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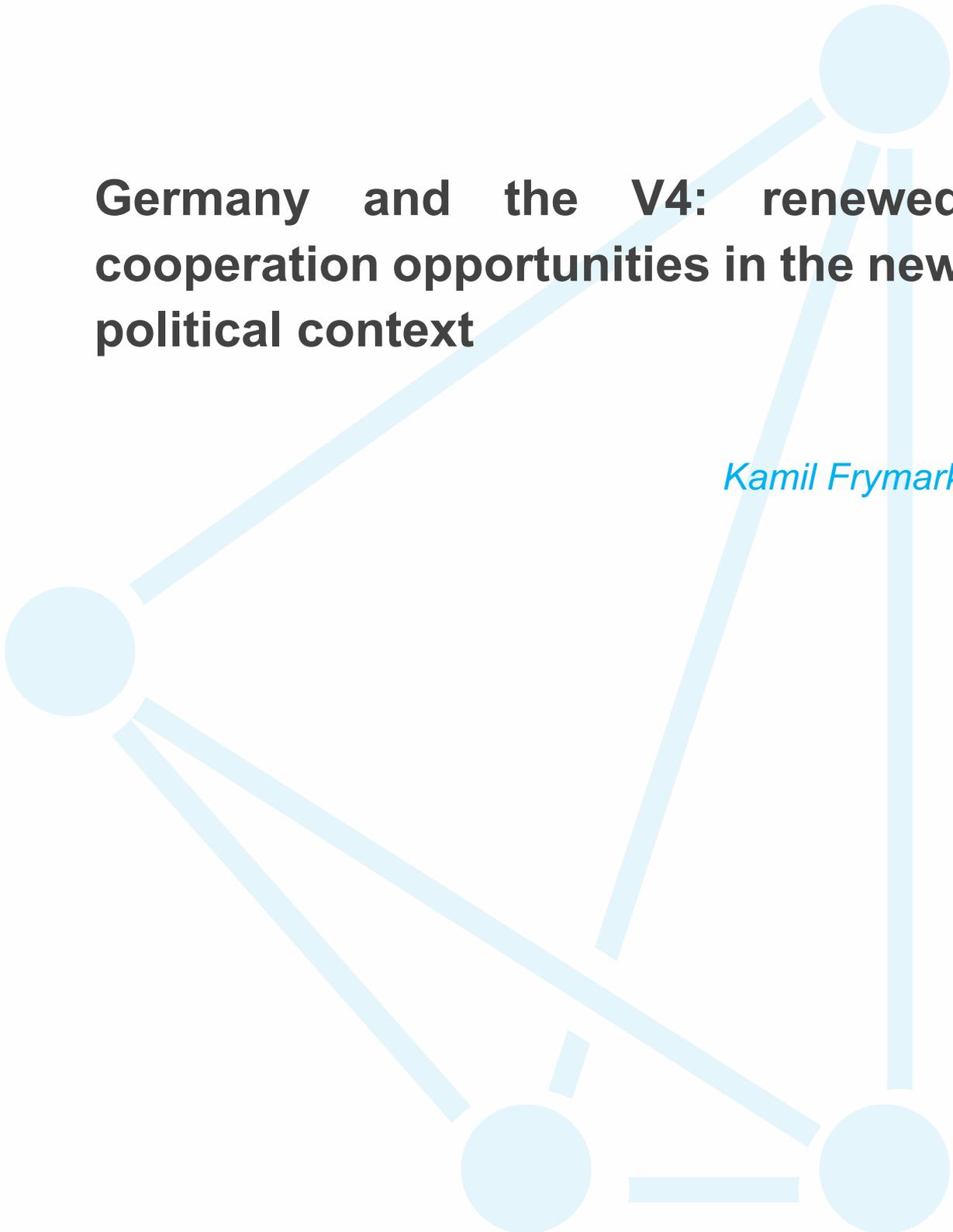
# POLICY BRIEF

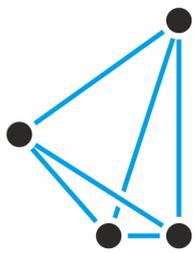
2018/December

Think Visegrad in Brussels

**Germany and the V4: renewed cooperation opportunities in the new political context**

*Kamil Frymark*





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## Introduction

Germany's collaboration with Central European countries, and especially the Visegrad Group (V4) is often perceived through the prism of political differences that have arisen from divergent visions of the future EU migration policy and debates on the rule of law. Simultaneously, new opportunities to deepen the already existing cooperation may appear due to the turmoil in Germany's domestic politics as well as the international environment.

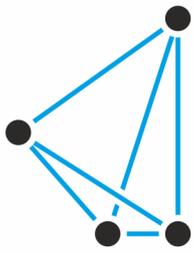
The transformation of Germany's political landscape increases polarisation in the Bundestag and makes it more difficult to create a predictable and stable foreign policy. The greatest challenge for Germany is Washington's behaviour (e.g. raising tariffs or changing its attitude towards Iran), putting Germany in a quandary over whether to start strengthening relations with non-European actors, including China. However, Berlin is also aware of the significance of its economic ties with the US as well as its dependence on the US regarding defence issues. The V4 countries may also be facing a similar dilemma with a difficult choice between their most important trading partner, Germany, and the US.

With Brexit, however, an opportunity to strengthen collaboration between Germany and Central Europe has emerged. The UK's withdrawal from the EU could prompt the government in Berlin to seek new political alliances among the V4 countries in order to balance the influence of France in the EU on such areas as the negotiations of the EU multiannual financial framework, the vision of reforming the EU (e.g. strengthening the principle of subsidiarity, deepening the competitiveness of EU countries), and the EU enlargement to the Western Balkans. To strengthen political ties, joint initiatives and deepened dialogue will be required as well as increasing the awareness among German decision-makers of how important Central Europe is for Germany in all aspects, not only the economic one.

## Merkel's government new term of office

The October 2017 elections to the Bundestag and the subsequent lengthy process of coalition-building revealed changes in the political landscape of Germany. Their consequences will greatly influence Germany's policy towards Europe, and hence Central Europe.

After the Alternative for Germany (AfD) and the Liberals (FDP) entered the Bundestag, the German parliament is now comprised of 7 parties, the biggest number in its post-war history. Building a coalition has therefore become more difficult. In contrast to previous parliaments, the coalition has got only a few votes more than the



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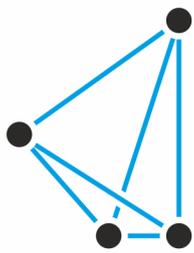
required majority, and it is 'great' by name only (CDU/CSU and SPD together have 399 lawmakers in 709-strong chamber). After the elections, the Bundestag has become a place of heated discussions about, among others, foreign policy. The hitherto existing consensus and continuation in foreign policy has been questioned more strongly than in the past. This creates new circumstances for chancellor Merkel's foreign policy-making and forces her to take a more assertive stance in Europe. Adding emphasis to the European policy by placing it in the first chapter of the coalition agreement has not translated into more determination to shape the vision of reforming the EU. This is also true for SPD, the coalition partner of CDU/CSU. Even though the party took the helm of the ministry of finance as well as the foreign affairs ministry, the synergy effects have not been used to increase SPD activity in European politics.

## Foreign policy challenges

Germany's policy in Europe has so far been based on two counterbalancing pillars: a Franco-German collaboration, expressed especially through political initiatives, and a support for the British vision of economic policy, strengthening competitiveness and securing fiscal discipline. This usually counterbalanced French ideas of increasing money transfers to the South of the EU, and strengthened point positions of Britain and Germany, for example when it came to the European aspirations of Western Balkan countries. The UK's accession allowed to start building a balance between the two biggest countries in the EU: Germany and France. With Brexit shifting back these proportions, opportunities as well as threats arise for Central and Eastern Europe. Worried about its economic interests, Berlin from the start has been advocating a coherent EU stance based on a principle of a soft exit. Simultaneously, by making negotiations difficult and offering more beneficial conditions of further cooperation to EU member states, Berlin hinted to others potentially considering following the path of Brexit that the way out will be filled with hardships.

## Balanced partnership with the US

A crucial challenge for the relationship between Germany and Central Europe is the attitude towards the US. In Germany, the election of Donald Trump came as a shock. The reason behind initially very emotional statements from German politicians was first of all a desire to protect their own interests from actions heralded by the Americans. Berlin was worried that the debate on defence expenditures would intensify, its own economic interests would be threatened and the multilateral policy, a guarantee of Germany's role in global decision-making, would be limited. A debate is now held in Germany on growing its own defence potential as well as on the shape of the future security partnership with the US. Some experts and politicians (e.g. Nils Schmid, Lars



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Klingbeil from SPD)<sup>1</sup> would like to see more EU self-reliance in defence and at least stronger independence from the US in this area. Chancellor Merkel, however, is aware of the importance of security guarantees provided by the US via NATO as well as the significance of exchanging information (e.g. on terrorism) by German and American intelligence services. Germany's biggest concerns are about protectionist actions taken by the US to levy new tariffs on European products. They treat additional import duties on steel imposed in March as a warning and an element of negotiating new framework for the EU-US trade relationship. Even though Germany is an important European steel producer (24% of EU production), the scale of its export to the US is relatively low (5%).<sup>2</sup> For Berlin and Central Europe most harmful would be imposing sanctions on the motor industry that amounts to 32% of German export to the US<sup>3</sup>. Erecting additional barriers for this part of German export could lead to problems for the entire industry and, as a result, harm the interests of businesses from Central Europe, as one of the most important subcontractors for the German economy.

Unilateral actions taken by the US (such as announcing its withdrawal from the Paris Climate Agreement and the Nuclear Deal with Iran) pose new challenges for Germany. Developing a nuclear deal with Iran in 2016 was one of recent successes of German diplomacy. Berlin was among the initiators of the negotiation process in the P5+1 format (permanent members of the UN Security Council plus Germany). From Berlin's perspective, this forum put Germany on equal footing with other members of the UNSC, and its success brought hope that a similar negotiation framework could be used in solving other security issues, such as the North Korean nuclear programme. Furthermore, Iran has traditionally been Germany's partner, and both countries have been developing a broad cultural, political and trading relationship since 1950s. This continued after the nuclear agreement had been signed and Sigmar Gabriel, then vice-chancellor, was one of the first European politicians to visit Tehran in those days. Since 2016, trade between Germany and Iran has increased by 42% and the value of export amounted to €3bn<sup>4</sup>. Despite that, Germany's presence on the Iranian market still lags far behind France. German business would welcome a return to the pre-sanction level of trade (about €5bn)<sup>5</sup>. However, in the face of America's unambiguous attitude towards economic cooperation with Iran, this appears impossible. Unwilling to risk losses on

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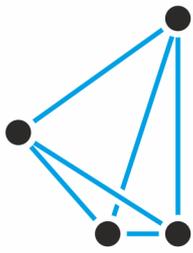
<sup>1</sup> The debate on European security and relations with the USA also takes place in the media: "Im Westen was Neues", Die Zeit, nr 43/2017, <https://www.zeit.de/2017/43/aussenpolitik-deutschland-usa-transatlantische-beziehungen-werte/komplettansicht> NYT, "In Spite of It All, America", 11.10.2017, <https://www.nytimes.com/2017/10/11/world/europe/germany-united-states-trump-manifesto.html>

<sup>2</sup> K. Popławski, Obawy Niemiec przed wojną handlową z USA, OSW Analysis, <https://www.osw.waw.pl/pl/publikacje/analizy/2018-03-14/obawy-niemiec-przed-wojna-handlowa-z-usa>

<sup>3</sup> Ibidem

<sup>4</sup> K. Frymark, A. Ciechanowicz, Niemcy za utrzymaniem porozumienia nuklearnego z Iranem, Analizy OSW, 9.05.2018, <https://www.osw.waw.pl/pl/publikacje/analizy/2018-05-09/niemcy-za-utrzymaniem-porozumienia-nuklearnego-z-iranem>

<sup>5</sup> Ibidem



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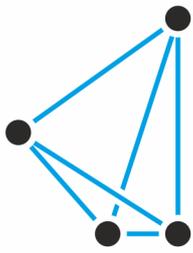
their most important market in the US, the biggest German companies announced a suspension of operations in Iran. Simultaneously, more and more ideas of closer cooperation with Russia and China are turning up<sup>6</sup>. An example of such cooperation may be a plan to create a common barter exchange enabling the exchange of goods with Iran, bypassing payments using the SWIFT system with Russia and China paying lip service to this idea. Despite the friction it causes with the US, Germany aims at maintaining the nuclear deal with Iran, for instance by providing additional guarantees and setting up special funds to continue trade with Iran despite American sanctions. The choice between engagement in America and abiding by the US decision about the nuclear deal with Iran on the one hand, and on the other a more independent European policy seeking sometimes quite exotic alliances,( e.g. a German-Chinese partnership in opposition to the USA) is also one to be made by Central Europe as one of the most important trading partners of Germany.

## What is the future of Europe?

Attempts to reform the eurozone (which is especially important for Slovakia) and to reform the EU itself provide a new context for the collaboration between Germany and the Visegrad countries. On the top of that there are also negotiations of the EU multiannual financial framework. Although the CDU/CSU coalition agreement with SPD included the reform of the EU, Germany's position has not changed significantly. It is still based primarily on contesting French demands that lead to imposing an increased levy on German taxpayers. This approach is shared by the vice-chancellor and finance minister Olaf Scholz (SPD), who in many respects follows the policy set by his predecessor Wolfgang Schäuble. The lack of appetite in Germany for far-reaching changes could also result in French objection to solutions important for Berlin, for instance in migration policy. It is therefore conceivable that Berlin agrees that a shift of money from structural funds from Central Europe to the South of Europe would be a price worth paying for a potential compromise over reforms.

Germany has so far showed tentative signs of readiness to talk about establishing a few billion euro investment fund for the eurozone (to be used for example for digitalisation and described by Merkel as a budget) and transforming the European Stabilisation Mechanism into the European Monetary Fund, able to grant five-year loans and holding the right to control the budgets of the eurozone countries. Merkel would like to see the number of EU commissioners reduced and 'leading' countries appointed to take charge of policy coordination in the areas most important for the EU

<sup>6</sup> German banks pull plug on trade with Iran, Handelsblatt, 2.10.2018, <https://global.handelsblatt.com/finance/german-banks-trade-payments-sanctions-iran-968648>



economic growth (for example the Baltic States to lead EU digitalisation policy)<sup>7</sup>. Berlin would also prefer to abolish the EP multiple seat in Strasbourg and Luxembourg and introduce a selection of main candidates (the so-called Spitzenkandidaten) before the EP elections who following the elections could take the top EU jobs (the Commission and the EP, like in 2014). Some of these demands, especially on reducing EU red tape and strengthening the subsidiarity principle, could win support in Central Europe and form a basis for a joint regional proposal of EU reform

### Migration row

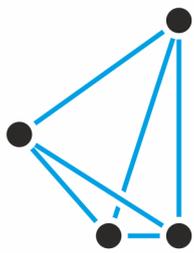
The most significant political differences between Germany and the Visegrad Group lie in their attitudes towards the EU migration policy. On the one hand, both Berlin and CE capitals admit having a similar approach to protecting EU borders as well as increasing support for countries hosting refugees outside the EU. On the other, the biggest bone of contention is the proportional distribution of refugees among all EU member states based on quotas, opposed by the Visegrad and other countries. At the beginning of 2018, Germany moved quotas down their priority list, assuming that in the current political climate (e.g. change of government in Italy and the Austrian EU presidency) they are not being carried out. Germany backed the “flexible solidarity” principle they initially rejected in 2016 after it was suggested by the V4. It may lay the foundation for a future compromise and reconciling the positions of Germany and Central Europe. It is not entirely clear what this compromise might look like. One of the ideas is the acceptance by some countries of refugees from selected regions. This was suggested by the Secretary General of the CDU - Annegret Kramp-Karrenbauer.<sup>8</sup>

### Mutual benefits from economic cooperation

The new conditions of Germany’s policy-making as outlined above suggest more and more unpredictability in both the international environment and in Germany itself. Economic cooperation with the V4 is a departure from this reality. The rise in international instability means Central Europe is becoming even more important for the German economy. It is due to the geographical proximity, the same set of market rules under one EU umbrella, a long-term industrial tradition, and considerable resources of skilled workers with smaller financial demands than their counterparts in western

<sup>7</sup> FAS, Merkel: Europa muss handlungsfähig sein – nach außen und innen, <http://www.faz.net/social-media/instagram/kanzlerin-angela-merkel-f-a-s-interview-europa-muss-handlungsfahig-sein-15619721.html?premium>

<sup>8</sup> Kramp-Karrenbauer: Orbán sollte verfolgte Christen aufnehmen, <https://www.evangelisch.de/inhalte/153533/25-11-2018/kramp-karrenbauer-orban-sollte-verfolgte-christen-aufnehmen>



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Europe. What is more, Central Europe went through the global financial crisis of 2007 and 2008 and the crisis in the eurozone reasonably well. Additionally, Germany will be forced to seek partners within the EU to balance the effects of Brexit, to negotiate the next Multiannual Financial Framework, and to shape the EU reform.

Economic collaboration with Germany made a decisive impact on developing an economic model of Central European countries, which contributed to the modernisation of the region. From 1989, Germany took over the role of Central Europe's most important trading and investment partner. The Visegrad Group taken together has also become Germany's biggest import and export trading partner.<sup>9</sup> The fact that Central Europe in recent years became a factor in increasing the competitiveness of the German economy also played to its advantage. It comes from the fact that some factories and workplaces have moved to V4 countries, which put pressure on lowering the costs of work in Germany. The region also offers access to skilled workers. On the other hand, Germany has benefited the most from financial investments in Central Europe under EU cohesion funds schemes. German companies carried out most of the contracts and the improvement of regional infrastructure also benefited German businesses.<sup>10</sup>

However, the existing economic ties and mutual trade dependency do not increase Germany's interest in intensifying political collaboration. In many cases, there can be an impression that there is no awareness in Germany of how important mutual economic relations are. In the media, strategic partnerships with selected non-EU countries, such as China or links with Russia, are emphasised, while the essence of close relationship with Visegrad countries is overlooked. It impacts on the interests of the public as well as priorities of politicians, who pay more attention to the rising economies than to Central Europe.

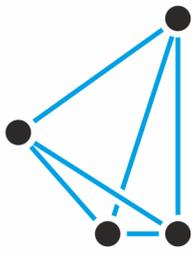
## Collaboration opportunities

From both the German and the Central European perspective, economic cooperation is crucial. Focusing on political issues, first and foremost migration, but also for example Russia, overshadows possibilities to deepen the cooperation. Due to Brexit, the importance of Germany, the biggest EU economy, will increase both economically and politically. Furthermore, Brexit means the EU losing its third biggest member state, an important economy, a net contributor to the EU budget, and a key country in strategic and security terms. This could make Germany reevaluate the

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<sup>9</sup> K. Popławski, *The role of Central Europe in the German economy. The political consequences*, OSW Report, <https://www.osw.waw.pl/en/publikacje/osw-report/2016-05-16/role-central-europe-german-economy-political-consequences>

<sup>10</sup> *ibid.*



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importance of Central Europe both politically and in terms of deepening economic cooperation. As a result of Brexit, the production of machines, components and cars in Central Europe could increase, which will further strengthen the existing ties with Germany. A long-term challenge for regional economies (including both Germany and the V4) is electromobility and the future of diesel engines that may make a significant impact on German motor industry's development model. Joint solutions in modern technologies and industry 4.0 (e.g. batteries for electric cars) would be a clear signal of a desire to deepen the existing ties.

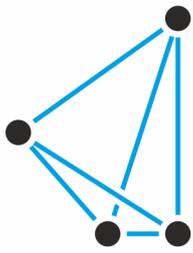
A debate on reforming the EU could be the second area of deepened collaboration. Brexit means Germany and some Central Europe countries lose an important ally in their approach to the future vision of the EU. This also creates an opportunity to tighten political cooperation. When it comes to increasing competitiveness and innovation, strengthening the roles of national parliaments and subsidiarity principle or budget priorities, Germans were closer to Central Europe than to France and other members of the eurozone from the South. Collaboration between Germany and Central European countries could be made more effective if they together put forward a set of reforms. Such a joint position would make a valuable supplement to the existing French proposal, or in some respects a correction of it. Partners could also be found among the signatories of the so-called "letter of eight" from March this year<sup>11</sup>, which would emphasise the Europe-wide nature of the announced proposal. It is also worth using the existing formats, such as the Weimar Triangle, to seek dialogue and reconciliation of positions.

Security policy also offers a chance to strengthen and broaden mutual relations. In this case, Central Europe extends the area of security to the East, which is of great importance, among others for Germany.. The strengthening of the so-called eastern flank of NATO, with considerable involvement of the German army, suggests mutual appreciation of how important the security of this region is. Differences in the approach to Russia, both between Germany and some Central European countries as well as among the Visegrad countries themselves, should not contribute to limiting the collaboration. On the contrary, it should lead to deepening the discussions and developing a joint position within the EU in the future.

The experience of Central Europe with the EU accession process is a value added for both European enlargement policy in Western Balkans and the Berlin Process. Border cooperation between Germany and the V4 could also be a useful lesson. Exchange of these experiences could bring the Western Balkans closer to EU accession, which is a mutual objective of Germany and the Visegrad countries.

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<sup>11</sup> Northern EU states to minimise euro reform, <https://euobserver.com/uk-referendum/141215>



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“The EU28 Survey” by ECFR shows that in some cases the Visegrad countries see Germany as their key political partner (e.g. The Czech Republic). This, however, is not returned by either politicians or the current administration in Berlin.<sup>12</sup> A certain change has come with a concept of a “new eastern policy” announced by German foreign minister in June this year. According to minister Heiko Maas, it should involve, among others, deepening the dialogue with Central and Eastern European countries.<sup>13</sup> This may facilitate putting forward joint political initiatives, for example on EU reforms or some of its dimensions (including migration policy, and increase of competitiveness and innovation in the economy).



<sup>12</sup> A. Möller, *Czechs and balances: can Berlin shake up the Visegrád group?* [https://www.ecfr.eu/article/commentary\\_eu28\\_survey\\_czechs\\_and\\_balances\\_can\\_berlin\\_shake\\_visegrad\\_group#](https://www.ecfr.eu/article/commentary_eu28_survey_czechs_and_balances_can_berlin_shake_visegrad_group#)

<sup>13</sup> Rede von Außenminister Heiko Maas: “Mut zu Europa – #EuropeUnited”, <https://www.auswaertiges-amt.de/de/newsroom/maas-europeunited/2106420>



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