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German Influence in the Western Balkans: Hegemony by Design or by Default?

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The politico-economic relationship between Germany and the Balkan states was, from the end of the nineteenth century, one of unequal interdependence. The strategic value of the Balkan states for an export-dependent and resource-dependent industrial state like Germany was manifest in the Berlin–Bagdhad railway project, two world wars and the close relationship with the Federal Republic of Yugoslavia. The region's value to Germany's economic and political elites has been manifest more recently in the wake of Yugoslavia's disintegration and the subsequent transition towards the politico-economic "norms" of the European Union. This paper examines the degree to which it is possible to employ the concept of hegemony in relation to German involvement in the region. While a neo-realist understanding of hegemony is inapplicable, neo-Gramscian conceptions of a hegemonic historic bloc, informed by the interests of Germany's political and economic elites but embedded in the institutions and norms of the EU, are shown to be a valuable tool for explaining the development of the successor states in the western Balkans. The strong presence of German corporations and their affiliates in Balkan trade, in foreign direct investment and transnational infrastructural projects in the region, like the Caspian pipelines, as well as the adoption of German models of political and corporate governance, would seem to confirm the unequal interdependence characteristic of hegemonic relationships.

Introduction

At the root of this article is the attempt to test the appropriateness of the concept of hegemony when applied to the relationship between Germany and the states of the western Balkans. The attempt is made in the full consciousness of the contested nature of the concept "hegemony", the polarised nature of the recent debate on "German hegemony" and the epistemological wooliness of the very notion of the relationship between Germany and the states of the western Balkans. The first point of departure for the research was the

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suspicion—no more—that the varied economic and political linkages that make up "the relationship" have been informed by the *unequal interdependence* that is at the heart of hegemony. The second point of departure was the more solid conviction that realist and neo-realist accounts and/or measurements of hegemony are inadequate to describe and explain the kind of unequal interdependence that would seem to have characterised German-Balkan relations since 1990. A more convincing approach is provided by the neo-Gramscian understanding of hegemony which asserts the primacy of class relations and the structures of social reproduction and the (secondary) instrumentality of the state in mediating class relations in the interest of dominant groups (Cox "Social Forces", "Production"; Bieler & Morton). The hypostasisation of "the state" in neo-Realist theory, as the location of a territorially distinct political interest which faces other territorially defined interests is both ahistorical and simplistic, being incapable of conceptualising the increasingly transnational, trans-territorial nature of production and distribution. Neo-realism and other mainstream IPE theories—e.g. neo-liberal institutionalism, liberal intergovernmentalism—are also unable or unwilling to ask and answer the *cui bono* question; they are incapable of accounting adequately for the often massive disparities in the distribution of material resources (wealth, consumption, productive assets, water) and intangible benefits (health, knowledge, education, social and cultural capital) which coincide with hegemonic hierarchies. In the context of this article, the banal question of whose material interest is served by national and international relationships, is central. An historical materialist approach—in particular a neo-Gramscian one—is a more promising route for identifying the nuances of German-Balkan relations.

Hegemony and Germany

The concept of hegemony is central to the analysis, in terms of the assumptions with which we approach the conundrums of German involvement in this troubled region and therefore the endeavour to test whether the application of the term is appropriate, with particular reference to the most recent post-Cold-War period. It is nevertheless a slippery concept because it can be (and has been) applied to a variety of distinct and in many respects contrasting national and international relationships. Common usage reflects the tendency to associate hegemony pejoratively with imperialist domination and the formal territorial domination of one powerful state (Rome, Greece, Spain, Britain etc.) over weaker states or peoples. Equally, the "great power" rivalries of the nineteenth and early twentieth centuries are linked negatively with a struggle for hegemony, as is the Cold War. This narrow usage of hegemony as brutal great power dominance is rooted in the so-called Westphalian view of the state as the primary agent of historical development and continues to be reflected in the misleadingly named school of neo-Realism. The neo-Gramscian view of hegemony is

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essentially less pejorative, because it proceeds rather from a perception of hegemony as a relationship of functional interdependence between a leading class/regime/state (ἡγεμών = leader) and subordinate classes/regimes/states in which the leadership role is accepted by the subordinate subjects as a functional compromise, because there are mutual, if unequal, benefits for the parties involved. The important strength of the neo-Gramscian view is that it asserts the changing nature of hegemony and avoids the theological view of a concept which is deemed not to apply when the combination of very specific conditions—e.g. territorial domination or an "unrivalled position of economic and military superiority" (Goldstein 5) on the part of one state—is not present. Bieler and Morton identify three simple constitutive "spheres of activity" determining hegemony: the social relations of production, the forms of state and the world orders at any particular time; changes in these spheres of activity logically and unsurprisingly produce changes in the nature of a given hegemonic relationship. The key and constant feature of the "leadership" is its function of maintaining the unequal interdependence of the leading individuals/forces/groups over the subordinate individuals/forces/groups.

Even before the unification of the FRG and the GDR in 1990 concerns were expressed about the emergence of a German hegemony in Europe, particularly in the context of monetary affairs (Kennedy 82ff; Marsh 234ff). These were heightened by the prospect of both a much enlarged Federal Republic with a population of some eighty-two million and by the restoration of central Europe with Germany at its heart. There was a voluminous and lively debate among the political elites of the "West" and academic observers of Germany which ranged from the apocalyptic vision of a Fourth Reich (Sana) and speculation about a German invasion of central Europe (Mearsheimer) to reflective explorations of an essentially German corporate domination of central Europe (Markovits & Reich) through to sanguine assessments of a "tamed power" (Katzenstein) and a benign team player, committed to multilateralism (Goldberger). Two more recent articles (Sperling; Baun) conclude after a lengthy examination of the whole debate on Germany's position in central Europe that there is no convincing case for asserting the existence of German hegemony in the region. In the context of this article, it is sufficient to note that many of the authors use different definitions of "hegemony" such that their conclusions conveniently match their assumptions. While the alarmist visions of a militarily resurgent Germany (Sana; Mearsheimer) do not fit into this teleological pattern, the predominant invocation of the German state's "reflexive multilateralism" is very persuasive; there is no evidence of a programmatic political "grab" for global power, continental dominance or regional hegemony. Germany's persistent and patient commitment to the intergovernmental agreements involving the other fourteen, then twenty-four, then twenty-six EU partners is eloquent testimony to a consistent *under*-emphasis of national interest which contrasts with less coy manifestations of nationalism exhibited by the likes of France, Britain, Spain and more recently Poland. This perception should, however, not mislead the observer into concluding that German foreign policy

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is not driven by a clear understanding of national political and economic interests on the part of Germany's political elite. Nor should it legitimate the idea that there is no desire on the part of German policy makers to maintain and strengthen the unequal interdependence the social forces of the Federal Republic enjoy in relation to the social forces in other European states. The European Union may act as a vehicle for these interests and therefore diffuse the explicit assertion of power, but this does not create a complete subsumption of German interest under a common EU-blanket nor an abandonment of macro-economic and macro-social objectives which are specific to the territory of the FRG and compete with the priorities of other EU-member states.

The diagnosis and analysis of hegemony has, in our view, to acknowledge the centrality of unequal economic development to national and regional (EU) policy making and to the policy making of other nations and regions. The political perceptions of international advantages and disadvantages of given national and regional political economies are banal but essential points of departure for our analysis. It would be difficult to find statements by European leaders to match the candidness of George F. Kennan in 1948, but the latter's remarks can arguably still be applied to the analysis of policy in most states today:

> Furthermore, we have about 50% of the world's wealth but only 6.3% of its population. This disparity is particularly great as between ourselves and the peoples of Asia. In this situation, we cannot fail to be the object of envy and resentment. Our real task in the coming period is to devise a pattern of relationships which will permit us to maintain this position of disparity without positive detriment to our national security. To do so, we will have to dispense with all sentimentality and day-dreaming; and our attention will have to be concentrated everywhere on our immediate national objectives. We need not deceive ourselves that we can afford today the luxury of altruism and world-benefaction. (Kennan)

The Single Market Act, the Maastricht Treaty and the Lisbon Agenda were arguably informed by the need to maximise the advantages enjoyed by EU states in the global political economy and, more importantly, to neutralise any disadvantages *vis-à-vis* other developed regions. The curious inertia of the EU's position in the so-called "development round" of the Doha discussions can also be interpreted in terms of maintaining the quality and terms of the EU's trade with LDCs. The process of enlargement would also seem to contain similar perceptions on the part of the core economies of the EU, including Germany. It is this story that this article seeks to examine.

The structurally definitive unequal interdependence of a hegemonic relationship can clearly take a variety of forms, particularly in the contemporary context of globalised relations of production, the narrowing of the political latitude and the weakening of the policy instruments of the nation state. The old certainties of mercantilism have certainly evaporated, even if there are strong residual features

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of forms of protective governance, blatant or otherwise. Above all the neat category of "national capital" supported and promoted by the national capitalist state in a territorially discrete hegemonic exercise is no longer so readily applicable; capital, in the shape of TNCs and globally operating financial institutions, is non-national in both nature and practice; the avoidance of tax, the phenomenal scale of tax-haven usage, off-shoring etc. is testimony enough of the attempt by capital to free itself of the traditional responsibilities of business in one territory. The privatisation of global currency affairs together with the widespread suspension of exchange controls within the OECD and beyond since the 1970s have severely restricted the potential of monetary and fiscal policy, which had traditionally been deployed as instruments of both domestic and foreign economic policy. The grand concept of multi-level governance reflects the emergence above all of the multi-lateral regional pooling of sovereignty—notably in the EU—combined with global institutions like the WTO and individual nation states, but its grandness conceals its reactive nature—to the excesses of globalisation—and the patchy nature and patchy effect of that governance. In the context of this article, "multi-level governance"—however feeble—muddies the waters of the analysis of hegemonic relations.

We are stubbornly convinced that there is a strong case for persisting with the appropriateness of the term "hegemony" in accounting for the remarkable history of events in the western Balkans since 1990. German interest in the Balkans, like the rest of CEE, did not appear on the radar of sceptical observers without reason. As very significant locations of German economic interest from the end of the nineteenth century through to 1945, the Balkans have an historical resonance that cannot be set aside. Just as we should not use "the prism of Auschwitz" (Sperling 425) as the dominant filter through which we interpret the contemporary articulation of German power, so too should we not ignore the natural geo-economic linkages between Germany and CEE countries, provided by the Baltic Sea, the North European Plain and the Danube, and the acknowledged strategic economic advantages to be gained from relationships with the countries of the respective regions.

In 1888 Otto von Bismarck, in conversation with the explorer Ludwig Wolf about the latter's exploration of Africa, declared famously: "Your map of Africa is really very fine, but my map of Africa lies in Europe. Here is Russia. And here is France, and we are in the middle; that is my map of Africa" (Bismarck 456). While German foreign policy under Bismarck eventually granted Reich recognition of the African acquisitions of German private adventurers—Lüderitz (South West Africa), Peters (German East Africa) and Woermann (Togo and Cameroon)—in 1884 and 1885, and while Kaiser Wilhelm's government whipped up nationalist sentiment with its strident demands for "a place in the sun", supported by the German Colonial Association, the Pan-German League and the Fleet Association, the German state did not stray far from pragmatic Eurocentrism. Hans-Ulrich Wehler asserts persuasively that Kaiser Wilhelm II's "Weltpolitik" (*world politics*), including the massive expense of the German fleet, was essentially

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for domestic consumption (Wehler 176ff). Most of Germany's overseas colonies remained loss-making ventures, few of the Reich's citizens could be persuaded to emigrate as colonists and the Reich colonial administration was a pale imitation of Britain's dominion apparatus. Furthermore, with the exception of its submarines, the Imperial Navy was deployed only once in the Great War in the inconclusive Battle of Jutland/Skagerak and avoided action thereafter.

The importance of the Balkans to German production and trade was underscored by the ambitious plan to develop a railway link between Berlin and Bagdhad which would run through Prague, Vienna, Budapest, Belgrade and Sofia and then extend through Turkey via Istanbul and Ankara to Aleppo in Syria and beyond into the Arabian peninsula. The discovery of oil in Iraq in 1912 made the project even more significant. The spectre of pan-Slavism and the ambitions of a Greater Serbia threatened the viability of the project and it is no coincidence that the neutralisation of that threat played a key strategic role in the conduct of both the First and the Second World Wars. The presence in the Balkan peninsula of large reserves of bauxite, nickel, tungsten and other metals increased its attractiveness to an industrialised country with few such natural resources.

The severing of economic ties between (west) Germany and central and eastern Europe after 1945 required major adjustments to corporate and political relationships, but the abandonment of the so-called Hallstein-Doctrine in the late 1960s initiated an intense process of economic reconnection in the shape of Ostpolitik which allowed the Federal Republic to dominate western trade with the region long before the end of the Cold War.

Germany was Yugoslavia's main trading partner from the late 1960s onwards, accounting for 18.2 per cent of Yugoslav imports in 1968 which rose to 20.6 per cent in 1979; almost a quarter of Yugoslavia's exports were directed towards Germany in 1971. However, Yugoslavia's trade balance with Germany was and remained "chronically deficitary" (Dahlmann 6). It was the only socialist country to sign an Agreement on Migrant Labour with the Federal Republic in 1968, an agreement that satisfied Germany's demand for labour, neutralised underemployment in Yugoslavia but underscored the evident unequal interdependence of the two countries. Germany was the country's biggest creditor at an early stage, with 25 per cent ($413 million) of total Yugoslav debt in 1972 (World Bank *World Economic Report* 408). Several German corporations opened production plants in Yugoslavia, including VW in Sarajevo in 1972; Daimler-Benz and Klöckner-Humboldt-Deutz also established strong commercial links in the country during the same period. In December 1989, at the end of a critical decade of controversial reforms, the Markovic government pegged the new "heavy" dinar to the DM. Two years later, in December 1991, this act of monetary subordination counted for nothing in the process of national dissolution which engulfed the federated state of Yugoslavia. Germany's involvement in that process was extraordinary and still difficult to fathom. But it raised justifiable fears of the foreign policy objectives of the new united Germany.

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Balkanisation

It would be difficult to present a case that postulated an intention on the part of the German state to promote the fragmentation of Yugoslavia as a means of pursuing (putative) German economic interests. Some serious authors of the Left do talk explicitly about the "strategic interests of Germany and the US in laying the groundwork for the disintegration of Yugoslavia" (Chossudovsky; cf. also Carr). The late Sean Gervasi asserts deliberate intent by the United States and Germany "to destabilize and then dismantle the country" and quotes the *Intelligence Digest*[1] of August 1995: "The original US-German design for the former Yugoslavia [included] an independent Muslim-Croat dominated Bosnia-Herzegovina in alliance with an independent Croatia and alongside a greatly weakened Serbia" (Gervasi "Why").

Whether there was a design or not, the strong diplomatic pressure from the German Foreign Ministry in the autumn of 1991 for the EC/EU to recognise the breakaway regions of Slovenia and Croatia as sovereign states is undeniable. Equally undeniable was the resistance of the other core states to this move and the majority preference for the maintenance of a unified Yugoslavia (Crawford "Explaining Defection"; O'Brien 81; Paterson 141). German pressure thus incontrovertibly hastened the disintegration of Yugoslavia, a federal state with a population of over twenty-two million, by recognising the sovereign independence of the statelets of Slovenia (pop.: 2,009,000) and Croatia (pop.: 4,493,000). The open conflict between the break-away regions and the Yugoslav Federation in 1991 may have preceded Germany's vigorous diplomatic campaign within the Community, but this does not constitute an adequate reason for this core state of the EU to abandon the path of peace diplomacy, thus triggering inter-ethnic carnage and instigating the fragmentation of political and economic life in the very region that had given its name to Balkanisation. Germany's role in the quasi-colonial carve-up of the Balkans—through Bismarck at the Berlin Conference in 1878, in the military campaigns of 1914–15 and 1941–44—would inevitably be invoked in the wake of the December 1991 debacle and the subsequent political and economic reforms conducted in the six successor statelets of the Western Balkans, even if conspiracy based explanations of the Kohl government's behaviour in 1991 are ultimately unpersuasive.

Mainstream political science accounts of the disintegration of Yugoslavia emphasise firstly the ethno-national dimension of Serb and Croat politics under Milosevic and Tudjman and secondly the perceived dangers of ethno-national conflict for the "security agenda" of the rest of Europe (e.g. Hyde-Price "Of Dragons" 180). The analysis is, however, crudely selective. Yes, Milosevic and Tudjman did instrumentalise ethno-nationalist animosities ruthlessly, contributing to the destruction of the remarkable multi-ethnic republic that had survived so successfully after 1945 under Tito. But it was an

[1] The source could not be found to corroborate the citation.

Table 1 West Germany's percentage share of OECD exports to COMECON Countries 1980

USSR	Poland	Romania	Hungary	Czechoslovakia	Bulgaria
20	23	22	37	34	29

Source: Leaman 199.

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ethno-nationalism, given succour by the German government's passionate espousal of the "right to national self-determination" in the process of European transformation. It is not adequate simply to explain Germany's invocation of "national self-determination" as being "rooted in a pervasive pattern of moral and political values" (Libal 1997) producing "a sense of solidarity with states striving for national self determination in the face of Communist authoritarianism and military intimidation" (Hyde-Price 190). One needs to consider the predominant view of nationhood in German political culture which, while certainly not exhibiting strong nationalism, clung to the oddity of citizenship based on blood ties (*jus sanguinis*) and all Germans with proven blood descendancy having the right to citizenship in the Federal Republic. The right was established under Adenauer and deployed by Kohl in the 1980s in terms of the "community of destiny" (*Schicksalsgemeinschaft*) of all ethnic Germans, including those in eastern Europe, even if some groups had been in Romania since the thirteenth century and in Russia since the eighteenth century. German citizenship, on the other hand, is still not accorded so generously to second and third generation immigrants from Turkey and, yes, the Balkans. More culpably, however, Germany's noble espousal of the right to self-determination was not extended to groups like the Kurds, considerably more numerous and culturally distinct than the separate "ethnicities" of the Balkans, where cultural diversity was in any case in large measure the result of the hegemony of colonial empires and their respective religious affiliations (Catholicism, Orthodox Christianity and Islam). The brutal repression of Kurdish rights by Turkish, Iranian and Iraqi regimes certainly contrasted with the forty-odd years of multi-ethnic peaceful coexistence in Yugoslavia which was demonstrably not subject to Soviet domination, from which repressed ethnicities somehow needed to be liberated.

The authors who interpret German behaviour in terms of concern for humanitarian and cultural rights and for security issues invariably ignore material and economic factors. As soon as one does consider these, however, the "right to self-determination" becomes the "right to secede with the lion's share of the best productive assets in the Yugoslav Federation". The northern region of Slovenia had by far the highest GDP per capita of all the Yugoslav regions in 1990 (see Table 2), deriving from the concentration of the technologically more refined manufacturing processes in the North, supplied with raw materials located in the poorer regions of Serbia (oil, gas, iron, copper, lead, zinc, nickel, gold, silver, magnesium), FYR (Former Yugoslav Republic of) Macedonia (copper, lead, zinc, manganese, nickel, tungsten) and Montenegro (bauxite).

Table 2 Per capita GDP in the regions of Yugoslavia in 1990 in $

Slovenia	Bosnia-Herzegovina	Vojvodina	Croatia	Serbia	Montenegro	Macedonia	Kosovo	Yugoslavia (average)
5500	4200	3250	3100	2200	1700	1400	730	2600

The economic division of labour between the regions was rooted in the political compromise that characterised the Yugoslav state, as Beverly Crawford has observed:

> The twin economic goals of Yugoslav development policy had always been to reduce the disparities in regional living standards while maintaining a high rate of growth. [. . .] (C)entral economic planners believed that the overriding economic goal was to transform Yugoslavia into a modern industrialized nation. Priority was given to the development of industries that would contribute to the rapid growth of the country as a whole. But the individual republics had attained different levels of development, and as a strategy to encourage national Yugoslav integration, every five-year plan mandated the "equalization of conditions" between the developed and less developed regions. (Crawford "Explaining Cultural Conflict" 218)

The economic advantages of Slovenia and Croatia were further compounded by the pricing policy adopted by the Yugoslav central government:

> (F)ive year plans mandated that raw material inputs would be underpriced to make such industries competitive. Again, priority industries were located in the developed regions of Croatia and Slovenia; most of the raw materials came from Serbia, Montenegro, Bosnia, and FYR Macedonia. The predominance of low-priced raw materials in the less developed regions and the absence of offsetting transfers meant that the poorer regions were penalized for providing the raw materials necessary to industrialize the country. (Crawford "Explaining Cultural Conflict" 219)

The growth imperative favouring Slovenia and Croatia was fundamentally predicated on the corresponding imperative of national integration and fiscal equalisation as a feature of identity politics. The death of Tito in May 1980, the severe debt crises of the 1980s and the subsequent "Structural Adjustment Programmes" of the IMF tested the ideological strength of the strategic compromise which underpinned the Yugoslav state. Slovenia and Croatia sought increasingly to limit the re-allocation of fiscal resources to counteract the inter-regional disparities. The dependent, poorer regions naturally defended the development subsidies of the central government. This fundamental, material polarity between the interests of richer and poorer regions became—in the grim period of IMF-imposed austerity—quickly overlaid by group resentment, promoted by the political and economic interests of regional elites, notably by Milosevic in Serbia and Tudjman in Croatia, but it would and should have been visible to the more discerning eyes of Germany's foreign ministry under Genscher, as should the

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consequences of helping to free Slovenia and Croatia from the fiscal commitments of Yugoslav federalism; Germany is, after all, a shining example of successful fiscal equalisation! The hypothetical scenario of German diplomacy supporting the Lega Nord in its efforts to secede from the Italian Mezzogiorno is unthinkable. The support for the sovereignty of a Slovenian and a Croatian statelet was at best a breach of consensual norms in international law and at worst—and only a thorough diplomatic history of the episode will reveal the extent of German culpability—it was cynical mischief, cloaked in the rhetoric of human rights.

Whatever the specific causality of the disintegration of Yugoslavia, the result was almost a decade of political mayhem and economic misery and the fragmentation of a flawed but, for a long while, functioning political economy: in short the re-Balkanisation of the region. The appalling logic of "ethnic cleansing", promoted by Serb and Croat leaders, involved monstrous crimes against humanity, but it should not be separated from the rhetoric of an ethno-national right to self-determination, promoted—among others—by the Kohl government, nor from the ignoring of the nuances of Yugoslavia's institutional structures. The triumphant march of "self-determination" produced, on the one hand, the unification of 75 million Germans (together with their 7.2 million non-national co-residents) and, on the other six (potentially seven) statelets, each with its diplomatic corps, civil service, parliament and central government, the largest Serbia with 7.5 million inhabitants, the smallest Montenegro with just 621,000.

The New Unequal Interdependence

Particularism and the Banking System

The most obvious challenges facing smaller states are related to scale. Smaller states do not, as a rule, possess the technological, institutional and human resources to support the full range of economic, political and social activities common to larger states. Historically, particularism hindered development through the political self-demarcation of one small state from another small state, notably with their separate currencies, fiscal and customs authorities. The disintegration of Yugoslavia produced a new particularism in the western Balkans, characterised by the emergence of four new currencies in the breakaway republics of Slovenia (*tolar*), Croatia (*dinar*), Bosnia-Herzegovina (*dinar*) and FYR Macedonia (*denar*) and two new enclave currencies, the *Krajina dinar* and the *Republika Srpska dinar*. With the exception of Slovenia, the other

Table 3 Population of six states in the Western Balkans (millions) in 2005

Serbia/Kosovo	Croatia	Bosnia-Herzegovina	FYR Macedonia	Slovenia	Montenegro
7.5/2.3	4.4	3.9	2.03	2.01	0.621

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states of the western Balkans experienced severe problems of inflation between 1992 and 1994, driven largely by the chaos of war. The German Mark was a common unofficial currency in this period. In 1994, the Croatian state replaced the *dinar* controversially with the *kuna*, the currency introduced in 1941 under the Ustasha regime. In 1994 the Federal Republic of Yugoslavia (Serbia-Montenegro) introduced the *new dinar*, which was pegged at par to the German Mark. The DM became a parallel currency in Montenegro in 1999 and then replaced the *new dinar* entirely in this province at the end of 2000; in January 2002, with the disappearance of the DM, Montenegro chose to adopt the *euro* and was supplied with an initial tranche of notes and coins by the ECB. In other parts of the Balkans and eastern Europe, the DM—as a so-called "legacy currency"—was converted widely into *euro* deposits, notably in Kosovo, where it continues to function as a parallel currency. In 1995, after the signing of the Dayton Peace Accord, Bosnia-Herzegovina replaced the *dinar* and the enclave variants with the *Bosnian convertible maraka* (sub-unit: the *feniga*) which was likewise pegged to the DM until 2002, and is now pegged to the *euro*.

This brief overview of the one field of monetary affairs demonstrates the general vulnerability of smaller states to both exogenous and endogenous factors (cf. Charles 8ff) and the specific dependence of the states of the western Balkans on the structural power of the larger state, Germany, with its anchor currency. The peg-function and/or the adoption of the stronger currency[2] arguably reflects a hegemonic relationship in a quite fundamental manner. The structural power of the larger state becomes more evident in the changes to the constitutional and legal status of the newly established central banks of the western Balkans: all, without exception, have been rendered independent of the influence of the elected government in their conduct of monetary policy (Dvorsky), in line with the German Bundesbank model, used as the blueprint for the European Central Bank. The disintegration of the Yugoslav dinar bloc produced an evolutionary path in currency affairs which generated the fundamental subordination of the political economies of the region to the ideological and operational norms of the hegemonic bloc which is the Germanised EU (Heise). It was an essential precondition for the shaping of the macro-economic policies of these (and other transition) states, for their foreign economic relationships, for the further development of their capital markets and the programmes of liberalisation, deregulation and privatisation which ensued (see below).

It is no coincidence that, alongside the German central bank system, the countries of the western Balkans also chose to adopt the German system of universal banking, just as other CEE countries have (Boot & Thakor). Universal banking permits banks to conduct both traditional banking business (retail, wholesale, investment banking) and to hold sizeable chunks of equities in non-banks, i.e. industrial and commercial enterprises. It is a system hitherto

[2] Ljubisa Krgovic, president of the central bank of Montenegro, justified the adoption of the *euro* in simple housekeeping terms: "a national currency would be too costly for Montenegro"; BBC News, 2 January 2002 (<http://bbc.co.uk/1/hi/world/Europe/1740493.stm>).

Table 4 German share of Balkan imports 2001–2005 in %

	2001	2002	2003	2004	2005
Albania	5.6	5.0	5.3	5.2	6.1
FYR Macedonia	10.8	13.3	12.7	13.3	12.3
B-H	12.4	12.7	12.0	12.6	12.6
Serbia and Montenegro	13.5	14.7	13.8	13.9	14.0
Croatia	17.0	16.3	15.6	15.5	14.7

Source: The Vienna Institute for International Economic Studies (wiiw).

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Table 5 Share of total Balkan exports imported by Germany in %

	2001	2002	2003	2004	2005
Albania	5.6	5.6	5.0	4.0	4.3
FYR Macedonia	18.0	17.1	13.3	19.7	16.8
BiH	10.5	10.1	12.7	17.0	12.0
Serbia and Montenegro	13.0	13.0	14.7	10.2	11.2
Croatia	15.1	12.1	16.3	11.0	10.7

Source: wiiw 2006.

outlawed in other OECD countries—on grounds of conflict of interest and the danger of insider trading—but historically has provided German enterprises with longer time-horizons than their OECD counterparts and has a direct effect on the structures and processes of corporate governance. With some 80 per cent of assets in foreign—including German—hands, the choice of the universal bank form allows a dovetailing not just of German and Balkan banking operations, but also facilitates the penetration of all German enterprises into the commercial life of the Balkan economies.

Trade

The hegemonic relationship of Germany to the new states of the western Balkans (as to other smaller states of the EU-15 and EU-27) is evident in the direction, volume and quality of trade.[3] The trade dependency of smaller states constitutes

[3] James Sperling, proceeding albeit from a political definition of hegemony and structural power, comes to quite opposite conclusion in relation to central Europe. He employs simple trade preference indices—which measure the concentration of imports from and exports to large and small countries—and produces a rather strange argument: "The German import preference index in 1995 suggests a preference for trade with smaller countries, but is significantly lower today than in the interwar period; and the German export preference index in 1995 indicates a preference for trade with large countries. The German trade preference structure in 1995 reveal neither an exploitable system-wide asymmetry in the German structure of trade nor a successful German pursuit of such an asymmetrical relationship" (Sperling 400).

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an important element of their vulnerability (Charles); in the case of the Yugoslav successor states this vulnerability was compounded by the collapse of the complex interdependencies in the regional division of labour in the Yugoslav Federation. Above all, the loss of the fiscal transfers compensating the regions supplying cheap raw materials to the manufacturing centres of Slovenia, Croatia and Vojvodina, was particularly problematic in the 1990s when commodity prices remained depressed.

Germany accounts for 23 per cent of all EU trade with the western Balkans. One fifth of all exports from the region are destined for the German market (figures from 2005), but these constitute only 0.3 per cent of Germany's imports. German demand for western Balkan pre-products and raw materials is thus considerably more important for these smaller states than the supply of their goods is to Germany. Conversely, the region is heavily dependent on the supply of German plant and machinery for the technical modernisation of its economies. The quality of trade thus favours German capital goods in relation to the terms of trade and the chronic trade surplus enjoyed by Germany and endured by Balkan states. In 2005 the six states (Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, Montenegro and Serbia) had a trade deficit of $3.5 billion or 4 per cent of their collective GDP.

The unequal interdependence is arguably most clearly demonstrated by the relative backwardness of the western Balkan economies, compared to Germany and other core EU economies as well as to the whole EU-25 group. With the exception of Croatia, with a per capita GDP of $13,400 in 2006, all the states of the western Balkans have much weaker macro-economic profiles than the 2004 EU-entrants. GDP per capita is similar to levels in South America (Brazil: $8800, Ecuador: $4500).

The sectoral structure (Table 6) shows a relatively high proportion of GDP produced by the primary sector (agriculture, forestry, fisheries) and an even higher proportion of employment dependent on agriculture (FYR Macedonia: 21.7 per cent; Serbia: 30 per cent; Albania: 58 per cent!). The impression of Montenegro's mature sectoral distribution of employment is confounded by its very low GDP per capita ($3300), high unemployment (27.7 per cent) and a chronic current account deficit (−29.4 per cent of GDP). The other four countries manifest severe levels of unemployment, as well as extensive grey economies. They compare unfavourably with other CEE countries in the EU-25 group in most respects.[4]

Foreign Direct Investment

FDI in the western Balkans is characterised by takeovers rather than greenfield investments, i.e. by international corporations acquiring market share rather than expanding overall branch capacity. It is also characterised by the

[4] GDP per capita in Poland was lowest of the eight CEE accession states with $14,100 in 2006; figures for Slovenia and the Czech Republic were $23,400 and $21,600 respectively.

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Table 6 Western Balkans, key indicators

2006	Albania	Bosnia-Hzg	Croatia	FYR Macedonia	Montenegro	Serbia
GDP per capita in $	5700	5600	13,400	8,300	3300 (2005)	4400 (2005)
Sectoral distribution of GDP (I-II-III)	23-19-58	14-31-55	7-31-62	9-29-62	n/a	16.5-25.5-58
Employment by sector (I-II-III)	58-15-27	n/a	3-33-64	21.7-32.6-45.7	2-30-68	30-46-24
Unemployment % working pop	13.8	45.5	17.2	36.0	27.7	31.6
Population below poverty line (%)	25.0	25.0	11.0	30.0	12.2	30.0
Current account deficit % of GDP	−7.6	−11.4	−7.7	−0.4	−29.4	−11.4

Source: wiiw, CIA.

Table 7 Origins of the FDI stock in the countries of the Western Balkans 2006, percentage share

	Albania	Bosnia-Hzg	Croatia	FYR Macedonia	Montenegro	Serbia
Austria	2.3	34.8	32.7	3.3	13.9	12.4
Germany	1.0	8.9	17.5	3.6	7.2	11.3
Greece	48.1	0.0	0.0	15.8	2.7	9.7
Italy	30.0	1.7	6.1	2.1	1.1	1.6
Turkey	10.0	2.0	0.0	1.4	0.0	0.0
Croatia	0.0	14	0.0	1.1	0.2	2.4
Netherlands	0.0	2.6	7.0	12.1	0.2	21.3
Slovenia	0.0	11.2	4.7	6.9	9.7	6.5
Hungary	0.0	0.0	7.4	19.8	26.3	1.2
Russia	0.0	0.0	0.1	0.1	2.8	6.7
Cyprus	0.0	0.0	0.2	9.1	1.3	4.5

Source: wiiw database.

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predominance of banking, insurance and manufacturing as targets for foreign takeovers[5] and by the dominance of corporations from within the EU, in particular from four countries: Austria, Italy, Germany and Greece. Italy accounts for 48 per cent of Albanian FDI-stock and Austria for 70 per cent of FYR Macedonia's FDI-stock (IMF *Foreign* 11; Demekas et al. 215). German FDI has grown markedly since 1998, most notably in Croatia (Table 7) but on paper has been less eye-catching than the remarkable scale of its FDI-penetration in core CEECs.[6]

However, the data are in part very misleading, as the Vienna Institute for International Economic Studies readily concedes. Firstly, the shares of both The Netherlands and Cyprus are made up in very large measure of recycled Russian capital (Hunya 17)[7]; secondly the German share is considerably understated, because of the operation of German affiliates in Austria, Hungary and elsewhere. For example, the strong showing of Hungary in Croatia, FYR Macedonia and Montenegro is accounted for in large measure by the acquisition of controlling interests in the telecoms companies of these countries (Makedonski Telekomunikacii, T-Mobile FYR Macedonia, T-Cmogorski Telekom, T-Mobile Cma Gora, T-Hrvatski) by Matav, the Hungarian telecoms group, which is wholly owned by Deutsche Telekom. Eighty per cent of Balkan banking is in foreign, almost entirely west European hands. Croatia's

[5] Figures from the Croatian National Bank record a cumulative FDI stock of €12,473 millions up to the end of the first quarter of 2007, 33 per cent of which was in banking and insurance, 28.7 per cent in manufacturing.

[6] At the end of 2006, German corporations controlled 30 per cent of all foreign direct investment in Hungary, where 60 per cent of all productive assets are in foreign hands; this means that German corporations own 15 per cent of the whole Hungarian economy. 26 per cent of all FDI in the Czech Republic is controlled by German companies (source: Auswärtiges Amt).

[7] The total stock of Russian FDI in Croatia is recorded officially as just €25 million by 2007 Q1; that of The Netherlands, however, €2,619 millions, that of Cyprus €40 millions (source: Croatian National Bank).

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largest bank, the Zagrebacka Bank, controls 29 per cent of the state's banking assets ($32.6 billion), and is active in M & A activity in the region but as a wholly owned subsidiary of Allianz and the UniCredit Group. Likewise Bank Austria is 97 per cent owned by the Munich-based HVB—part of the UniCredit Group, but is responsible for all the Group's CEE holdings, apart from Poland; Bank Austria's FDI in the Balkans appears as Austrian FDI in Table 7. The acquisition by the Bayerische Landesbank of a 50 per cent stake in the Austrian Hypo-Alpe-Adria in 2006 would have increased indirect German control of Croatian and other Balkan banks, but the acquisition has been rejected by the Croatian National Bank in an exceptional move which reflects the BLB's poor reputation after its abandonment of the Riječka Banka in 2002 (*FT Deutschland* 13 July 2007).

German FDI in the region has also been strong in the print media, with major acquisitions by the WAZ-Group to add to its extensive holdings in Hungary and other CEE countries,[8] in energy, transport and other utilities, as well as in manufacturing. The recent World Bank report on the region's transport infrastructure contained strong recommendations for privatisation as the main vehicle of modernisation. If the recommendations are heeded, German companies are expected to be strongly involved in both logistical acquisitions and equipment supplies.

If one were to use the indicator of per capita FDI-stock as evidence of the intensity of a German/EU hegemony, the western Balkans would certainly not figure as strongly as the Visegrad states. However, as noted by the Vienna Institute for International Economic Studies (wiiw) in its recent survey of FDI in central and eastern Europe (Hunya 6) there has been a clear shift in the focus of FDI from central Europe to the Balkans and to the CIS-group. As a result of intensified privatisation programmes, per capita FDI almost doubled in Serbia and Montenegro, while increasing by 54 per cent in Croatia between 2005 and 2006 (see Table 8). This raised Croatia to fourth highest location for per capita FDI stock of all CEECs with €4577, behind Estonia (€9232), Hungary (€6170) and the Czech Republic (€5719). However, more significant than the absolute increase in FDI and the improvement in per capita FDI stock are the modalities of this improvement, since these are orientated almost entirely towards the integration of the individual political economies of the region with the European Union and towards the adoption of the ideological preferences of the EU and the other major institutions of global economic governance, the World Bank, the IMF and the WTO.

[8] The WAZ-Group, based in Essen, controls the *Westdeutsche Allgemeine Zeitung*, the biggest regional newspaper in Germany along with other German regional and local newspapers, and has expanded its operations to Austria, Hungary, Romania, Croatia (Europress-Holding, Slobodna Dalmacija), Serbia (Politika AG), Bulgaria, Montenegro (50 per cent of *Daily Press*) and Macedonia (Dnevik, Utrinski Vesnik, Vest). The Chief Executive Officer of WAZ is Bodo Hombach, former adviser to Gerhard Schröder and former member of the Balkan section of the *Ostausschuss* (the Eastern Committee of the German Economy).

Table 8 FDI stock per capita in Central and Eastern Europe in 2005 and 2006 in Euros

	2005	2006
Ukraine	310	370
Russia	687	1160
Montenegro	895	1943
Serbia	641	1119
Rumania	930	1432
FYR Macedonia	735	1028
Croatia	2970	4577
Bulgaria	1105	2047
Bosnia-Herzegovina	598	676
Albania	488	603
Estonia	7717	9232
Slovenia	3002	3133
Slovak Republic	2414	3338
Poland	1835	2361
Hungary	5133	6170
Czech Republic	4932	5719

Source: wiiw.

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The Role of the EU

The collapse of state socialism and the end of the Cold War coincided with the ideological dominance of neo-liberal, supply-side economics in the political and academic institutions of OECD countries. This dominance was most explicitly reflected in the so-called Washington Consensus, a term coined in 1988 which asserted a common view of optimal economic policy making shared by the two main Bretton Woods institutions—the World Bank (IBRD) and the International Monetary Fund—and the United States Treasury Department, above all in relation to reform measures to be adopted in developing countries. The influence of the core EU member states as major contributors to both the IBRD and the IMF made the EU central to the popularisation of the neo-liberal consensus, which had already taken practical shape in the Single European Act. The transformation of the economies of CEE countries took place fundamentally with the guidance of institutions committed to the Washington Consensus. The receptivity of CEE states to neo-liberal prescriptions was reinforced by a need to demarcate themselves from Soviet/Russian influence and by the absence of alternatives. The economic security offered by the richer and politically more stable countries of the EU-15 was irresistible. State debt and the absence of effective capital markets made the pathway of rapid domestic liberalisation, deregulation, privatisation and market-opening to foreign investors the obvious choice. The chill winds of globalised competition made membership of a regional common market and of a supportive intergovernmental polity a persuasive alternative to isolation. The 1993 Copenhagen Criteria became the yardstick

against which the success of the transition states was targeted domestically and measured externally. The coincident imperatives of marketisation and modernisation made the intermediation of foreign banks and the involvement of cash-rich western corporations unavoidable.

The staging of the transition process for individual political economies was the inevitable result, firstly, of the developmental maturity of the transition economies—sectoral development, levels of productivity, labour force skills, economic and social infrastructures—and the political stability of states and regions. It was therefore predictable that the first wave of states admitted to the European Union would be characterised by politico-economic features which showed an optimal level of convergence with the norms of the EU-15, where there was a minimum of conflict and where corruption in political and economic governance was insignificant.

It is self-evident that the countries of the western Balkans, with the exception of Slovenia, were for most of the 1990s marked by high levels of political and inter-ethnic conflict, by the economic dislocation typical of war and by levels of corruption typical of impoverished, societies with dysfunctional formal economies and extensive shadow economies. Political and economic stability in the region was achieved fundamentally as a result of external political intervention on the part of the European Union and NATO. Transition in the western Balkans has therefore had a strong security dimension, with external authority imposed in Bosnia-Herzegovina in 1995 in the shape of the Office of the High Representative (OHR), under the auspices of the EU in accordance with the Dayton Agreement, and in Kosovo in 1999 in the shape of the NATO peace-keeping force (KFOR) and the United Nations Mission in Kosovo (UNMIK).

The transition of the western Balkans has consequently come later than elsewhere and been much more strongly influenced by prescriptive programmes emanating from the EU and from the World Bank. In the framework of the so-called "stabilisation and association process" which was launched in 1999, the EU is actively involved in providing advice and guidance to all the states in the region, a process that is predicated above all on the need/desire of these states to be "associated with" or integrated formally into the EU. The process is made more complicated and asymmetrical, in that it is driven by the need for economic modernisation, growth and full employment within the region, whereas the EU-thinking is arguably more ambivalent about the economic advantages of association/integration (Brown & Attenborough 23ff)—in contrast to the integration of the Visegrad economies—and more strongly informed by security concerns and organised crime in a strategically sensitive region (EC *Western Balkans*, 2004 49). In these circumstances, "conditionality" is an even more potent lever of reform than before the 2004 enlargement. In its 2006 "communication" on "The Western Balkans on the road to the EU", the

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Commission outlines its preferences very clearly in a section entitled "Removing Obstacles to Trade and Investment":

> Development of trade and investment critically depends on political stability, the overall economic climate and progress in reforms in each country and in the region as a whole. Macro-economic stability needs to be pursued further, in particular fiscal and monetary policies aiming at securing an environment conducive to sustained growth. Structural reforms need to be pursued vigorously in order to improve the functioning of markets and competitiveness. In particular, countries have to advance in restructuring and privatisation of state-owned enterprises, establishment of functioning institutions and judiciary and further reform of the labour markets. It is improvements in this broader framework that mostly matter. Despite significant progress, the reform process in the region needs greater impetus. (EC *Western Balkans* Section II)

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In its recent report on "Railway Reform in the Western Balkans", the World Bank, which also provides regular reports on the reform progress in individual economies in the region, set out a number of recommendations urging rationalisation, cost-cutting and privatisation for the fragmented and ageing railway systems of the six/seven countries (Kosovo is treated separately). The World Bank's policy recommendations for improving the investment climate in the region underscore the need for further privatisation in Serbia (World Bank *Serbia*) and labour market reform in a region where employment protection is viewed either as "more restrictive" (Serbia and Montenegro) or "very rigid" (Bosnia-Herzegovina, FYR Macedonia, Croatia) (World Bank *Doing Business*). The "progress reports" of the EU Commission are very much in the same vein. For example, the 2006 report on Serbia noted progress on the privatisation front. "However, the functioning of market mechanism [sic] to allow for an efficient allocation of resources has been hampered by the still strong involvement of the public sector in the economy" (European Commission *Serbia* 22); the report also criticises a Serbian "national investment plan worth about €1.6 billion for 2006 and 2007, to be completely financed by privatisation proceeds received in 2006. A continuation of recent fiscal trends could however contribute to an aggravation of macroeconomic imbalances etc." (20). Likewise, in its commentary on Croatia's EU Application, the Commission remarks that "Croatia will rapidly need to improve conditions for domestic and foreign investments and to complete the privatization and restructuring process" (European Commission *Opinion* 2.3, Chapter 15).

The thrust of both the EU's and the World Bank's recommendations is towards full-scale liberalisation. A mercantilist industrial and commercial policy is eschewed in favour of market-opening for all sectors of the economy, including

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energy production and distribution, telecommunications, transport and banking. Generous development grants, most notably from the EU, are linked to strict reform imperatives through conditionality clauses. German companies have been in the forefront of investments in these strategically vital sectors: Siemens & Siemens Hellas (energy); Deutsche Telekom/Matav (telecommunications), Deutsche Bank, Commerzbank, HVB, Allianz, Kreditanstalt für Wiederaufbau (banking). More recently Hartmut Mehdorn, chair of the executive board of Deutsche Bahn has expressed interest in buying up state railways in the region and the rest of central and eastern Europe because they possess "neither the necessary means of investment nor the know-how" (*Stern* 6 Nov. 2006; see also *FT Deutschland* 15 May 2007).

The economic development of the countries of the western Balkans has arguably been shepherded down a narrow track which requires a virtually absolute subordination of policy to the preferences of the EU and its member states as the price for both (generous) development assistance and eventual membership of the Union. The extent of the self-subordination of the six statelets is reflected strongly in the shaping of fiscal policy in the region, most notably in the tax-breaks/tax holidays offered to potential foreign investors but particularly in the emergence of flat-tax regimes. With the notable exception of Croatia, all the western Balkan states have rates of Corporation Tax and personal income tax which undercut the rates of the EU-25[9] as well as the CIS-successor states.

In order to attract (foreign) investors, the five poorer states have been persuaded to abandon the principle of progressive income tax (a move as yet unthinkable among the core states of the EU) and to reduce the taxation of businesses to token levels. By the beginning of 2008, the highest rate of corporation tax will be 10 per cent and the highest (flat) rate of personal income tax will be 15 per cent (Montenegro). The average rate of corporation tax in the EU-15 is 28.7 per cent. In the spring of 2007, the FYR Macedonia took out full-page advertisements in the western business press, describing itself as a "business heaven" with a flat tax of 10 per cent on corporate and personal income. This and similar moves in the region are indicative of the fundamental political powerlessness of developing countries, seeking to please investors from developed states, where democratic political culture and civil society would simply not tolerate such supine behaviour.

Richard Murphy, chartered accountant and founder of the Tax Justice Network, commented on the expensive advertising campaign by describing FYR Macedonia as "a desperate state": "Tax competition is the badge of a failed state. That's what Macedonia is promoting. I feel sorry that someone sold them such a bad deal" (<www.taxresearch.org.uk/Blog/richard-murphy>).

[9] Estonia has a corporation tax of zero per cent on retained profits but of 22 per cent on distributed profits. Bulgaria introduced a flat 10 per cent corporation tax in January 2007, but progressive income tax ranging from 10 per cent to 24 per cent.

Table 9 Income tax rates in the Western Balkans

Tax Rate in %	Albania	Bosnia-Hzg	Croatia	FYR Macedonia	Montenegro	Serbia
Corporation tax	12/10*	10	20	15/10*	9	10
Income tax	12/10*	5**	45***	15/10*	15	14

*Lower rate applies in 2008; **Republika Srpska has three tax brackets: 0-10-15; ***Top rate of income tax

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Murphy is absolutely correct. The toleration on the part of the EU—or rather indirect promotion—of tax competition among the peripheral transition states is not a contribution to their development as mature and prosperous democracies but rather a recipe, firstly, for their permanent subordination within a hegemonic relationship of unequal interdependence, and, secondly, for widening economic disparities within these states. Tax competition in the Balkans and other developing regions is a form of economic prostitution; its sanctioning on the part of the political and economic elites of the EU is little short of political pimping for corporate clients. Encouraging weaker states to have weaker and less equitable fiscal regimes than the EU-norm right from the outset denies them the wherewithal to construct and manage long-term viable economic and social infrastructures within a mature framework of civic pride and democratic legitimacy. Privatisation will certainly not generate either pride or legitimacy among the populations of this troubled region.

The sense that the EU and notably Germany are proposing that the western Balkan states "do as we say, not as we do" is underscored, finally, by the dramatic contrast between the policy regimes being imposed on the poorer region relating to inward investment and the recent reactions within Germany (and France) to inward investment involving hedge funds, private equity companies and so-called "sovereign funds". In Germany, at the beginning of July 2007, representatives of both the major political parties, Christian Democrats and Social Democrats initiated an intense debate about the penetration of Chinese, Russian and Middle East state funds into key areas of Germany's economy. Roland Koch (CDU), Minister President of Hesse, Volker Kauder (chair of the CDU parliamentary party in the Bundestag) and Peer Steinbrück (SPD), the Federal Finance Minister in Merkel's Grand Coalition, have led a chorus of calls for both a change to the Federal Law on Foreign Economic Relations (Außenwirtschaftsgesetz) and for action from the EU-Commission. Their remarks have been echoed by voices in France and Spain, where the state authorities have been traditionally less coy about mercantilist industrial policies, but also by the IMF's chief economist, Simon Johnson.

The sudden and intense debate was triggered by the $3 billion Chinese stake in the US private equity company, Blackstone, in May and by the revelation that the Chinese government has put $200 billion into a new fund for financing FDI worldwide. The corresponding "stabilisation fund" of the Russian Federation already totals $147 billion. Together with the Gulf States, China and Russia make up the largest accumulations of sovereign funds which, according to Morgan Stanley, currently amount to some $2.5 trillion and are set to rise to $8.7 trillion

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by 2012 and to $27.7 trillion by 2022. The German supporters of countermeasures to the "invasion" of sovereign funds pursue two basic strands of argument, one ideological, the other strategic. The first (e.g. Roland Koch) underscores the contradiction of a state utility, like a power company or Deutsche Telekom, being painstakingly privatised by the German state, only to fall under the control of a foreign government (*Die Welt* 14 July 2007). The second (e.g. Peer Steinbrück) stressed the national strategic dangers of key areas of the German economy being influenced by the interests of other states. Steinbrück thus called for specific measures to safeguard the telecommunications sector, banking, the postal services, transport and energy (*Die Welt* 5 July 2007). The Merkel cabinet is pledged to introduce legislation on sovereign funds in the autumn 2007 sitting of the Bundestag. Peter Mandelson, the EU Trade Commissioner, has proposed the use of "golden shares" (*Handelsblatt* 27 July 2007) to ward off unwanted stock acquisitions by sovereign funds, as currently held by the French, Spanish and Italian state in the telecoms sector.

During the debate, the proponents of Germany and other EU member states have actively promoted the acquisition of strategically key elements of the economies of central and eastern European countries, indeed exactly the same areas which Steinbrück and others are seeking to protect in Germany. As noted above Deutsche Telekom dominates the telecommunications sector in Balkan countries and much of central Europe; several regional (state) banks in Germany have been actively acquiring privatised assets in CEE states, along with the German postal services. The plans of *Deutsche Bahn* were noted above. Ironically, the announcement of the imminent privatisation of Germany's rail operator was met with a very public expression of interest on the part of the state-owned JSC Russian Railways (*Der Spiegel* 25 July 2007) to buy a large stake in DB. In general, the private sector in Germany is more aware of the contradiction between "mercantilism for us, open markets for them" but, in the shape of the Federation of German Industry, still advocates a case-by-case system as exists in the USA (*FT Deutschland* 1 Aug. 2007).

Setting aside the hypocrisy of German/EU mercantilism in the context of the neo-liberal conditionality imposed on the Western Balkans, there is a persuasive case for reversing the hegemonic pattern of preferences, such that the developing countries of the region (and throughout the globe) are allowed to nurture their national or regional enterprises, to build up strong and sustainable economic and social infrastructures and promote democracy and civil society behind the protective walls of a mercantilist regime until their political economy has converged sufficiently with the structures and norms of richer economies. Ha-Joon Chang ("Protecting", *Kicking*) points out that "(p)ractically all of today's developed countries, including Britain and the US, the supposed homes of the free market and free trade, have become rich on the basis of policy recipes that contradict today's orthodoxy" ("Protecting"). Free trade becomes the clarion call when hegemonic states are able to benefit most from them. There is a clear danger that the neo-liberal recipe for modernisation in central and south-eastern Europe, as dictated by Germany and the rest of the EU, will prevent convergence

and freeze the economic development of the weaker states at a level which ensures the perpetuation of hegemonic, unequal interdependence.

Conclusion

There is no evidence to support the contention that Germany's political elites wish or plan to dominate whole states and groups of states; the Westfalian, colonial state has given way to structures of complex interdependence where territorial conquest is the exception that proves the rule. However, there is clear evidence of the political and economic elites of Germany pursuing strategic preferences which depend upon the exploitation and maintenance of their structural power and the relative weakness of subordinate political economies and enterprises. Hegemony and dominance self-evidently exist, even if domination and the desire to dominate have been removed from strategic agendas.

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