



AECA INTERN. CONFERENCE :

"GERMANY AND THE DEVELOPING
US/EC RELATIONSHIP "

POTSDAM , 5-7 APRIL 1991

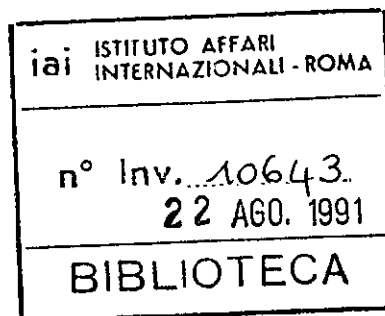
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G. BONVICINI

THE AMERICA-EUROPEAN
COMMUNITY ASSOCIATION INTERNATIONAL

GERMANY AND THE DEVELOPING US/EC RELATIONSHIP
The American-European Community Association
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**The America-European Community Association
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Founder/Chairman: Sir David L. Nicolson

149 Avenue Louise, Boîte 24
B - 1050 Brussels

Telephone: 32 (2) 539 34 96

Fax: 32 (2) 535 75 75

AECA INTERNATIONAL CONFERENCE

'GERMANY AND THE DEVELOPING US/EC RELATIONSHIP'

THE HOTEL SCHLOSS CECILIENHOF, POTSDAM, GERMANY

5-7 APRIL 1991

S U M M A R Y

AECA would like to express warm thanks to the European Commission, the Aspen Institute, the Bundesverband der Deutschen Industrie (BDI), the Center for Strategic and International Studies (CSIS), the German Marshall Fund of the United States and the Trans European Policy Studies Association (TEPSA) for their generous assistance and cooperation which made the organisation of this conference possible.

OPENING ADDRESS
BY
VOLKER RUEHE
SECRETARY GENERAL, CHRISTIAN DEMOCRATIC UNION

SUMMARY:

- * The process of German unification is only just beginning. The task ahead is to make one state out of two completely different societies. The most severe problem is psychological as East Germans lose part of their identity. The speed of change in Germany is enormous, not comparable with any other East European country.
- * Over the next 12 months, 100 million deutsche marks will be poured into Eastern Germany. While the money is available, new initiatives are not being taken, Ruehe calls on the West to invest in the East. "Don't just leave it to the Germans," he says.
- * It will take two to three years to bring East German wages up to Western standards. By 1994, East Germans will feel they are really living in the same country as their counterparts in the Western part. Germany will concentrate over the next three years on raising living standards. "If we fail, it means failure for the whole of Germany and also for Europe," says Ruehe. He adds that Bonn cannot continue pumping money into the Eastern part forever.
- * The security problem in Germany is acute as Bonn deals with 2 1/2 million former members of the Communist Party and the Stasi, the political police of the former East German regime. Ruehe says provisions must be made to allow these people to participate in the new Germany. In addition, unemployment will rise to as high as 80% in some areas of the new Lander. He says terrorism will increase as discontent rises.
- * A united Germany was caught "on the wrong foot" during the Gulf War and its reaction was "flawed". But Ruehe says no-one could expect Germany to take part because of its history in the use of force.
- * Germany is facing an "overkill" of problems at the moment. Unless the huge economic disparities are eliminated between East and West Europe people may call for new barbed wire to be constructed to prevent economic refugees from the East.

**SESSION ONE
GERMANY AND THE EUROPEAN COMMUNITY**

**PAPER SUBMITTED BY: ELFRIEDE REGELSBERGER AND
WOLFGANG WESSSELS
THE INSTITUT FOR EUROPAISCHE POLITIK**

- * In 1991, there is a window of opportunity for further progress in the construction of the European Community. This historical opportunity, unlikely to return, would serve the vital interests of Germany. A failure to progress might lead to 'new thinking' in Germany.
- * Germany is often a mystery for its neighbours. Some fear that Germany might return to a traditional role as the dominating power on the European continent. They see Germany as one of three centres in the new international system -a triangle between Washington, Moscow and Berlin -leaving Brussels as a secondary place within the German zone of influence. In late 1990 and early 1991, complaints and worries are voiced that Germany is not capable, in material terms, and not willing politically, to play a stronger international and European role which some were afraid of before.
- * Because of the challenges in developing the former GDR, the performance of Germany in competition with other major economies, especially Japan, does not look promising. Thus, the EC will be increasingly important for defending German interests in the international economic and monetary system. Without a robust internal market of the EC, the economic development of the five new Lander in Germany will be less successful.
- * The outcome of the EC's intergovernmental conferences will have a large impact on Germany's role inside the Community and beyond. Worries about possible German hegemony could be met by integrating Germany even more into the EC than before and thereby offering a stable framework. Germany is stressing that the IGC's on monetary and political union be concluded soon. Behind this link is the German interest to trade off its stronger position in the monetary sector for its weaker position in the security field. France and Britain are being asked to offer their resources in building the EC's security framework while Germany stresses the importance of substantial institutional reforms of the EC, such as a greater role for the European Parliament.

DISCUSSION HIGHLIGHTS:

- * An European academic comments that Germany must accept the role of being a leading country. The main question is what kind of leadership should Germany exercise. He believes that Germany must take responsibility for leading the EC through the process of European integration. He says other European countries can protect themselves by accepting German leadership inside the EC. What other nation cannot accept is Germany playing a leadership role in a unilateral manner. He uses as an example recent moves by the Bundesbank taken without consultation with other European countries. The academic says Germany must define its leadership role in the very near future.
- * A senior US official says if Germany is not yet ready to play a leadership role, the process of EC integration will slow down until Germany catches up. Germany, he says, needs to take an active role in formulating EC consensus. He asks who will be a source of discipline and leadership in the EC if Germany is not ready? The official says it would be a mistake to focus on a limited window of opportunity for Germany. He also notes that there has not been enough reflection on how Germany will be different after unification. He says that German unification and integration of the EC are shifting the centre of gravity Eastward.
- * A senior European official says Germany may require more strength in the Council of Ministers and in the European Parliament to reflect its real power. He says a window of opportunity for Germany makes no sense as the EC is really driven by historical factors. EC progress is determined by gradual steps accepted by a broad consensus. He says Germany won't be a brake for EC integration and that Germany, more than any other Community country, understands this the best.
- * A high level European diplomat says the debate is false over a window of opportunity for Germany. He says the real debate is about the role of Germany in international relations, influenced by domestic pressures, rather than a change of direction. He says natural caution is setting in. His advice is not to push things with Germany but to get the structure right.
- * A prominent member of the European Parliament says Germany wants to take responsibility in international affairs but not as Germans alone. This mistake was made in the past. The time is approaching when Germany should have no more national say in security policy.

- * Another senior European diplomat says the evolution of Germany will take place within the overall evolution of the Community. He says the future of Germany requires it to outgrow its nationalism and the EC can help with this process. At the same time, the diplomat says the EC needs German leadership. He says the Germans have best understood the concept of sovereignty and have learned this from their history. He points to the impressive rise of federalism in post-war Germany.

SESSION TWO
GERMANY, EASTERN EUROPE AND THE PRIVATISATION PROCESS

**PAPER SUBMITTED BY: DR LUDOLF VON WARTENBERG,
DIRECTOR-GENERAL,
FEDERATION OF GERMAN INDUSTRIES (BDI)**

SUMMARY:

- * Privatisation in Eastern Europe and the five new German Lander characterises the restructuring process underway from the planned to a market economy. The process of transition is of varying intensity and cannot be measured by the same yardstick. However, the five new German states have a unique head start as the unification of Germany has given them a legal foundation of Western Democracy. The three elements in the privatisation process are to guarantee a legal framework for the protection of private property, to speed up economic recovery and to keep adverse social effects on people to a minimum.
- * Privatisation is a precondition for economic recovery. The ownership issue must be settled for investors to be able to make decisions. If this cannot be done within a short period of time, a transition regulation should provide for the possibility of indemnifying former owners in order to clear the way for investors.
- * Privatisation by the Treuhandanstalt (Trustee Agency) of previously state-owned property in the former GDR has priority over reorganisation. It is for the investor to put the enterprises back on their feet. The Trustee Agency now holds more than 8,000 enterprises with over 40,000 establishments and about five million jobs. To put it another way, 80% of all jobs other than those in Government and agriculture are associated with the Trustee Agency. The Agency also holds a considerable amount of land including 1.7 million hectares of agricultural surface. The Agency is subdivided into a Berlin based head office with 125 regional branches. The BDI's position is that the Trustee Agency's primary concern must be to privatise and should not set out to reorganise the economy.

- * Despite the structural upheavals in Eastern Germany and in Eastern Europe, privatisation must continue. Delaying the process of privatisation would only cause more social harm. Privatisation in Germany and Eastern Europe is both part and a consequence of the revolutionary upheaval, a process unprecedented in history. There are no models or textbooks for this process. Its geographical dimensions and its magnitude requires not only our understanding but also our solidarity.
- * The new Germany Lander and East European countries need reliable partners. They require expert political and economic advice and a regular exchange of views and experiences through exchanges and trade fairs. The EC should extend association agreements to some East European countries with offers of aid, advanced training and exchange programmes. Other measures must follow.
- * During a discussion, Von Wartenberg says the biggest problem in the privatisation process is one of mentality. He says it is easier to fight for freedom than to use the new freedoms. The length of time needed for German unification will very much depend on Poland, Czechoslovakia and the Soviet Union. If the markets are there, Eastern Germany will prosper.

DISCUSSION HIGHLIGHTS:

- * A leading American legal scholar says that the sale of state-owned assets is less important but attracts the most attention. In fact, he says the sale of large state enterprises is the least important aspect of the privatisation process as these firms often have near zero value. He says privatisation consists, in order of importance, of allowing private ownership of productive assets, openness to competition, reducing government control and lastly, the sale of government businesses.

He says privatisation, while necessary, will not guarantee success in Eastern Europe to make these countries more competitive on Western markets. Privatisation cannot overcome structure and resource deficiencies. The US and the EC can best help by removing barriers to trade, especially for textiles and agricultural products. The legal expert says small and new businesses have a better chance of creating jobs and becoming profitable in the democracies of Eastern Europe. And he suggests, facetiously, that black marketeers be placed in charge of economic ministries as they are the people with the best understanding of how markets work.

Finally, the legal expert says clear laws, diminished regulation, increased competition and allowance of profits are needed for the economic success of privatisation. He says government should not be involved in setting "fair value" or controlling the operation of competing firms. Rather, he says Government should provide a social safety net, especially during the transition period and should provide a framework for business operations.

- * A European diplomat says full East German recovery can be expected to take longer than three to four years affected by the lack of local government expertise. Forty to fifty per cent unemployment in the new Lander for a short period is anticipated, followed by the first signs of economic recovery perhaps later this year or early in 1992. The problem of resources is a major one and that Eastern Europe will need a lot of money from the West; investment resources would be essential to make a success of EC associate membership.

- * A European journalist says four to six years is far too short a time to develop an entrepreneurial culture among East Europeans. He believes it will take a generational change to instill that spirit. He calls on the West to provide training of all kinds to provide an underpinning for economic development. And he proposes that AECA should sponsor business scholarships for East Europeans.
- * A European academic supported this line of approach indicating that the combination of entrepreneurial and civic culture was lacking in Eastern Germany and the countries of Eastern Europe: time was needed, as well as patience, for changes to be made.
- * The Director of AECA's Task Force on Eastern Europe describes how new jobs are being created in Hungary through small business enterprises. He says 200 newly created fax and photocopying shops have opened in Hungary recently, creating 2,500 new jobs. He notes that Hungary's Small Business Council already has 5,000 dues-paying members.

SESSION THREE
OPTIONS FOR AN EC ROLE IN SECURITY

PAPER SUBMITTED BY: REINHARDT RUMMEL,
STIFTUNG WISSENSCHAFT UND POLITIK

SUMMARY:

- * Stability in today's Europe is not achievable any more by military balances. Other assets come into play such as economic performance and freedom of communication. Instability caused by Saddam Hussein in the Middle East is not neutralised by fighting a war. More long-term measures such as a change of political culture in the region and a new technology transfer policy from North to South have come into play to control the Gulf conflict. The security policy of the new era will be much more political and will deal with a large range of policies beyond the military one.
- * Security policy for the future must be increasingly more policy than defence coordination. Hence, the importance of a politicisation of NATO, a much wider role to play for the EC and the need for the organisations to develop a joint approach to security. A large part of the West European security debate on security cooperation is focused almost entirely on institutional questions, linking NATO, the Western European Union and the EC.
- * Another important feature of future security challenges is the differentiation of threats. The NATO allies have two kinds of neighbours; the East Europeans and the people beyond the Southern rim of the Mediterranean. Any war of significance in Eastern Europe could involve the Soviet Union and could ultimately lead to the destruction of Western societies. By contrast, wars at NATO's southern periphery could be very costly but do not have the potential of destroying its societies. In the first category of changes involving the USSR, NATO has to be in the forefront of any Western response. In the second category with only southern neighbours involved, the WEU could be developed to deal with some of the threats.

- * A further element of the West's future security environment is the change in challenges over time. The NATO allies are in a precarious situation as long as the Soviets remain present militarily in Germany and in East European countries. The transition period from now until 1994, when there is a complete Soviet withdrawal from Eastern Europe, contains a set of uncertainties and dangers. Western institutional response will have to be adapted. NATO is indispensable and should be strengthened during this transition period. But because of Soviet sensitivity, it cannot provide direct help to East Europeans; here, there is a role to fill for West European organisations such as the EC and the WEU.
- * By inserting a security dimension into EC policy, the Community can establish a defence dialogue which helps to overcome some isolation problems of East European countries. It could also help them to balance their continued dependence on the USSR in terms of military equipment. A close connection between the EC and NATO will constitute the main counterweight to the remaining Soviet military power and assures the central strategic axis of stability in Europe.

DISCUSSION HIGHLIGHTS:

- * An American security expert comments that it would be a mistake to dismiss the role of military power on the European continent. The USSR will still be menacing with 4 million troops under arms. Signs of instability grow both in Eastern and Southern Europe. It was important to avoid being hung up with ideology.

Although the United States welcomes a stronger European defence identity, he says NATO must remain the cornerstone for European security. Further European integration will create European stability but under a US presence in Europe, he says, the EC must build its European defence pillar inside NATO.

To create an independent security policy would be an anathema for the US, the security experts states. A key question he asks is whether the EC and the WEU wish to maintain NATO's integrated military structure. He says to create a WEU caucus inside NATO would already signal a fundamental change in European security policy.

- * A European official notes that Europe needs a balanced relationship with the US. He says America should not prevent Europe from building a consensus on security questions. He sees growing defence cooperation among European countries in such areas as command control with close ties to US systems: the question to answer is how to define autonomy. The official sees a European defence identity developing in a practical way without rancour. He says there must be continuity from foreign to security policy for Europe.

For out of area situations, problems would be greater through indecisiveness more than with decisions. As the European defence identity grows, consultation with the US would be essential on matters of vital concern; perhaps the integrated structure of NATO could be loosened as this shift within the Alliance took place. The greatest risk was not Europe going alone but Europe acting more like Japan in an increasingly dangerous international environment.

- * A European academic sees America as a stabilising force in Europe and calls for a continued presence. But an American diplomat counters that there are no absolutes anymore as the US withdraws troops from Europe. A European journalist notes that Europe performed badly during the Gulf war because it was hiding behind an American shield. A European diplomat warns that Europe would be following a dangerous path if it develops an autonomous military policy. A European pillar inside NATO is strongly advocated.

**SESSION FOUR
GERMANY BETWEEN THE SUPERPOWERS**

**PAPER PRESENTED BY: DR ROBERT HUNTER
VICE PRESIDENT
CENTER FOR STRATEGIC AND INTERNATIONAL
STUDIES**

SUMMARY:

- * There are no longer two superpowers. The Soviet Union has become a regional power with important implications for Germany. The Soviet Union, at least for now, has abandoned its status as a nearly equal competitor to the United States.
- * The United States must maintain its close association with Germany at all levels and restore the primacy eroded during the Gulf War. German development can be nurtured by the United States continuing to be deeply engaged both in European security, principally through NATO, and in the management of East-West relations with the Soviet Union. The issue of long term German strategic integration within the West will continue to be influenced by what the US is prepared to do.
- * The West should continue to honour the fundamental insight of the past two years but the Soviet Union should neither be humiliated over its strategic retreat from Eastern Europe and not excluded from Europe's future.
- * The United States will need to take care and Germany must also be sensitive regarding the centrality of the core US/German relationship which is rooted in Europe. As Germany emerges a mature country, the US should be careful not to press it to assume burdens in other parts of the world. Hunter warns against "pushing the Germans too hard" by asking them to send their troops abroad. He says Germany and Japan could become major political powers without ever becoming military ones.
- * The US must be more actively engaged in Eastern Europe and in supporting the integration of the five new German Lander. Total US Government support to all the liberated states has been so far only about one days worth of Desert Storm's cost.

- * It is ironic that the US spent in excess \$2 trillion to contain communism and Soviet power in Europe but little more than \$1 billion in consolidating the gains of 1989. This is a potential strategic folly and could have a significant impact on German confidence in the future.
- * Hunter proposes a swap. The final German payment of \$5.5 billion to the US for the Persian Gulf War should be immediately recycled to Eastern Europe in ways that would make the most economic and political sense. Some of the money should be used for exchanges between the US and the five new Lander, both for training and cultural purposes.
- * During this difficult time with the USSR, there needs to be greater emphasis on security issues relating to Eastern Europe. CSCE will be important as a compliment and perhaps eventually as an umbrella for more limited arrangements like NATO and the WEU.
- * A key threat to stability on the European continent is the rising migration of peoples from East to West. Western nations must accept all that they can. But they also have a burden, following the fall of Cold War barriers, not to erect new ones.
- * The US should reaffirm its commitment to NATO and its direct engagement with an appropriate level of troops, ranging from 75,000-100,000 for now. NATO must produce a review of its central strategy but it must be limited to its current formal boundaries and should not be used to justify action outside of area. US-German relations can be most sensitive on this point and Washington should accede to the political needs of its allies.
- * The US should continue to support those West European developments which are of special significance to the German future. He says that Washington should not become overly concerned that associations such as the WEU or an EC foreign and security policy will interfere with German or other allied engagements within NATO or with US connections to European security. The goal, not the process or the means, should be uppermost. The US should also continue its support for the EC, including its deepening and widening. American support and association with European integration efforts are likely to be the most important in securing Germany's role within the West.

DISCUSSION HIGHLIGHTS:

- * An American academic notes that we are searching for predictability and reacting to the new world with old moulds. He says the EC is becoming a substitute for US power in Europe and warns against "torturing the transatlantic relationship".
- * A Member of the European Parliament notes that, despite the changes which have taken place, there are many things that have not changed. He says the Soviet Union remains a nuclear power however benign it may seem and that deterrence is just as important now as it was before. The Parliamentarian questions how far will the American nuclear umbrella cover new areas of the EC as it expands? And he asks what new twists will Germany give to European foreign policy? Turning to Germany, he says that the country had a poor performance in the Gulf War and flunked the latest GATT negotiations by trying to over protect German farmers. Finally, he notes a rising danger of German pacifism and detects signs of this already in German politics.
- * A senior European official says if a new Germany is to shoulder new responsibilities, then the other 11 EC Member countries must do more by contributing more in Eastern Europe to take some of the burden off Germany.
- * A German academic notes that his country is both larger but also weaker. He says Germany should not be over burdened at the moment with too many tasks. Another German academic calls for a continued close partnership with the US as part of the new Germany.
- * An American participant notes there are growing isolationist trends in the US. While he does not think they will prevail, he says they should not be ruled out. Before the Gulf War, he says relations between the US and Germany were excellent. But when Germany failed to take a strong leadership position in the Gulf and in GATT, it fuelled the voice of isolationists in America. While the Bush Administration is pro-European, he says nothing can be guaranteed after the 1992 presidential election.

- * A European diplomat says the real debate is how much can the West call on Germany, what will happen in the USSR, and how much can the Europeans count on the US? While Europe should not take America for granted, it must rely on the US as a fundamental element of life; the days are gone when Germany and Europe are two separate issues. The diplomat states that Germany must learn to do more than one thing at the same time as there is a large European agenda to deal with; Germany could handle the task of walking and chewing gum at the same time. The agenda ahead includes the care and maintenance of the transatlantic relationship, pouring resources and know-how into Eastern Europe and finally how to deal with the Soviet Union. The West should have no special obligation towards the Soviets. While the West should maintain an open posture, it should stay on the margins as the Soviet Union sorts itself out.

- * Another European diplomat disagrees. The West should include the Soviet Union in its financial aid plans but recognise that there was only one country which has surpluses available for this purpose. As it became clear what resources East Germany would need, there would be tough competition for capital in Western economies. At present, Europe was not spending enough on defence while the Americans were not saving enough.

- * An American academic comments that one must be cautious in reducing the Soviet Union to a regional power. He says the USSR maintains a large military arsenal and has a vast global intelligence network. They could still create plenty of problems and will remain a great power for some time to come. He supports a Marshall Plan type effort dependent upon its move to a market economy.

- * A European businessman spoke of the spiderweb of interests of Japan and Germany highlighting the differences between armoured and naked capitalism. It was essential for Europeans to have a greater role in the in the Treuhand's activities. An American journalist says Germany has yet to accept the influence of its economy and power. He calls on the Germans to use their power to make changes in the global economy.

- * A Member of the European Parliament notes the uncertainty of what lies ahead. Among the major questions he asks how the EC will handle the demands and the timing of new membership? Another is how long will German unification really take? He expresses concern over the failure by the Soviets to ratify the CFE Treaty. And he calls for a joint effort to help out Eastern Europe and the USSR. Otherwise, the EC will be faced with a massive immigration problem. He also calls for technical assistance to help set up regulatory frameworks for East European countries.

CONCLUDING REMARKS: ELMAR BROK MEP

Brok concludes that Germany alone cannot help Eastern Europe. He calls for coordination and burdensharing among the EC countries for the region. The restructuring of Eastern Europe, he says, will mark a decisive moment for the new world order. While the Cold War is over, he says that peace has not yet been won. He calls on his colleagues to "go East and bring minds to the West."

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The America-European Community Association International

Founder/Chairman: Sir David L. Nicolson

149 Avenue Louise, Boîte 24
B - 1050 Brussels

Telephone: 32-(2) 539 34 96

Fax: 32 (2) 535 75 75

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'GERMANY AND THE DEVELOPING US/EC RELATIONSHIP'

THE HOTEL SCHLOSS CECILIENHOF, POTSDAM, GERMANY

5-7 APRIL 1991

SESSION 1

'GERMANY AND THE EUROPEAN COMMUNITY'

Germany and its integration into the EC -
Obsolete or of a growing "vital interest"?

Some suggestions for discussion

Paper prepared by

ELFRIEDE REGELSBERGER

WOLFGANG WESSELS

INSTITUTE FOR EUROPAISCHE POLITIK

1. question: why in the 19th century the state of international
German power - Germany? No. Axis - Redoubt
2. possible? - no. reputation and importance of the
German

I. Germany - a mystery for all neighbours?

1. Some traditional lines of thinking

The debate about the overall direction of Germany has been considerably and understandably intensified over the last years, quite often raising emotional reactions in and outside the Federal Republic of Germany. The consequences of German unification and the country's "performance" in the Gulf war have led to several quite controversial assessments, hopes and fears.

1. Schiss-faktor part. to the

a) la grande
Germanie

One basic line prominent especially in 1989 and early 1990 starts from the assumption that Germany is now "larger", more "powerful" and more "sovereign" and that it will or should use its new freedom and resources. Some within this school like the former British Prime Minister M. Thatcher fear that Germany might return to a traditional role as dominating power in the centre of the continent - a development which should be counteracted by a classical coalition of nations around (and against) Germany.

b) La Germanie
poten.
economic
dominant

- economy
- anchor

Similar perceptions along traditional lines see Germany as one of the three (or four) centres in a new international system - a triangle between Washington - Moscow - Berlin - leaving "Brussels" more as a secondary place within the German "zone of influence". Considerations of documenting such a role e.g. by giving Germany a permanent seat in the UN Security Council produced angry reactions at least by the two West European permanent members possibly precisely because of such worries. Concern grows especially over the use of Germany's economic weight. "Will Germany become more than before an "économie dominante" which - in the sense of the regime school (Keohane) - turns into a regional "hegemon" which sets directly or indirectly the rules of the game and forces others to accept them. Especially the Bundesbank is seen as such a body using the DM as instrument for an effective control of the European economy. In the Delors plan for the Economic and Monetary Union this role was characterized as "anchor" of the European Monetary System. This economic "power" is thus seen as getting translated into the self-assumed role as "paymaster" ("Zahlmeister") of the EC. As Germany will be less constrained than

before the unification some fear that this attitude may turn even into the role of a "disciplinary force" ("Zuchtmeister").

Admission
liability
responsibility
- no -
false
economic
one?

Others (like W. Wallace) observe also the "centrality of Germany" but ask in a positive sense for more German "leadership" for the sake of Europe. When translated literally into German ("Führungs"macht) the term is however not well received in Germany and the neighbouring countries.

Leader
yes -
but in a
European balance of power?
or is a institution already in existence?

In French views the traditional "Monnet strategy" is revitalized: according to it the integration of Germany into a strong set of EC institutions offers the best way to prevent its domination.

The demand for a certain "investment" by the Federal Republic of Germany is indeed large: expectations in East and West Europe are high especially in view of budgetary, monetary and overall economic contributions.

2. Leadership is an objective status : can't be studied

2. New assessments

La Germania
debile

In late 1990 and 1991 the debate has changed considerably into a new direction: now the complaints and worries are issued that Germany is not capable (in material terms) or not willing (in political terms) to play the stronger international and European role which some were afraid of before. Now factors such as the economic crisis in East Germany, the increase in public debts, the weakness of the balance of payment and the analysis that Eastern Europe will at least not in the medium term become an eldorado for Germany but more a liability, a crisis area involving more risks for Germany than opportunities cause worries and changed perceptions: Germany might become itself economically weak and politically instable it is argued. In a less pessimistic view Germany is seen as being at least too much introverted to play a strong role for (West) European integration. Its inactivity in the Gulf war documented for some that Germany is still a special case (like perhaps Japan) shying away from its international responsibility - going "Swiss" instead of taking up its position as a "principle nation" also in political terms.

mon.
e. and -
trib. dan
the econ.
of interest
rates

in remedy, dan
Gulf war -

In the eyes of some Germany therefore appears as if the "emperor" was naked. Consequently nobody really reckons with him; it might even – so British views – be risky to be too much depending on such an "unreliable" partner.

*La Germani
dependent
dalla UE*

Others would argue that this process is a signal for "normalization": Germany too has its weaknesses and problem areas which should be favourably treated by common instruments. In this view EC-Europe should be open to German problems because it needs a strong and successful German economy and a self-confident German government.

Analyses and perceptions on Germany are thus quite divergent; behind these lines of thought looms still a fundamental uncertainty which has its psychological roots in the history of the late 19th and the first half of the 20th century: what is the overall direction of this in many aspects still mysterious Germany? We will try to formulate some answers from a German perspective to this set of questions and to systematize the debate thus reducing at least some of the uncertainties.

Graph: Major lines of the debate

Assessment of the future power of the Federal Republic of Germany		
political expectations and strategies	stronger	weaker
positive	<ul style="list-style-type: none"> * central actor – <u>ask</u> for leadership in EC-Europe – <u>integrate</u> into a strong EC-Europe 	<ul style="list-style-type: none"> * more a "normal", an "equal" European state and economy – <u>develop strong EC instruments</u> to help overcome problems and to reduce possible negative "spill-overs" for Europe
negative	<ul style="list-style-type: none"> * "world power" dominating the continent and "économie dominante" – <u>establish</u> a counteracting coalition 	<ul style="list-style-type: none"> * unreliable "partner" – <u>distance yourself</u> and look also for other fora and friends

II. A look back for a better view forwards – basic lines of the debate in Germany between 1950–1990

1. A balance of EC membership in the early nineties – an overall positive record for the Federal Republic of Germany

Western and West European integration was always an issue of high importance in the history of the Federal Republic of Germany. The consensus that the Federal Republic of Germany belongs to the Western family was broad and generally not put into question. The role the Western Alliance and the European integration played for pursuing the overall objectives of the Federal Republic received high marks.

Over the past 40 years there was only one major issue of conflict, namely the dilemma some parties and intellectuals saw between the process of Western integration on one side and keeping the option for German unification open on the other side. In the early fifties like also in some of the debates among legal experts later, the increasing integration into the European Community was seen as incompatible with German unification. The history of 1989 and 1990 has dismissed this dilemma theory and reconfirmed Adenauer's link theory, namely that German unification would only be possible through and in a strong Western framework.

Dilemma
of the past:
EC is seen
to help
unification?

Is now
unification
helping
EC?

2. Four major functions of the EC for the Federal Republic of Germany

In the history of the Federal Republic of Germany, Western and West European integration had at least four major functions.

- a) Western and West European integration served as an instrument of emancipation from restrictions which were due to the defeat in the Second World War. From the European Coal and Steel Community which was the first organization accepting the Federal Republic of Germany as an equal member over the Western support for the German Ostpolitik of the early seventies until the German unification: the Western Alliance and increasingly the European Community and the related European Political Cooperation (EPC) played a major role for supporting the German cause. The debate within the EC especially during 1989/90 when unification was close to become reality was not without moments of uncertainties. Some governments were reluctant to welcome the new situation wholeheartedly and the Strasbourg European Council Meeting in December 1989 was therefore rather conflictual. However, already the European Council Meeting in Dublin a few months later issued complete support for German unification. The feeling of gratitude for this assistance is strong among government officials in Bonn, especially vis-à-vis the EC Commission.
- b) Western and West European integration served as a guaranteeing framework to safeguard the internal democratic order. As a basic reflex to any kind of

"Sonderweg" developments from the beginning the Federal Republic has felt to belong to a specific "family of nations" sharing certain common values. The immediate and direct threat by the communist world helped to reinforce the orientation towards the West. The acceptance of German political actors in Western organizations and informal groupings was a major feature of post-war organizations.

Until today Western critics about German internal behaviour (like during the terrorist period in the seventies or the rise of the Republican Party) has been mirrored quite intensively in the Federal Republic itself. For a long time in the history of the Federal Republic the stability of the democratic system was again and again an issue of self-reflection and self-doubts. The danger of turning into "Weimar" was quite often discussed. Strangely enough, in the final days of the "old" Federal Republic — that means before unification — the feeling to have a successful political system and not only a prosperous economy, was strongly reinforced. The Basic Law (Grundgesetz), which was seen as provisional, became a Constitution as it gained specific support and legitimacy (the so-called "Verfassungspatriotismus").

- c) The EC and EPC served as a coalition for an increasing role in the international system. For a long time the EC and then even the EPC permitted Germany to be present and to contribute to conflict-solving with a rather low external visibility, which was considered as adequate given war-time memories. This reluctance was also assessed positively as the resources available to the Federal Republic of Germany did not necessarily imply to take over specific responsibilities. The role as economic giant but political dwarf was positively accepted by many within the Federal Republic of Germany.

This considerable sensibility towards coalition-building was also caused by a higher degree of vulnerability given Germany's location in the centre of Europe and the fact of being directly affected by global changes in the East/West relationship.

Beyond these historical and geographical specifics the Federal Republic rated positively that a pooling of resources and forces in the EC and EPC was helpful to increase its own impact on the real cause of international events. Like in other EC member countries the German governments traded off independence for a higher influence in international affairs. In trade matters and some areas of development policy as well as in major conflict areas dealt with by the EPC the "common club" was perceived as a quite positive framework for having common or at least coordinated policies.

Not all resources relevant for an international role were put into common European organizations. The defence policy was and is with NATO. In the monetary field the strong role of the DM was an argument to refrain from a direct transfer to a too strong West European system, which might be less effective in its outcome than some autonomous policies.

- d) The EC served increasingly as a framework to manage the interdependence of West European welfare countries. As the Federal Republic and other European countries developed into full-fledged welfare and service states with an increasing rate of mutual interdependence the EC turned out to be helpful to set rules for integration and rules for common policies. The considerable scope enlargement of EC policies which was highlighted in the Single European Act and is again documented in the agenda for the Intergovernmental Conference on Political Union, signals that also for the Federal Republic of Germany the EC constitutes the principal framework to deal with all major economic, social, environmental and increasingly even with internal security policies.

III. A "new thinking" after 1989 – towards a changing paradigm on the role of the Federal Republic of Germany?

1. The "realist temptation" or the debate that did not yet take place

After the changes in Eastern Europe and the process towards German unification one way to look at the European Community functions for Germany could be to develop a fundamental "revisionist approach". Then the Federal Republic could have been perceived again as a "World Power" (even if it is not liked), as an economic giant turning increasingly also into a political giant. Strangely enough, this debate was mainly led outside the united Germany whereas Germans themselves were apparently not willing to enter this traditional way of thinking as the reactions to the Gulf war clearly indicated.

In academic terms we would talk about a "realist paradigm" re-establishing the "old world view" of the international system as being dominated by nation states competing for power. In this view the functions the Community fulfilled for Germany in history would be obsolete. For the future of the Community this would mean that it would either become something like a larger free-trade area or an economic zone dominated by the "économie dominante" of the Federal Republic of Germany. Against this regional hegemon other larger European states would have to organize respective countervailing forces. Thus we would return to the old unpleasant games of alliance building.

In the Federal Republic of Germany such a debate never really got off the ground. Instead, EC integration was even pushed forward by all major political forces without questioning its basic usefulness for German interests. Also the present institutional equilibrium within the EC was kept on purpose, i.e. there was so far no plea for having more seats in the European Parliament or additional votes in the Council for Germany due to its greater size and population after unification.

① Is EC still useful for Germany?

It depends towards which model EC will evolve

① Balance of powers

(what G B fears but also what G B favours)

- dominant economic power
- substantial leverage in the world

- a national security policy in the 1st world
- (economic instead of dumping)
- attractive to the East

2. The functions revisited

Such a reflex to cling to the EC and even to reinforce it is not accidental but reflects a deep conviction on the importance of the EC for the united Federal Republic. The functions identified before as key features in the history of the Federal Republic are valid also after the unification.

X → a) The emancipation function is – in a legal sense – fulfilled. However, the German reactions to the Gulf war indicate that certain dramatic reflexes continue and set psychological limits and constraints. However, sometimes these historically caused inclinations may serve as an alibi: they enable Germany to place itself in quite a "comfortable" position leaving to others certain "tricky" tasks.

X → for the East
(the risk of a new wave of tension)
b) The democratic nature and the belonging to the Western family has been raised as a major asset of EC and Nato membership all over the unification debate. The "Verfassungspatriotismus" was stressed again and again and serves also for many of the new 17 million Germans as a basic point of orientation. At the same time the uncertainty about the long-term adaptation processes of the new Germans makes many politicians look for an even stronger integration into the Western organizations just as an additional safety net. So far no temptations for a new "Sonderweg" can be observed; however, some crises in the new five Bundesländer might lead also to some kind of a political back lash.

X
Coverage function of a common security function
C towards NATO - and France - operations - the East
c) The EC and EPC as a coalition in the international system seems to gain even more importance than before. With the US disengagement in Europe and the Soviet withdrawal from Central and Eastern Europe the Federal Republic becomes the central focus for the Central and Eastern European countries. The worries of some Western countries that this would reinforce the German position in the centre of a new flourishing Europe will at least for the foreseeable future be more than matched by the increasing problems of this area. The negative spill-over of any conflicts will at first hit the Federal Republic of Germany, even if one includes in this list of worries the future of the USSR.

Given these increasing challenges in a more diverse and heterogeneous Europe the German resources are limited. On one side, the restrictions in military terms are quite drastic (no ABC weapons and a ceiling of the conventional forces). Also the means at hand especially in terms of monetary assets are already quite intensively applied to deal with the consequences of German unification and other policies. To use some of Paul Kennedy's phrases, the Federal Republic has already an "empirical overstretch" before the empire has really been built.

In view of the challenges to build up the former GDR also the overall economic performance of Germany in competition with other major economies, especially that of Japan, does not look promising. Thus, the EC will be of an increasing value also for defending the German interests in the international economic and monetary system.

protect f-
Japan
in a + a-
of economic
engagement

- d) Given the economic prognosis for the old GDR territory in the next years the Federal Republic will need even more than less common management of mutual interdependences. Without a robust internal market of the EC the economic development of the five new Bundesländer will be less successful. The high rate of indebtedness will reduce the tendencies towards an "économie dominante". The resources the Bundesbank disposes of to play its "anchor function" in the European Monetary System tend to be fewer as well. So in an overall perspective the intra-European and extra-European vulnerability of the German welfare state will increase at least for a certain period of time. However, even under more optimistic economic forecasts belonging to the EC system would remain a top priority for Germany. The attractiveness of this approach reflects itself at present also in the demands for EC membership or at least a close association by the EFTA countries and the Central European countries. Their interest is motivated by the desire towards a stable system of fixed rules within the global system of increased competition.

3. More continuity than perhaps expected

Looking at such a first reassessment of the basic functions of the EC for the Federal Republic one can underline that its importance has certainly not diminished. What might have changed is perhaps a shift in priorities towards the function of managing global interdependence. Therefore an efficient and effective European Community will remain in the next future of "vital interest" for the Federal Republic of Germany. This conclusion of our "cost/benefit analysis" seems to be broadly shared so far in Germany.

IV. The future role of the Federal Republic in the European Community

1. From centrality to leadership?

So far we have analyzed the objectives of the Germans and how the Community could be instrumental to pursue them within a common framework. We now reverse the perspective: what kind of role does or could the Federal Republic play for the European Community and related herewith: What could be a German strategy?

More than before unification and despite its increasing problems the Federal Republic of Germany is seen to be of central importance for all major steps towards an EMU and a Political Union as well as for the majority of Community policies.

More than one European commentator has asked Germany to play a certain leadership role by "investing" its resources into the Community thus inducing other countries to a similar "investment" to build a common future thereby creating a framework of positive mutual expectations.

Disregard of the ambiguity of the term "leadership" in German the German political debate has to deal with it particularly to revisit the strategy the Federal Republic could and should pursue in the Community. Enough self-confidence should be accrued by

2. In Germany
x also
Qual. needs
not clear
for the
Unification
does favour
EMU
or
Political
Union?
x alternatives?
x Answer?
That of
accepting
the role
of a real
leader -
taking the
primary responsibility
of leading the
process towards integration
Adopt the same strategy that she did for unification: politics first

Adopt the same strategy that she did for unification: politics first

now. A more relaxed attitude also towards critical remarks made by Germany's neighbours could help to ease this process of clarification.

X If one looks at the resources Germany has at hand, one major asset is its budgetary and monetary power. More than once in the history of the EC these resources were used as a major input for package deals which served to cement the construction of the EC. Given the problems of Eastern Germany and of Eastern Europe this German resource is less available now than in previous years.

With regard to the situation of "maximum confusion" in which the two Intergovernmental Conferences find themselves in the moment the triangle between London, Paris and Bonn could play a major role to identify a basic package for the Community of the nineties. Worries about a possible German hegemony could be met by applying Monnet-like strategies to integrate Germany even more than before and offer the Germans the perspective for a stable framework. The German side - that means especially Chancellor Kohl - stresses at each occasion that both Intergovernmental Conferences on the EMU and on the Political Union need to be concluded soon. Behind this link is the German interest to trade off the stronger position in the monetary sector for the weaker position in the security field. This approach means especially that both France and the United Kingdom are asked to offer their resources for building the Community's security framework while the Federal Republic also stresses the importance of substantial institutional reforms of the EC, e.g. the increase of the role of the European Parliament.

In March 1991 it is difficult to say what will be the real "engine" for concluding both Intergovernmental Conferences in 1991 or early 1992. The outcome will in any case have a large impact on Germany's role and capacity inside the Community and beyond. One could expect a specific German effort to achieve a successful end of the Intergovernmental Conferences. From a German - and I would say also from a Community - point of view it is only desirable that the other actors are willing to follow this kind of Germany's European engagement.

2. Are there any alternatives for Germany ?

In case the Intergovernmental Conferences will fail, the European Community does no longer serve the interests of the member states or other political constellations arise in the Federal Republic of Germany there might be three alternative options for the Federal Republic to be pursued:

- X a) Within a "principal nations approach" the Federal Republic could try to play a world role via the G7 group and by attempting to have a permanent seat in the UN Security Council. The European Community would then become of minor importance.
- X b) The Federal Republic could stress that the widening of the Community should be more important than its deepening especially through the membership of EFTA and/or of the Central European countries. The geographical and thus political centrality of the Federal Republic would be strengthened. This strategy might look tempting for certain groups within Germany and also within Europe. At the same time it will however reduce the stability of the Community and have a negative impact on the efficiency and the effectiveness to manage common policies inside the EC.
- X c) In a "Swiss option" the Federal Republic could try to refrain from "nasty" political involvements and to rely on its economic competitiveness in a global division of power.

V. Window of opportunity – a historical constellation for progress in the European Community

In early 1991 we are not only realizing that there is a window of opportunity for further progress in the construction of the European Community. But the seizure of this historical opportunity would serve the vital interests of the Federal Republic of Germany.

The success of the Community in the second half of the eighties, obvious in the rapid implementation of the Single European Act and especially the Internal Market programme and the revolutions in Eastern Europe offer a good starting point for stronger steps forward. The positive economic and political climate of the second half of the eighties mixed with perhaps "positive lessons" from the "negative experiences" of the Gulf war might lead to the mobilization of different forces to strengthen the European Communities for the nineties.

This kind of historical opportunities seldomly return. And what could be even worse, failures to progress might lead to a "new thinking" in Germany and in other West European countries thus producing solutions which would be clearly worse than the deepening of the EC integration progress.

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**The America-European Community Association
International**

Founder/Chairman: Sir David L. Nicolson

149 Avenue Louise, Boite 24
B - 1050 Brussels

Telephone: 32 (2) 539 34 96

Fax: 32 (2) 535 75 75

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SESSION 3

'GERMANY, EASTERN EUROPE AND THE PRIVATISATION PROCESS'

Some suggestions for discussion

Paper prepared by

**LUDOLF VON WARTENBERG
BUNDESVERBAND DER DEUTSCHEN INDUSTRIE
(BDI)**

Dr. Ludolf v. Wartenberg

The Process of Privatization in the Five New Federal States and
in Eastern Europe as Viewed by the Federation of German
Industries

1. Privatization: an element of transition from a planned to a
market economy

Privatization in eastern Europe and the five new German states characterizes the restructuring process currently under way in the former state-trading countries. The processes of transition are of varying intensity and cannot all be measured with the same yardstick, due to differences in the historical and cultural backgrounds of the member states of the former COMECON.

In this context, the five new German states have a unique headstart: the unification of Germany has given them the legal foundation of a western democracy. As partners in the EC, the new federal states have acquired a status to which countries like Poland, Hungary and Czechoslovakia, to mention only a few, can aspire only through lengthy negotiations for an association agreement.

Against this background, it is impossible to evaluate the various reform processes on uniform criteria. However, the term 'privatization', as used in the German context, basically designates a more or less technical operation, yet one with far-reaching consequences for our basic social and economic system. In this regard, the Federal Republic is not moving on unfamiliar ground: the debate on deregulation and a roll-back of government has been going on for years now. However, far more is at stake in the five new states and the countries of eastern Europe. There, privatization marks the difficult transition from a planned to a market economy mentality. The protection of private property is the mainstay of any democratic economic system and thus a fundamental criteri-

...

on of its credibility. At the same time, private property is the driving force behind economic success and international competitiveness. But the change of system in eastern Europe is also a social process initiated and supported by people. This being so, politics and economics are called upon

- to guarantee the legal framework for the protection of private property,
- to speed up economic recovery,
- to keep adverse social effects on people to a minimum.

It is with these requirements in mind that the process of privatization must be evaluated.

In the light of experience gained in the Federal Republic, the BDI has defined its position on the privatization process and on the environment in which it is taking place. This position can be summarized as follows:

Privatization is a precondition for economic recovery. The ownership issue must be settled for investors to be able to make decisions. If this cannot be done within a short period of time, for instance regarding the restitution of property to its former owners, a transitional regulation should provide for the possibility to indemnify former owners in order to clear the way for investors. The privatization, by the Treuhandanstalt (Trustee Agency), of previously state-owned property in the former GDR is given priority over reorganization. It is for the investor to put the enterprise back on its feet. In other words, the overriding principle is to privatize the reorganization of businesses. Cushioning social and structural hardships is first and foremost a matter for local, regional and central government. However, on no account must structural change be prevented, or the process of privatization politicized.

Whether and to what extent these principles can guide the reform processes in the countries of eastern Europe cannot be foreseen at the moment, as the pace of current developments there and their points of emphasis vary widely.

2. Private property - an indispensable element of a society based on market economy principles

Socialist regimes are tainted with the injustice of expropriations. It demonstrates their failure to care for the individual, whose dignity in a democratic system is respected through the protection of private property, among other things.

The success of the reform processes in eastern Europe will depend in no small measure on whether this injustice is remedied, and on effective moves to lay the foundations for the development of private business. The investors' readiness to take a stake is closely linked to legal security in these areas.

In the meantime, the USSR, Poland, Hungary and Czechoslovakia have adopted legislation allowing private business activities. In some cases, the challenge is only to secure equal conditions for enterprises, irrespective of the ownership issue. In the Soviet Union, for instance, enterprises organized along private business lines, such as the so-called cooperatives, have so far had to purchase their supplies at higher prices than state-owned enterprises. For western minds, this concept is difficult to understand.

Here again, the initial advantage enjoyed by the former GDR is obvious: since German unification, the protection of private property guaranteed in the Federal Republic's Basic Law (constitution) also applies in the five new states. This was one of the issues considered in the German-German negotiations on the unification treaty: in principle, expropriated property must be returned to its former owners. In practice, determining the former owners of real estate has proved to be

...

an extremely tedious and difficult process. Approximately one million applications for property restitution have been filed to date. As long as the owners have not been identified, there can be no legal security for investors. So, when the negotiations were still under way, the BDI encouraged the adoption of a transitional regulation, under which land and premises can be sold even if restitution claims have been lodged. This is possible, in particular, where special investment purposes are involved.

3. Privatization - a precondition for investment

In the countries of eastern Europe and in the former GDR, the majority of enterprises are state-owned. In the GDR, for instance, over 90 % of business activities were carried on by state-owned enterprises. The economy was controlled on the basis of planned figures setting the economic targets within the framework of five- to seven-year plans. Enterprises had to carry out orders from above, without being able to put their own ideas into practice. Moreover, given the quasi non-existence of private property, there were no personal incentives for those in charge.

Rapid privatization is essential in order to mobilize the 'idle' potential for private initiative and to release the necessary flow of investments. This is the only possible way to bring about economic recovery.

(1) Germany (East)

In the five new states the Trustee Agency is in charge of privatizing the state-owned assets. In concrete terms, this means

- reducing public enterprise through privatization as rapidly and to the largest extent possible,

...

- making as many enterprises as possible competitive, thereby securing jobs,
- providing land for business purposes.

The Trustee Agency is a holding of the formerly state-owned enterprises. In numerical terms, it comprises more than 8,000 enterprises with over 40,000 establishments and about five million jobs. To put it in a nutshell: 80 % of all jobs other than those in government and agriculture are associated with the Trustee Agency.

Apart from business assets, the Agency holds a considerable amount of land, including 1.7 million hectares of agricultural land, as well as a special fund consisting of the assets of the former GDR political parties and mass organizations, and the assets of the former Ministry of State Security.

- The Trustee Agency is subdivided into a Berlin-based head office and 15 regional branch offices. By the end of February, about 250 enterprises had been privatized by the head office alone, and 450 more by the branch offices. In total, about 250,000 jobs now exist in private businesses. Despite all problems, this is a remarkable figure and a unique process in the history of economic policy. Of course this is not sufficient, but the challenges to be met in the months ahead should not be allowed to detract from this initial success.

- Privatization v. reorganization

The BDI's position is absolutely clear: the Trustee Agency's primary concern must be to privatize, which means it should not in principle set out to reorganize the economy; if it does, reorganization should be confined to cases in which it may, or in fact does, serve the rapid privatization of the enterprise concerned. This principle, which is incorporated in the law instituting the Trustee Agency as well as in the

guidelines for its business policy, is based on the experience that privatization, as a rule, is the most successful form of reorganization, because private industrialists and/or investors link their interests, their capital and their know-how to the company's fate. This highly personal involvement is in any case preferable to decisions made by people who have no stake in the company.

The BDI has compiled a catalogue of criteria and tentative sales concepts designed to speed up privatization. Along with the time factor, transparency and the creation of competitive structures take centre stage. The Trustee Agency's activities should be based above all on sound business principles. It is a corporate holding, not a structural policy agency. For its sales policy this means that it must pursue an offensive marketing strategy including, for instance, public tendering procedures.

From the BDI's point of view, rapid privatization requires action

- to improve the transparency of the Agency's offers and to ensure greater recourse to external expertise,
- to force management buy-out, to fix the final sales prices of assets only after their definitive valuation, and to authorize majority holdings,
- to facilitate sales by waiving demands for job guarantees, compulsory investment and clauses stipulating post-sale price increases for real estate,
- to replace the scrutiny of investors' reorganization plans with credit ratings.

Enterprises capable of being reorganized, but which cannot be privatized immediately, are to be supported by, among other things, reinforcing their management staff with experienced

executives and by granting investment means from the Agency's funds. Enterprises which the Agency considers to be beyond remedy must be closed down.

The Trustee Agency must remain independent in its operation. It should be clearly geared to a competitive system and must not on any account be subjected to regional and structural policy influences. The structural upheavals in the five new states can only be overcome if any idea to preserve unprofitable enterprises or parts of enterprises for social policy reasons is abandoned.

(2) The countries of eastern Europe

Liquidating agencies for privatization have also been established in some of the east European countries.

In Hungary the State Property Agency has been in operation since February 1990. It not only controls the privatization process, but in many cases takes matters into its own hands. The Agency is directly answerable to the Council of Ministers.

In the period since February, the Agency has looked into roughly 160 privatization projects, and has decided on 79 of them, with total assets of 100 billion forints (US\$ 1.6 bn). 60 projects have been approved, whereas 18 other projects have been rejected because of unsettled ownership questions. At present, over 200,000 state-owned firms are up for privatization. The Agency is aiming to reduce the state's share of economic assets to 50 % within three or four years.

In Poland, the Ministry of Privatization was established under the Privatization Law of July 1990. After the transformation of a state enterprise into a joint stock company, all its shares are held by the Ministry of Privatization,

which then sells them to private investors within two years. 20 % of the shares offered for sale must be sold to the company's employees.

In the CSFR, the sale of small enterprises is carried out by district commissions composed of local government officials, industrialists and union representatives. These commissions work under the supervision of the Czech and Slovak Ministries of Privatization.

4. Creating the proper framework

Privatization alone will not be enough to bring about economic recovery. An investment-friendly economic policy must pursue an appealing marketing strategy for the country as an industrial location. While the experiences in the five new German states cannot be transferred to all east European countries out of hand, they can at least serve as guidelines and points of reference for political decision-making in eastern Europe.

The BDI has always advocated supply-side economics. Special disbursements from the public budget are only justified to the extent that they go directly into investment, not into consumption. In its latest decisions, the federal government has incorporated elements of such a policy. Some catchwords are:

- a taxation system conducive to investment,
- subsidy cuts - there is still potential for further cuts
- investment incentives for the new federal states and, as a result, a clear headstart in investment promotion,
- credit programmes to improve local infrastructure,

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- guarantee programmes covering investment credits for projects in the five new states,
- promotion of private business start-ups,
- opportunities for private capital investment in infrastructure development, for instance in telecommunications, transport, etc.

5. From a planned to a market economy: social consequences

Structural change must be made socially compatible without, however, impairing the efficiency of the transformation process.

Private ownership involves responsibilities different from those in the administration of third-party property. There is not much awareness of this difference in eastern Europe and the former GDR, and its historical roots in these countries differ widely. In the Soviet Union it ceased to exist back in 1917/18 - that is, almost more than a lifetime ago. In the former GDR the interruption lasted for 40 years, which means that those belonging to the older generation can still remember a private business environment, though hampered by the political pressure exerted by the National Socialists.

Even in a socialist system there is considerable, yet suppressed potential for entrepreneurship. The success of the cooperative movement and a thriving shadow economy testify to a hidden entrepreneurial spirit. Officially, however, small businesses were prevented from expanding and exploiting their unique abilities. People with entrepreneurial talents had no chance of setting up their own businesses. This untapped potential must now be activated.

In this context, the human dimension of ownership is of no small significance. Ownership creates an emotional link between people and goods - a link denied by socialism. In

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that system, people and goods exist separately, i.e. without being linked by any form of responsibility. Instead, assets are only administrated.

The consequences are obvious. The deterioration of residential buildings and factories (industrial museums) in socialist systems provides telling evidence. Similarly, the lack of international competitiveness can clearly be put down to the lack of personal interest in the success of business decisions. Courage and initiative for private commitment must be learned anew.

The structural upheavals in the countries of eastern Europe and in eastern Germany are not without consequences. Numerous enterprises will have to be closed down; lay-offs will be unavoidable. This is leading many people to adopt a pessimistic outlook, as is shown by the current demonstrations in Leipzig. However, the alternative cannot be to give up privatization and to preserve the existing structures. Quite on the contrary: delaying the process of privatization would cause more social harm. The federal government has developed a comprehensive vocational qualification programme, including measures to cushion social hardship. Development staff operating 'on the spot' can do much to secure a socially compatible transition where factories are closed down, and to initiate qualification measures with the help of existing training facilities. These measures must in addition be linked with other vocational training measures, public infrastructure investments and incentives granted under regional policy programmes.

6. Privatization in central and eastern Europe - a call for solidarity

Privatization in Germany and eastern Europe is both part and a consequence of the revolutionary upheaval - a process unprecedented in history. There are no models or textbooks for this process. Its geographic dimensions and its magnitude

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require not only our understanding, but also our solidarity here in Europe and in all other democratic industrial nations.

The new federal states and eastern Europe need reliable partners. They need expert advice in the political and economic spheres, as well as a regular exchange of views and experience, also at meetings, conferences and trade fairs.

The European Community is already considering association agreements with some east European countries and offers aid, advanced training and exchange programmes. Other measures must follow. The fact that partners from Europe and North America have come together for a meeting like ours in order to discuss today's challenges must be seen as a positive signal.

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The America-European Community Association International

Founder/Chairman: Sir David L. Nicolson

149 Avenue Louise, Boîte 24
B - 1050 Brussels

Telephone: 32 (2) 539 34 96

Fax: 32 (2) 535 75 75

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S E S S I O N 4

'GERMANY BETWEEN THE SUPERPOWERS'

Some suggestions for discussion

Paper prepared by

**ROBERT E HUNTER
CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES
(CSIS)**

4

Robert E. Hunter*
March 27, 1991

Germany Between the Superpowers

Background

The very topic, "Germany between the superpowers", is in fact a misnomer, in two senses. At the moment, it is not clear that one can talk about two "superpowers" because of the particular circumstances of the Soviet Union. Regional power, yes -- with important implications for Germany, for Europe, and for the United States. But the Soviet Union has abandoned, at least for now, its status as a near-equal competitor with the United States, in virtually every way that could impact significantly on the current discussion. That may not continue to be true -- indeed, it would beggar history to make such an heroic assumption. But at least for now, the significance of the Soviet Union must be heavily qualified.

So, too, it is currently misleading to argue that Germany finds itself "between" the United States and the Soviet Union. In fact, Germany's orientation, with its full complement of 17 Laender, is so much directed toward association with the United States in most critical areas that the implications contained in "between" -- implying either choice or equidistance -- can hardly be admitted. (It is particularly notable to correct the record on this point at this conference at Potsdam, so close to the rebuilt sylvan Schloss that, for some historians who should know better, symbolizes an eternal tie between Russia and Prussia). Indeed, there is probably less reason now than at some moments in the past to raise the issue of equidistance, precisely because the Soviet Union has forfeited the one card -- Eastern Germany -- that it could play to exert a psychological pull on West German public opinion or (unsuccessfully) to try altering Bonn's foreign policy. The very idea of Rapallo II is risible. But again, today's situation may not always apply, and it must be a central burden of German, West European, and U.S. policy to help preserve the conditions such that Germany's status within the West will endure.

The Political and Security Dimension

This introduction is necessary in order to clear away the underbrush of frequent misunderstandings occasioned by particular interpretations of history or by the complexities of East-West relations during the Cold War. For example, because of the

* Robert E. Hunter is Vice President for Regional Programs and Director of European Studies at the Center for Strategic and International Studies in Washington, D.C. During 1979-81, he was Director of West European Affairs at the National Security Council.

characteristics of the role that the Soviet Union has played in Central Europe, and especially as the custodian for so many years of the politics and orientation of East Germany, there was occasional room for both Bonn and Washington to make mistakes about one another. The former was often concerned that U.S.-Soviet agreements would be reached that would, somehow, prejudice the interests of the Federal Republic, in part concerning the prospects for a single Germany; the latter was often anxious lest some arrangement between Bonn and Moscow would cause difficulties for U.S. management of the broader Western alliance. Even as late as Chancellor Kohl's visit to the Caucasus with Mikhail Gorbachev in July 1990, some U.S. officials expressed surprise at the agreement they reached; President Bush, however, recognized it for what it was: the fulfillment of U.S. aspirations for a united Germany and the culmination of a process of close U.S.-German efforts to bring that about.

In retrospect, these mutual concerns can be seen, in general, to have been exaggerated, the natural product perhaps of the circumstances of Germany's division, the Cold War, and the U.S. military presence in Germany. To be sure, much nurturing of the U.S.-West German alliance was necessary; but the solidity of that relationship was belied by occasional nervousness about its strength, viewed in an East-West political context.

Today, even these causes for concern, on either side, have largely disappeared. U.S.-Soviet relations still include issues of vital concern to Germany (and Europe, generally), but they do not have the import of the past. A summit meeting of the leaders of the two "superpowers" will be keenly followed, but without the German anxieties that, say, attended the Reykjavik summit of October 1986. By the same token, Hans-Dietrich Genscher can now go to Moscow without the U.S. State Department's wondering "what is he up to, this time?!"

But what the earlier period had in terms of a low-key, background of anxiety it compensated for in terms of certainty. By dint of its presence on the Continent and its central role in East-West relations, in the final analysis the United States could be certain that West Germany would not be a wanderer; and the latter could be certain that the United States was pinned to the Continent and to an appropriate appreciation of the Federal Republic's interests.

Today, both anxiety and certainty have declined. Beginning with the opening of the Berlin Wall on November 9, 1989, until formal unification on October 2, 1990, Germany went through a progression toward full sovereignty as a single state. Indeed, this process accorded the Federal Republic the first true sovereignty it has had in its short lifetime, finally confirmed by Soviet ratification of the "two+four agreement" this past month. For Germans, this was a heady, indeed liberating, experience, but also a sobering one: sovereignty also implies both responsibility

and choice. Of course, to a considerable degree implication also applies to the United States: without the centrality of the division of Europe and the German "problem" in U.S. Soviet global relations, America could also choose to lessen its engagement in Europe, including its commitment to Germany.

During the run-up to unity, several West German leaders talked of their concern lest their nation be, or be perceived in the West to be, a "wanderer between worlds." Implicit in this comment was anxiety not just about what orientation a united Germany might choose, but about what the United States might do regarding a country that no longer needed to be nurtured to maturity (sovereignty) or represented in East-West politics with the Soviet Union. Already in retrospect, this notion can be seen to be part of adaptation, of growing pains, as Germany has emerged, Pinocchio-like, as a "real nation". For, in fact, both Germany and the United States have made their choices. Whether these will continue to hold in the future can be debated, but they provide good guidelines for now.

Sovereign, independent Germany has had many choices to make and these have reinforced, rather than undermined, its attachment to the West. Perhaps the most dramatic moment came on March 19, 1990, the day after the decisive victory in East German elections by the allies of Chancellor Kohl. Those elections put him in charge of the unification timetable and removed all doubts (none of which were particularly valid) about its inevitability; they also proclaimed the end of foreign tutelage of Germany. At a CSCE meeting on economics the next morning in Bonn, Kohl had wide latitude to chart his emerging nation's future course. There was no ambivalence: he quoted Thomas Mann to the effect that what is needed is not a German Europe but a European Germany; and he urged even more ambitious progress in strengthening the ties of the European Community. The political value of that statement can be seen now, when Germany has opted for slowing down the pace of European Monetary Union. A year ago, that decision could have raised eyebrows (erroneously) over Germany's political-strategic orientation; today, it should be seen for its economic and technical nature.

This reference to the European Community, in the context of Germany's position "between" the "superpowers" is not idle. To a significant degree, Germany's position as between East and West can be seen as independent of, or only complemented by, its relations with the United States precisely because of its choice to deepen its engagement within the Community. In classic East-West terms -- which are now less relevant -- the Community is surrogate for the United States. This is true in the sense of providing visible anchor for Germany in the West, to the extent that, if at all, it needs an anchor to keep it from drifting in another direction. It is also not for nothing that French attitudes toward the EC shifted dramatically over the years as the U.S. role seemed to decline and German unity came slowly onto the European agenda (DeGaulle would most likely have taken similar steps for the same reasons).

This EC association should be seen as icing on the cake, however: During the past four decades, West Germany has earned its place as a democratic nation, firmly committed to Western values and Western associations. The only valid concern relates to peoples in the five new Laender, and only on the grounds of the pace of social and political acculturation to Western and democratic attitudes and practices: Despite the continued presence of ex-Stasi and other communist apparatchiks in these Laender, there cannot be said to be an eastern German hankering for the Soviet Union.

The United States has also made a broad choice about Europe. There has been no outcry to "bring the boys home" following "victory" in the Cold War. Indeed, the significance of the absence of such sentiments can be seen precisely in contrast with the aftermath of the Persian Gulf war; there, the popular U.S. sentiment, at least so far, is that the job has been done and military withdrawal should be accomplished as soon as possible. Nor can the contrast be explained simply in the differences between Bavaria and Kuwait or between German beer and Saudi bottled water! It is increasingly becoming clear that there is in the American body politic an enduring sense of engagement in Europe, generally, and Germany in particular. A healthy acceptance of this point can be seen in the almost total lack of concern in Germany about the withdrawal of the U.S. Seventh Corps for Persian Gulf duty, with the near-certainty that it will not return.

A pertinent aspect of the U.S. choice can be seen in the conduct of the unity process by the President George Bush. For him to bless German unity now would seem a curiosity because so unnecessary; but the point at which he began to do so required historic insight and some political courage, and it was all the more significant for that.

Also important is the fact that the Soviets, too, have made their fundamental choices regarding Germany. This is seen not just in the recent ratification of the "two+four agreement" -- perhaps not coincidentally in the same week when the Persian Gulf war came to an end, when the Soviets were looking for ways to validate their significance in the outside world and to bolster a European connection at the time of humiliation related to the Persian Gulf war. The Soviets' choice is also seen in their willingness to accept Germany's engagement in Western institutions. These include both the European Community and NATO -- as enshrined in Kohl's rendition of point three of the Kohl-Gorbachev agreement of July 1990: "a united Germany will be able to decide freely and independently whether it joins any bloc and, if it does, which one....I said that a united Germany would like to be a member of the Atlantic alliance..." To be sure, Moscow no doubt sees these institutions as more likely to ensure the German future, now that the Cold War is over, than simply seeing Germany adrift. (This is a premise that NATO countries must never embrace, for obvious

reasons.) But it is significant that the Soviet Union has not put priority either on the Conference on Security and Cooperation in Europe (CSCE) or on its own arrangements with Germany. Yes, Germany renewed its renunciation of nuclear, biological, and chemical weapons, yes, it made commitments about the stationing of non-German forces on the territory of the former-GDR, but only for a term; and, yes, it did agree to cut its total armed forces to 370,000 men. But there was nothing here that was not already a German intention, and likely to be implemented within the context of Western security institutions even without a German-Soviet context.

These remarks should not be construed as meaning that the new Germany will not have serious and even intense political relations with the Soviet Union (and its possible successors); nor that NATO will provide the only context for German expressions of its security; nor that Germany will not at times play a foreign policy role that is either embedded within the European Community as opposed to the Atlantic Alliance or is even independent. It is rather to say that, for now and the foreseeable future, there is no reason to expect German favoritism for a Soviet over a Western-American connection.

The Economic Dimension

In judging the German future, it is also important consider the economic dimension. Here, Germany's engagement in the West is at least as encompassing as its political-cultural-security orientation. Here, too, is found most of the remaining anxiety in the West about the reemergence of German power. The Federal Republic will clearly be the most important economic unit within the European Community for the foreseeable future, as well as, on its own or in concert with its European partners, a major factor in the global economy. Indeed, in part because of exchange rate fluctuations, it has passed the United States as the world's leading exporter. This economic power very much reflects a Western orientation, however, all the more so as the Soviet economy sinks further into its morass.

Nevertheless, Germany will play a major role with countries to the East. It now bankrolls the Group of Soviet Forces Germany as well as financing, at 12 billion DM, their repatriation between now and 1994 (thus further reducing the political role of these forces, which went down dramatically with the end of the Cold War, the Soviet military's loss of a protected rear in Poland and Czechoslovakia, Soviet internal troubles, and formal East-West and Soviet-German agreements). Germany is bearing almost exclusively the burden of integrating the five new Laender; it is playing the leading Western role, though still limited, in helping East European economies to reform and advance, and it has entered into

agreements with the Soviet Union that will entail a major transfer of resources. The combination of these economic factors will produce a continuing political-economic relationship between Germany and the Soviet Union, although it will be dwarfed by Germany's economic relations with the West and the broader global economy.

The German economic engagement in Central and Eastern Europe will, of course, make the Federal Republic acutely sensitive to the interests and concerns of each of these countries and, to a lesser degree, to their relationship with the Soviet Union, which for some time will remain their primary market and source of various raw materials, especially energy.

In its broadest sense, these economic issues and relationships are also a security concern. During a time of incipient turmoil in the Soviet Union, the state of the economies -- and the politics -- in the states West of the Soviet border must be of significant concern to West European states, as well as to the United States. So far, however, the United States has lagged well behind its European partners in its economic and political engagement in Central and Eastern Europe (even though, through early 1991, the total amount of U.S. official resources actually transferred was greater than that of any single European state). Like it or not, therefore, Germany is gradually being pushed forward into territory that, through economic engagement, is also of a long-term strategic and security character.

German leadership, within a Community context or separately, is not to be regretted. At one level, residual memories in various East European states has increased their desire to have an economic association with the EC (even beyond the overall magnetism of the Community and thus keen interest on the part of regional countries for membership); but this is likely to be a fleeting concern, especially if the EC and the United States become more actively engaged in the region, through the Group of 24, the European Bank for Reconstruction and Development, private sector investment, and governmental pump-priming and political leadership.

At another level, German economic engagement, by helping to spur on the development and transformation of regional economies, will make a positive contribution to European security overall, especially against the background of change in the Soviet Union. It will be better, of course, for Germany not to be saddled with burden alone, but, if that has to be, it is better than nothing in the effort to transform the old glacial into a thriving area of free, independent, and politically secure East European states.

The Way Forward

This relatively rosy picture -- justified so far by the end of the Cold War, Soviet turmoil, U.S. and EC responses, and German political and economic statesmanship -- may not endure if various countries do not do what is necessary in the years ahead. Based on the record so far, several injunctions can be made now:

- o The United States must maintain its close associations with the Federal Republic, at all levels, and restore the primacy eroded during the Persian Gulf crisis and war: indeed, this is the "special relationship" that has progressively displaced that between the United States and the United Kingdom over the years, but which seemed to revert during the recent gulf crisis.

- o For at least the time being, Germany's development can be nurtured by the United States's continuing to be deeply engaged both in European security (principally NATO, as it is being revised and updated) and in the management of East-West relations with the Soviet Union, in close partnership with its European partners and with special awareness of the impact of Germany's new independent stature. In this respect, the issue of long-term German strategic integration within the West will continue to be influenced greatly by what the United States is prepared to do. In particular, East-West and U.S.-Soviet relations must be conducted as part of a clear partnership across the Atlantic, where Germany is deeply and fully engaged at all levels. At the very least, a "transparency" of Western diplomacy is important to avoid misunderstandings, especially at such an uncertain time in the Soviet Union.

- o There should also be a progressive end to all areas of German "specialness", except those that are self-imposed, such as limitations on certain weapons and military forces (type and quantity), and restrictions in the Basic Law. Among other things, means the stationing of German troops in other NATO states, including France, if foreign troops are to remain in Germany.

- o The West in general, and the United States in particular, should continue to honor the fundamental insight of the past two years that the Soviet Union should neither be humiliated -- to the extent this can be achieved -- over its strategic retreat from Central and Eastern Europe, nor excluded from Europe's future. "Keeping the chair warm" is an important principle, not just to try avoiding a reassertion of Soviet (Russian) hostility in the future, but also to reduce the likelihood of differences in view as between the United States and some of its European partners, especially Germany, regarding the Soviet future.

The potential for differences remains. It relates, for example, to economic relations with Moscow (including aid), the pace at which the Soviet Union should be permitted to join the global economy, appropriate means for dealing with Soviet internal change (including the place of the Baltic states and responses to Soviet behavior there), and the role and importance to be accorded

to CSCE as opposed to NATO. In all these areas, sensitivity will be required by the United States, Germany, and other European states.

o The United States will need to take care -- and Germany must also be sensitive -- regarding the centrality of the core U.S.-German relationship, which is rooted to Europe. Thus even as Germany emerges as a mature country, the United States should be careful not to press it to assume burdens, certainly not too soon, in other parts of the world. The U.S. reaction to Germany's attitude on the Persian Gulf war was understandable; but so were Germany's two cardinal points: that no one should want it to amend the Basic Law to permit troops to go to the Persian Gulf, and that Germany is serving the West's (and the United States') interests through the heavy financial burdens it has assumed to integrate Germany, ease the departure of Soviet forces, and begin building a basis for East European economic advance.

Germany is just completing the payment of monies to the United States in support of the crisis and war effort. This is important politically in the United States. But at the same time, it is important that the United States be more actively engaged in Eastern Europe, as well as in supporting the integration of the five new Laender -- where the total U.S. government subvention to all the liberated states has so far been only about one day's worth of Desert Storm costs. Politically, throughout the region, a deeper U.S. engagement is critical, in order to help shore up the glacies politically and economically, to ease residual psychological concerns about German engagement, and to show the German people that the United States is prepared to help with national integration. (It is ironic that the United States spent in excess of \$2 trillion to contain communism and Soviet power in Europe, but little more than \$1 billion on consolidating the gains of 1989! This is potential strategic folly, and it could also have a significant impact on German confidence in the future.)

There should, therefore, be a swap: the final German payment of \$5.5 billion to the United States for the Persian Gulf war should immediately be recycled to Central and Eastern Europe, in ways that make most economic and political sense. Some of that money should be used for exchanges between the United States and the five new Laender, both for economic training and for political acculturation.

o During this particularly difficult time in the Soviet Union, there also needs to be greater emphasis on security issues relating to Eastern Europe. CSCE is and will be important -- as a complement if not eventually an umbrella for more limited arrangements like NATO and Western European Union. It ratifies the role of both the United States and the Soviet Union (as well as Canada) as European powers -- a fact that reduces potential political burdens or stresses on Germany; it gives a role to smaller European states; it is invaluable in promoting human

rights, in overseeing implementation of arms control agreements, and in promoting Confidence and Security Building Measures (CSBMs); and it provides a forum for East European states prior to the time when they can join the European Community. Their CSCE membership can also be used to help deflect urges to join NATO, which cannot be honored because of the need to resist pressing the Soviets into a corner. In fact, these East European urges to join NATO are less a reflection of genuine security concerns than of the absence of U.S. political and economic engagement in the East.

In addition, the United States, Germany, and other European powers should enhance CSCE's new Conflict Prevention Center in Vienna, as well as build upon the agreement reached at Malta on the Peaceful Resolution of Disputes. What has been achieved so far, however, is woefully inadequate. It is remarkable that Yugoslavia could teeter on the brink of civil war, and that other strife and incipient conflict should have emerged once the lid of communism and Soviet power was lifted, with such relative unconcern in the West. To be sure, this is not 1914: There is common agreement among the major powers that the Balkans should not be permitted to cause a wider conflict. But even if a scenario for disaster cannot be constructed, it is highly risky for other European states to be indifferent to open or potential conflict anywhere on the Continent, especially against the background of Soviet uncertainty.

Furthermore, a key threat to stability on the Continent is the rising migration of peoples from East to West. Western states will accept all that they can, and they have a burden, following the fall of Cold War barriers, not to erect new ones. Migration and the human suffering it can entail has only one long-term solution: the political and economic development of the lands stretching Eastward from the old inner-German border. Indeed, if there were no other arguments for major Western aid, including U.S. aid, the human toll of neglect should be convincing.

These problems, too, can have a negative impact on the development of German self-confidence, especially as the economic burdens of unification rise steeply, with corresponding internal political difficulties.

o The United States should reaffirm its commitment to NATO and its direct engagement, with an appropriate level of troops (75,000-100,000, for now). It is important, however, that the NATO security review produce a revision to the central strategy document, MC 14/3, that makes sense from the point of view of all the allies, looking at realistic alternatives for the future. The nuclear issue should be promptly shelved (and reversion made to the U.S. nuclear deterrent in an "existential" mode, without any attempt to deploy new nuclear weapons in NATO Europe). The allies need to coordinate on future arms control, including a common position on gaining Soviet full compliance with the Conventional Forces in Europe treaty (for political-psychological more than for military reasons).

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The NATO purview must be limited, formally, to its current boundaries, and its institutions should not be used as means of action outside-of-area (for example, the Middle East). U.S.-German relations can be particularly sensitive on this point, and the United States should accede to the political needs of its allies, while also working bilaterally with them. Under no circumstances should the United States urge Germany to amend the Basic Law on this point. This is an historic moment: for Germany, an economic giant, to begin taking on more political responsibility and decision making in the global system; but to do so without also becoming a major military power.

o Finally, the United States should continue to support those West European developments that are of such special significance to the German future. This includes not becoming overly concerned that associations within WEU (or within any EC foreign policy or security institutions, beginning with European Political Cooperation and potentially expanding as the result of Intergovernmental Conference II) will interfere with German or other allied engagement in NATO or U.S. connections to European security. The goals, not the process or the means, should be uppermost. Similarly, the United States should continue its support for the EC, including both its deepening and, eventually, its widening -- with, however, a bias toward the former, at least for now. Thus more U.S. political and economic engagement in Eastern Europe can permit a delayed opening up of the EC to new members. And the United States should make clear to all European states that the primary U.S. association will be through multilateral institutions like the EC -- and especially the EC, as the role of political-economic issues increases and that of political-security issues declines.

In the final analysis, it is this U.S. support for, and association with, European integration efforts that are likely to be most important in security the role of Germany within the West, as well as in providing a sound basis for common Western approaches to the long-term -- and hopefully productive -- role of the Soviet Union as a European nation.

End

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