contributions are political training and co-operations with local political parties. As

non-governmental institutions, they are able to organise activities that are politically sensitive.

Next chapter will look into Germany's important strategies for the transformation of the former communist economies towards market economies – privatisation and the establishment of small and medium-sized enterprises.

## Chapter 7

### Germany's Policy in East Central Europe III: Economic Transformation and Reconstruction

The German consulting services provide expert assistance in establishing the structures and conditions for a social market economy.<sup>285</sup> It focuses on the elimination of the concentration of economic power (cartel) and the liberalisation of enterprises from central planning. German assistance in the market economy transition in East Central Europe improves the efficiency and competitiveness of their industries. The principle of competition advocates privatisation and the existence of small and medium-sized enterprises (SME)<sup>286</sup>. Moreover, private companies are the fundamental institutions of a market economy. When private sectors grow at a higher rate than the vanishing state sectors, a capitalist structure would emerge.<sup>287</sup> Hence, increasing private sectors is the main strategy of German assistance in economic structural reform and privatisation consultation is the focal point of the transformation consultation in East Central Europe.

To create a compatible market economy structure, the privatisation of the former state-owned enterprises has been the urgent goal for the economic policies of the

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<sup>285</sup> *TRANSFORM: Beratung für Mittel- und Osteuropa Fortschreibung 1999, Publikation von BMZ, Nr.104 / Aug 99, p.12*

<sup>286</sup> Dyson, K., 'The Economic Order- Still Modell Deutschland?' in Smith, G. et al, (eds.), *Developments in German Politics 2* (London: Macmillan Press, 1996) p.p.197-198

<sup>287</sup> Poznanski, K.Z., 'Political Economy of Privatisation in Eastern Europe' in Crawford, B. (ed.), *Markets, States, and Democracy: the Political Economy of Post-Communist Transformation* (Oxford: Westview Press, 1995) p.204

reforming Eastern European states in the last decade. Germany has a comprehensive experience to offer, because of its reconstruction process in the new Länder, as well as the successful privatisation in West Germany. In early 1990s, the eastern transition states were interested in the *Treuhandanstalt's* privatisation methods. The Federal Ministry of Finance (BMF) responded to their demands immediately and supported them through concrete consulting projects to offer Germany's experience of organizing major transformations. Since 1993, the consulting projects have begun within the framework of the TRANSFORM Programme. From autumn 1995, the German Agency for Technical Co-operation (GTZ) has been mandated by the BMF to plan and implement the consulting projects regarding privatisation, anti-cartels, and public administrations. The GTZ organises consulting activities with German consulting firms and professional institutions.<sup>288</sup>

This chapter begins with the rationale of economic transformation and reconstruction in East Central Europe. Then it looks into Germany's assistance in economic transformation and reconstruction in Poland, the Czech Republic, and Hungary respectively, particularly in the areas of supporting small and medium-sized enterprises and assisting privatisation.

### **Economic Transformation and Reconstruction**

Transformation (in the terms of this study) can be defined as a transition from central-controlled economy to market economy. Central-controlled economy is a system of subordination under a central plan, while market economy is a system of co-

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<sup>288</sup> *Lernerfahrungen für erfolgreiche Privatisierungsberatung in den Transformationsländern Osteuropas und den NUS, Bereich 8: Mittel- und Osteuropa Transformprogramm (Eschborn: Deutsche*

ordination with many individual plans regarding the prices. What transformation wants to achieve includes functional price mechanism, currency stability, free competition in open markets (free entry and easy exit), private possession on production means, the freedom of contract in the framework of competition system, risk and liability as principles, and constancy of data for investment.

Four reasons for transformation are based on history, moral, politics and economics. Historically, the superiority of market economy has been proven. Morally, individual right of freedom should be created and maintained. Politically, democracy should be assumed as the basic principle. Economically, prosperity should be promoted and spread broadly. The progress of transformation is varied in different regions. It depends on political will and stability of the state, availability of resources and knowledge, geographic location, and the obstacles of old political and economic systems.

The degree of transformation can be measured by the following criteria:

- The enforcement of the principles of the market economy.
- A reduction in state intervention in order not to upset the workings of the free market.
- Create and spread prosperity (GDP or capital income).
- Election result (reformer vs. conservative) and its duration.
- International acceptance (as well as domestic acceptance) economically, politically, and militarily.

Privatisation consultation is to create private property. The role of German privatisation consultation is to increase prosperity.<sup>289</sup> The method of privatisation is to promote investment in former state-owned enterprises (through privatisation) or newly born small and medium-sized enterprises. Central and Eastern Europe has been criticised as ‘over-consulted and under-invested’ and that has posed a challenge for the privatisation consultation.

Privatisation is the central part of the economic transformation process towards market economy in the eastern transition states. It is also the fundamental condition for the creation of competitive market economic structures and functional markets. To make markets function or stay functional requires basic institutions – a middle-class and private businesses, which has been taken into consideration by the Germany’s privatisation consulting projects. Within the framework of political consultation, the privatisation consultation supports local government authorities, parliamentary committees, and unifies regional administrations to improve the conditions of legal and economic frameworks and the state administrations in terms of ‘Good Governance’. Through this, the central task of the transition states is tackled and a reform-oriented economic policy is strengthened, which helps the economic development of the transformation states. The restructure of the former state-owned enterprises may contribute to the promotion of an efficient market economy as the motor of economic developments.<sup>290</sup>

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<sup>289</sup> *ibid.* p.17

<sup>290</sup> *Lernerfahrungen für erfolgreiche Privatisierungsberatung in den Transformationsländern Osteuropas und den NUS, Bereich 8: Mittel- und Osteuropa Transformprogramm (Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, 1998) p.p.15-18*

The privatisation consultation not only strengthens the private enterprise sectors but also improves the chances for local companies to co-operate with the German business partners. The consultation on privatisation process opens the access to co-operate with Germany's business for the East Central European companies, because the potential German investors look at whether the former state-owned enterprises' improvements on the ownership structure as the guarantee of privatisation. The aim of the GTZ is to facilitate the German-ECE co-operations in terms of 'developing partnership with German economies'. Its motto is 'privatisation through political consultation and economic co-operation'.<sup>291</sup>

Germany has experienced the reconstruction of the East German economy since unification. The *Treuhandanstalt* (THA) is the government agency responsible for privatisation in East Germany. Its privatisation strategy is rapid sales. An economy in transition requires a high inflow of western investment, because Western investors may create new market opportunities. Moreover, reconstruction cannot be done without capital. Forty-one percent of total investment in East Germany is from western companies<sup>292</sup>, and ninety percent of them from West Germany.<sup>293</sup> East Germany represents the post-communist economy, which is able to transfer former state-owned enterprises (SOE) to viable private agents rapidly. Almost two-thirds of SOEs were sold in two years. However, most of them were through direct sales at

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<sup>291</sup> *Privatisierung durch Politikberatung und Wirtschaftskooperation, Bereich 8: Programmbüro Privatisierung (Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), GmbH, 2000)*

p.6

<sup>292</sup> Priewe, J., 'Privatisation of the Industrial Sector: the Function and Activities of the *Treuhandanstalt*' in *Cambridge Journal of Economics*, vol.19, 1993, p.341

<sup>293</sup> Hegewisch, A. et al., 'Different Road: Changes in Industrial and Employee Relations in the Czech Republic and East Germany since 1989', in *Industrial Relations Journal*, vol.27, 1996, p.52

heavily discounted prices.<sup>294</sup> The process of privatisation was costly. The total expenditure related to privatisation from 1991 to 1993 was over DM17 billion.<sup>295</sup> The financial support of the strong West German economy made the rapid privatisation of the East German economy (from mid-1990 to 1994) possible.

The German government strongly encouraged German companies to take over the SOEs in ECE, but only a few German companies wished to do so. In many cases large-scale investment is lacking, and the reason was that many of the SOEs were unpromising industries, i.e. armament industries and also heavily indebted. Besides, large SOEs were more difficult to be sold than small ones, because they were less viable for privatisation, often because of the unmanageable size. State-dominated commercial banks still often granted credits to rescue operations in insolvent enterprises. Many large SOEs eventually went bankrupt. It was also because company restructuring failed to take place in the organisational structure of enterprises and there were no crucial correctives in production programmes. Even after the change of ownership, many of the sold enterprises continued to suffer from the 'stagnation' of the pre-privatisation era.<sup>296</sup>

In fact, Germany was not able to play a very active role in the assistance of the privatisation in ECE, which was particularly true in the Czech Republic. The German government preferred to support and promote newly established SMEs, instead of

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<sup>294</sup> Poznanski, K. Z., 'Political Economy of Privatisation in Eastern Europe, in Crawford, B. (ed.), *Markets, States, and Democracy: the Political Economy of Post-Communist Transformation* (Oxford: Westview Press, 1995) p.216

<sup>295</sup> *ibid.* p.344

<sup>296</sup> Lageman, B., *Die Einflussnahme des Staates auf privatisierte Unternehmen in Ostmitteleuropa, Berichte des BIOst Nr. 37/1997*, p.38



privatisation.<sup>297</sup> The creation and growth of new companies brought about the rapid development of real private sectors. Nevertheless, here will give a brief discussion of the different privatisation approaches in East Central Europe.

The approaches to privatisation in ECE are controversial, but none of them successfully solved the basic problems of enterprise restructuring, such as acquiring capital, management competence or technical know-how.<sup>298</sup> The states of ECE do not have the support of strong domestic economies like Germany. The radical 'shock therapy' may not be suitable for ECE, because they are not backed up by strong economies. Grzegorz Kolodko has argued that 'the belief that a market economy can be introduced by "shock theory" is wrong'.<sup>299</sup> Kazimierz Poznanski also asserted that the most appropriate approach to privatisation was a gradual approach, as greater adjustment could be made.<sup>300</sup> Indeed, the process of privatisation in ECE has proved lengthy. The Survey of the Economic Commission for Europe described it as a 'hard and long road'.<sup>301</sup> The task of Germany's consulting service is thus to help them through the long process.

The path of privatisation in Hungary is broadly similar as that in East Germany. More than 80% of the sales of privatised Hungarian enterprises were taken by foreign investors, compared with 30%-40% in Poland and a similar percentage in the Czech

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<sup>297</sup> Interview, *ifo Institut für Wirtschaftsforschung, Niederlassung Dresden*, June 2000

<sup>298</sup> Lageman, B., *Die Einflussnahme des Staates auf privatisierte Unternehmen in Ostmitteleuropa*, *Berichte des BIOst Nr. 37/1997*, p.38

<sup>299</sup> Kolodko, G. W., 'Transition to a market economy and sustained growth. Implications for the post-Washington consensus' in *Communist and Post-Communist Studies* 32, 1999, p.233

<sup>300</sup> Poznanski, K. Z., 'Political Economy of Privatisation in Eastern Europe, in Crawford, B. (ed.), *Markets, States, and Democracy: the Political Economy of Post-Communist Transformation* (Oxford: Westview Press, 1995) p.204

<sup>301</sup> Roman, Z., 'Introduction' in Oppenländer, K. H. et al. (eds.), *New Development of Business Surveys in the Transition Process in Central and Eastern European Countries* (Munich: Central for International Research on Economic Tendency Surveys, 1992). p.6

Republic. The large flow of foreign capital helps Hungary with its huge foreign debt.<sup>302</sup> Moreover, direct sales to western investors generate income for state budgets. In 1992, equity acquisitions represented over two-thirds of the total value of foreign capital invested in Hungary.<sup>303</sup> Hungary became the most popular destination of foreign direct invest (FDI) in the region. From 1989 to 1997, the per capita FDI stock in Hungary was USD 1,667, which was double the second highest USD 827 per capita in the Czech Republic.<sup>304</sup> (see table 1)

Table 1: Stock per capita FDI (US\$) in Eastern Europe from 1989 to 1997

Hungary	Czech Republic	Poland	Romania	Bulgaria	Russia	Ukraine
1,667	823	321	149	147	63	53

Source: *TRANSFORM: Beratung für Mittel- und Osteuropa Fortschreibung 1999, Publikation von BMZ, Nr.104 / Aug 99, p.58*

However, in the beginning of the new century, the stock per capita FDI in the Czech Republic has caught up and exceeded that in Hungary. The stock per capita FDI in the Czech Republic was USD 2,604, while it was USD 2,331 in Hungary. (see table 2)

Table 2: Stock per capita FDI (US\$) in Eastern Europe in 2001

Hungary	Czech Republic	Poland	Romania	Bulgaria	Russia	Ukraine
2,311	2,604	1,010	343	504	157	93

Source: *Wiener Institut für Internationale Wirtschaftsvergleiche*

The worldwide decline of FDI in 2001 passed without any major direct impact on the transition states. A setback of FDI flows (caused by the fall of international mergers and acquisitions) only happened among the advanced countries. However, investment

<sup>302</sup> Ickes, B. W., 'The Dilemma of Privatisation' in Serafin, J. (ed.), *East-Central Europe in the 1990s* (Oxford: Westview Press, 1994) p.122

<sup>303</sup> Poznanski, K. Z., 'Political Economy of Privatisation in Eastern Europe, in Crawford, B. (ed.), *Markets, States, and Democracy: the Political Economy of Post-Communist Transformation* (Oxford: Westview Press, 1995) p.214

<sup>304</sup> *TRANSFORM: Beratung für Mittel- und Osteuropa Fortschreibung 1999, Publikation von BMZ, Nr.104 / Aug 99, p.58*

plans for 2002 were scaled back because of the stagnation of the leading economies and the loss in market value of a number of international corporations. The result was that the FDI inflow in the transition states in the first three months of 2002 was only around one half of the previous year's level. Export-oriented investments were delayed owing to the downturn of the European business cycle and the decrease of privatisation-related investments.<sup>305</sup>

As a consequence of the major industries taken over by foreigners, Hungarian economic development has benefited from the massive foreign investment. Hungary has shown the least resistance to western buyers and investors among the eastern transition states. The inflow of western capital from all over the world is very important for economic transformation, but Germany only accounts for around 6% of FDI in Hungary. Although German companies are not the largest contributors of the foreign investment in Hungary, German investment in SMEs helps to orient Hungary's trade toward Germany.<sup>306</sup>

Comparing with East Germany and Hungary, Poland and the Czech Republic have different strategies for privatisation. Both Polish 'privatisation through liquidation' and Czech 'voucher privatisation' face the problem of lacking western capital investments. From 1989 to 1997, the stock per capita FDI of USD 321 was in Poland and that of USD 823 was in the Czech Republic. In 2001, the stock per capita FDI in Poland was still less than half of that in Hungary or the Czech Republic. Western companies took only one-third of SOEs in each country. As a result, many of the

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<sup>305</sup> 'FDI inflow in transition countries expected to decline' in WIIW-WIFO Database on Foreign Direct Investment in Central and Eastern European Countries and the Former Soviet Union (*Wiener Institut für Internationale Wirtschaftsvergleiche*, July 2002)

SOEs in Poland remained essentially state-owned. In 1997, about 6000 Polish firms were classified as SOEs, only a bit less than the 8441 listed in 1990.<sup>307</sup> Also, lots of SOEs in the Czech Republic were resold to public banks.

Although East Central European countries have their own different policies to transform and reconstruct their economies, Germany plays the role as a consultant to help them transform towards market economy successfully. The next sections will look into Germany's assistance in economic reconstruction in Poland, the Czech Republic, and Hungary respectively

## **Poland**

An important focus of Germany's consulting service in Poland is to support Polish business and financial sectors, especially the establishment of small and medium-sized enterprises. The promotion of business sectors concentrated on the business consultation in the selected sections, the consultations for SMEs, and the developments of human resources through vocational training. The consulting programme that promoted the efficiency of the economy offered intensive consultation for every individual significant regional enterprise through re-organisation, sale promotion, and the arrangement of foreign partners.

Medium-sized enterprises' branches were offered 'Coaching Programme' to tackle more specific problems. Seminars were organised to identify the bottlenecks of the

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<sup>306</sup> Volgyes, I., 'Hungary and Germany: Two Actors in Search of a New Play' in Verheyen, D. et al. (eds.), *The Germans and Their Neighbours* (Oxford: Westview Press, 1993) p.291

<sup>307</sup> Slay, B., 'The Polish Economic Transition: Outcome and Lessons' in *Communist and Post-Communist Studies*, vol.33 no.1, March 2000, p.60

participant companies to transform towards market economy's company management. German experts were also sent to provide young Polish companies with consultations on short-term basis. Due to the decline and ceasing of the traditional export markets in the East, it was important to divert the exports of Polish companies particularly establish their commercial relations with German firms by encouraging the Polish participant companies to take part in international trade fairs and exhibitions in Germany.

To support the SMEs in the regions located near the German-Polish border, Economic Development Corporation (*Wirtschaftsförderungsgesellschaft*, WFG) was founded in March 1994. The shareholders of the WFG were mostly from the four Länder bordering Poland (*Mecklenburg-Vorpommern, Brandenburg, Berlin, and Sachsen*) and the four Polish provinces bordering Germany. The specific goal of the WFG was to support investment and cross-border projects. The WFG's activities were supported by a group of lone-term German experts of regional developments and annual financial donations from both sides of the German government and the Polish government.<sup>308</sup> The SMEs were dynamic elements of Polish economy. The German consulting services particularly supported the establishment of young Polish enterprises. For this purpose, in Danzig co-operation with the Technical University had begun and a Technical Centre was established to benefit technology-oriented enterprises.

By 1994, Six partnership projects between trading chambers as well as industrial and commercial chambers had been successfully established and the developments of

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<sup>308</sup> interview at *Wirtschaftsförderungsgesellschaft Sachsen*, Dresden, July 2000

consulting services for local enterprises (such as training programmes and seminars) had also been achieved. Two German-Polish industrial and commercial chamber partnerships (Kiel – Danzig, Essen – Kattowitz) and four trading chamber partnerships (Frankfurt am Main – Danzig, Düsseldorf – Warsaw, Münster – Krakau, Cottbus - Grünberg) had also been established by 1994. These partnerships had drawn the relations between the German and Polish chambers closer and closer.

Chamber partnerships promoted the establishment of middle-class structure through training. The focus of the training was to qualify Polish skilled workers and create an effect of ‘multiplication’, so that they could train their future Polish colleagues and offer further consultations to Polish companies. The fundamental bottleneck of Polish companies was the lack of knowledge in economic management. Training lecturers in selected business areas and improving training facilities (ex. Business School in Kattowitz, the Foundation for Management of Industry in Danzig, and Business School in Stettin) were supposed to be the main solutions. The training for managers was supplemented with vocational training that concentrated on commercial areas. In 1993, with Germany’s help, a Model Centre (*Modellzentren*) for commercial and vocational training was founded in Posen. The Centre offered further training for lecturers and trainers, developed teaching materials, and revised training plans.

The establishment of an efficient middle class required the access to the credits that could finance the necessary modernisation and extend investment. The World Bank co-ordinated financial assistance in the banking sectors, and the Federal government’s consulting assistance focused on the training in banking sectors and helped setting up re-finance facilities for the Polish Development Banks. Four long-term German

experts offered consultation for the Polish Development Banks and helped the Banks to establish middle-class credit programmes. To remedy the defect of training for Polish bank personnel, the co-operations with the Polish Bank Academy in Danzig and the Bank Academy in Kattowitz and Warsaw were carried out in 1994.<sup>309</sup>

To remove the obstacles of development within of enterprise sectors, particularly the drawbacks in the areas of business skills in marketing, organisation, and accounting systems, the Federal Government organised projects to improve the developments of private sectors. The 1994 Project promoted the integrating of consulting services that the German-Polish Economic Development Corporations and the regional development agencies worked together to finance the development of human resources through training the skilled workers. The Federal Government also promoted privatisation consultation in all areas from personnel development and qualification to personnel reductions.

High-energy consumption in Poland facilitated the programme that supports communal energy suppliers in local communities through financing energy saving projects. The consultation concentrated on pilot projects in a few selected communities of the focal regions. The consultation at regional level also co-operated with the PHARE Programme and the World Bank. The promotion for efficient energy consumption was within the framework of the KfW consulting programme to increase the efficiency of Polish communal energy supplies. German experts concentrated on supporting the finance and realisation of investment to energy savings. In 1995, the German government also started to finance the seminars, training programmes, and

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<sup>309</sup> *Die Beratung Mittel- und Osteuropas beim Aufbau von Demokratie und sozialer Marktwirtschaft Konzept und Beratungsprogramme der Bundesregierung Nr.350 (Bundesministerium für Wirtschaft,*

extensive services for companies organised by trading, industrial and commercial chambers.<sup>310</sup>

The integrated consulting services for small companies, the consulting programmes for medium-sized companies, the support for German-Polish Economic Development Corporations, and the promotion of regional development agencies had become fruitful by 1996. The next focal point of the consultation was to downsize large Polish companies. The strategy was to release extra personnel from selected companies and move them to newly founded companies for the purpose of privatisation. Numerous projects for training professional and skilled workers were implemented in banking sectors. The main theme of the training seminars for market economy was 'total quality management'.

In 1995, the medium-sized enterprises of food-processing industries and textile sectors began to receive enterprise consultation of consulting programme in commercial areas. The consultation stressed on using Germany's trading, industrial and commercial chambers as the instruments to promote the middle class. New measures intended to promote the co-operations between IHK Kiel and Köslin Commercial Chamber and between HWK Saar and Köslin Trading Chamber. A big project in Köslin motivated by the attractive area along Polish East Sea to promote

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May 1994) p.p.63-66

<sup>310</sup> *Die Beratung Mittel- und Osteuropas beim Aufbau von Demokratie und sozialer Marktwirtschaft Konzept und Beratungsprogramme der Bundesregierung, Fortschreibung 1995, Nr.371 (Bundesministerium für Wirtschaft, April 1995) p.64*



tourism. The consultation of tourist business also provided training for skilled workers.<sup>311</sup>

From 1999, considerable attentions had been paid to the privatisation of the SOEs, the promotion of state prosperity, and the economic development of individual regions. The German consulting services focused on privatisation, the introduction of efficient state participation in business administration, and territorial reform implementation in three selected Polish regions – Krakau, Breslau, and Bromberg/Thorn. Apart from consultation services, training seminars for city and local councils and development agencies had also been carried out. The themes consisted of the development of commercial regions, privatisation of public properties, and the contribution of ‘public-private partnership’ with German investors, whose successful example was the privatisation of the state’s communal cleaning business in Wroclaw through the German company Edelhoff AG.

The German government provided the Polish government with government consultation in the Ministry of Labour and Social Affairs, the National Labour Bureau, the Ministry of Finance, the Treasury, and state agencies (such as the Industrial Development Agency in Warsaw, the Agency for Enterprise Restructure in Katowice, and the Agency for Regional Development in Warsaw). The forms of consultation were various. Regular information meetings and ‘brain-storming’ meetings took place at the level of department directors. German consultants also had conversations with Ministers and State Secretaries and discussed about privatisation problems in enterprises.

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<sup>311</sup> *Die Beratung Mittel- und Osteuropas beim Aufbau von Demokratie und sozialer Marktwirtschaft Konzept und Beratungsprogramme der Bundesregierung, Fortschreibung 1996, Nr.398*

The consultation supported law amendment in labour rights in the Parliament, new special programme of labour funds (ex. for the aircraft factory PZL-Mielec), and privatisation through 'private-public-partnership' with German investors (ex. Edelhoff AG in Wroclaw). Many seminars and training events were carried out to discuss issues such as privatisation and restructure of state enterprises, as well as the application of communal infrastructure facilities. Recipients of the training were executives of privatisation administration, labour administration, the future directors of privatised state enterprises, and trade union representatives. The goal of the seminars was to help the participants identify the problems and find possible solutions through practical experiences.<sup>312</sup>

There were more than 3000 state enterprises in Poland, and 60% of them were privatised. The private sectors have been able to contribute to more than 70% of the GDP. Partial privatisation of banks and enterprises contributed 13 billion zolty (DM 6.5 billion) to the treasury in 1999.<sup>313</sup> The TRANSFORM consulting teams were active in two big steel mills in Poland – Huta Sendzimira AG in Krakau and Huta Katowice AG in Dabrowa Gornicza, the electronic company Telcza AG in Czaplinek, the armament factory Techma-Robot in Biala Podlaska, and the aircraft factory PZL Mielec. In 1998, Huta Sendzimira (HTS) produced around 1.8 million tons of steels, with surplus 1.4 million zolty and 3 billion zolty turnover, which fell behind the expectation of 2.2 million tons production and 3.2 million zolty surplus. The

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(Bundesministerium für Wirtschaft) p.p.70-71

<sup>312</sup> *Privatisierung durch Politikberatung und Wirtschaftskooperation, Bereich 8: Programmbüro Privatisierung (Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), GmbH, 2000) p.p.107-108*

<sup>313</sup> *Programmbüro Privatisierung Rundbrief, Nr. 8 (GTZ: Mandatar des Bundesministeriums der Finanzen, May 2000) p.14*

introduction of special saving measures in enterprise management (ex. freeze the salary and wages at the current level) and the acceleration of restructuring speed has thus been implemented.

From 2000 to 2004, the HTS steel mill must cut down its personnel from 17,000 to 9,000 in order to reduce the production cost to a competitive level in the European market. Around 80% of the personnel reduction could be done through breaking down cartels, and the rest through social plans and job creation measures. Part of the dismissed workers were taken over by the Labour and Development Agency Krakau-Ost and re-employed by the Revitalisation of Post-industrial Real Estate (demolition and vacating old and useless production sites around 100 hectares). In the negotiations between HTS and the German Taus GmbH to modernise and revitalise the company, the Labour Agency Krakau-Ost offered consultation through the conceptualisation of personnel adjustment measures.

The consulting service for Huta Katowice concentrated on the liquidation of the enterprise into smaller companies and personnel adjustments. It intended to break down the cartel of twelve maintenance departments and re-arrange them into five independent companies in the future. The number of employees also should be cut down to 2,800 people. After the restructure, the company had a new organisation structure and the core business was open for privatisation. The restructuring of the company was under the supervision of the 'Holding Association' (*Holdingsgesellschaft*). At that time, there were 60 independent SMEs in the association waiting for privatisation.

With Germany's consulting assistance, the electronic company Telcza AG in Czaplinek was divided into some independent companies – In-Tel GmbH, New Telcza GmbH, and Plast-Tel GmbH. Meanwhile, the restructure of the old Telcza AG was supported by German companies KTP GmbH, Meka GmbH, and NTU GmbH. Massive promotion of job vacancies from the employment funds began through the German-sponsored Special Programme (Sonder-programme). Three regional labour bureaus participated in the promotion of job opportunities, and almost 100% of the re-employment were achieved after 6 months of promotion.

The German KTP GmbH also employed almost 1,050 people for the production of cables for the German Volkswagen group. It raised its capital from 84,000 zloty to 500,000 zloty and concluded a supply contract with the United Technology Company (UTC). The co-operation between the KTP and the UTC on the manufacture of switch tanks for lifts was worth US 25 million and created 400 jobs in the region. The Labour Minister Komolowski and the President of the National Labour Bureau (KPU) Zielinska in Czaplinek praised that the Telcza Project was so successful that it could be the model of job creation for Poland.

The Polish armament factory Techma-Robot, situated in Biala Podlaska with about 160 employees in Warsaw, used to export to the USSR. It was a state-owned enterprise and in debt around 8 million zloty (around 16.4 million zloty). The creditor was the Ministry of Finance. To secure the viability of the company and create job opportunities, the production profile was re-arranged and the financial and organisational restructure was carried out. The company agreed to be divided into two independent enterprises respectively in Warsaw and in Biala Podlaska for the purpose

of privatisation. With the support of the TRANSFORM consulting teams, the German investor AluTeam Polska purchased a production hall from the company and a production site from the city, which created around 450 new jobs. It helped not only the Ministry of Finance in Warsaw but also the local authority in Biala Podlaska.

The aircraft factory PZL Mielec was an associate company of the WSK Mielec with 2,700 employees. Due to its high debt, the danger of bankruptcy emerged in March 1999. The Polish government made an effort to save the company by exempting their debt 137 million zloty between 1994 and 1997. Nevertheless, the lack of modernisation of the company and the poor quality of its products resulted in the refusal of the American Boeing to purchase from the company. Moreover, the strike of the employees was getting worse. The Polish government wanted to help the company survive, and hence the Defence Minister Romuald Szeremietiew and the Labour Minister Longin Komolowski turned to the TRANSFORM project director Holm Eggers. The TRANSFORM consultants assisted to establish a new company Polish Aircraft Factory employing around 1,300 workers from the old company and including around 1,500 dismissed workers in a special compensation programme.<sup>314</sup>

### **The Czech Republic**

Germany's consulting service in the Czech Republic promoted a middle-class economic structure and regional economic development. It focused on supporting SMEs, establishing norms corresponding to the EU standard, encouraging chamber partnership, and restructuring energy-supply business. A strategic long-term project in

enterprise area was to support the Czech Centre for SMEs Promotions (SPP), which was founded in 1991 and financially subsidised by the government. The SPP offered consultation, training, and arrangement for co-operations with foreign companies. The Federal Government supported the SPP in the following areas:

- Integrating the existing regional consulting centres and expanding the SPP nationwide.
- Organising a programme for training consultants and suitable participants.
- Carrying out seminars in the areas of marketing, company planning and management, budget, and accounting.

The Czech economic system needed to be restructured to fit into western norms, which could be facilitated through the promotion of economic relations with the EU and the intensification of trading relations. The strengthened bilateral relations between German and Czech companies made it easier for the Czechs to be introduced to the EU norms and standards. In 1992, the German government started to promote commercial chamber partnership projects with the Czech Republic. The German contributions also included establishing office technical facilities for chamber personnel. The Germans also offered assistance to the Czech gas and power suppliers in the preparation of restructure and privatisation.

The German support for the Czech companies was accompanied with training and education, such as setting up the European Business School Prague. The Germans also helped to establish a model centre for business vocational training in Pilsen in

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<sup>314</sup> *Privatisierung durch Politikberatung und Wirtschaftskooperation, Bereich 8: Programmbüro*

1994. They offered training to the teachers in the model centres and regional technology training centres for the SMEs in the areas of trading and service. Moreover, the German government sent long-term consultants to assist in the establishment of efficient promotional banks (ex. the Bohemian Guarantee and Development Bank) and the restructure of the Czech savings banks through the development of long-term German consultants in the framework of a partnership project with German *Sparkassen* (savings banks). The promotion of middle class was meanwhile gradually developed in the Czech Republic.<sup>315</sup>

To promote a middle-class economic structure, it was important to set up an efficient consulting infrastructure for SMEs. In 1995, the SPP, the Agency for SME Promotions and the Agency for Enterprise Development (ARP) were integrated to work together in consulting projects. Besides, three projects promoted tourism in Bohemian Forest (Sumava), Elbe (Labe), and Northwest Bohemian. The goal was to improve the tourist information service system.

The German support for the Czech enterprises was through vocational training. The German-Czech co-operation focused on the establishment of Model Centres for commercial training, particularly in trading and service areas. Model Centre was helpful for the restructures of vocational training systems. Another important goal of the German assistance was to speed up the integration of the Czech Republic into the EU. The German consultants made efforts in the economic and social areas to help the Czech Republic meet the EU standards. They aimed at improving the efficiency of

public service and strengthening the communal administrations. In 1996, German consulting services in the areas of agriculture, research, technology, social and labour policy, and environmental protection had been completed.<sup>316</sup>

The German government played a very limited role in privatisation in this country. Most of technical assistance was concentrated on cross-border projects, which was then delegated to the German Länder, mainly Bavaria.<sup>317</sup>

## **Hungary**

The transformation of economic system in Hungary was already quite advanced. Germany's consulting assistance thus focused on more specific areas, such as privatisation and SMEs. In 1991, the German government began to financially support Start-Credit Programme, from which current existing private businesses received credits on favourable conditions. Through the programme, Hungarian banks were able to make contributions to the establishments of private businesses. The recipients of Start-credits were arranged through Hungarian enterprise consultants and German experts who were in charge of the efficiency of the Start-credits. Besides, the German government had granted a total amount of guarantee credits DM 50 million to

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<sup>315</sup> *Die Beratung Mittel- und Osteuropas beim Aufbau von Demokratie und sozialer Marktwirtschaft Konzept und Beratungsprogramme der Bundesregierung Nr.350 (Bundesministerium für Wirtschaft, May 1994) p.p.98-100*

<sup>316</sup> *Die Beratung Mittel- und Osteuropas beim Aufbau von Demokratie und sozialer Marktwirtschaft Konzept und Beratungsprogramme der Bundesregierung, Fortschreibung 1996, Nr.398 (Bundesministerium für Wirtschaft) p.p.104-105*

<sup>317</sup> interview at *Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH*, Eschborn, Sep. 2001



Hungarian Investment and Development Bank (MBFB) for middle-class credit programmes by the end of 1995.<sup>318</sup>

A functional commercial chamber system could be very helpful for small and medium-sized enterprises. The German government also promoted Hungarian partnership with German commercial chambers to offer assistance. Two German-Hungarian partnerships had been founded by 1994 – the co-operation between the Central Association of German Trade and the Polish IPOSZ-Association, and the partnership between the Industrial and Commercial Chamber München and the Hungarian Commercial Chamber. The German government also co-operated with the Hungarian Foundation of Enterprise Promotion to support the Hungarian commercial chamber system.<sup>319</sup>

Due to the lack of knowledge in market-oriented company management, the German government promoted professional management training in Hungary. The German consultants carried out their work through the educational organisations – Universities Pecs, Miskolc, Tatabanja, Business School Budapest, and the European Business School Hungary. The training included the areas of company organisation, marketing, and tourism. In 1991, two Model Centres were founded in Budapest and Dombóvár, whose activities contributed to the training of out-of-employed labours for re-employment, in order to fight unemployment rates.<sup>320</sup> From 1996, Germany's

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<sup>318</sup> *Die Beratung Mittel- und Osteuropas beim Aufbau von Demokratie und sozialer Marktwirtschaft Konzept und Beratungsprogramme der Bundesregierung, Fortschreibung 1996, Nr.398 (Bundesministerium für Wirtschaft) p.80*

<sup>319</sup> *ibid.* p.82

<sup>320</sup> *Die Beratung Mittel- und Osteuropas beim Aufbau von Demokratie und sozialer Marktwirtschaft Konzept und Beratungsprogramme der Bundesregierung Nr.350 (Bundesministerium für Wirtschaft, May 1994) p.p.74-76*

economic management training in Hungary had aimed at helping their administration and vocational qualifications reach the EU-standards.

The Hungarian government co-operates with the German government in the area of privatisation. Two German consultants were sent to work in the Hungarian Privatisation Agency (SPA) in 1992 and one German expert in the Hungarian State Holding Company (AVRt) in 1993. The Hungarian government also expressed its wish for Germany's assistance in the strategy of privatisation. The President of the *Treuhandanstalt* at the time visited Budapest in 1995. Regular meetings between higher-ranking officials in both sides were also arranged.<sup>321</sup>

Hungary needed to develop a particular project conception under the observance of German and other international experiences in the area of an active labour market policy. As a result, the development of the conception for the construction of the job market created a Transit Agency (*Transitgesellschaft, TG*), within the framework of the TRANSFORM Programme (Germany) and the PHARE Programme (the EU), in 1996. The Agency was regarded as an efficient instrument for regional economic development. The goal of the Transit Agency was to create jobs and help unemployed people to be re-employed. The task was to organise and carry out the complex process of planning and restructuring regional economic and structural developments. The Agency also corresponded with professional experts for adequate internal and external co-operations.

*Co-ordination of Projects:***TRANSFORM Programme**

⇒ German Agency for Technical Co-operation ⇒ Transit Agency

**PHARE Programme***Process:*

Input	Output
Consultation	SMEs
Unemployment	Joint ventures
Business ideas ⇒ Transit Agency ⇒ Projects ⇒	New jobs
Partner	Regional economic
Finance	development

The concrete work of the Transit Agency includes:

- Develop all the activities in regional economic and structural development plans.
- Establish and support SMEs through consultation and corresponding training programmes.
- Organise and carry out projects for training.
- Take care of investors.

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<sup>321</sup> *Die Beratung Mittel- und Osteuropas beim Aufbau von Demokratie und sozialer Marktwirtschaft Konzept und Beratungsprogramme der Bundesregierung, Fortschreibung 1995, Nr.371 (Bundesministerium für Wirtschaft, April 1995) p.75*

- Arrange partners for regional co-operation, such as institutions, universities, chambers and associations, and communal administration etc.

The Transit Agency also commits itself to promote enterprises in the following areas:

- Completely or partially take over the salary costs for projects participants.
- Completely or partially take over the costs for technical equipment.
- Make available free or cheaper working places.
- Support to deal with fundamental and conception works (business planning, analysis, studies etc.)
- Take over or support the realisation of management, technical and administrative works.
- Support the acquisition of tasks for the companies.
- Public relations or lobby for the companies.

Before starting a project, the Transit Agency and the partner must draft a contract stating the rights and duties for the participants. The minimum term of the working relations also should be written in the contract. The Transit Agency helped to establish a company or a branch and create a number of jobs for project participants, as in return the project partners had to fulfil their obligations. If the obligation was not fulfilled or partially fulfilled, there would be a fine.

The basic conception of the project course consisted of three phases. Phase one was to develop a plan for the project course based on a regional structural development plan and a viable project idea, as well as for the search and selection of a suitable partner. The entire process of project planning should involve all project partners. An initial

idea could be proposed by project partners or potential project partners. A viable idea must be a practical business idea and on the basis of promoting SMEs. Suitable partners should be enterprises that were ready and in the position to engage in the local area for long-term development. The projects also took the handicaps of regional structural developments into consideration.

Phase two was to transplant the project idea in co-operation with the partner:

- Take over the workers from the labour office in the Transit Agency.
- Implement the planned and prepared measures for training.
- Continuously carry out the practical project work and the systematic development of project structure.

Phase three was to set up enterprises through the Transit Agency and helped project participants commit in working affairs. The practical components of these phases were:

- Set up enterprises (expand the existing enterprise structure).
- Economic management of enterprises.
- End the projects when the business results are relatively stable or when the contract term is over.

When the project term was finished, the project that was unable to make profits should be discussed how to proceed further. In the case of the projects with too little employment, the Transit Agency would integrate the concerned project participants with other measures. In the case of newly established companies, the Transit Agency would not be able to offer any further special subsidisation.

In principle, the Transit Agency carried out its projects without external partners, which was the case of arranging jobs in current existing local companies. However, working with external partners might motivate the project participants to be more engaged. Combining social and private business interests in a regular framework could produce a mutual benefit. Within current existing enterprises and structures, jobs were successfully created through systematic and continuous personal contacts with local employers to create job vacancies and fill in with appropriate applicants. The systematic and professional individual arrangement activities had demonstrated a successful result.<sup>322</sup>

## **Conclusion**

The major task for the German government in East Central Europe is to help them transform from central-controlled economy to market economy and reconstruct private sectors successfully. Germany has experienced a similar process in East Germany and thus could offer its experience to East Central Europe. However, the background of each country is different, and the approach to transform and reconstruct the economy cannot be the same. East Germany had the domestic support of a strong economy, while the East Central European countries do not have the same background. Hence, they should not take radical but gradual approach to transform and reconstruct their economies.

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<sup>322</sup> *Privatisierung durch Politikberatung und Wirtschaftskooperation, Bereich 8: Programmbüro Privatisierung (Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), GmbH, 2000) p.p.88-94*

In general, Germany's work in East Central Europe focused on privatisation consultation and support small and medium-sized enterprises through the establishments of German-ECE co-operations (chamber partnerships, 'private-public-partnership', and cross-border projects) and vocational training. The German consultants encouraged German companies to invest in the region in order to bring in capitals and create jobs for local people. They also organised seminars to help individual companies tackle their problems on privatisation and company management. The German consultants and experts stayed in East Central European countries on the basis of short-term or long-term assistance to help through the transformation and reconstruction process.

The German consulting teams also co-operated with local technical universities and business schools to offer vocational training to produce future entrepreneurs and local professional personnel, which could benefit the establishment of young enterprises and SMEs. There were also some financial programmes organised by the KfW or its associate local development banks to encourage the development of SMEs as the fundamental elements of market economy. The Germans also helped to build Model Centres for unemployed people (because of personnel adjustments in the former SOEs) to be re-employed through vocational training and job creation in local companies.

Germany's consulting services in East Central Europe not only helped the transformation and reconstruction of their economies but also strengthened the German-ECE relations. The strengthened bilateral relations have facilitated the entry

of the region to the EU and speeded up the EU eastward enlargement. The next chapter will investigate Germany's role and contribution in the EU enlargement.



## Chapter 8

### Germany: the Advocate of the EU Eastward Enlargement

Germany has played an active role as an EU deepener since the 1980s. The establishment of Economic and Monetary Union brought the EU into a stage of further and deeper integration. Along with the implementation of the EMU, the issue of eastern integration has become more and more important on the EU agenda. While Europe is facing the dilemma of deepening and widening, Germany is also in the difficulty of identifying itself as a deepener or a widener. The EU institutions and policies need adjustments and transformation in order to meet challenges of the eastern expansion.

Although a successful eastern enlargement cannot be done without a smooth EU integration, the fast developing Eastern Europe cannot be long shut outside of the EU's door. Germany has been keen on involvement in the ECE reform in order to integrate its eastern neighbours into the EU. Given Germany's geographic position, the stability of the East has become one of its primary concerns. While Germany has been seen as the advocate of the East within the EU, it also plays the role of a 'watch dog' for EMU entry and the stability of the Euro. A premature accession of the eastern candidates would lead to the severe damage or even the breakdown of the EU. Is it too ambitious of Germany trying to be a deepener and a widener at the same time?

The D-Mark was the anchor currency in Europe before the Euro, and the European Central Bank was modelled on the Bundesbank. The development of EMU has signified a more integrated Europe. It has been a German-led European integration with the Franco-German axis as the motor for EU integration, whether Germany is going to lead the EU to eastward enlargement, if Germany has played a leading role in the process of Economic and Monetary Union? The chapter also looks into whether German foreign policy remains multilateralist or become more assertively unilateralist and how its close partner, France, would respond if EU eastward enlargement strengthens Germany's political and economic power in Europe.

Besides, Germany alone cannot provide enough financial assistance to meet the needs of the vast East. As the paymaster of the EU, the German contribution accounts for over a quarter of the EU budget. The chapter argues that the German government seeks a multilateral solution and attempts to bring its eastern neighbours into the framework of the EU. The creation of the PHARE programme and the establishment of the EBRD are EU instruments promoting the restructuring of the East.

This chapter contains four sections. The first section analyses German self-definition in terms of EU deepening as opposed to EU widening. The second section discusses whether Germany has led Western European integration. The third section explains how Germany supports EU eastward integration. The final section examines what assistance Germany and the EU offer to the eastern candidate states.

### **Germany: a Deepener or a Widener?**

Michael Baun has noted that monetary union and eastern enlargement were the defining issues of the EU in the 1990s and into the new century.<sup>323</sup> Germany has played a crucial role in both issues. If the development of monetary union is an issue of the EU deepening and the expansion to the East is an issue of widening, one must ask which one is Germany's policy priority? Henning Tewes has found a 'role conflict' in Germany's European policy between deepening and widening. Is Germany a deepener or a widener? Do the two roles of deepener and widener have to exclude one another? Could Germany press for the full membership of its eastern neighbours without weakening existing EU institutions?

In Tewes' opinion, Germany's post-war European policy is the promotion of European integration, and the deepening of the EU remains Germany's principle concern. However, he admits that the importance of Germany's eastern neighbours has grown, which could change the orientation of German foreign policy, even though the importance of the West does not decline. Hence, deepening and widening are likely to become conflicting dynamics in the near future.<sup>324</sup> Jörg Brechtefeld argued that the stability of the west could guarantee a successful transition of the east. If an extension to the east results in the instability of the west, both transformations of the west and the east would fail.<sup>325</sup> Therefore, this could be the reason why Germany was put the deepening of the EU before widening.

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<sup>323</sup> Baun, M., 'Enlargement' in Cram L. et al. (eds.), *Developments in the European Union* (London: Macmillan Press Ltd., 1999) p. 269

<sup>324</sup> Tewes, H., 'Between Deepening and Widening: Role Conflict in Germany's Enlargement Policy', *West European Politics*, Vol.21 No.2, April 1998, p.p.117-133

<sup>325</sup> Brechtefeld, J., 'Europe's Double Transformation Crisis', *International Relations*, Vol. XIII No. 4, April 1997, p.38

Gunther Hellmann noted that post-war German foreign policy was a diplomatic strategy of self-binding. He asserted that the united Germany would retain the same policy orientation of integration and multilateralism. The 'German giant' is willing to be tied down as a result of its character as a trading state, which has enmeshed it with the international economic system, particularly with its European neighbours.<sup>326</sup> Thus, a deeper European integration would be more important than European expansion.

Helmut Kohl always supported a deeper European integration. He was one of the key people who made EMU possible. In his belief, German unity and European unity are 'two sides of the same coin'. The integration of the GDR into a united Germany represented the first step in the integration of ECE and even Eastern Europe into the EU. During his administration, Germany was successfully anchored within European institutions, notably the EMU. Kohl, as a federalist, regarded the EMU as the essential precondition of European political integration.

Thomas Banchoff interpreted Kohl's EU policy toward deeper European integration as seeking to make a clear break with its pre-war pattern, as a result of the effects of historical memory. Kohl pursued *Westbindung* (Western ties), rather than *Sonderweg* (German special way), in order to prevent the resurrection of German hegemony and nationalism that led to isolation and defeat in the past. Kohl viewed the solid integration of Germany in the EU as 'a question of war and peace'. His commitment to a deeper European integration helped to build trust in Germany among its neighbours. As Kohl suggested, Germany and other states learned to live with each other through European integration. In the future, Germany would still make efforts

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<sup>326</sup> Hellmann, G., 'The Sirens of Power and German Foreign Policy: Who is Listening?', *German Politics*, Vol.6 No.2, August 1997, p.30-31

towards a deeper integration to embed German power within a strong European framework.<sup>327</sup>

Since Germany has so committed itself in the deepening of the EU, it would not risk letting the EU fall apart due to the EU's incapability to meet the challenge of eastward expansion. Hence, Germany's European policy regarded deepening as a precondition for widening. However, Germany is well aware of the cost of not enlarging. The costs include losing the opportunity to expand the single market and the opportunity to solve the German immigration problem at supranational level.<sup>328</sup> Widening and deepening could go hand in hand, as long as the integration process is strengthened before eastern candidates are admitted.<sup>329</sup> As the result of the stabilisation of the euro, *widening and deepening* has become the favourite German phrase, meaning that closer EU integration could actually go hand in hand with EU enlargement.<sup>330</sup>

What kind of Europe does Germany want, since deepening is the priority of German European policy? The future direction of the EU has divided its member states into federalist and intergovernmentalist camps.<sup>331</sup> A political union was Germany's goal for a stronger European identity.<sup>332</sup> Germany gave up the D-Mark in return for an integrated EMU. EMU is a crucial precondition of political union and requires a strong political mechanism to operate and cope with the problems. Although the federalist camp (notably Germany and Italy), which advocate a deeper integration of

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<sup>327</sup> Banchoff, T., 'German Policy Towards the European Union: The Effects of Historical Memory', *German Politics*, Vol.6 No.1, April 1997, p.p.60-66

<sup>328</sup> Croft, S. et al., *The Enlargement of Europe* (Manchester University Press, 1999) p.84

<sup>329</sup> Aggestam, L., 'The European Union at the crossroads' in Price, V. C. et al. (eds.), *The Enlargement of the European Union: Issues and Strategies* (London: Routledge, 1999)

<sup>330</sup> 'France and Germany renew marriage vows', *Financial Times*, 2 Feb. 2001, p.8

<sup>331</sup> Croft, S. et al. *The Enlargement of Europe* (Manchester University Press, 1999) p.83

<sup>332</sup> *ibid.* p.92

the EU, were opposed by the intergovernmentalist camp (notably the UK and Denmark).<sup>333</sup>

The future trend of the EU can be towards federalism. Ireland, Spain, Greece, and Portugal would compromise or be 'bribed' for their receipts from the EU budgets.<sup>334</sup> France, Germany's closest European ally, has wavered between deeper integration and preserving national sovereignty. The common fear that France shares with the UK is that deepening may be a cover for German hegemony. The French is aware that German unification has destabilised French and German parity. The population of the united Germany is 40 per-cent greater than that of France. The annual German trade surplus is double the French. The GNP of Germany is almost 50 per-cent higher than that of France. The addition of German eastern neighbours would even reinforce the influence of Germany. However, French fear of a stronger Germany could provide the motive to tie down Germany in a deeply integrated Europe. At least, Germany's establishment of an independent power base in East Central Europe could be prevented. The more important intention for France is to contain the D-Mark in the Euro zone.

Germany may also be able to persuade France to strengthen and retain the Franco-German axis as the driving force of a deeper European integration, because Germany's economy, its principal strength, is highly reliant on integration into the EU and world markets.<sup>335</sup> On 31<sup>st</sup> January 2001, German Chancellor Schröder and the French President Chirac assured each other of their commitment to conduct together

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<sup>333</sup> Esposito, F., 'The IGS: Facing the Enlargement's Dilemma' in Price, V. C. et al. (eds.), *The Enlargement of the European Union: Issues and Strategies* (London: Routledge, 1999) p.101

<sup>334</sup> Croft, S. et al. *The Enlargement of Europe* (Manchester: Manchester University Press, 1999) p.80

European policy of deepening and future development of the EU (including the enlargement process) at a Franco-German meeting in Strasbourg, despite their fundamental differences over a number of EU policies (i.e. voting weights and fairer budget payment sharing) and future direction of the EU (i.e. intergovernmentalist vs. federalist).<sup>336</sup> More details about Germany's vision of future Europe will be discussed in the next chapter.

### **German-led European Integration?**

The abandonment of the D-Mark, the symbol of national pride and identity, proved Germany's strong intention to be integrated into Europe. Since the onset of EMU, Germany has played the leading role in the monetary integration. Although Germany and France appeared to be the motor of European integration, the Germans prevailed over the French during the negotiation of EMU. The close interaction between Germany and France, seen in the Franco-German summits, informal meetings of the French President and German Chancellor, the Franco-German Economic Council, and Franco-German confidential bilateral agreements, prepared the ground for broad agreement on the EMU issue. Although the negotiation of EMU was paralleled by a nesting of the French and German economic and monetary systems, German monetary policy was the actual model emulated by the EMU. Germany, with its D-Mark as the anchor currency of the Exchange Rate Mechanism and the prestigious the Bundesbank as a policy model, dominated the EMU negotiations. As Kenneth Dyson

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<sup>335</sup> Blunden, M., 'The Germany Europe Deserves' in Lange, T. and Shackleton, J.R. (eds.), *The Political Economy of German Unification* (Oxford: Berghahn Books, 1998) p.p.26-29

<sup>336</sup> 'France and Germany renew marriage vows', *Financial Times*, 2 Feb. 2001, p.8

put it, 'making progress on EMU meant going along with the German way of doing things'.<sup>337</sup>

Paterson et al. noted, 'the projection of a Europeanised identity centred on multilateral co-operation requires partners'.<sup>338</sup> Among the EU member states, France is Germany's most important ally. The Franco-German axis has been at the core of Germany's European diplomacy, and it largely rests on converging interests.<sup>339</sup> Their partnership, founded in the Franco-German Treaty of 1963, has been based on co-operation and consultation. Franco-German policy initiatives with the EU, such as the annual seven-power Western economic summits, have provided the motor for European integration.

The European Monetary System has been a remarkable achievement of the Franco-German axis. Both the German and French governments have played the leading role to accelerate the integration of EMU. The German government's preference for co-operation with the French is not only to avoid unilateral instruments of power, but also in a result of the French government and its economy's capacity to enforce a high agricultural price policy and to share the heavy budgetary burden. Chancellor Schmidt and President Giscard d'Estaing were both Ministers of Finance when the currency snake emerged from the discussion of Economic and Monetary Union. Schmidt and Giscard d'Estaing had created the golden era of the Franco-German relationship since they both became the leaders of their counties in 1974. Their strong personal rapport provided an important dynamic in the machinery of Franco-German co-operation. The

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<sup>337</sup> Dyson, K., 'The Franco-German Relationship and Economic and Monetary Union: Using Europe to 'Bind Leviathan'', *West European Politics*, Vol.22 No.1, January 1999, p.p.27-28

<sup>338</sup> Bulmer, S., Jeffery, C. and Paterson, W. E., *Germany's European Diplomacy: Shaping the Regional Milieu* (Manchester: Manchester University Press, 2000) p.127



biannual Franco-German summits connected the mutual interests in the field of monetary relations. The close collaboration of the Franco-German axis founded the European Monetary System in the late 1970s. The German Presidency of the EC from July to December 1978 followed by French incumbency enabled the EMS to be hatched, because both governments pursued similar economic policies.<sup>340</sup>

Given that the economic performance of France in the 1970s and early 1980s was not good enough to convince other states to negotiate on the basis of a French model of EMU, the French in the late 1980s demanded the creation of a Franco-German Economic Council in order to draw the Bundesbank into a framework of Franco-German policy co-ordination. However, there was a difference in their monetary policies. The Banque de France submitted itself to the will of the state, in contrast to the orientations of the independent Bundesbank. France sought political determination of the exchange rate policy of the European currency, while Germany repeatedly stressed the independence of the ECB. Germany worried that the involvement of the political direction of economic and monetary policy would jeopardise price stability and then lead to inflation. The Bundesbank made acceptance of an independent ECB a precondition of negotiation. Chancellor Kohl had to reassure the German people that the single European currency would be at least as stable as the D-Mark. Mitterrand conceded and adopted Germany's monetary policy, but his long-run goal was that French power would be increased in a 'Euro zone, instead of a 'D-Mark zone'. The

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<sup>339</sup> *ibid.* p.55

<sup>340</sup> Wallace, H., 'The Conduct of Bilateral Relationships by Governments', in Morgan, R. et al. (eds.), *Partners and Rivals in Western Europe: Britain, France, and Germany* (Hants: Gower Publishing Ltd.1996) pp.163-165.

French concession aimed at containing the D-Mark in the EMU and ultimately sharing economic and monetary power with Germany at the EU level.<sup>341</sup>

Another monetary policy that France had to concede to Germany was German advocacy of the asymmetry of EMS. France was unwilling to absorb the cost (e.g. the devaluation of the Franc) of Germany's tight credit policies. The French government preferred an equal currency market intervention. However, the German government argued that strong currencies should not have to intervene to save weak currencies until the latter fall out of the exchange rate bands. The Germans stressed that the weak currency countries should carry the main intervention burden, rather than the strong currency countries. After the Aachen Franco-German Summit in September 1978, Giscard reluctantly agreed to Schmidt's demand that the EMS be asymmetric.<sup>342</sup> Despite French failures to achieve its main goals (fixed exchange rates and an equal currency market intervention burden with the Germans), Franco-German efforts did push forward to reach their shared goal – the irreversibility of EMU.

Kohl and Mitterrand maintained this significant co-operation in the 1980s and 1990s. In June 1985 Milan session, Kohl and Mitterrand presented a Franco-German draft treaty for a political union, which was influential and shaped the European Political Co-operation treaty contained within the Single European Act. Additionally, the two governments collaborated over agricultural prices and expenditure, and their interest in high agricultural prices had influenced the Common Agricultural Policy. The Kohl-Mitterrand relationship was crucial in the process of a political union. They both

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<sup>341</sup> *ibid.* p.p.29-37

<sup>342</sup> Kaltenthaler, K., 'The Sources of Policy Dynamics: Variations in German and French Policy Towards European Monetary Co-operation', *West European Politics*, Vol.20 No.3, July 1997, p.p.93-94

agreed to create a political union, so that the united Germany could be firmly tied down within it. In April 1990 they sent a joint letter to the Irish Presidency urging a second intergovernmental conference, in order to accelerate the political construction of Europe.

The growing French fear about a more influential and stronger Germany extends from the process of deepening to the widening of the EU. Given German economic strong influence in ECE states, France realised that Germany would become even more influential in a wider Union. The increase of the economic and political weight of Germany is in contrast to the diminution of that of France in Europe. Hyde-Price has cited an economist as saying, 'a mighty country -- such as a united Germany surrounded by East European satellites - cannot for long pretend to be the political and economic equal of France'.<sup>343</sup> The EU's political centre of gravity would eventually move eastwards.<sup>344</sup>

In order to prevent a prominent German power from becoming an independent force in the region, the French tried to increase their own influence in the transformation process in ECE and Eastern Europe. The creation of the EBRD was a French initiative. In 1989, Jacques Attali, President Mitterrand's senior advisor, suggested that a development bank was needed for the East. A French attempt was to make ECE and Eastern Europe a third concentric circle of the European integration process, so as to dilute German influence and keep the US at arm's length. The French could also

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<sup>343</sup> Hyde-Price, A., *The International Politics of East Central Europe* (Manchester: Manchester University Press, 1996) p.203

<sup>344</sup> Baun, M., 'Enlargement' in Cram L. et al. (eds.), *Developments in the European Union* (London: Macmillan Press, 1999) p.283

expand their influence in the former Soviet bloc.<sup>345</sup> Nevertheless, the EU integration process ultimately proved to be German-led. Although the Franco-German axis was the driving force, the economic integration of the EU was modelled on the German system, rather than the French system.

Besides, there were significant differences on institutional issues between Paris and Bonn. While a consensus favoured the European Council remaining the central decision-making body, there was a disagreement about extending the use of qualified majority voting and strengthening the role of the Parliament. Germany preferred some form of legislative co-decision and an increase of the European Parliament's powers in investigation and scrutiny. France, on the other hand, wanted to promote the role of the European Council and integrate the representation of national parliaments into the Community framework. Regarding the EMU issue, France thought it should be achieved as soon as possible, while Germany insisted on the rigorous entry conditions. Nevertheless, both of the countries believed that EMU should be irreversible. In spite of the significant differences, the close understanding between Kohl and Mitterand overcame them and together provided a framework for an agreement. In November 1993, Germany and France announced a joint plan to meet the EMU convergence criteria by 1996. The Franco-German axis has demonstrated that German government has always tried to avoid unilateral moves in its European policy. The two largest EU economies have provided the motor for the development of EMU and furthered European integration.

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<sup>345</sup> Laffan, B., *The Finances of the European Union* (London: Macmillan Press, 1997) p.239

Fischer has pointed out that ‘the latest stage of European Union, namely eastern enlargement and the completion of political integration, will depend decisively on France and Germany.’<sup>346</sup> After years of frosty relations, Franco-German axis revived during Copenhagen summit 2002. The resurgence of the Franco-German relationship helped to create a breakthrough on future farm spending. More details will be discussed later in this chapter.

In the conclusions of Copenhagen summit, Chancellor Schröder said that ‘it is a great day for Europe and also for Germany, because one does not go without the other’, which expressing the inseparability of Germany and the EU. He also stressed that deepening and widening should go hand in hand, ‘Enlargement must be followed by deepening. An enlargement Europe must remain manageable’.<sup>347</sup> Thus, from Germany’s point of view, deepening remains essential for the future development of the EU.

### **German-led Enlargement?**

Germany’s self-binding in the EU reflects the tendency of its foreign policy to multilateralism. German advocacy for EU eastern enlargement indicated a German intention to address the instability of its eastern neighbours in a multilateral framework. Germany tried to convince its Western allies that the instability of the East was not a threat only for Germany but for the whole of Europe. Chancellor Kohl attempted to equate German interests with the EU interests. In 1991, he declared that Germany had contributed to security and stability in the whole of Europe by promoting reforms aimed at transition to a social market economy in ECE and Eastern

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<sup>346</sup> Joschka Fischer’s speech at Berlin’s Humboldt University, 12 May 2000

<sup>347</sup> ‘EU to forge “One Europe” through historic expansion’, *Financial Times*, 14 December 2002

Europe. His purpose was to engage the member states of the EU in a more active eastern policy, in the interests of the whole of Europe.

### *Germany's Political Bargain for Eastern Applicants*

Andrew Moravcsik has argued that the most essential task of European integration theory is to explain 'grand bargains'. He noted that a negotiation outcome is determined by two variables: the pre-fixed preferences of the various member states and their respective bargaining power. However, Lykkel Friis disagreed with the view that governments could get their way by using their bargaining power. He asserted that governments search for common solutions which are acceptable to all members of the EU.<sup>348</sup> It is worth considering Moravcsik's 'hard-bargaining-image' or Friis' 'dialogue-image' best reflects German behaviour in the eastern enlargement negotiation.

Almost all the member states have their favourite candidate countries, based on geographic and historical ties. During the accession negotiations, member states tried to support their 'pet candidates', for example, Germany favoured the ECE states, France and Spain preferred the Mediterranean states (Cyprus and Malta), and the Nordic members helped the Baltic countries. Germany attempted to obtain support for eastward enlargement from other member states through political bargains.

Although the German government strongly advocated eastward enlargement, the attitudes of the French and Spanish governments were hesitant and reluctant. The

French government feared that eastern expansion would further increase German influence in the EU and the Spanish government was worried that the admission of the ECE states would lead to a reduction in Structural and Cohesion Fund assistance. Germany understood that the French and Spanish governments would be interested in a comparable investment in an active Mediterranean policy. Moreover, France tended to use its influence in the Mediterranean as a counterweight to Germany's influence in Eastern Europe.<sup>349</sup> Thus, it supported the development of a new Mediterranean policy via the Barcelona process, in order to trade this for both governments' acceptance of eastern enlargement as a goal. In July 1994, the joint 'presidency programme' of the consecutive German and French presidencies included a common approach towards EU-Mediterranean state relations and EU-ECE relations, which satisfied both French and German interests.<sup>350</sup>

In addition to France and Spain, the Nordic member states also opposed the idea that eastward enlargement be limited to the countries on Germany's eastern borders. Germany's advocacy of the EU first round of enlargement being restricted to Poland, the Czech Republic and Hungary was criticised as being too strongly related to German self-interest.<sup>351</sup> The Nordic countries argued that Germany's geopolitical preferences should not decide the extent of enlargement. All candidate countries are supposed to be treated equally and admitted according to their performances in reaching the entry criteria. This principle was strongly supported by the French

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<sup>348</sup> Friis, L., 'The End of the Beginning of Eastern Enlargement – Luxembourg Summit and Agenda Setting', European Integration online Papers (Eiop) Vol.2 No.7 (1998) <http://eiop.or.at/eiop/texte/1998-007a.htm> p.p.1-2

<sup>349</sup> Blunden, M., 'The Germany Europe Deserves' in Lange, T. and Shackleton, J. R. (eds.), *The Political Economy of German Unification* (Oxford: Berghahn Books, 1998) p.29

<sup>350</sup> Hellmann, G., 'The Sirens of Power and German Foreign Policy: Who is Listening?', *German Politics*, Vol.6 No.2, August 1997, p.38

<sup>351</sup> Schimmelfennig, F., 'the Double Puzzle of EU Enlargement: Liberal Norms, Rhetorical Action, and the Decision to Expand to the East', *Arena Working Papers*, WP 99/15, p.43

government.<sup>352</sup> Germany saw that Sweden and Finland had political and economic interests in including the three Baltic countries in the first wave of eastward enlargement. The Germans thus secured an agreement to start negotiating European Agreements with the Baltic States, as they knew that the Nordic member states would favour this for their own benefit.<sup>353</sup>

It is important to Germany to maintain close relations with its EU partners in order to gain their support for new political and economic bonds with eastern states. During the negotiation of the eastward enlargement, Germany tried to find common ground for reaching agreements with other member states. The Germans accommodated the interests of their European allies in exchange for support for its own plans. Hence, Germany fits with Friis' 'dialogue-image', which is consistent with the tendency of multilateralism in German foreign policy. Although Germany does have more political and economic weight in the EU, it still has to be concerned about the benefits for other states and thus tries to create a 'win-win' situation when making political bargains.

#### *German Efforts for the Accession of the ECE states*

In the early 1990s, Germany and other pro-enlargement states (e.g. the UK and Denmark) suggested to the Commission a new approach with ECE and Eastern Europe, based on association agreements. After a year of negotiation, the European Agreements were signed in December 1991. Although the European Agreements

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<sup>352</sup> Baun, M., 'Enlargement' in Cram, L. et al. (eds.), *Development in the European Union* (London: Macmillan Press Ltd., 1998) p.276



facilitated EU economic and financial assistance to the region, they did not commit the EU to ECE accession or eventual membership. The Agreements also protected certain economic activities in the EU, such as the coal and steel industries, textiles, and agriculture. These activities were the ones in which the ECE states had the greatest comparative advantage.

Germany criticised the trade restrictions in the Agreements and urged the Commission to adopt a more liberal policy. The Germans suggested a more stable and integrated ECE as an objective, in order to attract foreign business and create economic opportunities. A turning point in EU policy towards ECE was at the June 1993 Copenhagen summit. The European Council agreed that the associated countries in ECE and Eastern Europe should become members of the European Union. Eastern enlargement became the main goal of the German EU presidency in the second half of 1994. The Essen European Council approved a 'pre-accession' strategy for ECE and Eastern Europe. The strategy established a political dialogue of regular meetings between EU and ECE government officials.<sup>354</sup> It also produced an EU White Paper suggesting concrete steps to guide eastern candidates towards making themselves eligible for EU membership.<sup>355</sup>

Since the pre-accession strategy was approved, the questions of the timetable for eastern enlargement and which countries were to be admitted were raised. The German government preferred a quick enlargement that included only a few countries

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<sup>353</sup> Sedelmeier, U. and Wallace, H., 'Eastern Enlargement: Strategy of Second Thoughts?' in Wallace, H. and Wallace, W. (eds.), *Policy-Making in the European Union* (Oxford University Press, 2000) p.p.442-443

<sup>354</sup> Baun, M., 'Enlargement' in Cram, L. et al. (eds.), *Development in the European Union* (London: Macmillan Press, 1998) p.p.273-275

on its eastern border. In July 1995, Chancellor Kohl declared that an opening of accession negotiations initially with only Poland, the Czech Republic, and Hungary should start six months after the conclusion of the 1996 IGC. The Germans pushed for a specific date for opening negotiations, a target date of 2000 for completing them, and an open mind as to whether the ECE states would be ready to meet the accession criteria established at Copenhagen.<sup>356</sup> Chancellor Kohl was the first European leader to publicly set a target date (2000) for enlargement. The Madrid European Council in December 1995 discussed an enlargement policy. It agreed to set an indicative date to open accession negotiations with the ECE states. In July 1997, the Commission recommended in Agenda 2000 that accession negotiations be initiated with Poland, the Czech Republic, Hungary, Estonia, Slovenia, and Cyprus.

When Schröder became the German chancellor, his disinterest in European affairs kept Germany inactive in the first few years of the new government until 2001 that Fischer's advocacy of a federal Europe finally won the chancellor's support (more details will be discussed in next chapter). Moreover, Franco-German axis revived in late 2002 after years of frosty relations. Germany once again played an important role in Copenhagen summit 2002. During the enlargement negotiations, when the EU leaders said that there was no money on the table above £26 billion already set aside for enlargement, Poland refused to compromise on demands for more money to help tide them over before EU grants and subsidies start flowing. The Polish tough position might have postponed its accession to 2007, but the Poles believed that the consequences would be a lot worse for the EU than for Poland if the enlargement fell

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<sup>355</sup> Bideleux, R., 'Bringing the East back in' in Bideleux, R. and Taylor, R. (eds.), *European Integration and Disintegration: East and West* (London: Routledge, 1996) p.226

apart. The stalemate worried Germany who would not wish its eastern neighbouring state to be excluded. Chancellor Schröder stepped in and made a breakthrough. He said that it would be inconceivable to exclude Poland with a population of 40 million, more than the other nine combined, and a border less than 100 miles from Berlin.<sup>357</sup>

Germany proposed to switch Euro 1 billion for Structural funding to give Poland for its government budget in 2004-06, taken from its allocation for EU-financed regional aid. Germany's proposal would give Poland Euros 1 billion cash up front instead of for projects that might take years to complete. It transferred cash from one EU kitty to another to appease the Poles without adding anything to the budget. Although the Polish negotiators muttered that they were being bribed with their own money', the terms were finally good enough to be accepted by Poland.<sup>358</sup> Germany's proposal helped Poland to join the EU on time.

The Germans intended to solve the instability of its eastern neighbours at a multilateral level. Germany used political bargaining to persuade and trade for the supports of other EU member states. It is thus clear that the process has been a German-led enlargement.

### **Germany and Multilateral Assistance to the ECE States**

To prevent a total economic collapse and political instability in Eastern Europe, financial aid has been channelled through the EBRD and the Phare programme. In

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<sup>356</sup> Sedelmeier, U. and Wallace, H., 'Eastern Enlargement: Strategy of Second Thoughts?' in Wallace, H. and Wallace, W. (eds.), *Policy-Making in the European Union* (Oxford: Oxford University Press, 2000) p.p.445-446

<sup>357</sup> 'Entry becomes a hard-fought battle for Poles', *Financial Times*, 14 December 2002

1991, President Walesa said: 'we would not like the iron curtain to be turned into a silver curtain separating the rich West from the poor East', a sentiment echoed many times by German Chancellor Kohl.<sup>359</sup> Germany is considered the prime beneficiary of the present association and future enlargement policy of the EU. It benefits most from stability in its eastern neighbours and their economic integration because it dominates half the EU trade with the region.<sup>360</sup>

German foreign policy is characterised by multilateralism. Germany alone cannot afford the high amount of financial aid required by the East. It needs to bring in its Western allies to share the burden. The well-developed EU could support the ECE reforms aimed at democracy and a market economy. Among the main instruments of EU assistance, Germany holds more than eight per-cent of the shares in the EBRD<sup>361</sup> and accounts for around twenty-eight percent of the EU budget.<sup>362</sup> Germany is the biggest net contributor to the EU, with about DM 22 billion each year.<sup>363</sup> The Phare programme is funded by the EU budget, which shows that Germany contributes financially the most to EU aid programmes (including the Phare) of all the member states.

### *The EBRD (European Bank for Reconstruction and Development)*

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<sup>358</sup> 'Ten new countries join EU in historic deal', *Financial Times*, 14 December 2002

<sup>359</sup> Cited by Gower, J., 'EC relations with Central and Eastern Europe' in Lodge, J., *The European Community and the Challenge of the Future* (London: Pinter Publisher, 1993) p.286

<sup>360</sup> Dauderstädt, M. and Lippert, B., *No Integration without Differentiation: On the strategy for a scaled eastern enlargement of the European Union* (London: Friedrich-Ebert-Stiftung, 1996) p.8, <http://www.fes.de/organisation/europe/daumsd.html>

<sup>361</sup> *Journalistenhandbuch Entwicklungspolitik 1999, BMZ Publikation*, p.278

<sup>362</sup> Laffan, B., and Shackleton, M., 'The Budget: Who Gets What, When, and How' in Wallace, H. and Wallace, W. (eds.), *Policy-Making in the European Union* (Oxford: Oxford University Press, 2000)

p.225

<sup>363</sup> Bundesminister a.D. Hans Apel, 'EU-Erweiterung ohne Druck', *Wirtschaftsjournal*, Aug 2000 p.27

The EBRD is separate from the EU, but the Commission channels Phare finance through the EBRD. EU member states hold 51% of the shares in the Bank.<sup>364</sup> Germany alone holds 8% of the shares. The EBRD is active in areas of financial sector development, enterprise restructuring, investments in transport, energy, telecommunications, and the environment.<sup>365</sup> At the beginning of 1994, the Bank's board of directors approved a document of guidelines for the medium term, which included sections on a commitment on private sector investment, activity in all countries of operation, importance of financial intermediaries, a more active approach towards equity investment, and support for projects that are environmentally sound. By 1994, 73% of the projects came from the private sector. It was the first time that the Bank met the requirements of Article 11.3 of its agreement stipulating that no more than 40% of its total committed loans, guarantees and equity investments should go to the public sector. Between 1990 and 1994, ECU 901 million of the lending activities of the EBRD was to be funded in Poland, ECU 482 million in the Czech Republic, and ECU 743 million in Hungary.<sup>366</sup>

In addition to the EBRD, the EIB (European Investment Bank) plays a modest role in financing the ECE countries prior to accession. The EIB was founded in 1958 under the EEC Treaty. Its members are the member states of the EU. The task of the Bank is to act as a source of investment finance for projects that further certain EU goals via the granting of loans and the giving of guarantees. It is the largest provider of EU loan finance. Article 18 of its Statutes allows the board of governors to authorise the Bank to provide loans outside the EU. However, around 90% of EIB loans are for projects

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<sup>364</sup> Laffan, B., *The Finances of the European Union* (London: Macmillan Press, 1997) p.238

<sup>365</sup> Glasmacher, V. and Stern, N., 'Round Table on eastwards Enlargement of the EU' in *Economics of Transition*, vol.4 (2), 1996. p.501

<sup>366</sup> *ibid.* p.p.242-243

within the member states.<sup>367</sup> During 1990-94, forty per cent of the EIB loans financing projects outside of the EU went to the ECE and Eastern Europe.<sup>368</sup> Therefore, less than 5% of the EIB loans were granted to the ECE states. However, the EIB will be able to play a major role after the accession of the ECE states, because around two-thirds of its loans are used for regional development purposes and to help the EU's less prosperous regions.<sup>369</sup>

### *The Phare programme*

The dramatic change in Central Europe in 1989, particularly the liberalisation process in Poland, Hungary, Czechoslovakia, and the collapse of the Berlin Wall, created a need for a more active EU policy towards the region. The prospect of unification led Germany to give high priority to securing regional stability.<sup>370</sup> The Phare programme established by the EC in 1989 was designed to support the economic and political transition in ECE and Eastern Europe. The goal of the Phare programme is to improve access to markets, promote investment, transfer know-how, help with adjustment in the farm sector, provide food aid, environmental protection and vocational training and to support the private sector.

The Phare budget was increased from Euro 4,200 million for the 1990-94 period to Euro 6,693 million for 1995-1999.<sup>371</sup> According to a European Commission report, the actual Phare funding disbursed Euro 6,899 million between 1990 and 1999.

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<sup>367</sup> Nugent, N., *The Government and Politics of the European Union* (London: Macmillan Press, 1999) p.289

<sup>368</sup> Laffan, B., *The Finances of the European Union* (London: Macmillan Press, 1997) p.231

<sup>369</sup> *ibid.* p.289

<sup>370</sup> Preston, C., *Enlargement and Integration in the European Union* (London: Poutledge, 1997) p.197

<sup>371</sup> <http://www.europa.eu.int/comm/enlargement/pas/phare.wip/index.htm>

Around half of the funding went to the ECE states.<sup>372</sup> The source of the Phare funds is the general budget of the EU. Germany, as the chief paymaster of the EU budget, accounts for more than a quarter of the payments. In the 1990s, 24 per cent of the funding was spent in the infrastructure sector, 13 per cent in private sectors (SMEs), 11.4 per cent in the education and training sectors, 8.6 per cent in the administrative and public institutions, 8.5 per cent in the environment and nuclear safety sectors, and 6.3 per cent in the agricultural sector.<sup>373</sup>

In Agenda 2000, the European Commission proposed to re-focus the Phare programme on two priorities to help candidate countries adopt the *acquis*. The first priority was institutional building (around 30% of the budget), which was to help the national and regional administrations develop the structures, human resources and management skills to familiarise themselves with Community objectives and procedures and to prepare for their implementation. The second priority was investment support (around 70% of the budget), which was to help the candidate countries bring their industries and major infrastructures, such as environment and transport, up to Community standards by mobilising the investment required. Programme priorities could be slightly different in individual countries. In general, the reinforcement of institutional and administrative capacity, investments in infrastructure and transport, and co-operation in justice and home affairs are the programme priorities in the ECE states.<sup>374</sup>

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<sup>372</sup> European Union Enlargement: A Historic Opportunity, European Commission Publication 2000.

p.44

<sup>373</sup> *ibid.* p.45

<sup>374</sup> see program priorities in Table 1.

The table below shows the distribution of Phare funding in the 1990s, programme priorities, additional funding for cross-border co-operation (CBC) programmes, and German-assisted projects twinned under Phare. From 1990 to 1999, euro 2,050 million of Phare funding was spent in Poland, euro 1,030 million in Hungary, and euro 629.1 million in the Czech Republic. The distribution of the funding appears to be deliberately proportionate to the size of the recipient countries.

In addition to Phare funding, euro 32 million of additional funding in Poland and euro 29.4 million of that in the Czech Republic were for cross-border co-operation (CBC) with Germany. Germany is the most important CBC partners for both countries, owing to its territorial size and advanced western technology. The funding for Polish CBC with Germany was ten times that of the CBC with the Czech Republic or with the Baltic Sea region. Also, the funding for the Czech CBC with Germany was three times that of the CBC with Austria and ten times that with Poland or with Slovakia. Since Hungary does not directly border Germany, Austria was its number one CBC partner. The funding for Austria-Hungarian CBC (euro 10 million) was twice the funding for Hungarian-Romanian CBC and five times that for Hungarian-Slovakian CBC. Thus, Germany was the most important CBC partner for Poland and the Czech Republic. Austria was the most important CBC partner for Hungary and the second most important CBC partner for the Czech Republic.

In general, the assistance priorities of the Phare programme placed emphasis on strengthening the administrative capacities, border controls, and agriculture, as well as improve infrastructure and transportation in the recipient countries. German responsibility for the projects under Phare was mainly in the areas of agriculture and



environmental development. The assistance from the EU member states was to prepare the ECE states to meet the criteria for accession.

	Poland	The Czech Republic	Hungary
Phare funding 1990-1999	Euro 2,050 million	Euro 629.1 million	Euro 1,030 million
Programme priorities	<ol style="list-style-type: none"> <li>1. Transport (road inspectorate, support for investments) (euro 64 million)</li> <li>2. Alleviation of the social costs of coal and steel restructuring (euro 31 million)</li> <li>3. Agriculture (phytosanitary and veterinary administration, dairy facility, preparation for the CAP (euro 27.55 million)</li> </ol>	<ol style="list-style-type: none"> <li>1. strengthening the institutional and administrative capacity to manage the <i>acquis</i> (euro 5.8 million)</li> <li>2. economic and social cohesion, including SME promotion and employment measures (euro 5.35 million)</li> <li>3. justice and home affairs (border management, fight against organised crime, visa and migration policies) (euro 4 million)</li> </ol>	<ol style="list-style-type: none"> <li>1. reinforcing institutional and administrative capacity in financial services, supervision, taxation, customs, agriculture and environment (euro 35.2 million)</li> <li>2. infrastructure and transport investments (euro 20 million)</li> <li>3. strengthening co-operation in justice and home affairs (euro 13.6 million)</li> </ol>
Additional funding for a cross-border co-operation (CBC) programme	Euro 32 million with Germany Euro 3 million with the Czech Republic Euro 3 million with the Baltic Sea region	Euro 29.4 million with Germany Euro 10.6 million with Austria Euro 3 million with Poland Euro 2 million with Slovakia	Euro 10 million with Austria Euro 5 million with Romania Euro 2 million with Slovakia
Projects twinned under Phare and assisted by Germany (co-operated with other member states)	<ol style="list-style-type: none"> <li>1. integrating administration and control</li> <li>2. assisting the implementation of environmental legislation</li> </ol>	<ol style="list-style-type: none"> <li>1. restructure of the Ministry of Agriculture and the Market Intervention Agency.</li> <li>2. Strengthening environmental law enforcement bodies</li> <li>3. Strengthening the capacity of the insurance sector and the banking regulatory authority</li> <li>4. Strengthening border control</li> <li>5. Developing law enforcement institutions</li> </ol>	<ol style="list-style-type: none"> <li>1. assisting the implementation of the CAP</li> <li>2. helping to plan capacity for structural and agri-environmental development schemes</li> <li>3. supporting the state aid office</li> </ol>

Source: 1999 Regular Report – from the Commission on Poland's/ the Czech Republic's/ and Hungary's Progress towards Accession

German assistance to the ECE states alone is not sufficient. The multilateral assistance could share the burden of Germany and come closer to meeting the needs of the vast East. Germany is not only dedicated to bilateral assistance, but also the biggest contributor to multilateral aid programmes.

## Paying for a Bigger Europe?

Although Germany has advocated a bigger Europe, some practical problems have emerged. Eastern enlargement will increase the EU budget, especially for the policies of the Common Agricultural Policy (CAP) and the structural funds.<sup>375</sup> Around half the EU budget is spent on agriculture and one-third on the Structural Fund. The eastern candidate countries are poorer and more agricultural. They will be recipients in both spending areas, rather than contributors of budgetary resources. Preparations for eastward enlargement have led to an increase in the EU budget of between one-quarter and one-third between 1999 and 2005 year on year.<sup>376</sup> Is Germany willing to contribute more to the EU budget to demonstrate its support for eastern enlargement?

The ECE and Eastern European states have over 22 per cent of their labour force working in agriculture, comparing with 5 per cent in the member states of the EU.<sup>377</sup> Evidently, the new eastern member states would become the major recipients of the CAP, and the inclusion of Eastern Europe would double the EU's cultivated area and more than double its agricultural population.<sup>378</sup> In the more agrarian countries, Poland and Hungary, represents on average 25 per cent of employment and 8 per cent of GDP against corresponding figures of 6 per cent and 2.5 per cent respectively in the EU. As the Essen European Council of December 1994 noted, 'agriculture represents a key

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<sup>375</sup> Lenk, T. and Mathes, A., 'Ist die EU-Osterweiterung finanzierbar?', *ifo Dresden: berichtet über Konjunktur, Struktur, Wirtschaftspolitik*, 6/1999, *ifo Institut für Wirtschaftsforschung*. p.32

<sup>376</sup> Mayhew, A., *Recreating Europe: The European Union's Policy towards Central and Eastern Europe* (Cambridge: Cambridge University Press, 1998) p.307

<sup>377</sup> Baun, M., 'Enlargement' in Cram, L. et al. (eds.), *Development in the European Union* (London: Macmillan Press Ltd., 1998) p.271

<sup>378</sup> Bideleux, R., 'Bringing the East back in' in Bideleux, R. and Taylor, R. (eds.), *European Integration and Disintegration: East and West* (London: Routledge, 1996) p.245

element of the pre-accessing strategy'.<sup>379</sup> The estimated cost of including four Visegrad countries would be approximately double the current expenditure on agriculture under the present regime.<sup>380</sup> In order to reform the CAP, the Commission proposed to lower price support paid to farmers for grain, beef, dairy, and other products and to shift EU price subsidies to limited direct income payments.

The eastern candidates have inadequate transport and infrastructure, large low productivity agricultural sectors and high levels of unemployment. The EU Structural Fund provides cohesion funding to countries whose GDP is below 75 per cent of the EU average, to finance environmental and transport investments. Germany is the biggest net contributor to the Structural Fund. Its net payment in 1997 was DM 7,500 million, compared with DM 5,000 million for the French net payment in the same year.<sup>381</sup> Currently, the cohesion countries are Greece, Ireland, Portugal and Spain.

In mid-1990s, the ECE and East European countries represented 8.6 per cent of the total GDP in the Union of twelve against a proportion of 29.4 per cent in terms of population. Even the GDP of the economically most advanced ECE states in Eastern Europe is less than half the GDP of the current cohesion countries.<sup>382</sup> The admission of the ECE states will thus greatly burden the Structural Fund. It is estimated that the Fund would increase three fold following accession.<sup>383</sup> The Commission proposed to reform the Structural Fund by reducing the number of objectives from six to three and

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<sup>379</sup> Nuti, M., 'European Community response to the transition: aid, trade access, enlargement', *Economics of Transition* Volume 4 (2), 1996 p.508

<sup>380</sup> Lenk, T. and Mathes, A., '*Ist die EU-Osterweiterung finanzierbar?*', *ifo Dresden: berichtet über Konjunktur, Struktur, Wirtschaftspolitik*, 6/1999, *ifo Institut für Wirtschaftsforschung*. p.34

<sup>381</sup> Weimann, J., '*Europäische Regionalpolitik und Ostweiterung*', *ifo Schnelldienst*, 1-2/2000, *ifo Institut für Wirtschaftsforschung* p.11

<sup>382</sup> Nuti, M., 'European Community response to the transition: aid, trade access, enlargement', *Economics of Transition* Volume 4 (2), 1996 p.508

shifting funding from projects in poor areas towards the broader struggle against unemployment, but maintaining Cohesion Fund assistance to the poorest member states.<sup>384</sup>

Roughly 80 per cent of the EU budget is spent on agriculture and the Structural Fund. The notion of reform of the two areas as a result of enlargement has raised complaints from current member states. In most member states, agriculture ministers and farmers' organisations are worried about the reduction of quotas and price supports. Poor member states (i.e. cohesion countries) are concerned about a reduction in Structural and Cohesion Fund assistance. Wealthy member states (i.e. the EU budget net contributors) have demanded a reduction of their contributions.<sup>385</sup> Among the five major net contributors to the EU budget – Germany, the Netherlands, Austria, Sweden, and the UK, the first two have called for fairer burden sharing. In fact, all member states are keen to reduce their gross transfers to the EU to decrease or keep their government deficits under 3 percent of GDP for meeting the Madrid criteria of the EMU. In Germany, budget deals in the past were secured in large measure by the willingness of Chancellor Kohl and the German government to carry a considerable burden. However, German unification has resulted in Germany's fall from second to sixth place in the EU league table for per capita income, which has influenced German attitude towards the EU budget.<sup>386</sup>

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<sup>383</sup> Lenk, T. and Mathes, A., 'Ist die EU-Osterweiterung finanzierbar?', *ifo Dresden: berichtet über Konjunktur, Struktur, Wirtschaftspolitik*, 6/1999, *ifo Institut für Wirtschaftsforschung*. p.34

<sup>384</sup> Baun, M., 'Enlargement' in Cram, L. et al. (eds.), *Development in the European Union* (London: Macmillan Press Ltd., 1998) p.281

<sup>385</sup> *ibid.* p.282

<sup>386</sup> Laffan, B., and Shackleton, M., 'The Budget: Who Gets What, When, and How' in Wallace, H. and Wallace, W. (eds.), *Policy-Making in the European Union* (Oxford University Press, 2000) pp.224-225

The new German government in October 1998 can be seen adopting a more assertive EU bargaining position based unapologetically on perceived national interests.<sup>387</sup> Chancellor Schröder has demanded a reduction in Germany's net contribution of Euro 10 billion, or 58 percent of the annual total.<sup>388</sup> The Schröder government expects that German net transfers will be reduced from 0.55 percent of GDP in 1999 to 0.43 percent in 2006. The German share of EU net transfers, currently nearly 60 percent, is expected to fall to around 50 percent in 2006.<sup>389</sup>

In the German presidency of the Berlin Summit, Germany strongly advocated setting an annual ceiling of Euro 40.5 billion for agricultural spending.<sup>390</sup> In the Berlin Conclusions, Germany, the Netherlands, Austria and Sweden demanded to limit the net contributors' payments to 25 per cent of their national GNP share. These states were most opposed to a continuation of the UK rebate. Unfortunately, Germany's 'co-financing' proposal, to make member states bear a higher cost of farm spending on their national budgets, was eventually blocked by France in the Nice Summit 2000.

Ironically, most of the net contributors to the EU budget, who demand a reduction in their contributions, are the main advocates of EU enlargement. Hence, the major countries in the EU are like Germany facing a conflict of resenting the increased EU budget while advocating EU enlargement. This exemplifies the dilemma of deepening and widening in the EU.

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<sup>387</sup> Cram, L. et al., 'the Evolving European Union', in Cram, L. et al. (eds.), *Development in the European Union* (London: Macmillan Press Ltd., 1998) p.p.360

<sup>388</sup> Laffan, B., and Shackleton, M., 'The Budget: Who Gets What, When, and How' in Wallace, H. and Wallace, W. (eds.), *Policy-Making in the European Union* (Oxford University Press, 2000) p.233

<sup>389</sup> Lippert, B., 'Germany and Agenda 2000', <http://www.aicgs.org/issueBriefs/lippert.html> p.2

<sup>390</sup> *ibid.* p.345

Another major concern of Chancellor Schröder is the establishment of a common European immigration policy. A German federal research institution estimated that immigrants from the accession countries could reach 350,000-600,000 per year in Germany after the enlargement.<sup>391</sup> At Seville summit of June 2002, immigration and asylum policy was a priority issue. Schröder requested a fair distribution of the immigration burden. European leaders reached agreements on dealing with illegal immigration. In the future, border authorities will work more closely together, and eventually a common European border-police-force will be established and a visa database will be created. Moreover, third countries will be rewarded for the co-operation in taking back illegal immigrants, instead of being penalised for lack of co-operation.

Chancellor Schröder offered Germany's new immigration law passed in the Bundestag on 22 March 2002 to be the model for the EU. The new law is designed both to control and limit the flow of foreigners into Germany. It shapes the German immigration policy according to Germany's integration capacities and its economic and labour market conditions and meanwhile continuing to fulfil the country's international humanitarian obligation. The law regulates entry, length of stay, employment conditions, and integration of foreigners. The age limit of children who are allowed to follow their parents as immigrants has been lowered from 16 to 12 to ensure that they are more able to integrate into the German society. Only if a job that cannot be filled by a German, will immigrants be given consideration. Also, the employers have to provide job training and retraining for their foreign workers.<sup>392</sup>

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<sup>391</sup> Welfens, P. J. J., *Wirtschaftliche Aspekte der EU-Osterweiterung, Berichte der Bundesinstituts für ostwissenschaftliche und internationale Studien Nr. 7-1999*, p.22

Currently, the most controversial issue regarding the enlargement is whether to extend direct agricultural subsidies to new member states. Chancellor Schröder opposes the extension of the current level of subsidies to agriculture-oriented new members, because it will result in additional per annum costs of Euro 8 billion, with Germany bearing a quarter of the cost (i.e. Euro 2 billion per year).<sup>393</sup> At the same time, Brussels is also urging Germany to increase its spending on development assistance, research, and defence. Germany has pledged to increase its international aid from the current 0.27% of the Gross Nation Income (GNI) to 0.33% of GNI by 2002. This goal is part of the co-ordinated European Union effort to increase overall EU aid from an average of 0.33% to an average of 0.39% by 2006, which is an important step towards the UN target calling for nations to devote 0.7% of Gross Domestic Product to development aid.<sup>394</sup> Germany's financial capacity has reached its limit. Chancellor Schröder called for making the decision on providing direct subsidies to farmers in the new member states dependent on proposals for agricultural reform. He expressed that Germany's offers to the candidate states in Copenhagen at the EU summit in December 2002 would have to depend on the initial results of the agricultural reform in the autumn.<sup>395</sup>

The EU agricultural commissioner Franz Fischler (of Austria) has presented his proposals for a radical reform of the European agricultural policy at a meeting of the European Commission for a mid-term assessment of the EU's 2000-2006 financial plans in Brussels on 10 July 2002. Agricultural subsidies account for the lion's share of the EU's Euro 85 billion budget, even though only 5% of the EU's population work

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<sup>392</sup> 'Immigration law voting ignites controversy', *German Embassy Washington DC*, 25 March 2002

<sup>393</sup> 'Enlargement must be affordable' by Chancellor Gerhard Schröder, *Frankfurter Allgemeine Sonntagszeitung*, 16 June 2002

<sup>394</sup> 'Germany and EU to increase development aid', *German Embassy Washington DC*, 21 March 2002

in the agricultural sector. The central points of Fischler's proposals are substantial reductions in market subsidies and the transfer of 20 percent of direct payments away from farmers into rural development schemes. The possible consequences would be a reduction in food prices and a substantial increase in support for a better countryside. His proposals shift the emphasis into investment in rural areas and farm modernisation would be more appropriate for the small farms and underdeveloped infrastructure of many accession countries, but he expected the forthcoming reform would intend to reduce the financial load on net contributors like Germany.<sup>396</sup>

The German agricultural and consumer affairs minister Renate Künast has approved the aim of targeting farm aid to rural development, because it lays on important basis for the necessary reform of the EU agricultural market.<sup>397</sup> However, the proposals caps at a maximum of Euro 300,000 (£194,000) on direct farm subsidies. The proposals also correct the long-standing bias of the CAP in favour of large farms, which have been objected by the British and the Germans, because they have a disproportionate number of large farmers. Eastern German farmers would particularly be hit bad, because they are based on the old communist-era agricultural co-operations and tend to be larger than those in the western parts of the country.

On 28 October 2002, Valéry Giscard d'Estaing, European Convention president, unveiled a draft constitution for the EU. Berlin and Paris had had very different ideas not only on the draft constitutional treaty of the EU but also on the issue of how to pay for EU enlargement. Nevertheless, the reinvigorated rapprochement between

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<sup>395</sup> 'EU summit focuses on immigration policy and enlargement', *The Week in Germany* 06/28/2002

<sup>396</sup> 'The seeds of reform: the Common Agricultural Policy has to be changed to ease European Union enlargement', *Financial Times*, p.21, 9 July 2002



Berlin and Paris would be necessary for the EU to move forward, because the Franco-German axis had been the ancient motor of European integration. A common ground must be reached between the two countries to provide the basis for a deal acceptable to all EU states. Most analysts acknowledge that France and Germany can be enormously strong when they act together.

The Franco-German engine finally started to show signs of reviving in the end of 2002. French President Chirac proposed that Paris and Bonn should adopt a joint approach to the Convention and forge a common position at the Convention on the Future of Europe. German foreign policy, agreed in the Red-Green Coalition Pact, also declared that Franco-German co-operation should play an important role in the expansion of the European Union. Hence Germany was willing to make some concessions to trade for EU enlargement taking place on time in 2004 and a future federal Europe. Firstly, Germany accepted the idea of a permanent president in the European Council on the condition that the President of the European Council had no real power and the role of the Commission would be strengthened.<sup>398</sup> Secondly, Chancellor Schröder accepted a deal on 24 October 2002 whereby spending on the Common Agricultural Policy would rise by 1 percent a year between now and 2013. The deal also included that there would be no CAP reform before 2006.<sup>399</sup> However, this deal was opposed by Britain, Italy, Sweden, Denmark, and Belgium that insisted the mid-term review of the CAP, which would likely shift spending from production subsidies to broader rural development goal.<sup>400</sup>

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<sup>397</sup> 'Brussels proposes overhaul of European Agricultural policies', *The Week in Germany*, 12 July 2002

<sup>398</sup> *ibid.*

<sup>399</sup> 'Anglo-French row deepens as Chirac cancels summit', *Financial Times*, 29 October 2002

Danish Prime Minister Rasmussen called his top three priorities in Danish Presidency: 'enlargement, enlargement, enlargement', and he did deliver the enlargement on time and within budget.<sup>401</sup> Ten European countries are due to be admitted to the EU in May 2004 - Poland, the Czech Republic, Hungary, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Malta, and Cyprus. However, the whole group has a combined GDP equal only to one quarter of Britain's. EU leaders agreed the enlargement at a cost of nearly Euro 41 billion in 2004-2006.<sup>402</sup>

The revived Franco-German axis facilitated a breakthrough on future farm spending. Franz Fischler, EU Commissioner for Agriculture, commented that the outcome of the Copenhagen summit was a 'fair and tailor-made package which benefits farmers in accession countries'.<sup>403</sup> The farmers from the new member states will have full access to Common Agricultural Policy (CAP) market measures, such as export refunds, and cereal, skimmed milk powder or butter intervention. This will lead to a greater stability of prices and farm incomes. Moreover, farmers and the rural sectors will benefit from increased rural development support which will help them to restructure and modernise.<sup>404</sup>

The biggest enlargement in the community history will take the bloc's population from the current 375 million to 450 million, which will create a huge trading bloc. With growth in the euro zone expected to fall to 0.8% this year, companies in current EU member states increasingly need new markets to sell products and service that

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<sup>400</sup> 'The Economist: Who's handbagging whom?', *Financial Times*, 2 November 2002

<sup>401</sup> 'Rasmussen emerges as enlargement's superhero', *Financial Times*, 16 December 2002

<sup>402</sup> 'When the deal amounts to', *Enlargement Weekly*, 17 December 2002

<sup>403</sup> 'Fair and Tailor-made Agriculture Package for Enlargement', *Enlargement Weekly*, 20 December 2002

<sup>404</sup> 'Copenhagen is a good deal for new members', *Financial Times*, 18 December 2002

have reached saturation point in the West.<sup>405</sup> Thus, the EU has started to need the candidates just as much as they need the EU. The EU cannot afford not to expand, in spite of the costs (i.e. aid package and concessions to new members) expansion might bring.

If the new members manage to catch up with the level of development of the rest of the EU, then population gives a guide to their economic significance. History suggests that they will catch up. Massive inward investment capitalising on their low wages and access to rich EU markets will boost their growth rates and living standards sufficiently to compensate. Also, the preparation to reach access requirements and the subsequent access to EU markets have greatly benefited other economies formerly well down the development ladder, including Spain, Portugal, Ireland, and Greece.<sup>406</sup>

## Conclusion

Germany is now deeply embedded in the EU and has learned to resolve issues in the EU multilateral framework. As a trading state, the Germans need to maintain good relations with their trading partners, particularly with their EU trading partners. The EU member states account for over half of Germany's foreign trade, while Germany's eastern neighbours account for more than 10 per cent of German foreign trade, a figure that is still growing. It is in Germany's interest to incorporate its eastern neighbours into a framework for stability that would lead to economic development and the expansion of the European single market. Therefore, Germany has become the advocate of EU eastward enlargement. The German government uses political

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<sup>405</sup> 'Money talks', *Financial Times*, 16 December 2002

<sup>406</sup> 'Wider still and wider: Economic Agenda', *Financial Times*, 15 December 2002

bargaining and negotiations with its EU partners to gain support for more active EU eastern enlargement policies.

Despite the increasing importance of EU enlargement, a deeper integrated Europe is still the priority for Germany. The Germans regard deepening as a precondition for widening, since a premature accession would result in the breakdown of the EU. Nevertheless, deepening and widening could possibly go hand in hand, as long as the process of European integration goes smoothly. Germany has always been the leading power in European integration and is now also the leading power of in European enlargement.

Following German unification, the united Germany has committed itself to the unification of the whole of Europe. The unification of Germany has upset the parity provided by the Franco-German axis. Since Germany has inevitably showed its influence in EU integration, France has had the growing fear that a stronger Germany will once again dominate the whole of Europe, given the evidence that Germany has also demonstrated its influence among its eastern neighbours. German economic power in Europe has placed Germany in the leading role of European unification. Although EU eastward enlargement could add to Germany's weight in Europe, German foreign policy has continued to still stick to multilateralism. Most importantly, Germany has tried to reaffirm its commitment to strengthen Franco-German axis as the 'flywheel'<sup>407</sup> of European integration. France will remain as Germany's closest European ally, in spite of the differences in their European policies, as Fischer has repeatedly emphasised (details see the next part). Whether

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<sup>407</sup> 'France and Germany renew marriage vows', *Financial Times*, 2 Feb. 2001, p.8

Germany and France can work out their differences would be crucial for the future Europe.

Germany, or the EU as a whole, is meanwhile facing the dilemma of the enlargement and the budget limit. On the one hand, Germany strongly supports the eastern expansion of the EU. On the other hand, Germany demands a reduction in its contribution to the EU budget, which will inevitably be increased as a result of EU eastward enlargement. Other pro-enlargement states, such as the Netherlands, Austria, and the UK (also the EU budget net contributors) are, like Germany, acting in a contradictory fashion. The conflicts and struggles between EU deepening and widening, particularly the CAP reforms, seem to remain as an important issue for Germany and the EU as a whole in the new century.

## **Part 3**

# **Analysis and Conclusion**

## Chapter 9

### Change and Continuity in German Foreign Policy

The thesis takes Germany's foreign policy in East Central Europe as a case study to investigate the change and continuity in German foreign policy after unification. The completion of European integration should be in Germany's great interest, because the integrated and enlarged European Union could be the main instrument of Germany's multilateralism. Therefore, the German government's foreign policy in East Central Europe aims at creating the preconditions for European unity. Leading Europe to overcome its division has become the most important diplomatic task of the normalised Germany.

In the new century, people may ask where Germany stands. Many questions about the future of Europe and Germany's foreign policy in the twenty first century need to be answered. The chapter will look into whether there is more continuity or change in Germany's foreign policy twelve years after the German unification and the formation of German foreign policy priorities for the twenty first century. A related issue to consider is whether a united Europe could be the answer to the 'German Question'. In this regard the suggestion made is that Germany is putting a lot of effort to facilitate the integration and enlargement of Europe. Germany has shaped the destiny of Europe as a whole, and it is looking for a new role to play in the new Europe. What will become of the European Union half of a century after its founding, and most importantly, what kind of Europe does Germany want or expect?

This chapter argues that there has been more continuity and less change in post-unification German foreign policy. It begins with the central argument stating that Germany's foreign policy behaviour in East Central Europe has reflected modified neo-realist prediction, namely that when the security pressures of an increasingly powerful state decrease, the state will make efforts to strength international institutions and seek to gain influence within them. Then, the chapter looks into the focal areas of Germany's foreign policy in the 21<sup>st</sup> century. Finally, Germany's vision for the future Europe – European political union is discussed.

### **More Continuity, Less Change**

After unification, Germany has been transformed in the direction of a normal state, as demonstrated in chapter four. The recovery of full sovereignty means a change in Germany's power position in the international environment, which has impacted on Germany's foreign policy behaviour. The thesis looks into the question of the extent to which the united Germany has changed its foreign policy behaviour and to what extent this policy area has been characterised by continuity. There have been minor changes in post-unification Germany's foreign policy. Politically, the German government has begun to participate in military out-of-area operations, as a consequence of normalisation. Although Germany has started to send combat troops abroad, all military operations are insisted on integrating into multilateral frameworks, notably the UN and NATO. Hence, it does not challenge the basis of multilateralism.



Economically, Germany has increased its efforts to reduce the net contributions to the EU budget<sup>408</sup>, which may have shown a sign of a more assertive German foreign policy. The weight of national interest has increased in German foreign policy making. A recent example is Schröder's election campaign in late 2002. Chancellor Schröder declared that Germany would not take a part in a US-led attack on Iraq. It implies that Germany has become more assertive not only economically but also politically. Nevertheless, there is no evidence suggesting that German foreign policy is drifting away from multilateralism. During the election campaign in 2002, the German government argued that a military action should be approved and supported by the UN. (More details will be discussed later in the chapter.) This clearly indicates that the united Germany is still multilateralist, which shows the great continuity of German foreign policy. Germany continues to strengthen its multilateral ties and intensify its participation in multilateral collective action.

The thesis employs a modified neo-realism approach to examine German foreign policy after unification. As presented in chapter two, neo-realist assumes that states are rational actors and they adopt their behaviour to the structural constraints of the international system. States strive for autonomy from other states and for influence on other states. The more powerful a state becomes, the more autonomy and influence it seeks. The assumption of neo-realism is that a state's power position shapes its foreign policy, and thus the prediction of neo-realists is that the improvement in Germany's power position (due to German unification) will lead to the pursuit of power politics in its foreign policy. Neo-realism expects the united Germany to pursue its increased autonomy from, and its increased influence on, other actors in the

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<sup>408</sup> See chapter 8.

international system. If there is a conflict between autonomy and influence, a state will treat autonomy as a priority.<sup>409</sup>

Chapter two discusses the difference between neo-realism and modified neo-realism. Modified neo-realism challenged the foreign policy prediction of neo-realism and argues that if a state's security pressures decrease, it will choose influence over autonomy when the two are at odds. As Germany has experienced a drastic decrease of security pressure since unification, modified neo-realism predicts Germany to increase its influence on others rather than its autonomy.<sup>410</sup> The inclusion of 'security pressures' as an intervening variable and the stronger emphasis on influence-seeking behaviour (rather than autonomy-seeking behaviour) have improved neo-realist theory and better explained Germany's influence-seeking behaviour within international institutions.

Why would Germany want to lose autonomy to trade for gain in influence? Neo-realists suggest that international institutions put constraints on state autonomy. Participation in multilateral institutions makes Germany lose autonomy, because a great power like Germany risks being dominated by 'the many' within a multilateral framework. Yet, Germany's influence meanwhile expands within multilateral institutions, as argued in chapter four, the European Central Bank modelled on the Bundesbank has reduced the costs of adjustments for Germany and prevented challenges from the institution that is mainly founded by Germany. Hence, Germany becomes the overwhelming beneficiary of European integration. Although Germany

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<sup>409</sup> See chapter 2.

<sup>410</sup> Rittberger, V. & Wagner, W., 'German foreign policy since unification: theories meet reality' in Rittberger, V. (ed.), *German Foreign Policy since Unification: Theories and Case Studies* (Manchester: Manchester University Press, 2001) p.301

is seeking to gain influence in multilateral institutions, it is unlikely to become a hegemon. Multilateral institutions enable and facilitate German power on one hand but confine and diffuse German power on the other.

The empirical research takes Germany's foreign policy in East Central Europe as a case study and examines whether its behaviour in the region still remains as multilateralist. Chapter three looks into the history of German-ECE relations. In the past, Germany had been a hegemon in East Central Europe. *Drang nach Osten* (advancement towards the East) long existed in German history. The region traditionally has been regarded as within the German cultural sphere, and the power relations between them are asymmetrical. The thesis argues that Germany chooses to multilateralise its relations with weaker states (ECE) within a multilateral framework (the EU). It indicates that Germany's diplomatic relations with weaker states choose to lose both autonomy and influence (modified neo-realism)<sup>411</sup>, which shows Germany's determination to be a multilateralist power, rather than a hegemon. It may be illogical for a great power's behaviour, but the German government has to overcome the anti-German emotions from the area and at the same time allay the Western allies' suspicion of building a new German hegemon in the East. The best solution for Germany is to multilateralise German-ECE relations within the EU framework and the most important task is to help eastern candidates qualify for the EU membership. Therefore, Germany's East policy concentrates on the assistance in their political and economic transformation, which aims at including them in the EU as soon as possible.

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<sup>411</sup> see chapter 2.

Chapter four demonstrated that, by the 1980s, Germany has been transformed into an economic power, with the best economic performance in Europe. Its economy has been heavily dependent on the international trade, and hence economic factors dominate the foreign policy making. The thesis argues that German foreign policy tends to set up a multilateral architecture, such as a European institution, for economic integration and co-operation. As a trading state, expanding its market to the East can be a priority for Germany. The enormous market in the East poses a good economic opportunity for Germany. Therefore, Germany has become the advocate of the EU eastward enlargement and is keen to embrace the ECE in the EU. The EU has been the institution for Germany's practice of multilateralism to develop its economy domestically and facilitate its trade internationally.

As argued in chapter five, the major obstacle to include East Central Europe in the EU is the poor economic conditions of the region, and thus the first task is to assist in its economic reconstruction and transformation. Germany has more political and economic interests and cultural links with the eastern candidates than its European allies. The collapse of Communism in the East was particularly meaningful for Germany and East Central European countries, because they were no longer the outposts of the superpowers (the US and the USSR) and the natural economic interdependence between them could be resumed. In the 1990s, Germany dominated over half of the total EU trade with Central and Eastern Europe. German products also accounted for over one-third imported goods in East Central Europe. A decade after the demise of Communism, the amount of German exports to the region tripled to over DM 60 billion from DM 20 million in 1990.<sup>412</sup> The empirical findings suggest

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<sup>412</sup> See chapter 5.

that East Central European countries mainly rely on Germany for the supplies of high-technology industrial products, including machinery products, electronic products, and motor vehicles. The dramatic increase of the trade volume indicates that Germany's interests in the East have been greatly increased. Meanwhile, the value of German imports from East Central Europe also tripled from DM 16 billion in 1990 to DM 55 billion in 1999. The hard currency earned from the trade with Germany has helped reconstruct the economies in the region.

Chapter five also argues that the ever-closer economic relations and the immigrants from East Central Europe in Germany have motivated the German government to review its contemporary East policy. To protect Germany's economic interests in the region and prevent waves of immigrants from the region, the prior concerns of the German government are political stability and economic development. The empirical data shows that, in average, the wages in Germany are three to four times higher than that in East Central Europe. As a part of Germany's support for the reform process in East Central Europe, the German government amended the legislative provisions regarding foreigners and lifted the ban for the recruitment of foreign workers in 'Agreements on contract workers and guest workers from the region' in 1991. For the ECE countries, it can introduce ECE foreign workers to western technologies, improve their language skills, increase their chances of finding a job in their local labour markets, and lay a foundation for setting up a business of their own in their home countries. For Germany, it helps to combat illegal migrations through closer co-operations with the transit countries to tackle the problem fundamentally and offering people good living conditions in their home countries.

In chapter six, the empirical research identified the major instruments of the German government to assist transformation in East Central Europe – the Transform Programme, the German Development Bank, the Carl Duisberg Gesellschaft e.V., and political foundations. The TRANSFORM, incorporated in international and other bilateral support measures for the transformation states in the East, co-operates with other multilateral institutions, such as the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development, and the European Investment Bank. The main purpose of the Programme is to assist the structural reform on privatisation and create private enterprises and a middle class. It also attempts to improve the necessary conditions and frameworks for social market economies through consultations at the level of governments. The TRANSFORM Programme aims at bringing the region into a multilateral framework – the EU, which corresponds to the principle of multilateralism in Germany's foreign policy. As a result, the region's economic structures have been well adjusted to be compatible with the EU system after a decade of transformation. The German government's TRANSFORM Programme has achieved its main goals and will successfully bring the region into a multilateral framework in 2004.

Another instrument is the German Development Bank (*Kreditanstalt für Wiederaufbau, KfW*) that is the most important instrument of the TRANSFORM Programme to carry out financial co-operation with East Central European countries. The KfW's main tasks in TRANSFORM Programme are improving the economic and legal conditions, supporting the SMEs and joint adventures, promoting banking sectors, and preparing the advanced reform countries for EU membership. The KfW provides financing lines for the SMEs and other loan programmes developed jointly

with the local promotional banks, and it has supported and advised on the establishment of promotional banks (according to its own image) and the development of local promotional programmes in East Central Europe. To ensure that loans are delivered to profitable SMEs through competent local promotional banks, the KfW is involved in the design of promotional banks, the development of promotional loan programmes, and the staff training for the implementation of the loan programmes. However, the long-term goal is to help local promotional banks be able to design and implement the loan programme independently without being influenced by politics, which is similar to Germany's bank system.

The other important German institution identified in the empirical research is the Carl Duisberg Gesellschaft e.V. (CDG), which is a German-based foundation for international training and development. At the beginning of the economic reform, it was obvious that there was a shortage of experts who were urgently needed to implement the reforms efficiently in the former socialist states. Thus, the first major task of the CDG was to eliminate outdated economic ideas and educate the executives to think in different economic terms and learn to use market economy's instruments in practical terms. The CDG's training programmes are directly related to the restructuring of state-owned and formerly state-owned enterprises, because they focus on business management, environmental management, qualification of business-related administrations, the establishment of business structures, and professional training. They help trainees become familiar with international standards and ecological product requirements on global markets. The CDG also organises special training activities, on behalf of the EU, for executives and specialists from administrative bodies in transition states to prepare them for EU membership.

Chapter six claims that the political foundations in Germany are among the most effective and reliable instruments of German foreign policy, because they can go beyond the traditional methods and skills of the foreign services. The political foundations mainly promote the creation of democratic structures and the rule of law worldwide. They also contribute to strengthening the idea of human rights and implementing social justice. Since the end of communism in the East, German political foundations have opened branch offices and established new programmes to help the development of economics and democracy in the region. The advantage that a political foundation has to work in host countries is that a non-governmental organisation is able to co-operate with local political parties in political fields, while government institutions are not allowed to interfere in local internal affairs. German political foundations are more flexible and efficient in politically sensitive activities, and thus they can contribute more in the political transformation, including the development of political parties in democratic societies in Eastern transition states. Like the CDG, German political foundations also help ECE prepare and negotiate for the EU membership.

Chapter seven demonstrates that the main strategy of German assistance in the region's economic structural reforms is to increase the number of private sectors and offer privatisation consultation. It argues that privatisation is the central part of the economic reforms in the eastern transition states. The method of privatisation is to promote investment in former state-owned enterprises or newly established small and medium-sized enterprises. Germany's privatisation consulting projects aim at creating a middle-class and private businesses as the basic conditions for competitive



economic structures and functional markets. The consultation on privatisation process not only strengthens the private sectors but also improves the chances for local companies to co-operate with German business partners. Although the German government strongly encouraged German companies to invest and take over the former state-owned enterprises (SOE) in East Central Europe, many of the SOEs were unpromising industries (such as armament industries) and heavily indebted, and hence German companies were unwilling to make large-scale investments. Therefore, the German government tended to support and promote newly established SMEs, instead of privatisation. The growth of new SMEs gradually brought about the rapid development of real private sectors.

Chapter seven also argues that it is more appropriate to take a gradual approach of transition from central-controlled economies to market economies, rather than the 'shock therapy', because East Central European countries do not have the domestic support of strong economies as East Germany. Germany's support in the region is generally to facilitate the creation of SMEs through vocational training and German-ECE co-operations, including chamber partnerships, 'private-public-partnership', and cross-border projects. To bring in capital and create jobs for local people, the German consultants have urged German companies to invest in East Central Europe. Seminars are also organised to help individual companies tackle the problems on privatisation and company management. The German consulting teams also co-operate with local technical universities and business schools through vocational training to create future entrepreneurs and local professional personnel, which may help the establishment of new SMEs. Moreover, they assisted in building Model Centres for unemployed people (as a consequence of personnel adjustments in the former SOEs) to be re-

employed through vocational training and job creation in local companies. The short-term or long-term German consultants and experts lodge in the region to help local companies through the transformation and reconstruction process and meanwhile strengthen the German-ECE relations. The strengthened bilateral relations have facilitated the entry of the region to the EU and speeded up the EU eastward enlargement.

Because Germany has more interests in political stability and economic development in East Central Europe, comparing with other EU members, Germany has become the advocate of EU eastward enlargement, as argued in chapter eight, so that Germany can address the issues regarding the East in a multilateral framework. It reflects the tendency of its foreign policy to multilateralism. To win multilateral support for eastward enlargement, the German government has learned to take into account of other member states' interests within multilateral negotiations. In the process of EU eastward enlargement, the German government has made efforts within the EU to facilitate the accession process, for example Germany urged the European Commission to adopt a more liberal policy without protecting certain economic activities (such as coal and steel industries, textiles, and agriculture) in the EU, because the ECE states had the greatest comparative advantage in them. Since the mid-1990s, the German government had pushed for a specific date for opening negotiations and a target date for completing them. Finally, Germany has made the EU eastward enlargement become reality and will fulfil its goal to embrace the eastern neighbours in multilateral institution in 2004. A deeper and wider European integration will retain its importance in German foreign policy in the future.

The empirical research focuses on Germany's participation in the transformation process in East Central Europe and its efforts to bring the region into the EU. The findings have demonstrated that Germany's foreign policy in East Central Europe generally follows the policy principle of multilateralism. There is no evidence showing Germany's attempt to resume its hegemon in the region or its intention to conduct unilateral diplomacy. Germany's efforts to multilateralise its relations with East Central European countries reflect modified neo-realist prediction of foreign policy behaviour. The united Germany remains as multilateralist and stressing on international co-operation. Germany's foreign policy has chosen to strengthen international institutions and place all diplomatic relations within multilateral frameworks. When dealing with weaker states, Germany is willing to lose both autonomy and influence, in order to reach the aim of multilateralisation of relations with weaker states. Germany's post-unification multilateral behaviour can be well accommodated within the modified neo-realism.

### **Germany's Vision for the Future Europe – European Political Union**

The Germans were willing to give up their national symbol, the D-Mark, for the ultimate goal of European political integration. Emil J. Kirchner has written about 'Germany's insistence on coupling EMU with progress on political integration and on pressing for a speedy EU enlargement to the east.'<sup>413</sup> To put Waigel's sanction proposal of deposits and fines into practice to safeguard EMU, a federal polity whose fiscal politics have to be jointly supervised and co-ordinated, so that deposits and fines can be legitimately imposed. EMU cannot function properly without a political

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<sup>413</sup> Kirchner, E. J., 'Germany and the European Union: From Junior to Senior Role' in Smith, G. et al. (eds.), *Developments in German Politics 2* (London: Macmillan Press Ltd. 1996) p.165

union, which is generally supported by German political elites. Hans Tietmeyer, president of the German Bundesbank, argued that 'the destinies of currency and politics are closely intertwined'. According to Tietmeyer's argument, the necessity of the political integration to the operation of EMU is because

'A community sharing a largely common destiny can hold together only if the common currency is embedded in a more broadly based and lasting political community; such a community would include acceptance of limits to national fiscal policy.'<sup>414</sup>

Dyson and Featherstone also regard EMU as an essential instrument for political union, because EMU requires a strong political mechanism to operate and cope with the problems. EMU and political union are inseparably connected. EMU would remain incomplete without political union. Only a framework of solidarity can assure an effective and durable EMU. Chancellor Kohl saw EMU as part of a single package with European political union, as he stressed that 'our core goal remains at the end of the day the political union of Europe'. Moreover, political union projects include a common foreign and security policy (such as asylum policy and fighting against organised crime policy), the definition of European citizenship, and the rights of the European Parliament. Only a political union may create a deeply integrated Europe. Germany's effort on irreversible European political unification also intend to reassure its neighbours that a united Germany intends to prevent the possibility of a return to the national rivalries of the past.

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<sup>414</sup> *ibid.* p.166

Germany's advocacy of European political union subsided after Gerhard Schröder was elected Chancellor. The new Chancellor was sceptical about the benefits of the EU and thus in opposition at the beginning. However, his foreign minister, Joschka Fischer, is a genuine European and an active advocate of European integration. Fischer thought that the existence of Euro would put considerable pressure on the EU to integrate further. Following the introduction of Euro, the EU must come together on a common economic and social policy. Fischer set out a federalist vision of the EU's governance after two years in government. On 12 May 2000, Fischer delivered a paper to express his thoughts on the finality of European integration in Humboldt University in Berlin. Although he emphasised that the paper was his personal vision of a solution to the European problems, rather than a declaration of the Federal Government's position, his speech provoked responses from European governments and eventually won the support of Chancellor Schröder.

In the paper, Fischer upheld Robert Schuman's vision of a 'European Federation' for the preservation of peace. He pointed out that European integration, opposed to the European balance-of-power, was the answer to prevent hegemonic ambitions of individual states and terrible wars as the two World Wars, because European integration took the form of closer meshing of vital interests and the transfer of nation-state sovereign rights to supranational European institutions. He urged the integration process to move onwards to the completion of European integration and warned that a step backwards or just standstill in the process would demand a fatal price of all member states and candidates states, particularly Germany. He called that

'we must put into place the last brick in the building of European integration, namely political integration'.<sup>415</sup>

Fischer argued that the introduction of the Euro was not only an act of economic integration, but also a profoundly political act, because a currency needed the power of the sovereign (a strong European government) to guarantee it. A tension had emerged between the communitarisation of economy and currency on the one hand and the lack of political and democratic structures on the other. The solution to ease the tension was to complete the process of integration and achieve a political union, otherwise a crisis could occur within the EU. Fischer also pointed out that European political union was necessary to strengthen the joint capacity for action on foreign policy, especially the development of a Common Security and Defence Policy, due to the recent war in Kosovo at that time.

However, the reality is that Europe is separated by different national political cultures, their democratic publics and linguistic boundaries. In Europe, sovereign nation-states with different languages, cultures and history are trying to form a common political entity. Under the circumstances, the European Parliament must represent both Europe of the nation-states and Europe of the citizens, which can only be possible if the European Parliament actually brings together the different national political elite and the different national publics. The role of the EU's individual nation-states will be very different to that of US federal states. There are no models in history for a fully

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<sup>415</sup> Speech by Joschka Fischer at the Humboldt University in Berlin, 12 May 2001

integrated Europe, which underlines the almost revolutionary character of the European integration process.<sup>416</sup>

Fischer outlined a federal Europe as a long-term goal and meanwhile attempted to reconcile Europe's historic nation states with the EU. He stated the completion of European integration only could be successfully achieved if the integration was on the basis of a division of sovereignty between Europe and the nation state. He suggested that the EU should become fully sovereign yet based on self-confident nation states. The division of sovereignty between the EU and the nation-states require a constituent treaty that lays down what is to be regulated at European level and what has still to be regulated at national level.

Fischer's ideal Europe is a fully integrated democratic Europe towards a federal constitution and a full parliamentarisation of the EU. He proposed a European Parliament with two chambers. One chamber is for elected members who are also member of their national parliaments, so that there will be no clash between national parliaments and the European Parliament (or between the nation-states and Europe). The other chamber would be for directly elected senators from the member states similar to Germany's Bundesrat (Upper House).<sup>417</sup>

Fischer's vision for the future integration is from closer co-operation towards a European constituent treaty and the completion of Robert Schuman's great idea of a European Federation. The future development of Europe would go through a few steps. First step would be the reinforced co-operation between those member states

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<sup>416</sup> Herbert Quandt Lecture by Joschka Fischer, at Georgetown University, Washington DC, 15 September 2000

that want to co-operate more closely than others, which is already the case of the EMU and Schengen. Those states would form a centre of gravity and make progress in other areas, such as the further development of Euro-11 to a politico-economic union, environmental protection, the development of common immigration and asylum policy, and the foreign and security policy.

The group of states, as the driving force for the completion of political integration, would conclude a new European framework treaty and a constitution of the Federation. Based on that, the Federation could establish its own institutions, including a government speaking with one voice on behalf of the members of the group on various issues, a strong parliament, and a directly elected president. However, transparency and the opportunity for all EU member states to participate are essential. The centre of gravity must be open to all member states and candidate countries, if they want to participate at a certain point of time. The last step would be the completion of integration in a European Federation. Closer co-operation does not automatically lead to full integration. Full integration would require a deliberate political act to re-establish Europe.<sup>418</sup>

In June 2000, the French President Jacques Chirac responded to Fischer's vision of the future Europe through his speech in the German parliament: 'neither you nor we envisage the creation of a European superstate which would replace our nation states and mark the end of their existence as actors in international affairs'.<sup>419</sup> The British held the same sceptical view as France. The British Prime Minister Tony Blair clearly

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<sup>417</sup> Speech by Joschka Fischer at the Humboldt University in Berlin, 12 May 2001

<sup>418</sup> *ibid.*



rejected a European federation and suggested Europe developing into a 'superpower', rather than a 'superstate'. The Belgian Prime Minister Guy Verhofstadt expressed his concern as the leader of a small state that the EU might be ruled by a *Directoire* comprising a small number of large member states in the future, while the Luxembourg foreign minister reminded the Europeans of the gap between the public opinion and the European ruling elite.

One year after Fischer's speech, Chancellor Schröder decided to join the debate regarding the EU's future. A senior German diplomat commented that Schröder might have started as a bit of an Eurosceptic, but he was aware that anybody who tried to make a campaign with anti-European slogans in Germany would end up losing'.<sup>420</sup>

Although few observers believed that he had become a convinced 'European', Schröder would not want to leave leadership of the European debate to his Foreign Minister Joschka Fischer.

In Schröder's draft of resolution regarding the EU, he shared Fischer's vision and called for a restructuring of Europe's institutions, including the building of the European Commission into a strong executive, the transformation of the Council of Ministers into a chamber of European states and the drafting of a constitution for Europe.<sup>421</sup> Schröder's proposals for radical reform of the EU received broad support from German politicians, both left and right. Peter Hintze, the European affairs spokesman of the CDU, declared the opposition party's support for Schröder's ideas, including strengthening the role of the European Commission and increasing the

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<sup>419</sup> 'Stirring up debate: Gerard Schröder's proposal for the future running of the European Union shows that Germany's influential role continues despite the interventions of other countries', *The Financial Times*, 1 May 2001, p.18

<sup>420</sup> 'Germany – friends push for greater involvement', *Financial Times*, p.2, 12 June 2001

powers of the European parliament. Fischer was pleased that 'a cross-party consensus' had been reached in Germany.<sup>422</sup>

The support of the CDU enabled Chancellor Schröder to present a united front in the 'deeper and wider debate' on the EU's future called for at the Nice Summit in December 2001. While Germany was leading the debate over the EU's future, France's support would be crucial. However, Germany and France, the driving force behind the European integration, confronted each other over the issues regarding the deepening and widening of the European Union. Chancellor Schröder admitted that adjusting to the post-cold-war politics of Europe is proving harder for France than for Germany.<sup>423</sup> The differences between Germany and France on how to proceed in the next round of constitutional reforms would not be easy to be overcome.

The European enlargement can only be successful if the EU carries out fundamental reforms on its internal institutional structure to develop a further and deeper integration, otherwise the EU would risk to lose its capacity to act. Internal reform is the central focus of the 'Convention on the Future of Europe', which commenced its work on 1 March 2002. Through the Convention, the EU has not only integrated the parliaments more than ever into a central reform project, but also attempted to answer the fundamental question about the power distribution between the national parliaments and the European Parliament. Three major issues of the Convention include:

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<sup>421</sup> *ibid.*

<sup>422</sup> 'Germans offer broad support for Schröder's EU blueprint, Berlin left and right back reforms', *Financial Times*, 1 May 2001, p.8

- The distribution of power between the EU and the nation-states. Although no one wants to create a European super-state, the changing world situation will inevitably push the European states into deeper integration in key areas of common interests, such as external and internal security, the single currency, and the single judicial area.
  
- More democracy in Europe. The political decisions in Europe are almost exclusively made by the states, which has caused a democratic deficit in the EU. This can be rectified by strengthening the rights of the European Parliament and improving the integration of the national parliaments into the European decision-making.
  
- The reform of the decision-making mechanisms. In the future Union with 25 or more member states, the existing decision-making mechanisms will need fundamental reform, otherwise the enlarged EU will not be able to function. It is particularly true for the Commission, the European Parliament, and the European Council.<sup>424</sup>

In an interview with the *Financial Times*, Fischer prophesied three possibilities for the future development of Europe – inter-governmentalism, federalism, and federation of nation-states. He said, ‘in the light of experience, it would seem advisable to seek the third option as our next step even if the second has my full sympathy’.<sup>425</sup> A ‘federation of nation-states’ is based on a grand compromise between Europe on the

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<sup>423</sup> ‘Master of the middle: Gerhard Schröder has become a firm believer in furthering European Integration’, *Financial Times*, p.16, 15 June 2001

<sup>424</sup> Speech by Joschka Fischer, ‘Weimar lectures on Germany-European challenges between integration and enlargement and Germany’s responsibility at the centre of Europe’ on 10 April 2002

one hand and the nation-state on the other. A genuine division of sovereignty between the federal and national levels could ensure the EU's capacity to act after the enlargement without casting doubts on the evolved diversity of the European nations. Meanwhile, the various political traditions of the European states will be preserved through the compromise.<sup>426</sup>

On 28 October 2002, Valéry Giscard d'Estaing, European Convention president, unveiled a draft constitution for the EU, which would move Europe closer to the federal model represented by the United States, and create a Union of European States. The constitution included an EU president who would run the European Council and act as the union's political driving force, closer co-ordination among nation states' policies at the European level on a federal basis, and dual national and EU citizenship. Moreover, the constitution would define the relationship between EU institution and the member states, and for the first time, allow countries to leave the EU. Furthermore, it raised the possibility of a Congress of the Peoples of Europe, in which representatives of national parliaments would oversee the EU's strategic direction but would not pass laws. The draft treaty also set out the development of a common foreign and security policy and a common defence policy to defend and promote the Union's values that are 'human dignity, fundamental rights, democracy, the rule of law, tolerance, respect for obligations and for international law'.<sup>427</sup>

The proposal that the European Council should have a full-time permanent president appointed by member states was backed by Britain, France, and Spain, but opposed by many small states, including Ireland. It was also contradicted with the German

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<sup>425</sup> 'Fischer prophesies a federal Europe', *Financial Times*, p.1, 17 March 2001

<sup>426</sup> *ibid.*

foreign minister's idea two years ago of building the European Commission into a strong executive. Many Commission officials worried that the Convention's proposal would magnify the importance of a few big member states.<sup>428</sup> Fischer also questioned the distribution of authority between the Council and the Commission. He argued that the European Commission could evolve into a European government with a president elected by the Parliament on the basis of US-style electoral colleges to ensure that smaller states had a fair say.<sup>429</sup> Fischer, representing Germany to participate in European Convention, will play a pivotal role in shaping the future of Europe. He has become the most important federalist figure in the EU.

### **German Foreign Policy in the New Century**

There has been a great continuity in the basic parameters of German foreign policy since unification, mainly because the fundamentals – geographic position, interests, values and history – are unchanged. Particularly on account of Germany's history, the country is not in a position to make independent initiatives or to play its own proactive world politics. It is important to have foreign policy continuity to create necessary predictability and trust for Germany's partners and neighbours. The trust and predictability that the Federal Republic of Germany has built up with its neighbours and partners over the past 50 years can only be continued through a responsible policy of co-operation. Germany's unification with the full agreement of its partners and neighbours has proven that its foreign policy of integration and co-operation in the last half century has been the right choice. Germany used to be the

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<sup>427</sup> 'Proposed EU treaty would replace all existing pacts', *Financial Times*, 29 October 2002.

<sup>428</sup> 'Fischer to join future forum on Europe's future', *Financial Times*, 18 October 2002

<sup>429</sup> 'Germany's place: Berlin thrashes around for a credible international role, *Financial Times*, 29 October, 2002

deployment zone for armies from the East and West, which made it the first potential battleground of the third world war, while today the united Germany is surrounded by friends and partners in an integrated Europe and firmly anchored in the West.

Nevertheless, one cannot ignore the fact that the unification has enhanced Germany's strategic potential deriving from its population, economic strength, national interests, and geographic position. Joschka Fischer, the German Foreign Minister, has pointed out that the question should not be whether a united Germany becomes more powerful or influential than before, but how Germany can exercise its power wisely and responsibly.<sup>430</sup> Since unification, Germany has been expected to assume a bigger role and take more responsibility. The deployments of German soldiers in Kosovo, Macedonia, and Afghanistan have turned the constant demand for greater responsibility into concrete German foreign policy, which urges the re-evaluation of the need for greater involvement within or even beyond the European borders. Joschka Fischer has said that German foreign policy must take the increasing weight of the country and the high expectations of its partners into account, although Germany's importance has increased more than many Germans can realise.<sup>431</sup>

Joschka Fischer declared three priorities of German foreign policy as the completion of European integration (both by deepening co-operation to create a political union and by enlarging the Union through the admission of new members), the renewal and expansion of transatlantic partnership, and the strengthening of the United Nations<sup>432</sup>:

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<sup>430</sup> Speech by Joschka Fischer, at the General Meeting of the German Society for Foreign Affairs, Berlin, 24 November 1999

<sup>431</sup> Speech by Joschka Fischer, 'Weimar lectures on Germany-European challenges between integration and enlargement and Germany's responsibility at the centre of Europe' on 10 April 2002

<sup>432</sup> Joschka Fischer, Message of Greeting on the Occasion of the Tenth Anniversary of German Unity, 3 October 2000

### *The Completion of European Integration*

The completion of European integration is particularly important for Germany, since Germany has been deeply integrated in the EU for decades. It is the strategy to overcome or prevent nationalism by meshing national interests into a larger whole to reject any kind of re-nationalisation of foreign policy. Germany's historical risks are its location in the heart of Europe, its lack of stable partnerships, and the temptation to strive for hegemony.<sup>433</sup> Germany's integration in the West neutralised its precarious position at the geographic centre of Europe and gave it the ties that were previous lacked, and thus removing the risk of its undertaking hegemonic ventures. Anchoring in the West has provided a firm foundation for Germany's internal democracy. Joschka Fischer regards Europe as the answer to Germany's history and geography. Completion of European integration is the correct response to the 'German Question' and hence has ultimate priority in the foreign policy of the 'Berlin Republic'.<sup>434</sup>

Apart from being a consequence of the history, it is also from the pragmatic perspective for Germany to dedicate commitment to completing European integration. German foreign policy is now committed to implementing peaceful policies based on human rights, democracy, and social justice. In the future, Germany will be called upon more frequently for military assistance when massive violations on human rights occur or when peace and security are at stake. Germany's political and military

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<sup>433</sup> Herbert Quandt Lecture by Joschka Fischer, at Georgetown University, Washington DC, 15 September 2000

<sup>434</sup> Speech by Joschka Fischer, 'Weimar lectures on Germany-European challenges between integration and enlargement and Germany's responsibility at the centre of Europe' on 10 April 2002

contributions must be in co-operation with its European partners within the European framework.<sup>435</sup> Therefore, a complete European integration is in Germany's need.

Fischer argued that European integration was not simply a response to the failure and contradictions of the European system of states in the past (balance of power), but an essential means to shape the future, without the abolition of the individual nation-state identities or national interests. The European Union should be offered as the forum where national interests are articulated, and European integration should be regarded as the process that national interests are translated into realities. Fischer also spoke that 'only if we continue a policy of wise self-restraint, mediating our interests through multilateral fora, will we be able to retain the trust and reputation for reliability and sound judgement in foreign affairs which the old Federal Republic and the new has earned in over fifty years'.<sup>436</sup> Hence, it is in Germany's interest in taking the EU to completion and acting as a locomotive towards further European integration. Fischer also stressed that if the Europeans wanted to play a role in the 21<sup>st</sup> century as a viable partner of the US, they must find a way to unite themselves. He argued that only a real step to political union could give Europe the role that it deserves and needs.<sup>437</sup>

Overcoming the division of Europe in peace, freedom, and stability is about to be achieved with the imminent eastern enlargement. The European Union provides the framework for the historic opportunity of uniting Europe through granting membership to the Central and Eastern countries. The EU enlargement expansion

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<sup>435</sup> *ibid.*

<sup>436</sup> Speech by Joschka Fischer, at the General Meeting of the German Society for Foreign Affairs, Berlin, 24 November 1999



constitutes a great challenge for the candidate states, because it is not just about joining an international organisation but about improving their economies and societies gradually towards the EU level. It is an extremely complicated process and poses the difficulties of adaptation for both the candidate states and the EU itself.<sup>438</sup>

The German government is keen to make headway for EU eastward enlargement and facilitate the process as fast as possible. Dr. Klaus Kinkel, former German Foreign Minister, claimed that the Germans saw themselves as the spokesman for the young democracies of Central and Eastern Europe. Germany's support for the region is not just out of historical and moral duty but also for freedom, democracy, and prosperity all over Europe as in its own vital interest.<sup>439</sup>

Chancellor Gerhard Schröder and the Italian Prime Minister Giuliano Amato also declared that the EU enlargement would create opportunities both economically and politically.<sup>440</sup> Economically, Europe will benefit from an enlarged internal market, which is particularly important for Germany. The eastward enlargement is in Germany's direct economic interests, especially people in the eastern border regions will profit noticeably from new markets and business opportunities. One in three German jobs depends on exports, compared with one in seven in Japan and one in ten

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<sup>437</sup> 'Fischer rejects chancellor's German way: Foreign minister attacks nationalistic rhetoric', *Financial Times*, 15 Oct., 2002

<sup>438</sup> Speech by Joschka Fischer, 'Weimar lectures on German-European challenges between integration and enlargement and Germany's responsibility at the centre of Europe' on 10 April 2002

<sup>439</sup> Speech by Dr. Klaus Kinkel, Germany's Foreign Policy on the Threshold of the 21<sup>st</sup> Century, before the Council on Foreign Relations New York, 24 September 1997

<sup>440</sup> Speech by Chancellor Gerhard Schröder and the Italian Prime Minister Giuliano Amato, 'We are serious about the future of Europe', 21 September 2000 (*Zeitgeschehen Nr.220*, p.16)

in the US. Politically, enlargement will constitute a significant gain in stability and security for Europe as a whole.<sup>441</sup>

### *Transatlantic Relationship*

The Americans and Europeans have a shared history and a joint vision of a world of freedom and human rights, democracy and prosperity. They also have a common interest in co-operation to ensure security and stability in Europe and neighbouring regions, with a special focus on Russia and the Middle East. The Germans have always value transatlantic partnership, especially because the support of the US facilitated the German unification. When Joschka Fischer presented the Prize of 'Atlantic Bridge' (*Atlantik-Brücke*) to George Bush, former President of the USA, on 17 April 2002, he said that 'without your firm belief in German democracy, German unification would not have taken the form we know today'.<sup>442</sup> Apart from European integration, a close relationship with the US is considered as the most important pillar which the liberty and democracy of the united Germany is built on. Moreover, the transatlantic relationship is the crucial cornerstone of global security, peace and security not only in Europe and America but also around the whole world.

Despite the shared values between the Americans and Europeans, they do have some different political reflexes. The Americans tend to emphasise the military means while the Europeans the political. Fischer commented that the EU and German foreign policy would continue to be characterised by a greater reserve in military intervention.

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<sup>441</sup> Speech by Chancellor Gerhard Schröder on the 10<sup>th</sup> Anniversary of German Unification on 3 October 2000

<sup>442</sup> Speech by Joschka Fischer, at the presentation of the Eric M. Warburg Prize of *Atlantik-Brücke e.V.* to George Bush, former President of the USA, Berlin, 17 April 2002

Although there have been different point of views on the Middle East conflict, these different perspectives on the conflict have not caused a rift. Fischer considered the US as a hegemon at the peak of its power. For the first time in history, a hegemon exists without any counterweight. The only way to establish a balance through partnership, rather than countervailing force, is to complete the process of European unification. Europe is not yet a power, but a power in the making. The Europeans should articulate a broader understanding of security policy not being merely confined to military issues alone, but concerned about social, cultural, ecological, and economic aspects as well, which has been the approach taken in the Balkans and Afghanistan.<sup>443</sup>

However, the EU integration and enlargement is the most significant contribution to the peace on the continent. If Europe can succeed in real unification (the East and the West) not only economically but also politically. The US will find in Europe 'partnership in leadership'.<sup>444</sup> Only a fully integrated Europe offers the US the perspective of a true global player, which would be beyond what any nation-state in Europe could deliver. However, if Europe fails to complete the process of European unification by the end of the decade, America would lose its interest in the transatlantic partnership. Joschka Fischer has said, 'the transatlantic relationship is first and foremost a matter of Europe's own future, the future of Europe's own citizens'.<sup>445</sup>

### *Strengthening the United Nations*

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<sup>443</sup> Joschka Fischer, speech on the 'the State of Transatlantic Relations' at the Reichstag Building in Berlin, *The Week in Germany*, 12 July 2002

<sup>444</sup> Speech by Joschka Fischer, at the presentation of the Eric M. Warburg Prize of *Atlantik-Brücke e.V.* to George Bush, former President of the USA, Berlin, 17 April 2002

<sup>445</sup> Joschka Fischer, speech on the 'the State of Transatlantic Relations' at the Reichstag Building in Berlin, *The Week in Germany*, 12 July 2002

Since unification, Germany has been ready to assume a bigger role in the world affairs. It is willing to commit to the strategy of multilateralism through European integration and strengthening the United Nations and regional organisations active in the international arena. Fischer has wisely pointed out that in the multi-polar world, the future problem solving will have to be multilateral.<sup>446</sup> An efficient international organisation is vital to safeguard world peace, promote human rights, and achieve sustainable and equitable development.

Dr. Klaus Kinkel, former German Foreign Minister, also said that Germany's global interests included respect for human rights, fight against poverty, and the non-proliferation of weapons of mass destruction.<sup>447</sup> In other words, they are democracy, prosperity, and stability, which can only be achieved if the whole world work together. Germany has a fundamental interest in strengthening international organisations and thus wants to help the United Nations become a truly efficient instrument of global multilateralism.

Peace policy in the new century will be largely UN-led. It is necessary to strengthen the ability of the United Nations to take appropriate action. Fischer predicted that the future would belong to a policy of responsibility of our 'One World', which based on co-operation, solidarity, and multilateralism.<sup>448</sup> Therefore, the strategy of multilateralism that Germany has pursued for 50 years, on the basis of European integration along with transatlantic partnership, the development and expansion of

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<sup>446</sup> Speech by Joschka Fischer, at the General Meeting of the German Society for Foreign Affairs, Berlin, 24 November 1999

<sup>447</sup> Speech by Dr. Klaus Kinkel, 'Germany's Foreign Policy on the Threshold of the 21<sup>st</sup> Century', before the Council on Foreign Relations New York, 24 September 1997

institutions as well as the strengthening of the United Nations and the OSCE, has been demonstrated to be an incomparably stable model that Germany will continue to pursue.<sup>449</sup>

### **End Note: German General Election 2002**

Despite domestic rising unemployment and a falling economy, Chancellor Schröder's high-profile opposition to a war on Iraq won him a second term in the close-run general election of September 2002. The German Chancellor is able to hold on to power by the narrowest of margins, owing to the anti-war foreign policy appeal. The Green Party, whose de facto leader is Germany's charismatic foreign minister, increased its vote share from 6.7 percent to 8.6 percent, which was decisive in enabling Gerhard Schröder to remain in office, as the *Financial Times* commented - 'Fischer kingmaker, Schröder king'.<sup>450</sup> The key role that Fischer and his Green party played in securing a majority for the centre-left has given the foreign minister a new standing in the government. Hence, Fischer will be retaining charge of the policy area in European affairs.

During the election campaign, Schröder and Fischer claimed their opposition to a US-led attack on Iraq and declared that Germany would not participate in a military operation. War or peace became the central debate of the campaign. For Fischer, the whole purpose of elections was to obtain the support of the voters.<sup>451</sup> The German

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<sup>448</sup> Joschka Fischer addressed the 56<sup>th</sup> UN General Assembly, 10 November 2001

<sup>449</sup> Speech by Joschka Fischer, at the General Meeting of the German Society for Foreign Affairs, Berlin, 24 November 1999

<sup>450</sup> 'Schröder's slim victory', *Financial Times*, 28 September 2002

<sup>451</sup> ARD Television interview with Foreign Minister Fischer on 27 September 2002, on the subject of action against Iraq and German-US relations.

ambassador Wolfgang Ischinger pointed out that no one in Germany could win a parliamentary election on a pro-war stance, because German people remembered what wars did to them and to their families and neighbours.<sup>452</sup> As a result of Germany's tragic history, the German population is very war-averse. For the Germans, a war equals to a disaster or catastrophe. Therefore, it was not worth trying to sell war on Iraq in Germany, as the voters would not have gone along. The Red-Green coalition had to disagree with the US's policy on Iraq, so that it would be re-elected.

Joschka Fischer, the German foreign minister, called himself a realist rather than a 'dove of peace'.<sup>453</sup> He clarified the position of the German government, 'we want solidarity in the fight against terror, but no adventures'.<sup>454</sup> He regarded an attack on Iraq to change its regime as highly risky and false, because Iraq had not posed an acute threat to international security and thus there was no urgency that would require military action against Iraq at that time. Moreover, in the absence of a strategy for the entire region, there would be significant risks associated with military action against Iraq. The German government believed that the US had not thought sufficiently about its policy towards Iraq. Meanwhile, the German government put the objective to fight international terrorism as the priority before turning to Iraq.

Although Schröder's election campaign criticism of Washington's policy on Iraq won the public support in Germany, German foreign policy had to concentrate its efforts on reconciliation with the Americans after the election. It was particularly because

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<sup>452</sup> 'Challenges and opportunities', speech by the German Ambassador Wolfgang Ischinger, at the Centre for Strategic and International Studies, Washington D.C., 28 October, 2002

<sup>453</sup> 'There must be an Islamic way into the modern age', Interview Foreign Minister Joschka Fischer by the Frankfurter Rundschau daily newspaper, 11 September 2002.

during the election campaign one of Schröder's senior party colleagues criticised that the American President George W Bush used Iraq to divert attention from his domestic failures in the same way as Hitler had done. Germany attempted to repair the relations with the US by stressing on Germany's military contribution to the war in Afghanistan since November 2001. Germany is the European country with the most combat troops (approximately 10,000 soldiers) deployed abroad, side by side with Americans. In early 2002, Germany had the first German military casualties since the end of World War II, which demonstrated Germany a good ally of the US in the fight against terrorism. Nevertheless, the damage on the German-US relations would take some time to repair.<sup>455</sup>

In addition, Chancellor Schröder's opposition to the US policy on Iraq heralded a new 'Germany way' in international diplomacy, which rose concerns in the international society that Germany might be drifting towards unilateralism. However, Schröder's 'German way' diplomacy would neither make a military outcome to the Iraq crisis any less likely nor receive the approval of his foreign minister. Fischer strongly rejected the nationalist rhetoric in which the Chancellor had wrapped his opposition to US policy and warned that such an approach would drag his country back into the disastrous past. He commented that there should be definitely no German way in foreign policy and emphasised that 'we are part of Europe'.<sup>456</sup>

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<sup>454</sup> 'Foreign Minister Joschka Fischer spoke of his opposition to a possible US attack on Iraq in light of the pressing goals of fighting international terrorism and resolving regional conflicts, in an interview with the Flensburger Tageblatt newspaper on 28 August 2002

<sup>455</sup> 'Transatlantic relations: Challenges and opportunities', speech by the German Ambassador Wolfgang Ischinger, at the Centre for Strategic and International Studies, Washington, D.C., 28 October 2002

<sup>456</sup> 'Fischer rejects Chancellor's Germany way: Foreign minister attacks nationalistic rhetoric', *Financial Times*, 15 October 2002

Germany's policy against terrorism is embedded in a European and international context of global security. Fischer has said that there can only be a German foreign policy that is integrated within a European foreign and security policy, because the problem can only be solved through multilateralism – nations work together. The process of progressive European integration is a striking embodiment of multilateralism and a major and lasting contribution to global security. Moreover, the realisation of human rights has to be one of the pillars of a global security system, because all efforts to secure peace will fail if human rights are not protected and made reality.

Chancellor Schröder stressed Germany's commitment to the fight against terrorism in strengthening the international coalition against terrorism. He said that 'we are the second-largest provider of troops for UN-legitimated missions after the United States' and 'in 1997 we spent 170 million euros for international missions; this year [2002] it will be around 2 billion euros'.<sup>457</sup> Germany wanted to live up to its responsibility and counter massive violence with strong and legitimate international institutions, first and foremost the United Nations.<sup>458</sup> Thus, strengthening the UN's ability to act by continuing the reform course of the Secretary-General will be a central focus of Germany's two-year term on the UN Security Council starting on 1 January 2003 as a non-permanent member. Developing a comprehensive system of global co-operative security certainly will be Germany's central political task for the 21<sup>st</sup> century.

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<sup>457</sup> 'Chancellor and NATO Secretary-General Hold Talks in Berlin', *the Week in Germany*, German Information Centre, 8 November 2002

<sup>458</sup> Chancellor Outlines Policies of Next 4 Years', in Schröder's first policy statement to the Bundestag since winning re-election, 29 October 2002



## **Summary and General Conclusions:**

### **I. Normalisation of Germany:**

Since unification, Germany has been gradually transformed into a normal state. On the one hand, German economic power has been diffused following the implementation of the European single currency and, on the other, Germany's military strength has been gradually restored, albeit under new conditions and ones which are not controlled by Germany.

- Germany's economic institutions have become embedded in the EU and its economic power has meanwhile been constrained/diffused.
- Germany has taken more responsibility (including military contributions) for international peacekeeping, but the troop deployment adheres to the principle of multilateralism and are limited to humanitarian interventions.
- Germany, as a multilateralist power, needs European political union to guarantee the implementation of EMU and the development of European common foreign and security policy in the future.

### **II. Multilateralisation of German-ECE relations:**

The EU has been the major institution for Germany's practice of multilateralism. Germany chooses to multilateralise its relations with East Central European countries within the EU to demonstrate its determination

to be a multilateralist power, rather than a hegemon.

- For a decade, Germany has participated in the transformation process of the region to help eastern candidates qualify for the EU membership in every way.
- Germany has been the advocate of EU eastward enlargement and has made the greatest effort within the EU to persuade other member states to support the enlargement.
- A dilemma has emerged: on the one hand, Germany advocates eastern enlargement while, on the other, the German government increases its efforts to reduce the net contributions to the EU budget.

### **III Continuity in German foreign policy:**

Germany's efforts to multilateralise its relations with East Central European countries have shown a basic continuity in German foreign policy. Although the Schröder government has been more assertive, the foreign policy in general does not challenge its multilateral framework.

- National interests play a bigger part in foreign policy making, which indicates a more assertive Germany.
- Troop deployment is still a sensitive issue in Germany, because of the German public's anti-war orientation.
- Germany continues to strengthen its multilateral ties and intensify its participation in multilateral collective action, which reflected modified neo-realist prediction of foreign policy behaviour.

#### **IV German foreign policy in the new century:**

As Germany remains multilateralist, the development of the EU, transatlantic relationship, and the United Nations will be three priorities of German foreign policy in the future.

- Germany's political and military contribution must be in co-operation with its European partners within the European framework, with Germany is called upon for military assistance to stop massive violations on human rights.
- The transatlantic relationship is the crucial cornerstone of global security, peace and security not only in Europe and America, but also around the whole world.
- Germany's global interests are democracy, prosperity, and stability, which can only be achieved if the UN becomes a truly efficient instrument of global multilateralism.

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