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**Economic Relations Between Visegrad Group Countries and  
Russia: How Much Has Changed?**

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**DRAFT/WORK-IN-PROGRESS.**

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## INTRODUCTION

Economic relations between EU member states and Russia have been strengthening steadily since 2000, especially after the EU eastward enlargement. The importance of Russia as an export market means that disruptions caused by sanctions are not only potentially costly but also contentious. Effects upon individual EU states vary due to the extent of trade with Russia and other important indicators of interdependence (such as energy sector integration). This paper focuses on the three ‘small’ Visegrad states’ – the Czech Republic, Hungary and Slovakia – which have all been at the forefront of the EU export boom to Russia. They have also been amongst those EU countries that have expressed strong reservations about the use of economic sanctions against Russia and the leaders of Hungary and Slovakia have been amongst the most vocal critics of this aspect of the EU and US response to Russia’s actions in Ukraine. In August 2015, a day after Slovak Premier Robert Fico had stated that ‘meaningless’ EU sanctions were damaging economic growth in the EU, Hungarian Prime Minister Viktor Orban said that the West’s sanctions policy “causes more harm to us than to Russia...in politics, this is called shooting oneself in the foot” (Szakacs, 2014). The Russian government apparently regards Hungary as one of its main allies in the struggle to avoid renewal of EU sanctions in March 2015. In December 2014 it was reported that Moscow had “begun lobbying what it sees as sympathetic EU capitals – Budapest, Nicosia, and Rome – to veto next year’s renewal of Russia sanctions” (Rettman, 2014). On February 17 this year Orban hosted Vladimir Putin in defiance of the EU ban on bilateral summits with the Russian President. Meanwhile a few days earlier Czech President Milos Zeman, who has tended to take Russia’s side throughout the Ukraine crisis, called for the lifting or easing of sanctions against Russia following the ‘Minsk 2’ peace deal. Though a division between views of President and views of government in the Czech Republic is often claimed, on January 15 this year Czech minister of industry and trade Jan Mládek stated that “(o)ur primary goal is to maintain exports to Russia. Diversification of exports is desirable, but we must do it with a humble mind, knowing that it is a long and costly affair. Therefore, it is important for us to keep on staying on the Russian market” (Czech Ministry of Industry and Trade, 2015).

The official attitudes of certain new member states to the EU’s sanctions strategy towards Russia have been interpreted not only in terms of economic and business rationale but also in terms of ‘excessively close’ political relations with Russia or even, in the case of Hungary especially, the “attractiveness of the ‘successful’ Russian model as regards its authoritarian style that makes the stabilisation of the power of the same interest groups possible for long” (Novak, 2014, 16). This paper aims to contribute to a more detailed understanding of the determinants of EU states’ attitudes towards sanctions against Russia by looking at the longer term evolution of Czech, Hungarian and Slovak bilateral relations with Russia – with emphasis on the trade and economy sphere – since EU accession. The current,

hesitant, approaches to sanctions on Russia might in fact be seen as a rather natural and predictable outcome. More intense trade and economic cooperation with Russia has, for all three countries, actually been a key feature of the post-accession period. Furthermore, the record of certain political parties in terms of attitudes towards close economic relations with Russia also shows that there is nothing surprising about some of the rather mild reactions to Russia's role in the Ukraine crisis and willingness to carry on 'business-as-usual' in economic relations in all three countries or even prioritise economic interest. This may reflect longer standing pro-Russia positions within certain sections of the political elites and increasing pragmatism across the political spectrum rather than a drift towards a model of democracy that emulates the Russian Federation.

The first section of the paper contains some very brief analysis of economic relations between Russia and the three between 1993 and 2003, during what was essentially a long period of transition. The second and substantive part of the paper focuses on the post-2004 period and discusses the ingredients of the more intensive relationships with Russia that have developed over the last ten years or so and which form the backdrop to current attitudes towards Russia and approaches to sanctions policy. These elements of the more intensive commercial relationship with Russia include: trade growth, energy dependence, bilateral relations and the role of intergovernmental commissions, new 'strategic' visions after the Eurozone crisis, the significance of longstanding alternative perspectives on economic and business relations on Russia. The paper will conclude with some very preliminary analysis of the impact of the Ukraine crisis on the three countries' trade relations with Russia. .

## **1. ECONOMIC AND TRADE RELATIONS WITH RUSSIA DURING EU PRE-ACCESSION: THE 'LONG' PERIOD OF TRANSITION.**

The end of communism precipitated a huge adjustment in the external trade of all the ex-CMEA countries that entailed a dramatic reduction of their mutual trade, especially with the USSR. Total Soviet imports (from all sources) declined by 44 per cent in the first nine months of 1991 as compared with the same period in the previous year" (Köves, 1992, 72-3). The CEE states learnt from this damaging forced retreat from the increasingly chaotic and unpredictable Soviet market that a strategic trade reorientation was not only politically justified but a practical economic necessity as well. After 1991 direct economic relations with Russia became a reality and official data shows that trade with Russia settled down into the same broad pattern for all three countries and remained more or less stable over the 1993-2003 period. With Russia having inherited the Soviet role of monopoly supplier of gas and oil, imports were largely consisting of fossil fuels, delivered via the pipeline

infrastructures constructed during the CMEA era.<sup>2</sup> Energy trade was the core determinant of structural trade deficits with Russia. Another key similarity was the inability to correct this imbalance with export growth. With some modest fluctuations along the way, the \$ values of Czech and Slovak exports to Russia were the same in 2003 as 1993 meaning a substantial fall in real terms. Hungary's situation was even less favourable, with a huge fall in the nominal value of exports to Russia with the 2003 \$ value only 58% of the 1992 total. Steadily increasing import bills meant that all three countries' deficits grew strongly, with a 255% increase in the case of the Czech Republic, 218% for Slovakia (1993-2003), and 408% for Hungary between 1992 and 2003. Table 1 contains data on the three's trade with Russia between 1992 and 2003. As noted below, however, the official data undoubtedly understates the real level of exports to the three towards the end of this period and notable growth most likely began after 2000. Nevertheless stagnation characterised the main part of the 1993-2003 phase.

Numerous factors, well documented at the time, accounted for these post-CMEA trade patterns between Russia and the three. A considerable portion of CEE exports to the USSR – so-called 'soft goods' were clearly not viable after 1990. General chaos and weak demand in the Soviet and subsequently in the Russian market, coupled with Russia's own strategic westward orientation during the Yeltsin period were also important. As Novak (2014, 11) remarked "(e)xports from Central Europe were hit badly by the collapse of domestic purchasing power and the economic crisis in Russia. The growing competition with western firms on the Russian market was an additional hindrance for firms of the region". As Table 2 illustrates the three also, of course, experienced a decisive strategic reorientation of trade to the West, encouraged by Europe Agreements and a rapid move to free trade with the EU. They also took steps to revive their own mutual trade in the framework of the Central European Free Trade Agreement (CEFTA) which was a regional integration initiative founded exclusively by and for CEE and, as such, was the closest thing to a revival of sorts of the CMEA grouping. The Visegrad Group states agreed to begin mutual trade liberalisation with the signing of the Cracow Treaty in December 1992. By the time CEFTA began operation (1 March 1993) there were four members and accessions of Bulgaria (1997) and Romania (1999) completed the ex-CMEA contingent, with Slovenia having entered in 1996. By 1997 the level of intra-CEFTA trade was standing in stark contrast to the Soviet domination of intra-CMEA trade and marginal role of trade among the 'six': Czech exports to CEFTA were eight times greater than exports to Russia, Hungary's three times greater and Slovakia's sixteen times greater.

It is worth mentioning here that despite the differences in official political attitudes to Russia and variations in the extent to which there were attempts to cultivate closer economic relations, the results

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<sup>2</sup> By the end of the 1990s the Czech Republic had taken advantage of its opportunity to diversification its gas supply to some extent, though not enough to make it substantially different from Hungary and Slovakia in terms of the basic structure and asymmetry in trade with Russia.

in terms of actual levels and patterns of exports to Russia were very similar. In fact there were no real perceptible differences in the experiences of each of the countries. The case of Slovakia in the 1994-1998 period, where the revival of CMEA-era levels of trade with Russia was the core economic (and foreign policy) strategy, was the most notable evidence that stagnation of export trade with Russia was not governed by the state of political ties. Novak reinforces this further by referring to the opposite (to Slovakia) experience of Poland which “remained the only important player in Russia” making it “clear that trade and economic relations could be improved without having good political relations” (Novak, 2014, 11).

## **2. THE CZECH REPUBLIC, HUNGARY AND SLOVAKIA AND RUSSIA SINCE EU ACCESSION: MORE INTENSIVE AND LONGER TERM RELATIONSHIPS**

### ***1. Trade with Russia after EU Accession – New Trends***

As noted above, during the ‘transition’ period the official data on exports of the three to Russia showed that they lacked dynamism, either stagnating or shrinking. By contrast, since EU accession the data on exports to Russia has shown very strong growth. Between 2004 and 2013 Czech exports had increased by 581%, Hungarian by 344% and Slovak by 906% (Table 3). In 2012 Czech exports to Russia accounted for 20.4% of total extra-EU exports, compared to 10.8% in 2004. For Hungary it was 13.1% in 2012 compared to 9.8% in 2004 and for Slovakia 25.6% and 9.1% respectively (Table 4). Despite these increases the trade deficit with Russia widened for both Slovakia and Hungary due to higher values of imports from Russia over this period, mainly caused by increased energy prices. Nevertheless, as exports grew faster than imports the deterioration in trade balance was moderated. Czech export growth easily outpaced that of imports and, thanks to diversification of energy supplies, the trade deficit narrowed over this period.

In terms of the commodity structure of trade, Czech exports to Russia are in a wide range of manufactured industrial goods and mainly machinery and transport equipment (especially cars), chemicals, food products and construction materials. Slovakia’s main export lines to Russia are machinery and transport equipment (especially cars), chemical and allied products, other industrial goods and fabrics. Hungary’s most important exports to Russia are in machinery and transport equipment, mobile phones, pharmaceuticals, chemical and allied products and foodstuffs. As for imports from Russia, in all three countries these are dominated by raw materials and oil and gas, which account for around 85%, 90%, and 90% of the imports of the Czech Republic, Slovakia and Hungary respectively.

An obvious question concerns the influence of actual EU membership on trade with Russia and the extent to which factors connected to EU entry explain the surge in growth of exports to Russia which became apparent after 2003. It seems that there is no strong evidence that EU entry *per se* was the key cause of the observed trade growth *although* there was a significant statistical impact which in fact further emphasises that the important influences had already occurred by the time EU accession took place: “(b)efore EU accession exports of TNCs from Central European subsidiaries were mostly counted in EU export as a result of firm level agreements between subsidiaries and their headquarters in the EU. After accession to the EU, this practice changed, and these exports were counted into the export of Central European countries. This statistical change also explains the sudden and radical modification of export structures in favour of manufacturing industries, since most of the FDI firms exporting to Russia were operating in this category” (Novak, 2014, 11). This underscores certain economic consequences of EU entry that have played a major role however in terms of the economic development and changing capacities experienced by the three. The large inflows of foreign direct investment have built up export capacity, including in the sectors that have been of special importance in overall EU exports to Russia and which have experienced rapid growth in recent years. They have included passenger cars /road vehicles and medicinal and pharmaceutical products which accounted for 11% and 7% respectively of total EU exports to Russia in 2010 (Eurostat, 2011). As Hungarian academician Zsuzsa Ludvig told the Hungarian newspaper *Nepszabadsag*: “Our 2004 EU accession benefited relations. This probably explains why there have been structural changes in our exports: the leading role has been assumed by multinational companies with Hungarian interests, and they strike their deals with their Russian partners directly, practically without the intervention of the Hungarian state” (Wikileaks, 2012). The changing capacity of the three enabled them to ultimately join many other EU states in benefiting from the ‘boom’ in Russian imports that took off after 2000. This in turn was on the back of high levels of economic growth and the Russian state’s use of buoyant oil revenues to significantly raise household incomes (particularly in Moscow and St Petersburg) and fuel consumer spending. Between 2005 and 2010 the value of Russia’s imports more than doubled from US\$ 79,712 million to US\$ 197,472 million, having reached a pre-crisis peak of US\$ 230494 million in 2008.<sup>3</sup> As well as the three, most EU states experienced strong growth in their exports to Russia, demonstrating that the growth of the three’s exports was mainly part of a wider trend. Other ex-CMEA states followed this trend also with Poland’s exports growing by 211 per cent between 2004 and 2010, those of Romania by 528 per cent and Bulgaria by 224 per cent.

## ***2. Entry and Energy Dependence***

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<sup>3</sup> Data on Russian growth, consumer spending and imports from the *Federal State Statistics Service of the Russian Federation*

Russia inherited the USSR's role as the main supplier of oil and gas. Energy supply and security has remained a major aspect of current Czech, Hungarian and Slovak economic and political relations with Russia throughout the post-CMEA/post-USSR era. Deep integration of the energy sector had been among the few notable successes of socialist economic integration and not so easy to undo as other communist-era linkages. The physical infrastructure for oil and gas supply and transit is still very much operational and vital today as Russia remains the principal supplier of oil and natural gas. Russia maintained the Soviet reputation as reliable supplier after the end of the CMEA. There were no supply disruptions during the EU pre-accession period, even during testy phases in political relations and perceived instability in Russia. Slovakia and Hungary kept their traditional levels of dependency on Russian supplies and further integration, while the Czech Republic did follow a diversification policy, its advantageous geographical location easing the logistical task of building up other supply sources and by 2001 its dependence on Russian oil and gas had dropped by around 25% and 30% respectively (Votápek, 2003, 98).

As far as energy security/dependency issues since EU entry are concerned, gas supplies have tended to have the highest profile. Reliance on Russian natural gas is high in all three cases but does vary. In 2012, Russia provided 80 per cent of Hungary's total gas imports and for Slovakia and the Czech Republic the amounts were 83.5% and 57.5% respectively. Hungary and Slovakia are supplied primarily by pipelines coming through Ukraine from Russia. Around 30 per cent of Czech gas imports come from Norway via the Olbernhau border transfer station<sup>4</sup> Supply contracts are negotiated by the main gas transmission system operators in each country - RWE Transgas Net in the Czech Republic, FGSZ Ltd in Hungary and Slovensky Plynarensky Priemysel, a.s in Slovakia – all of which work on the basis of long term deals with Gazprom Export. Gas supply became an increasingly 'hot topic' after Russia's disputes with Ukraine disrupted supplies, first in 2007 and again in 2009. The 2009 crisis, which occurred at the coldest time of year and caused public anxiety about energy security to increase considerably, shifted diversification of gas supply to the forefront of the energy policy agenda (see Nosko and Lang 2010). Shortly after the 2009 crisis the Czech Republic and Slovakia both declared their official support for the Nabucco gas pipeline project backed by the EU (see Topolanek 2009 and Duleba 2009). Hungary of course was already an established proponent of Nabucco but also supported the (now cancelled) Russia-led South Stream pipeline with former Prime Minister Gyurcsány having stated in 2009 that 'Hungary is interested in having as many pipelines as possible' (Euractive 2009). The 2014 Ukraine crisis has of course unleashed massive new momentum for energy diversification, especially gas supplies. However, for some countries at least, this reflected fears of instability of supplies coming through Ukraine rather than supplies from Russia per se. Hungary, along with Bulgaria and Serbia, had invested "substantial financial and political capital"

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<sup>4</sup> Source: Eurogas, Energy Delta Institute (EDI) database available at: <http://www.energydelta.org/mainmenu/edi-intelligence-2/our-services/Country-gas-profiles>

invested in the South Stream gas pipeline project and “reacted with shock and anger” when Russia announced that the project was being scrapped on 1 December 2014 (Financial Times, 3/12/14, 6).

Nuclear electricity generation is also an extremely important, albeit up until now lower profile, aspect of enduring energy relations with Russia. Nuclear power is a significant part of the energy mix in all three countries, accounting for 33% of domestic electricity supply in the Czech Republic and Hungary and over half (55%) in Slovakia. This comes from six reactors in the Czech Republic and four each in Hungary and Slovakia (Nuclear Energy Agency, 2010a, 2010b, 2010c). All the reactors are Soviet-era, commissioned and constructed by Soviet partners and these days the Russian nuclear energy giant Rosatom is a key partner. Rosatom subsidiary TVEL is the exclusive supplier of nuclear fuel for the Czech Republic, Hungary and Slovakia. Russia has also in past received spent fuel for processing on its territory. Rosatom also plays a key role in the supply of spare parts for reactors and maintenance schedules and has also been involved in certain crisis operations.<sup>5</sup> As with pipeline systems, changes to this part of the energy infrastructure cannot be made except in the longer term and would be very expensive.

Prior to the Ukraine crisis the main developments were if anything around expanding Russian involvement in projects to modernise and expand nuclear power capability in all three countries. In 2009 Russia and Slovakia signed a long term deal in nuclear power engineering that involved, amongst other things, Slovakia’s “support for the participation of Russian companies in modernizing Slovakia's reactors”.<sup>6</sup> Most recently, Rosatom has been involved in the project to build new reactors at the Jaslovske Bohunice nuclear power complex (Pictures.Dot.News, 2014). Hungary’s commitment to the nuclear energy partnership with Russia has also strengthened. In January 2014 it was announced that the Hungarian and Russian governments had agreed that Russia will loan Hungary Euro 10 billion to finance construction of two new reactors at Hungary’s Paks nuclear energy plant. Following Moscow’s ‘bailout’ loan agreements with Ukraine (Euro 15 billion in November 2013) and Belarus (Euro 15 billion in December 2013), the loan to Hungary was described as “the latest in a series of Russian moves to use its energy and financial clout to restore influence in eastern Europe” (Financial Times, 15/1/14). Some negative consequences of the Ukraine crisis have been apparent in the Czech Republic to some extent, at least as far as Russian involvement in the building of new nuclear generating capacity. The Rosatom subsidiary Atomstroyexport was in one of the consortia bidding to build two new reactors at the Temelin plant in the Czech Republic until the tender was cancelled in April 2014. Though the tender cancellation was for different reasons, in early March

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<sup>5</sup> In Hungary, for example, following a serious incident in April 2003 in which water contamination from the fuel rod cleaning system occurred, specialists from TVEL carried out the decontamination work with their Hungarian counterparts.

<sup>6</sup> See ‘[Russia, Slovakia sign long-term nuclear power deal](http://en.rian.ru/russia/20091117/156872704.html)’. Available at [www.http://en.rian.ru/russia/20091117/156872704.html](http://en.rian.ru/russia/20091117/156872704.html)



2014 it had, however, already been looking as though Rosatom's chances of winning this contract were a casualty of the Ukrainian crisis and Russia's occupation of Crimea in particular. On March 3 2014 Radio Prague reported that Czech Defence Minister Martin Stropnický said that he found it "difficult to imagine that Russian firms would complete new units at the Czech Republic's Temelín nuclear power plant in light of Russia's military intervention in Ukraine", while "(f)ellow minister in government Jiří Dienstbier expressed a similar view, saying that while it was only his personal opinion, he could not imagine Russian companies taking part in the tender, stressing that a country that resorted to military aggression represented a security risk" (Radio Prague, 2014). It remains to be seen how the fear of significant Russian presence within strategic sectors will affect the future developments of nuclear power capacity. Yet future Russian involvement in the nuclear energy sector, be it as a source of finance for construction or commissioning Rosatom to build new facilities, has to be taken in context. The involvement of Russian companies has strong internal support and for now, the nuclear energy partnership is a longstanding important, stable and trouble-free (i.e. has not suffered from any equivalent of the gas crises) dimension of bilateral relations with Russia. Indeed, when possible Russian involvement (in place of CEZ, the Czech generating company) in the Jaslovské Bohunice that construction project was first revealed it was reported that this would be very convenient for the Slovak government which "sees Russians as reliable and proven partners in this area" (Groszkowski, 2013).

### ***3. Intergovernmental Cooperation on Trade and Economic Relations***

Bilateral cooperation between Russia and the governments of the three is a further factor in what have undoubtedly been burgeoning trade and economic relations more broadly. In 2004 the Czechs and Russians established the *Czech-Russian Intergovernmental Commission for Economic, Industrial and Scientific Cooperation* (C-RICEISC). The *Hungarian-Russian Intergovernmental Committee for Economic Cooperation* (H-RICEC) was established in 2005. The *Slovak-Russian Intergovernmental Commission on Cooperation in the Economy, Science and Technology* (S-RICCEST) has a longer history having been set up in the aftermath of the collapse of the CMEA and then the USSR in an attempt to salvage the viable parts of mutual trade and handle various practical aspects of post-CMEA/post-USSR economic relations with Russia. The S-RICCEST played useful initial roles to do with bilateral trade arrangements and negotiations to resolve transferable rouble debts. It gradually faded from view, however, and by the time of EU accession seemed to have fulfilled its purpose. Duleba (2009) observed that the Slovak Commission "sank into oblivion and became an example of the narrowing of the bilateral tools of Slovak foreign policy in relations with East European countries

in the field of foreign trade” and was abolished by the Dzurinda government in 2002. It was revived three years later in 2005.

The Czech, Hungarian and Slovak Intergovernmental Commissions (IGCs) with Russia bring together leading politicians, civil servants, regional actors, industrialists and other business/commerce representatives for extended meetings that can cover specific contracts and map out medium and long-term economic cooperation.<sup>7</sup> In all three cases the IGC structure is broadly similar. To give the Hungarian case as an example, H-RICEC consists of Hungarian and Russian parts headed by co-chairmen, both of whom are senior government figures. They are State Secretary of the Prime Minister’s office (currently Peter Szijjarto) in the case of Hungary and Minister of Agriculture (currently Nikolai Fyodorov) for Russia. The chairmen appoint the secretaries of the eight working groups that reflect the main areas of cooperation. In the H-RICEC case these are: agriculture, construction, energy, ICTS and innovation, military technology, medicine and pharmacology, regional cooperation and tourism.<sup>8</sup> Each working group is headed by top ranking officials of the relevant Ministries or state agencies and representatives of the business community are also important members of the H-RICEC working groups. The Chairmen and working groups are in regular contact and meet regularly. The main annual event is the 2 day plenary meeting attended by not only all the state representatives of Hungary and Russia, including Szijjarto and Fyodorov, but also by representatives of those Russian and Hungarian companies that are heavily involved in mutual economic relations. The plenary sessions rotate alternately in Budapest and Moscow and involve (first day) detailed discussions in the working groups and (second day) working groups report on the year’s achievements, relevant issues and problems. The H-RICEC Chairmen have the role of leading discussions of the working groups in order to find solutions to any acute problems. Another important function of the plenary is to finalise and sign the ‘Protocol of the plenary session’ that summarises progress in the previous years and contains a jointly agreed action plan for the coming year, covering all the working groups.

The intergovernmental commissions are undoubtedly increasingly seen as valuable instruments to actively promote exports to Russia and further develop the business/economic partnership. They now appear to be firmly entrusted with the task of promoting trade and various aspects of economic cooperation between Russia and each of the three. Though an assessment of the precise impact of these bodies is not within the scope of this paper some observations are as follows. First, they

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<sup>7</sup> The legacy of Czechoslovakia means that there are strong enduring ties between Czech and Slovak companies and business associations that also cooperate, both with each other and with their Russian ones, in order to promote their mutual commercial interests in Russia. For example a business fair to promote Czech and Slovak companies in Russia was held in October 2009 in Moscow. The list of participants in the ‘Days of Czech and Slovak Businesses’ included “Business Council for Cooperation with the Czech Republic, the Business Council for Cooperation with Slovakia, the Business Council of entrepreneurs of the Czech Republic for Cooperation with Russia, and the Slovakia-Russia Business Council. The Russian Chamber of Commerce and Industry was actively involved in the event organization” ([premier.gov.ru/eng/events/pressconferences/8257](http://premier.gov.ru/eng/events/pressconferences/8257))

<sup>8</sup> The S-RICEC has the following working groups: For the C-RICEC they are: As well as sectoral cooperation and promotion of business links, the commissions are currently working with political authorities in regions outside the main centres of Moscow and St. Petersburg.<sup>8</sup>

illustrate that contrary to CEE states initial assumptions, EU entry did not in fact mean that all competence on economic and trade relations with Russia was now gone (to the Brussels level) and many possible avenues for productive bilateral cooperation on trade and economic relations were actually still open. Second, official statements seem to affirm that these bilateral bodies are regarded positively and can be good vehicles for trade development and other forms of economic cooperation. They have been described as bodies “responsible for ‘oiling’ economic ties, and taking strategic decisions” (Wikileaks, 2012). The C-RICEISC has been credited with “some success in removing trade barriers” (Wikileaks, 2008). They can be regarded also as useful channels for intergovernmental communication and dialogue even during times when relations at the political-diplomatic level may be strained. For example in March 2013, the S-RICCEST plenary included a bilateral meeting between the Slovak and Foreign Chairman (Foreign Ministers Lajcak and Lavrov) who “exchanged views on further development of relations and cooperation vis-à-vis the European agenda as well as views on a range of current key international issues from the wider global context” (Slovak Ministry of Foreign Affairs, 2013). Some examples of positive rhetoric are as follows. The meeting of the H-RICEC that took place in Moscow during March 2011 discussed “cooperation opportunities in the field of energy, agriculture, finances and transport” and signed a ‘joint declaration of modernisation and partnership’ that “outlines the long-term cooperation opportunities for business organisations, and creates a framework for cooperation between the two governments in modernisation, research and development”<sup>9</sup> At the September 18 2013 meeting in Budapest Russian agricultural minister Nikolai Fyodorov “stressed that a new impetus should be given to bilateral economic relations” (Hungarian Ambience, 2013). The October 2010 Moscow meeting of C-RICEISC involved two days of bilateral talks and expressed “support for important Czech-Russian projects or the utilisation of the possibilities offered by the EU-RF initiative Partnership for Modernisation and Cooperation” (Vlček, 2010). In a press statement during his 2009 visit to Bratislava Vladimir Putin remarked that the S-RICCEST had an important role in “expanding business connections, investment partnerships, and cooperation in high-technology industries”.<sup>10</sup>

#### ***4. New ‘Strategic Visions’ after the Eurozone Crisis?***

The Visegrad 3 are all small economies that are heavily dependent on exports, which account for 80-85% GDP with significant export capacity having been generated by foreign direct investment. For the bulk of the post-communist period all of the now new member states have had an economic strategy that has focused on the EU as the main ‘development centre’ that has simultaneously acted as

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<sup>9</sup>See ‘Hungarian-Russian Negotiations Concluded by Signature of Modernisation Declaration’. Available at: <http://www.kormany.hu/en/ministry-of-national-development/news/hungarian-russian-negotiations-concluded-by-signature-of-modernisation-declaration>

<sup>10</sup>[http://www.pchrb.ru/en/press\\_center/news/index.php/index.php?id4=429](http://www.pchrb.ru/en/press_center/news/index.php/index.php?id4=429)

the main market for expansion of imports and as the main source of external financing. In the light of the Eurozone crisis and stagnating growth in the EU along with the emergence of potential new development centres, Novak (2014, 30) raises the question of whether the EU “will remain the development centre for the whole region despite the problems with its economic development and the widening division between countries?”. Novak suggests that the weaker, export-dependent new member states that fall into the category of South in the post-Eurozone crisis notions of North-South divide inside the EU are more prone to seeking extra-EU development centre possibilities.

While not suggesting that the strengthening and expanding economic ties with Russia, particularly through additional economic diplomacy and placing more emphasis on the role of the bilateral intergovernmental commissions, was connected to a search for a new development centre it certainly reflected a strategy of seeking to access new, dynamic export markets. Hungary, however, classed as having a direction ‘different’ to the Northern countries of the EU has certainly fixed its attempts to cultivate economic links with Russia, and the ‘east’ more broadly to a wider strategic vision known as the ‘Eastern Winds Doctrine’. This has emphasised dialogue with Asian and former Soviet states to generate new sources of investment and business relationships. Since first aired by Orban in 2009 and operationalised into a cornerstone of the Orban government’s foreign policy after 2010. It has involved high level missions to Azerbaijan, Kazakhstan, Malaysia, Philippines, Saudi Arabia, Thailand, Turkey and many others. There have been multiple trips to China and Russia (Kalan, 2014). The Eastern Winds Doctrine also seems to involve avoiding any antagonisms with significant Eastern partners such as Russia and Kalan has noted this tendency as especially visible in Hungary’s policy to Ukraine which has involved development of “trade relations with Russia but political dialogue has been limited to the issue of the Hungarian minority in Transcarpathia”. Novak also notes that engaging with different potential development centres causes complications because not all centres operate ‘according to the same rules’ and contradictions with the rules and regulations of the EU are possible. Hungary’s 2014 nuclear deal with Russia/Rosatom, now under serious challenge from the European Commission, is a clear illustration.

##### ***5. Alternative Political Party Perspectives on Russia***

The main political parties in the three have been prone to different rhetoric on relations with Russia, although those differences are not always so apparent when it comes to preferences on economic relations, at least when it comes to the question of selling products to Russia. Centre-left parties tend to fall into the Russia-friendly category and are inclined to prioritise economic relations with Russia. This is partially due to the significance of CMEA/socialist era networks of government officials, with the leaders of left-leaning parties usually ex ‘reform socialists’ who were USSR-educated, comfortable in Moscow and able to enjoy close and friendly relations with their Russian counterparts.

Centre-right parties, with leaderships not from this background, tend to be Russia-cautious or Russia-hostile and view economic relations with Russia as much threat as opportunity. This categorisation was certainly a reliable assumption during the EU pre-accession period. As the post-accession period has developed it remains more or less valid as a rule of thumb but the reality has become increasingly complex and nuanced as a consequence of the growing importance of Russia as a trade partner. This seems to have mainly affected the consistency and stability of the views/rhetoric and actions of the centre-right parties. It should also be said that there seems to be a noticeable difference between Slovakia on the one hand and the Czech Republic and Hungary on the other. Indeed, Slovakia has been labelled “a ‘quasi-Russophile’ country and party variations are somewhat milder in that no major party could be classed as anti-Russia. Both major parties, for example, support close economic ties with Russia, but the centre left tends to be somewhat more accommodating and supportive of Russia’s security and foreign policy concerns. Hence in October 2009 ‘Slovak prime minister Fico pinpointed that as long as he acts in the capacity of prime minister, the United States will not be allowed to deploy the anti-missile system in Slovakia’ (Dangerfield, 2013, 181).

While the above mentioned party categorisations were fairly reliable in the EU pre-accession period the situation has become rather more complex and nuanced since EU membership and Russia’s growing importance as a trade partner. This can be illustrated in a number of ways beginning with divisions within parties/governments have complicated the picture. For example many statements and actions of former Czech President Klaus did not reflect the Russia-cautious attitude of the Civic Democratic Party led government of the time. Indeed, Klaus led various Czech trade and economic cooperation delegations to Russia that were organised in the framework of the C-RICEISC. As Kratochvil (2010) wrote, Klaus’s “role was prominent especially in 2007, in connection with his visit to Moscow accompanied by a delegation of Czech businessmen, and in 2009, when he assumed the position of representative of the presidency country at the EU-Russia summit in Khabarovsk”. Milos Zeman has carried on this pro-Russia tradition since becoming Czech President and his perspective has long been evident. When the Czech Social Democratic Party formed the government in 1998 with Zeman as Prime Minister it marked a switch towards a more conciliatory foreign policy approach to Russia.

Second, regardless of parties’ political rhetoric about Russia, it is clear that the growing significance of economic relations with Russia has gradually caused pragmatism to increasingly outweigh, or at least not be too compromised by, ideological or values-based foreign policy stances on Russia. In the case of the Czech Republic the political tensions of recent years – including the ramifications of the proposal to locate part of the US Ballistic Missile Defence system in the Czech Republic and Poland and various criticisms of the Russia state (over its democracy and human rights records, actions in Georgia etc.) that came from the Ministry of Foreign Affairs - did not prevent a largely ‘business as usual’ approach in the economic and business sphere. An important role in this was played by the

Czech Ministry of Industry and Trade, whose influence on Czech relations with Russia has grown, as Kratochvil (2009, 206) informs us, “in direct proportion with the increasing importance of Czech-Russian relations. Contrasting with the problematic political relations (especially during 2007 and 2008) the representatives of the Ministry of Industry and Trade strived to separate the political and economic dimension of the mutual relations”. The Czech Ministry of Industry and Trade, of course, have responsibility for the C-RICEISC. The case of Hungary over the last few years has been particularly spectacular in this respect showing that even parties prone to particularly strong anti-Russia rhetoric, when they get into power, can rapidly learn the need to be pragmatic about the need to avoid jeopardising economic links with Russia. After the election in April 2010, various meetings of important bilateral economic cooperation committees were cancelled by the Russian side and Orbán’s first meeting with Putin in November 2010 was unproductive with ‘the Kremlin’s mistrust and Hungary’s lack of interesting assets’ having had a very negative impact on the talks (Ugrosdy 2011). In this context, soon after what was the ‘standard’ expression of attitudes as mentioned above, the government of Victor Orbán seemed to rapidly jettison its anti-Russia credentials. Racz (2012) noted that the Orbán government refrained from any criticism of the 2011 Russian parliamentary elections, no doubt mindful of the serious effects provocative rhetoric can have on Russia’s willingness to do business. The Orbán administration is certainly not constraining the work of the H-RICEC – quite the opposite in fact. Also, the current Hungarian enthusiasm for participation in the South Stream gas pipeline was somewhat at odds with comments made by Orbán in 2008 when he accused Gyurcsany of ‘treason’ for signing the agreement on Hungary’s participation. Moreover, as noted earlier, the Hungarian government seems to have gone even further with the January 2014 deal to accept a Russian loan to finance new reactors and other generating project at the Paks nuclear site. These days, critical voices in Hungary even speak of the ‘Putinisation’ of the Hungarian Prime Minister.

Third, while the growth of trade with – and especially exports to – Russia underlies the shift to a more pragmatic political engagement with Russia, the situation is more nuanced when it comes to inward investments from Russia, especially when it comes to large scale ‘strategic’ investments. In Hungary, the right wing Fidesz party’s traditional position has been similar. In November 2010, just after winning the election (and just before his ‘conversion’) Orbán said that “any kind of partnership with Russia was dangerous. He complained that more and more EU countries were initiating economic cooperation with Russia and that this would lead to a dangerous economic and political penetration of Russia into the West” (Hungarian Spectrum, 2013). Kratochvil (2009, 205) notes that in 2009 Aeroflot was disqualified from the competition to privatise Czech Airlines, possibly because of unpublished ‘security’ threats. This fits with the content of a Wikileaks release of a 2008 document that stated that the “ODS-led government, however, is very concerned about Russian investment in

the Czech Republic, especially in the energy and media sectors, and regularly intervenes to prevent Czech assets from falling into Russian hands”.

Fourth, the revival of the Intergovernmental Commissions after EU accession was, in all three states, undertaken by left-leaning governments of the time.<sup>11</sup> Yet there is no rule that Centre-right parties neglect the bilateral commissions. There is no doubt the current Hungarian government give their commission a high priority. In 2013 Orbán moved his deputy (Szijjártó) to what he saw as the key post of Chairman of the H-RICEC and as already noted that emphasis on trade relations with Russia is a key part of Hungary’s Eastern Winds Doctrine’. In May 2013 Szijjártó’s spokeswoman said that “economic cooperation with the former Soviet member states are the foundation pillars of that government’ strategy of the Eastern Opening” (Hungarian Spectrum, 2013). Szijjártó had also just been appointed Chairman of the Hungarian-Belarusian, Hungarian-Turkmen and Hungarian-Uzbek bilateral economic commissions.

#### **INSTEAD OF A CONCLUSION: TRADE AND ECONOMIC RELATIONS WITH RUSSIA DURING THE UKRAINE CRISIS**

Clearly it is rather early to analyse with any precision the impact of the Ukraine crisis either on the EU’s overall trade with Russia or the experience of individual EU member states. Yet a substantial decline in EU exports to Russia looks rather inevitable. As far as the trade and economic relations of the three with Russia are concerned, some broad observations are as follows.

First, some levelling off and even slight decline of exports to Russia became evident in 2013. Czech exports for the year declined by 6% compared to 2012, Hungary’s by 1% and 7% for Slovakia. Data for 2014 shows that this trend has continued. Slovakia’s car exports to Russia fell by 21% between January and November 2014, for example.

Second, EU sanctions, and the responses by Russia, are not *per se* are not the major influence on the three’s exports to Russia at the current time. The sanctions so far have not focused on the key exports

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<sup>11</sup> That is by SMER in Slovakia, ČSSD in the Czech Republic and MSZP in Hungary all of which represent traditional the Russia-friendly wing of the political spectrum in each country. Following its return to office in 2010, the current SMER government in Slovakia, for example, made the S-RICCEST a high priority. It has been investing quite heavily in increasing its role and effectiveness, and in 2012 shifted responsibility for the S-RICCEST from the Ministry for Economy to the Ministry of Foreign Affairs. In 2010 former (ČSSD) Prime Minister Jiri Paroubek was critical of the ODS governments efforts on bilateral economic cooperation with Russia when he said that “under a left-leaning government, officials “would be looking for ways to improve relations, namely of a business nature, with large neighbours to the east, especially Russia” (Dangerfield, 2013, 181).

sectors of the three, though Russia's action on agricultural imports from the EU do have implications for Hungary (though maybe ameliorated by bilateral arrangements?). Like several EU states, the three lobbied hard to avoid sanctions that would hurt their economic interests with Russia and seem to have been broadly successful. An important exemption on nuclear fuels imports from Russia was secured, despite pressure from some EU member states (and Westinghouse lobbying) to include it.

Third, it does seem inevitable that the exports from the three and EU as a whole are likely to be a whole lot more disrupted as the effects of the following come on stream: the effects of the sanctions on the Russian economy, the financial position of the Russian state, and import demand; the plummeting oil price (which has more than halved in the second half of 2014) and the resultant effect on state revenues and level of imports; the drastic collapse of the rouble, which lost around half of its value against the \$US during the last six months of 2014. This may even cause the value of exports to Russia to hold up and maybe even increase in the short term but a serious decline in Russian imports is inevitable. The pressure on state finances cast doubts about whether deals such the Russian loan for the development of Hungary's PAKS nuclear power plant will actually go ahead.

The next point is on the impact of the Ukrainian crisis on bilateral economic cooperation with Russia. Even though the plenary meetings of the bilateral Intergovernmental Commissions were not held during 2014 (some doubt in the case of Hungary), much of the regular work carried on in a low profile way with bilateral meetings of the Chairmen taking place and continuation of the activities of the working groups. For example Hungarian Minister of Foreign Affairs and Trade Péter Szijjártó made working visit to Moscow on 19 November at the invitation of Russian Foreign Minister Sergey Lavrov. Earlier in the year, on 19 May, Slovak foreign Minister Miroslav Lajčák met the Russian Foreign Minister in Moscow and "after meeting Lavrov, Lajčák also unofficially met with Russian Vice-premier Dmitry Rogozin, who co-chairs the Slovak-Russian Intergovernmental Commission for Economic and Scientific Cooperation. Both agreed to postpone the meeting of the commission, which was previously scheduled to take place in Slovakia next month" Slovak Spectator (2014). Finally, in January 2015 the Czech Ministry for Industry and Trade declared that it wanted "a meeting of the Czech Russian Intergovernmental Commission for Economic, Industrial and Scientific Cooperation to take place in March" (Prague Post, 2015)

The final point concerns the responses of the Hungarian and Slovak government and pro-Russia interventions of certain politicians in the Czech Republic (e.g. President Zeman). These are certainly not in themselves evidence of emergence of some *new* pro-Russia leanings and this is not a sudden surge in loyalty/closeness to Russia. Rather, as discussed in the previous section, they represent the expression of a longstanding feature of central European politics. Internal divisions on Russia have been present and evident ever since the end of communism. Whatever the merits of the narrative of a lurch to the 'Russian' model of democracy and even charges of 'Putinisation' in Hungary, this is a



somewhat separate phenomenon to the pragmatism driven by importance of economic links with Russia. It should be mentioned that the government of Orbán's predecessor, under Ferenc Gyurcsány, was if anything even closer to Russia and Putin. Moreover in the Czech Republic, where there is certainly no 'Putinisation' process, there is however an equally stubborn refusal to disengage from close economic relations with Russia. As noted above, the intention is to hold a C-RICEISC meeting in March 2015 and on 2 October 2014 Trade and Industry Minister Jan Mládek met with Russian business representatives and diplomats at an international engineering fair in Brno. He said: "this year we are facing a very difficult international political situation, which unfortunately has significant economic implications. notwithstanding this fact, the Russian market remains for Czech entrepreneurs interesting and important. Nowadays, the ministry of Industry and Trade and other ministries develop measures to minimize the impact of the current crisis. The Czech Republic does not leave the Russian market in any case and is ready to heavily defend its present hard—earned position" Czech Ministry of Industry and Trade, (2014).

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## Appendix 1: Statistical Tables

*Table 1: Czech, Hungarian and Slovak Trade with Russia 1992-2003 (US\$ millions)*

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Czech Exports	N/A	593	548	630	694	767	650	379	385	490	517	584
Czech Imports	N/A	1280	1264	1876	2004	1851	1579	1388	2074	2001	1844	2339
Czech balance	N/A	(687)	(715)	(1246)	(1310)	(1084)	(929)	(1009)	(1689)	(1511)	(1327)	(1755)
Hung. Exports	1133	945	807	822	776	968	661	356	455	472	455	653
Hung. Imports	1674	2399	1746	1840	2021	1963	1666	1631	2589	2369	2284	2859
Hung. balance	(540.6)	(1454)	(939)	(1018)	(1245)	(995)	(1005)	(1275)	(2134)	(1897)	(1829)	(2206)
Slovak Exports	N/A	256	278	331	308	333	203	103	106	130	143	267
Slovak Imports	N/A	1236	1199	1456	1934	1619	1357	1347	2156	2171	2083	2408
Slovak balance	N/A	(980)	(921)	(1125)	(1626)	(1286)	(1154)	(1244)	(2050)	(2041)	(1940)	(2141)

*Sources: National Statistical Office of Hungary; National Statistical Office of Slovakia; National Statistical Office of the Czech Republic*

**Table 2: Reorientation of CEE-6 trade: exports, 1989-95 (%)**

<b>CEE-6 exports to:</b>	<b>1989</b>	<b>1995</b>
Former CMEA	47	23
EU-15	35	63
USA	2	2
Japan	1	1
Rest of the world	15	11

Source: Reproduced from Grabbe and Hughes (1998, 13)

**Table 3: Czech, Hungarian and Slovak Trade with Russia 2004-2012 (Euro millions)**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Index 2013/ 2004</b>
<i>Czech Export</i>	770	1132	1504	2081	2911	1877	2672	3759	4760	4474	<b>581</b>
<i>Czech Import</i>	2184	3392	4224	3930	5987	3721	4885	5235	5820	5848	<b>268</b>
<i>Czech Balance</i>	(1414)	(2260)	(2720)	(1849)	(3076)	(1844)	(2213)	(1476)	(1024)	(1374)	<b>97</b>
<i>Hungary Exports</i>	738	943	1617	2229	2666	2124	2583	2586	2567	2538	<b>344</b>
<i>Hungary Imports</i>	2875	3962	5118	4793	6651	4091	5196	6379	6447	6421	<b>223</b>
<i>Hungary Balance</i>	(2137)	(3019)	(3501)	(2564)	(3985)	(1967)	(2613)	(3793)	(3880)	(3883)	<b>181</b>
<i>Slovakia Exports</i>	271	398	549	959	1811	1416	1933	2090	2638	2457	<b>906</b>
<i>Slovakia Imports</i>	2207	2980	4029	4017	5258	3473	4679	6212	5884	6139	<b>278</b>
<i>Slovakia Balance</i>	(1936)	(2582)	(3480)	(3058)	(3447)	(2057)	(2746)	(4122)	(3245)	(3682)	<b>190</b>

Source: Eurostat



**Table 4: Czech, Hungarian and Slovak Trade with Russia 2004-2012 as % of total Extra-EU Trade**

<b>Exports</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<i>Czech Republic</i>	10.8	12.5	13.9	15.8	19.4	15.2	16.7	18.4	20.4
<i>Hungary</i>	9.8	9.8	13.0	15.2	16.6	16.8	15.6	13.4	13.1
<i>Slovakia</i>	9.1	12.1	12.5	17.0	25.6	24.9	25.4	23.9	25.6
<i>EU27</i>	4.8	5.4	6.2	7.2	7.9	6.0	6.3	6.9	7.3
<b>Imports</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<i>Czech Republic</i>	19.7	29.7	29.2	22.9	26.8	22.5	20.4	14.8	15.8
<i>Hungary</i>	18.8	24.7	27.6	22.5	28.2	23.4	24.2	28.3	29.1
<i>Slovakia</i>	43.5	48.2	45.2	35.8	38.9	34.6	34.0	40.4	37.1
<i>EU27</i>	8.2	9.5	10.3	10.0	11.3	9.6	10.5	11.6	11.9

Source: Eurostat

**Table 5: Energy Security – Dependence On Russian Natural Gas (Imports from Russia as % total gas imports in 2012)**

<b>Czech Republic</b>	<b>69%</b>
<b>Hungary</b>	<b>83%</b>
<b>Slovakia</b>	<b>94.5%</b>

Source: Dangerfield (2013a)

*Table 6: Nuclear Electricity Generation in the Czech Republic, Hungary and Slovakia*

	<b>No. of Soviet-built reactors</b>	<b>Nuclear power as % of domestic electricity generation</b>
<b>Czech Republic</b>	<b>6</b>	<b>33%</b>
<b>Hungary</b>	<b>4</b>	<b>33%</b>
<b>Slovakia</b>	<b>4</b>	<b>55%</b>

*Source: Dangerfield (2013a)*