

### Russia and Germany in Europe: recent trends of political and economic relations

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**Hans-Hermann Höhmann/Christian Meier/Heinz Timmermann**

## **Rußland und Deutschland in Europa**

Aktuelle Entwicklungstrends in den politischen und wirtschaftlichen Beziehungen

Bericht des BIOst Nr. 38/1997

### **Kurzfassung**

#### *Vorbemerkung*

Die Beziehungen zwischen Deutschland und Rußland bilden ein wichtiges und unverzichtbares Element gesamteuropäischer Zusammenarbeit. Sowohl Bundeskanzler Kohl als auch Präsident Jelzin charakterisierten das jeweils andere Land wiederholt als "wichtigsten Partner in Europa". Dies trifft in unterschiedlicher Weise sicher zu. So ist Deutschland für Rußland der weltweit stärkste Handelspartner, während umgekehrt Rußland für Deutschland (und den Westen insgesamt) unverzichtbar ist, wenn es um die Neuordnung in Ostmitteleuropa geht. Dennoch gibt es in den deutsch-russischen Beziehungen auch Probleme, wozu kriegsbedingte Altlasten ebenso gehören wie unterschiedliche Vorstellungen über eine neue europäische Sicherheitsordnung und unzureichende Rahmenbedingungen in Rußland für ausländische Wirtschaftsaktivitäten. Der vorliegende Bericht befaßt sich mit Chancen und Problemen der Beziehungen Deutschland – Rußland in ihrer bi- und multilateralen Dimension. Dabei stützt er sich auf Originalquellen, wissenschaftliche Literatur und Beiträge aus der Publizistik beider Länder.

#### *Ergebnisse*

1. Die *Interessen beider Staaten* im Rahmen ihrer bilateralen Beziehungen und multilateralen Einordnung stimmen der Intention nach weitgehend überein. *Deutschlands* zentrales Interesse richtet sich darauf, daß Rußland als Partner in die internationalen Organisationen sowie die internationale wirtschaftliche Arbeitsteilung eingebunden wird und sich als konstruktive Großmacht an der Neuordnung Europas beteiligt. Dies trifft sich mit dem Interesse *Rußlands*, das darüber hinaus die Erwartung hegt, gerade Deutschland werde sich als der wichtigste Entwicklungs-, Transformations- und Modernisierungspartner Rußlands profilieren. Allerdings trägt eine Reihe einschneidender Asymmetrien zwischen Deutschland und Rußland dazu bei, daß trotz vielfacher gemeinsamer Grundinteressen immer wieder Friktionen zwischen den Partnern aufkommen.
2. Auf *multilateraler Ebene* tritt die Bonner Politik kraftvoll für die internationale Einbindung Rußlands ein. Deutschland tut dies aber nicht als Schiedsrichter und neutrale

Mittlerinstanz zwischen Rußland und dem Westen. Vielmehr versteht sich Bonn als Fürsprecher Moskaus, der seine guten Dienste anbietet und innerhalb der westlichen Instanzen für sensibles Eingehen auf begründete Vorstellungen Moskaus wirbt. Als Beispiel hierfür geht der Bericht ein auf den G7-Weltwirtschaftsgipfel und dessen Umfeld, auf Aspekte der NATO-Erweiterung sowie auf Deutschlands Rolle bei der Ausarbeitung des Partnerschafts- und Kooperationsvertrags EU – Rußland. Die Frage lautet freilich: Wieweit will Rußland als selbstbewußte Großmacht überhaupt in internationale Organisationen integriert werden?

3. Die *bilateralen Beziehungen* zwischen Deutschland und Rußland stehen heute ganz im Schatten der internationalen Entwicklungen. Dennoch sind sie von großer Bedeutung, bilden sie doch gleichsam das Unterfutter für die gesamteuropäischen Prozesse. Insgesamt ist die Bilanz gemischt: Die guten politischen Beziehungen erhielten nicht zuletzt durch den fristgerechten Abzug der "Westgruppe der Truppen" aus Deutschland vom August 1994 Impulse. Bei der Liquidierung anderer Altlasten dagegen konnten ursprüngliche Zusagen und vertragliche Abmachungen nicht eingehalten werden, so daß es im deutsch-russischen Verhältnis immer wieder Irritationen und emotionale Aufwallungen gibt. Dazu gehört vor allem der Komplex "Rußlanddeutsche" und der Streitpunkt "Beutekunst", auf den der Bericht näher eingeht.
4. Frustrierenden Erfahrungen in den gegenseitigen Beziehungen "von oben" stehen jedoch vielfältige Aktivitäten "von unten" gegenüber: die zahlreichen *Begegnungen der Menschen* beider Länder, die Zusammenarbeit zwischen politischen, gesellschaftlichen und kulturellen Institutionen, Gruppen und Vereinigungen. Besonderes Gewicht kommt hierbei den mittlerweile 70 Städtepartnerschaften zu. Bemerkenswert sind auch die wachsenden Direktkontakte zwischen Regionen Deutschlands und Rußlands.
5. Die großen Hoffnungen auf eine dynamische Entwicklung der *deutsch-russischen Wirtschaftsbeziehungen* nach Herstellung der deutschen Einheit haben sich bislang nicht erfüllt. Die Ursachen dafür liegen weit mehr auf russischer als auf deutscher Seite. Gewiß haben sich auch die mit der marktwirtschaftlichen Umstrukturierung der ostdeutschen Wirtschaft verbundenen Probleme nachteilig ausgewirkt. Vor allem aber sind es die ungelösten Aufgaben der politischen und wirtschaftlichen Transformation in Rußland nach dem Zusammenbruch der UdSSR, die die ökonomische Zusammenarbeit behindern und die Rußländische Föderation auch für die Bundesrepublik zu einem schwer berechenbaren Außenwirtschaftspartner machen. Dies gilt für alle Schlüsselbereiche der deutsch-russischen Wirtschaftsbeziehungen: Handel, Direktinvestitionen, technische Hilfe (Beratung), Finanzkooperation und paraökonomische Verbindungen. Bei letzteren handelt es sich um die bilaterale Zusammenarbeit zur Durchführung des deutschen Wohnungsbauprogramms für aus der ehemaligen DDR nach Rußland zurückkehrendes Militärpersonal.
6. Was den *bilateralen Warenaustausch* anbelangt, so ist das vereinigte Deutschland mit einem Anteil von knapp 15% am russischen Außenhandelsumsatz gegenwärtig noch der wichtigste Wirtschaftspartner Rußlands im "fernen" Ausland. Umgekehrt ist Rußland an

der deutschen Gesamtausfuhr nur mit ca. 1,5% und an der Gesamteinfuhr lediglich mit gut 2% beteiligt. Die Handelsbeziehungen wiesen in den letzten Jahren eine unterschiedliche Dynamik auf und blieben aufs Ganze gesehen hinter ihrem Potential zurück, das nicht nur in Anbetracht der positiven russisch-deutschen Handelstraditionen, sondern auch aufgrund des großen Modernisierungsbedarfs der russischen Wirtschaft und des gewohnten russischen "undertrading" erheblich ist. Eine gewisse Wende zum besseren zeigte sich 1996. Ein wirklicher Aufschwung wird aber immer noch vom unzureichenden Stand der systempolitischen Transformation in Rußland und vom zu langsamen Wandel der russischen Produktionsstruktur behindert, der bedeutet, den wenig dynamischen komplementären Charakter des deutsch-russischen Handels festzuschreiben.

7. Wie beim Handel, so rangiert Rußland auch bei den *Auslandsinvestitionen* der deutschen Wirtschaft bis jetzt nur an hinterer Stelle. Die gegenwärtig bestehenden Investitionshemmnisse lassen sich stichwortartig wie folgt zusammenfassen: wachsende Sicherheitsdefizite aufgrund verbreiteter Kriminalität (Mafia-Syndrom); Häufung von Korruptionsfällen innerhalb der Behörden; rapider Verfall der Zahlungsmoral und der Vertragstreue, Fehlen einer konsistenten Wirtschafts-, insbesondere Außenhandelspolitik; krasse Widersprüche zwischen investitionsfördernden Vorschriften und der Steuergesetzgebung sowie Behördenwillkür bei deren Auslegung; Kompetenzgerangel zwischen der Zentralregierung und den Regionen. Solange hier mit keinen durchgreifenden Verbesserungen zu rechnen ist und die russische Regierung die Bedeutung eines attraktiven Investitionsklimas weiterhin unterschätzt, dürften sich deutsche Unternehmen nach wie vor zurückhalten.
8. Die Bundesregierung bietet Rußland seit der dortigen Systemwende *Beratungs- bzw. technische Hilfe* im Umfang von ca. 100 Mio. DM jährlich an. Dabei geht es ihr nicht darum, einen sogenannten "deutschen Weg" zu vermitteln. In Übereinstimmung mit den von Rußland festgelegten Prioritäten sind folgende Schwerpunktaufgaben erkennbar: wirtschafts-politische Beratung zur Schaffung von Rahmenbedingungen und zum Aufbau mittelständischer Strukturen und Unternehmen; Hilfe zur betrieblichen Umstrukturierung, Privatisierung und Entflechtung; Aufbau eines Steuer-, Zoll-, Versicherungs- und Bankensystems; Beratung im Landwirtschaftsbereich; Aus- und Weiterbildung im Bereich des Wirtschaftsrechts; Hilfe beim Aufbau von Verwaltungsstrukturen; flankierende Beratung in den Bereichen Arbeitsmarkt- und Sozialpolitik sowie Umweltschutz. Die Bundesregierung hat außerdem vier regionale Schwerpunkte festgelegt, auf die sich das deutsche Beratungsprogramm nunmehr konzentrieren wird. Es sind dies das Gebiet Moskau, Stadt und Gebiet St. Petersburg, Tjumen und Wladimir. Bei der Umsetzung der Maßnahmen bedient sich die Bundesregierung der Kreditanstalt für Wiederaufbau. Weitere Vorhaben auf dem Gebiet der Beratungshilfe werden von anderen bundeseigenen Einrichtungen und der deutschen Wirtschaft durchgeführt.
9. Fragt man nach den Perspektiven der russischen Außenwirtschaft im allgemeinen und nach der *Zukunft der deutsch-russischen Wirtschaftsbeziehungen* im besonderen, so kann kein Zweifel daran bestehen, daß ohne die Stabilisierung der Wirtschaftslage, ohne

adäquate Fortschritte bei der ökonomischen und politischen Systemtransformation und ohne nachhaltigen Strukturwandel kein dauerhafter Aufschwung der externen Wirtschaftsbeziehungen möglich ist. Dabei muß die Aufgabe der Stabilisierung sowie des institutionellen und strukturellen Wandels von Rußland selbst gelöst werden. Westliche Unterstützung in Form einer vielfältigen, den besonderen Bedingungen der russischen Transformation entsprechenden Kommunikation und kooperativen Partnerschaft ist allerdings nicht zuletzt aus politisch-motivationellen Gründen nötig und – wenn sie konzeptionell gut begründet und effizient koordiniert wird – ökonomisch sicherlich auch nützlich.

10. Ungeachtet der längerfristig wirksamen strukturellen Defizite und des anhaltend unbefriedigenden Standes der Transformation in Rußland haben sich Bundesregierung und deutsche Wirtschaft nach 1992 bemüht, *Strategien, Institutionen und Instrumente zur Förderung* der russisch-deutschen Handelsbeziehungen und der Wirtschaftskooperation zu entwickeln. Hinzuweisen ist auf die auf Regierungsebene getroffenen vertraglichen Regelungen und die auf gleicher Ebene ins Leben gerufenen Institutionen. Unter den Einrichtungen der deutschen Wirtschaft, die eine zunehmende Rolle spielen, ist u.a. das am 5. März 1997 in Moskau eröffnete Deutsche Industrie- und Handelszentrum (DIHZ) zu erwähnen. Schließlich sind im Kontext der Förderung der Wirtschaftsbeziehungen Instrumente zur Handelsfinanzierung zu nennen, wie etwa die traditionellen Hermes-Exportbürgschaften und neue alternative Finanzinstrumente.
11. Bilanziert man strukturelle Gegebenheiten und politisch-ökonomische Bemühungen, so lassen sich für die russische Außenwirtschaft im allgemeinen und für die deutsch-russischen Wirtschaftsbeziehungen im besonderen *Szenarien benigner und maligner Entwicklungen* unterscheiden. Das eine Extrem bildet das optimistische Szenario "Kooperationspolitische Trendwende durch erfolgreiche Systemtransformation und zügigen Strukturwandel", das andere Extrem läßt sich als "Weltwirtschaftliche Marginalisierung Rußlands als Folge anhaltender, wenn nicht gar zunehmender innerer Destabilisierung" kennzeichnen. Während das optimistische Szenario gegenwärtig als fast "undenkbar" erscheint, muß das pessimistische Szenario – leider – als düstere Möglichkeit und damit als wirtschaftliches und politisches Sicherheitsrisiko ins Kalkül gezogen werden. Gleichsam als realistisches Szenario erscheint die "Stabilisierung auf niedrigem Niveau mit Ausschlägen nach oben und unten". Die innerrussische Grundlage dieses Szenarios ist ein transformationspolitisches "Weiterwursteln" ohne klares und stabiles Profil auf seiten der Machtträger in Rußland sowie eine permanente Selbstanpassung der russischen Gesellschaft. Die Konsequenz für deutsche Partner wäre, daß zwar Kooperations- bzw. Handelschancen bestehen, daß aber viele Geschäfte mit großen Unsicherheiten verbunden bleiben. Dies bedeutet, daß das Geschäft mit Rußland nach wie vor große Risikobereitschaft, Improvisationstalent, genaue Kenntnis und permanente Beobachtung des sozioökonomischen Umfelds sowie verlässliche Partner "vor Ort" erfordert.

## 1. Structural Elements of German-Russian Relations

### 1.1 *Positive Signals*

There are two powers that will contribute greatly to the future structures of Europe: Germany and Russia. The mutual relationship between "Europe's two biggest states" (Yeltsin) will decisively influence the outcome of the question whether the processes of reshaping Europe after the radical changes in Eastern Europe will lead to an all-European partnership and interdependence or rather create new lines of division or even stir up anew the old traditional contradictions. The future is open in as far as both countries in question are new states which have yet to determine their exact position within a Europe that is growing more and more together: here the reunited Germany looking eastwards after the transformation of Eastern Europe, and there the new Russia trying through painful internal struggles to define its relation to Europe after the dissolution of the Soviet Union.

Against this background, it was an important positive signal that as early as in November 1991 Chancellor Kohl and President Yeltsin signed a Common Declaration in Bonn which continued the German-Soviet treaty of November 1990 and stated the intention of both countries to "co-operate as closely as possible" and to "develop relations of friendship, good neighbourliness and co-operation in all aspects". This is based, among others, on the "belief in democracy as the only legitimate form of rule" as well as the orientation towards Europe "as a common region based on common values and anchored in the consciousness of the peoples".<sup>1</sup>

There are two reasons why this general line envisaged so early and followed consistently up to today is so remarkable and forward-pointing. Firstly, it takes up the positive periods during the history of German-Russian relations swinging between processes of rapprochement and repulsion without repeating those phases where their partnership was mainly turned against other states and peoples. During the Hitler-Stalin pact relations between the two totalitarian states had become a frivolous complicity motivated by nothing other than reasons of power politics and aimed at submitting and dividing neighbouring states and characterised by deep mutual distrust. Secondly, the Common Declaration integrates German-Russian relations into processes of all-European co-operation while specifically emphasising common values and principles such as democracy, pluralism, respect of human rights and socially oriented market economy. This means a flat refusal to any new edition of political-culturally motivated special relations or a repetition of the geopolitical "axis" of the past. In any case, Germany commits itself specifically to help consolidating and integrating Russia because of Russia's weight and responsibility within the European integration process and not because of a special affinity to Russia on historical grounds.

Opinion polls confirm that this "normalisation" of bilateral relations and of mutual perception takes place not only among the elites of both countries but also its population. Previously

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<sup>1</sup> Bulletin of the press and information bureau of the Federal Government (Bonn), 133/1991, p. 1082.

people's assessments in both countries vacillated strongly between sympathy and antipathy. In Germany, for example, there were times of sentimental russophilia and times of fearful russo-phobia. Today, this relationship full of emotions and tensions has largely disappeared. According to surveys in the autumn of 1996, 28 percent of Russians feel sympathy towards the Germans while 22 percent of those interviewed answered that they did not feel any special sympathy. On the German side, an equal 28 percent of those asked felt sympathy towards the Russians while 29 percent did not feel any special affection (all others were indifferent).<sup>2</sup> Such sober assessments are all the more favourable preconditions for fruitful German-Russian relations because on both sides they leave behind earlier fears and worries as well as excessive expectations which had to end in disappointments.

### *1.2 Complementary Interests*

Three times this century, namely during the First, the Second World War and the Cold War, Germany and Russia faced each other as enemies or ideological adversaries. Today, there is the chance to put behind us this terrible heritage and to form anew our mutual relations, not in the nebulous sense of "sharing a common destiny" but as a partnership based on common values and complementary interests. This has become possible first of all due to the fundamental changes in the Soviet Union and Russia: together with the communist system Gorbachev dismantled also the Soviet Union's confrontation with the West and granted the peoples of Eastern and Central Europe including the Germans of the GDR the "freedom of choice".

It will always remain Gorbachev's historic achievement that these revolutionary changes were brought about without violence – it could have been otherwise as was demonstrated by the freedom movements of 1953 in the GDR, 1956 in Hungary and 1968 in Czechoslovakia which were all crushed by Soviet tanks. It is noteworthy that the majority of Russians today (58 percent) consider German reunification to be legitimate – in contrast to other aspects of Gorbachev's Western policy which are seen as foreign political defeats. In any case, the "new – foreign political – thinking" in Moscow paved the way for Russia's partnership with Germany and with the West: with the troop withdrawal from Eastern and Central Europe, the Baltics and Eastern Germany the Soviet Union/Russia moved geographically towards the East in order to reach the West politically. And despite all course adjustments in detail Yeltsin follows this general line until today. Russia's turning away from "totalitarian illusions" lays down the groundwork, says the president, in order to consolidate trust between the peoples and establish co-operative relations between countries.<sup>3</sup>

Of course, the partners' well-meaning intentions are not enough to build co-operative relations. Such relations will only be permanent and resistant to crises if they correspond to the interests of both sides and if these interests are more or less solidly intertwined. And true is that the best for a successful restructuring of relations is not to hide one's respective

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<sup>2</sup> M. Gorshkov/A. Chepurenko/F. Scheregi, Chto dumayut Rossiyanе o Germanii i Nemtsach, in: Nezavisimaya gazeta (Moscow), 20.11.1996.

<sup>3</sup> Speech in front of the Supreme Soviet, Radio Moscow, 13.2.1992.

interests but to formulate them clearly. Otherwise the danger of mutual misunderstandings will not be reduced. Which are then the central interests guiding Germany and Russia in their bilateral and multilateral relations?

*Germany* has a great interest in seeing Russia develop into a strong, stable, economically healthy and therefore self-confident state which, however, must be based upon a democratic constitution and open to the world.<sup>4</sup> The reasons for Germany's interest are obvious: a positive development in Russia would make for a reliable neighbouring country and partner in stability. Or the other way round: Europe can not be stable if Russia is instable. It is not a strong Russia that poses risks to others but a weak and uncertain one. The same is true for the economy: the more Russia furthers its economic modernisation and integrates itself into the world economy with a differentiated range of export goods the greater are the opportunities for Western industrialists to export into the huge country. And finally, Germany has a particularly strong interest to see Russia integrated as an indispensable partner into international organisations and to have the country participate as responsible, constructive great power in the restructuring of Europe. This would be a way to secure peace in Europe and help Germany in its attempts to enlarge the European integrative space to the east through a step-by-step advancement.

*Russia's* specific interest in Germany results from the expectation that Germany acts as the country's most important partner for development, transformation and modernisation. With unification Germany has become a country in transformation itself and is therefore assumed to be particularly understanding for Russia's problems in this respect. In addition, Moscow hopes to find in Bonn the main addressee when it comes to including Russia politically, economically and with regard to security policy into the European and Euro-Atlantic structures. And here the argument goes that Germany as the country in the middle of Europe must have a special – and in Europe maybe the strongest – interest in a successful reform process in Russia and that it would not want to see Russia isolated and sidelined from the ongoing integration process in Europe and especially from the construction of an all-European security architecture. In this sense, political elites and the population at large in Russia are less worried about a renaissance of nationalism or power awareness in Germany than some in the West. On the contrary: Moscow wants a *strong* united Germany and even demands that Bonn shoulders its growing responsibility and acts with determination as the influential country in the middle of Europe that it is. Russia would be alarmed if Germany became indifferent towards Russia or if it joined Western attempts at isolating Russia because of perceived renewed imperial ambitions.

Of course Russian and German economic interests have their specific character. Therefore they are dealt with in detail in the chapter "Economic relations between Germany".

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<sup>4</sup> So Foreign Minister Kinkel, Chancen für Freiheit, Demokratie und Rechtsstaatlichkeit in Rußland, in: Bulletin des Presse- und Informationsamtes der Bundesregierung, 14/1994, p. 125-127, here: p. 125.

### 1.3 *Problematic Asymmetries*

In view of these complementary German-Russian interests relations between the two countries may appear to be rather uncomplicated, especially since both Kohl and Yeltsin repeatedly characterised the other's country as "the most important partner in Europe". This impression, however, has to be put into perspective: a number of drastic asymmetries between Germany and Russia with far-reaching political and psychological consequences are causing a great number of problems and frictions between the partners despite their common basic interests. The following paragraph lists the most important examples of such asymmetries – mostly unfavourable to Russia – with counterproductive influences:

- Germany has achieved its unification as a state and taken the event as a reason to reject former great power traditions, to acknowledge its borders as final and to exclude all revisionism (not the least with regard to Kaliningrad/Königsberg). The Soviet Union on the other side was dissolved but among Russian elites there still exists open or veiled revisionism regarding the CIS countries. Many do not consider today's Russian Federation as the final Russia. Such conceptions could become a considerable burden for the future of German-Russian relations and all-European processes.
- Germany emerged from the radical changes in Eastern Europe as a "winner" with increased international weight. But even after unification, Germany remains firmly integrated in the Euro-Atlantic structures and uses its growing influence for the benefit of the integration processes and their enlargement towards the east. Russia, on the other side, is left without allies having lost its superpower status and now tries to at least maintain itself as a great power in Europe by exerting hegemony over the CIS countries and securing its influence in Eastern and Central Europe. If Russia tries to achieve this by using pressure, revisionist claims or by supporting dictatorial regimes (Belarus) the European co-operation could be considerably disturbed. When Chancellor Kohl visited Kiev in September 1996 he meant to "confirm our German commitment to and interest in a stable and independent Ukraine" thus giving a clear signal to Moscow. Because, as he said, "the Ukraine's stability is also part of Europe's stability".<sup>5</sup>
- For Germany, international influence results not so much from military power but from economic strength, technological innovation, a society's internal stability and dynamism. In Russia, by contrast, the concept of power among large parts of the elites continues to be based on mainly militarily defined categories like "zones of influence", "correlation of forces", "geopolitical dimensions". This creates difficulties when discussing principles of Europe's restructuring.
- Germany has learned lessons from faulty developments in its history and turned its back to former imperial aspirations in order to build friendly relations with all of its neighbours. One important confidence building measure was to unambiguously condemn the Nazi regime's crimes against the victim states. In Russia, however, the public debate aimed at coming to terms with the history of the Soviet regime has practically ceased and is increasingly being replaced by positions emphasising continuity with czarism and the

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<sup>5</sup> Radio Ukraine, Sept. 1996.

Soviet system. Such interpretation of history is detrimental to Russia's relations with its neighbours and hampers European integration.

These asymmetric starting points are the main sources for current and potential differences and conflicts in the relationship between Germany and Russia as they appear mainly with regard to the CIS-countries' independence, to the states of Eastern and Central states and their security political classification and to the co-operative all-European security structures with the inclusion of Russia.<sup>6</sup> Together with its allies, Germany is determined to act as a *critical partner* whenever Russia takes up politically unacceptable positions. When for example Moscow claims to be entitled on principle to special relations with the CIS states, when it actually denies Eastern and Central Europeans the free choice of their alliance partners or opposes the OECE as the highest security authority, then Bonn reacts to speak up to Moscow. At the same time, Germany considers itself more than any other state in Europe as Russia's *partner* trying to assist as much as it can the country's internal consolidation as well as its integration into multilateral institutions and the global economic division of labour. In the German view bilateral relations thus function as additional and stabilising elements of all-European co-operation. This Germany can do only because it is firmly anchored in the West politically, economically and culturally. Russian politicians and publicists, however, seem not to appreciate this fact sufficiently. Russian political circles do not recognise the full significance of European integration and wrongly take Germany as a synonym for "Europe" instead of seeing what it really is: an important but firmly entrenched *part* of it.

#### **1.4 The Multilateral Level**

In view of the above mentioned asymmetries unfavourable to Russia the reunited Germany is the first to take responsibility for integrating Russia into international co-operation. And indeed, Bonn takes up this task with force. But Germany does not act as arbiter and neutral mediator between Russia and the West. Such a role was refused by Kohl during his Baden-Baden conversations with Yeltsin in April 1997, and rightly so since this would risk isolating Germany in the West.<sup>7</sup> Bonn prefers to see itself as Moscow's advocate offering its good services and tries *from within* to convince Western authorities to show sensitivity with regard to reasonable ideas from the Russian side. This strategy means a clear backing away from the thesis of a "hasty partnership" (Brezhinski) and underlines the intention to actively influence from the beginning developments in Russia through institutional integration instead of watching further developments from the sideline.

Germany, for example, appealed energetically to fully include Russia into the consultations during the G7 world economic summits which have by now evolved from mainly economic to comprehensive politico-strategic summits. At the Denver summit in June 1997 Russia was indeed included except during discussions on currency and finances. In this way, Germany does justice to Russia's self-understanding as a great power and also to Moscow's endeavours to join the leading industrial powers that shape global politics to a very large degree and control

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<sup>6</sup> See H. Vogel (ed.), Rußland als Partner der europäischen Politik, in: Berichte des Bundesinstituts, 8/1996.

<sup>7</sup> FAZ, 18.4.1997.

the most important international economic and financial institutions. So it was only logical that Bonn welcomed the IMF's allocation of a three year credit of 10.2 billion USD in February 1996. As a main donor country Bonn strongly influenced the rescheduling of Russian liabilities vis-à-vis the London club of private creditors in November 1995 and the Paris Club of public creditors in April 1996. After all, the German part of Russian debts with the Club of Paris amounts to 40 percent or about 40 billion dollar. All in all, Germany is Russia's biggest creditor with 63 to 65 billion DM or 40-45 percent of all Russian foreign debts.

Another example for Germany's active role as Russia's advocate are the negotiations about a NATO treaty with Russia which is aimed not least at flanking the envisaged admission of Eastern and Central European states to NATO by a comprehensive security partnership with Moscow. And indeed, Bonn had supported quite early the idea of establishing a joint panel which was then constituted at the Paris Basic Act in May 1997 as the "NATO-Russia Council" engaging in politico-military decisions and consultations. At the same time, Bonn tried to make sure that Russia's relations with Germany and the West were not restricted to NATO questions alone but put into the broad context of partnership and co-operation within the framework of OECE, EU and European Council. For the future of German-Russian relations much will depend on what happens after the Madrid NATO summit of July 1997 and its membership offer to Poland, Hungary and the Czech Republic, namely whether or not the mechanism of consultations and co-operation provided for in the Basic Act can develop a positive dynamism so that Russia feels to be an accepted partner in the new European security order. This is not at all a matter of course. In Madrid, it had been Germany together with the Nordic alliance members which backed successfully the proposal to positively mention the three membership candidates of the Baltic region in the final communiqué and to place on record that they belong among the candidates for a second NATO enlargement together with Romania and Slovenia.<sup>8</sup> The Russian leadership on its part made clear that such a step would lead to the termination of the Moscow Basic Act.

And finally, Germany pushed the pace during the preparation of the Treaty on Partnership and Co-operation between the EU and Russia which is likely to become valid in 1997. It worked especially hard to further open the market for Russian products as well as a future free trade zone among the treaty partners.<sup>9</sup> With regard to political dialogue, economic interdependence and culture, the treaty offers Russia the opportunity to create a network of close connections with the EU. And due to the evolutionary terms and provisions of the treaty Russia is allowed to come very close to formal membership. In any case, the EU offers Russia today and probably also in future the most promising partnership for its development and transformation which at the same time helps to avoid isolating the country and excluding it from the pan-European integration processes. Already today, Russia concludes about 46 percent of its foreign trade with the EU, and almost 50 percent of all direct investment in

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<sup>8</sup> The final communiqué in: Bulletin ..., 64/1997, p. 765-770, here: p. 766.

<sup>9</sup> For details see my contribution: Die Europäische Union und Rußland – Dimensionen und Perspektiven der Partnerschaft, in: integration (Bonn), 4/1996, p. 195-207.

Russia come from countries of the EU. Germany accounts here for 17 and 8 percent respectively. And there are good prospects for Russia to reach the status of an associate member of the EU, as Chancellor Kohl stressed in his Berlin meeting with Prime Minister Chernomyrdin in July 1997. (Currently, the countries of Eastern and Central Europe among others enjoy such a status.) Under the condition, Kohl had added, that Russia improves the climate for investment.<sup>10</sup>

As could be shown here, the strategy of integrating Russia internationally was shaped with substantial German contribution and achieved considerable success. If the Basic Act between NATO and Russia as well as the Partnership Treaty between the EU and Russia develop dynamically, then Gorbachev's earlier vision of a multidimensional "European house" could become reality. Germany as the country in the middle of Europe would profit the most from such a development, just as it would suffer the most if this integration strategy failed. However, one should not overlook that there are certain limits to Russia's readiness to be integrated: a large majority of the Russian elites believes that it contradicts Moscow's interests to form all too close relations with the West in the sense of growing interdependence because in Russian view this would invariably lead to political dependence from the West and foreign swamping of Russian culture. The "ideological" priority given to integration into the "community of civilised states" of the West as Yeltsin had demanded is being replaced since 1993 by a more pragmatic strategy of diversification of Moscow's international relations "tous azimuts". Among Russia's elites a basic consensus has been reached that the country must be "neither enemy nor ally" of the West (Foreign Minister Primakov). Instead Russia's aim should be to distinguish itself as a self-confident great power with specific interests and natural zones of influence, to build its *own* centre of focus and to integrate *itself* its own near environment.

### ***1.5 The Bilateral Level***

While in the past, bilateral relations between Germany and Russia possessed their own weight they are today completely overshadowed by international developments. This can be seen clearly in the final communiqués of politicians. Still, well functioning bilateral relations are of great significance as sort of a lining of the all-European processes.

The punctual withdrawal of the last contingent of the "western group of troops" from Germany in August 1994 gave a positive impetus to bilateral relations. The withdrawal was an astonishing technical and organisational performance supported by Germany's financial assistance to civil programmes for military personnel: a housing programme for 45,300 apartments (including social infrastructures as schools, kindergartens and hospitals) at the cost of 8.35 billion DM as well as several training and retraining programmes of 200 million

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<sup>10</sup> Kohl: Rußland kann eines Tages mit der EU assoziiert sein, in: FAZ, 5.7.1997.

DM.<sup>11</sup> Not the least against this background, regular consultations between the leaderships of both states have become political normalcy.

On the other hand, promises and contractual agreements concerning the liquidation of other war derelicts could not be kept leading to repeated irritations and emotional upheavals in the German-Russian relationship. Examples are 1. Moscow's weak commitment to the re-establishment of the promised statehood for ethnic Germans in Russia. It appears that a large part of Germans in Russia and other CIS countries will emigrate to their original home country which is seen as a negative factor by both sides. During the recent years, the average number of emigrants amounted to about 200,000 per year. 2. The decision made in February 1997 by both branches of the Russian parliament to nationalise German cultural treasures shipped to Russia during the war and which Moscow had promised by agreement to return back. Since this problem strains the *feelings of both sides* to a high degree and will most probably do so also in future we shall explain it here in some detail.<sup>12</sup>

According to German sources the so-called "looted art" comprises about 200,000 works of art, 2 million books and 3 kilometre of archive material. Its return was explicitly agreed upon in the German-Soviet treaty of November 1990 and in the Cultural Agreement of December 1992. Both sides believed at the time that such a return would be possible in analogy to the treaty between the USSR and the GDR. After all, in the late 50ies Moscow had given back to East Berlin more than half of all museum treasures carried off from Germany. However, negotiations of the joint commission got stuck quickly when the national-communist anti-Yeltsin opposition's infighting was being instrumentalized. It was pointed out how many national treasures were lost after Nazi-Germany's attack against the Soviet Union. Then the legal situation under international law was given a one-sided interpretation by ignoring the 1907 land warfare order of Den Haag. Bilateral agreements with Germany were given a similar interpretation by claiming that the unconditional surrender of 1945 included a renunciation of all claims vis-à-vis Moscow. As a consequence, in Russian politics and public opinion an increasing number of people vehemently opposed the return of those cultural treasures. They are not so much concerned with the "looted art" as such. Their hawkish stance resulted – similar to the one with regard to NATO enlargement – from an increasingly strong feeling that Russia was being exploited, tricked and isolated by the West and had the right to defend its own interests with all means. The Federal Government on the other side points at the unambiguous legal situation: treaty agreements have to be honoured and can not be subverted through internal Russian legislation which is irrelevant under international law. In this sense, Foreign Minister Kinkel appealed in March 1994 to the democratic Russia to honour the rule of law and called the solution of this conflict as an "acid test for the quality of our relations".

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<sup>11</sup> The Programme and the problems of its realisation are described in more detail in Part 2.3.3. ("Para-Economic Relations") of this report.

<sup>12</sup> See E. Gujer, Moskau und die harte Haltung zur Beutekunst, in: Neue Zürcher Zeitung, 18.3.1997.

For the time being a solution for the conflict about cultural treasures is not in sight. In their second vote of spring 1997, both chambers of the Russian parliament, the State Duma (the delegates of the lower house) and the Federation Council (representatives of the regions) overruled Yeltsin's veto with a large majority. The president had no alternative but to refer the law to the Constitutional Court because of defects regarding form or/and content. The outcome of this inner-Russian struggle is thus wide open. The political and emotional climate between Russia and Germany could very well become more and more poisoned with the result that compromises become ever more difficult to reach.

Compromises are in fact very well conceivable. To name a few possibilities: 1. Assistance for the rebuilding and restoration of Russian monuments of art, churches and monasteries. Bonn has already given 20 million DM for the modernisation of Russian libraries as a gesture of good will. 2. German compensation for Russian art treasures destroyed or carried off during the war by offering similar or equally valuable works of art, possibly also a peaceful distribution of the "looted art". 3. An intensified search for stolen Russian treasures in the West. A good example for such a successful activity is the recent reappearance in Germany of parts of the famous amber chamber of Catherine's palace in Zarskoje Selo near St. Petersburg. But of course, if the Russian side wants to support its claims it would have to increase its effort to establish lists of catalogues and inventories of its stolen cultural treasures. In all the turmoil about the return of the "looted art" the Minister of Culture, Sidorov, remarked laconically: "We don't have something like this."<sup>13</sup>

Germany has on principle every reason to hold on to its position of international law agreed upon with the Soviet Union and Russia and which has not been questioned by the Yeltsin administration. During his visit to Germany in July 1997 Prime Minister Chernomyrdin expressed himself explicitly in favour of a "civilised solution" by which he meant the return of the cultural treasures of all sides to their "place of origin". And he includes German support for the return of Russian national treasures. At the same time, the special dimension of the war against the Soviet Union demands sensitivity when dealing with the restitution problems. Bonn must not be guided by legal arguments alone. After all, Venture Barbarossa was not a conventional war campaign but a war of enslavement and annihilation with flagrant violation of international laws.

Frustrating experiences in bilateral relations "from above", however, are balanced by many promising activities "from below" like spontaneous and numerous meetings between people from both countries, close co-operation between political, social and cultural institutions, groups and associations. Particularly important are the by now 70 city partnerships which are mostly not limited to representative diplomacy of visiting city heads but come to life through practical co-operation of small and medium size enterprises, communal administrations, fi-

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<sup>13</sup> Rußland erwartet Entschädigung. Gespräch mit Jewgenij Sidorow, in: Kölner Stadtanzeiger, 18.4.1997.

nance management etc.<sup>14</sup> The two-day conference on the subject organised by the "German-Russian Forum" in June 1997 in Berlin had the motto: "City partnership as catalysator of encompassing reform processes". The conference attracted about 160 participants from municipalities in Germany and Russia. This strong interest from both sides shows how promising prospects on this level of bilateral relations are.

The same is true for direct contacts between the regions of both states, like those between Lower Saxony and the Russian republic Tatarstan, between Brandenburg and the Moscow region or North Rhine-Westfalia and Nishniy-Novgorod. All in all, about 15 subjects of the Russian Federation have concluded co-operation agreements with 14 federal states of Germany. Other indications of increasingly close relations on this level are visits of regional leaders in the Federal Republic who want to find out possibilities for decentralised economic co-operation, like Lushkov, mayor of Moscow, Yakovlev, mayor of St. Petersburg, Rossel, governor of the region Sverdlovsk, and Shabunin, governor of the region Volgograd. Both sides are convinced that during the ongoing transition to market economy the reforms of economic structures and foreign trade relations will profit more from individual regions creating their own profile than from the centre in Moscow which has lost many of its former planing and control powers. The visit of Stroyev, chairman of the Federation Council, to Germany in March 1997 together with a delegation of governors from different Russian regions must be seen in this context. The co-operation between the regions of both countries contain "inexhaustible opportunities" for Russia and Germany, the speaker of the parliamentary representative organ of the regions emphasised. In any case, he said, the interest in such a co-operation was "enormous" on both sides.<sup>15</sup>

And indeed, the main focus of bilateral relations between Germany and Russia rests on economic co-operation. Here, as with political relations, the outcome so far is quite a mixed one. Because of the great importance of the economic factor the specific developments, structures and problems concerning this area are described and discussed in the following chapter of this report.

## **2. Economic Relations between Germany and Russia**

### ***2.1 The Political Context***

The old structures of German-Russian economic relations as they existed in the 70ies and 80ies have broken down in the East European revolution of 1989-1991. It was therefore necessary to rebuild completely anew the bilateral economic relations between Germany and Russia. This process is by far not yet completed. The German government has repeatedly

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<sup>14</sup> See Norbert Burger's contribution, *Deutsch-Russische Städtepartnerschaften: Tragendes Element regionaler Zusammenarbeit*, in: *Deutsch-Russisches Forum – Jahresberichte für 1995/6*, Bonn 1996, p. 53-60. The mayor of Cologne speaks mainly about practical aspects of the well-functioning city-partnership Köln-Wolgograd.

<sup>15</sup> Itar-TASS, 14.3.1997.

pointed out that Germany is greatly interested in a successful political and economic transformation in Russia and that it is well aware of the fact that "Russia is faced with a huge task" (G. Rexrodt, Minister of Economic Affairs). Germany, Rexrodt also said, "will support Russia to the best of its ability". A quotation of State Secretary Lammert shows how the Federal government evaluates the economic relations between Germany and Russia: "Germany and Russia are main trade and co-operation partners for each other. The development of bilateral economic relations is at the same time a test case for Russia's integration into the European and global economic co-operation."

The German government has continuously made efforts to help Russia and give strong impetus to the bilateral economic relations, such as with Chancellor Kohl's visit to Moscow in February 1996 where a German credit over four billion DM was agreed upon. The relationship with Russia ranks high on Germany's foreign policy agenda. That is why great endeavours are undertaken to carefully arrange contacts on all levels of interaction even when travelling. Official visits to Russia are prepared in detail by experts of the ministries concerned, institutions of East European and Russian studies, leading groups of the German industry and top business companies. If needed special reports are commissioned. Furthermore, when high ranking German politicians travel to Russia they are usually accompanied by representatives of selected enterprises. Journalists who come along are supposed to create a friendly, supportive climate in the Federal Republic with regard to Russia.

Because of the increasing international interdependence a positive influence of German policies on the country's economic relations with Russia demands political co-ordination among Western countries engaged in business with Russia. Reality shows, however, that national interests, not to say egoism, come the fore. This "zero-sum game" mentality aggravates an already difficult situation in Russia so that even what is possible in principle cannot be reached. Despite all ritual incantation of Western common ideals and principles, separate actions begin already with information which is not given in the attempt to keep one's "national cards" covered. This behaviour continues with co-ordinating activities in practice.

## ***2.2 German and Russian Interests in Bilateral Economic Relations***

Germany's interest in economic co-operation with the Russian Federation is based on political as well as economic grounds. Concerning the political motives there are mainly four areas of concern:

- the interest in seeing the political and economic transformation in Russia continue with a maximum of stability and predictability;
- the interest in fulfilling exactly all economic commitments of the unification treaty in order to recommend oneself as a reliable co-operation partner;
- the interest in creating acceptable living conditions for about two million ethnic Germans in Russia;

- the interest in connecting the Russian economy with the evolving European economic area in order to support Russia's integration into a new all European security architecture by foreign trade measures.

As far as German economic motives are concerned, there are also four areas of interest:

- the interest in a prompt and long-lasting opening of the Russian market for the wide range of German products;
- in particular the interest in cushioning the effects of systemic and structural changes in East Germany by business with Russia;
- the interest in securing supplies of raw materials and energy from Russia for the German economy;
- the interest in Russia as a cost-saving production site and a bridge-head for opening up the markets of the CIS countries.

Russia's interests in bilateral economic co-operation are motivated also both politically and economically. Often they are almost mirror-reflections of the German interests if not simply the same. However, some of the motives which are of primarily political nature on the German side, are economical in essence for Russia.

Looking at the political motives for intensive economic relations with Germany, there is first of all Russia's interest in obtaining German support for the country's integration into the global economy and the leading international financial and economic organisations in order to upgrade Russia's political standing.

Mostly economically motivated are

- the interest in a rapid fulfilment of Germany's economic commitments of the unification treaty;
- the interest in mobilisation of German financial aid for ethnic Germans in Russia;
- the interest in far-reaching financial and technical assistance from Germany for economic transformation and in an active German role in mobilizing international aid;
- the interest in selling bigger quantities of energy and raw materials to the Federal Republic in order to earn foreign currency to pay for Russian imports and debts.<sup>16</sup>

Due to this constellation of interests, an intense political and economic dialogue on several institutional levels has developed. However, mainly due to the difficult situation in Russia, German-Russian economic relations have not yet developed according to the expectations on both sides. This applies for all key areas of German-Russian economic relations: trade, economic co-operation (joint ventures, direct investment), technical aid and consulting, financial co-operation and para-economic relations.

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<sup>16</sup> H.-H. Höhmann/C. Meier, Deutsch-russische Wirtschaftsbeziehungen: Stand, Probleme, Perspektiven – Teil I: Wirtschaftsstruktureller Kontext und Handelsentwicklung, in: Berichte des BIOst, Köln, 55/1994.

## 2.3 *Main Elements of Economic Relations*

### 2.3.1 *Trade*

The volume of German trade with Russia/USSR reached its highest level so far in 1990. With the collapse of the USSR, the subsequent constitution of new states on the territory of the former Soviet Union and the change of the political and economic system, the trade volume started to slide. Only in 1994, trade with Russia began to grow again by 9% to about 24 billion DM. Compared with the previous year, imports rose by 23% from 10.7 billion to 13.2 billion DM while exports dropped by almost 6% to about 10.8 billion DM. For the first time since 1990, the flow in commodities closed in 1995 with a considerable German trade deficit of about 2.4 billion DM. The previous trade upswing did not continue in 1995 but turned to a marginal decline of 0.2% down to 23.9 billion DM which practically meant stagnation.

When comparing the overall trade volume with Eastern countries, Russia has fallen back to second place behind Poland. Concerning German exports to Eastern Europe, Russia took only place three after the Czech Republic all the while the German trade deficit with Russia rose from 2.4 billion DM in 1994 to 3.3 billion DM in 1995. In 1996 German exports rose by 11% to 11.5 billion DM. But at the same time, imports from Russia increased by substantially larger amounts, namely by 13% to 15.4 billion DM. Consequently, the trade deficit reached a new peak with 3.9 billion DM. Due to a 12% increase in trade reaching 26.9 billion DM Russia improved its proportional share of German foreign exchange, namely from 2% to 2.3% in imports and from 1.4% to 1.5% in exports which means rank 12 and 15 among Germany's importing and exporting partner countries.<sup>17</sup>

Concerning the structure of German exports to Russia, they mainly consist of products of the investment goods industries (52%) amounting to 5.9 billion DM. Considerable gains were registered for electro-technical products (plus 15% to 1.7 billion DM) and road vehicles (plus 27% to 0.9 billion DM). In contrast, a downward trend was observed with steel construction products and rail vehicles (minus 43% to 0.3 billion DM) and machine building products (minus 6.3% to 2.2 billion DM). Compared to the previous year, foods and edible products rose by 23% to 2.1 billion DM and accounted for 18% of German exports to Russia. Another 14% or 1.6 billion DM belong to primary and production goods. Deliveries of chemical products rose considerably by 36% reaching 1.2 billion DM, while iron and steel products fell by the same percentage down to 0.1 billion DM. Another 14% of the exports were consumer goods, compared to 1995 a 25% increase up to 1.6 billion DM.

In 1996, petrol and natural gas played an ever more important role with regard to imports from Russia. Compared to the previous year, they increased their share of total imports from 55% to now 66%. The value of these deliveries rose by 37% to 10.1 billion DM. On the other hand, imports of primary and production goods fell by 20% to 4.1 billion DM. This reduced their share from 38% to 27%. Especially orders for non-ferrous and semi-fabricated metals were reduced (minus 28% to 2.1 billion DM) while Russian export of mineral oil products

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<sup>17</sup> Nachrichten für Außenhandel (NfA), 7.7.1997.

rose by 59% to 0.6 billion DM. In 1996, imports of consumer goods comprised only moderate quantities (minus 7.3% to 0.3 billion DM) while goods of Russian agriculture and forestries registered strong gains rising by 80% to 0.3 billion DM.

When looking at the special strategic importance of German exports and imports, it can be seen that German exports to Russia even in the above mentioned main sectors such as machines are of only very limited significance, also in view of the fact that Russia as a whole is not a very important market for German goods. It is the individual companies and their regions of origin – the machine building industry in Nordrhein-Westfalen for example – that have a relatively high share of exports to Russia and are therefore greatly interested in stable business relations due to reasons of profit and employment. On the import side the large amounts of natural gas and oil Germany gets from Russia are of particular strategic importance. Already the old Federal Republic was interested in diversifying its sources of energy in order to be not too dependent on especially Middle East imports. Such endeavours to diversify further exist. Now they are generally accepted, but in the beginning 80ies they had to overcome in particular US-interventions ("natural gas-pipeline-deal").

All in all, it is true that the complementary character of the German-Russian trade relations has rather a slow-down effect on trade dynamism. Of course, there are the positive traditions of bilateral economic relations and the fact that Russia does too little foreign trade compared to its size and has therefore great trade reserves. All of this means that there exists a great potential for expanding business with Russia. It is to be expected, however, that the room to manoeuvre can be used only when Russia succeeds in bringing about a sustained structural change of economy making a substitutive inter-industrial trade possible.

### *2.3.2 Direct Investment and Joint Ventures*

For German foreign investors, Russia as an investment site plays on the whole only a minor role. Larger *direct investments* continue to be obstructed by insufficient political, legal, financial and economic conditions. German-Russian negotiations on agreements with regard to an appropriate investment-framework are proceeding slowly. A new double taxation agreement for example could only be signed after tough negotiations on 29 May 1996 and came into force on 30 December 1996.

Concerning volume and dynamics, the political and economic turbulences after the collapse of the USSR caused German direct investments in Russia which have never been very high to drop down to 8 million DM in 1992. In the following year, they reached with 29 million DM almost the level of 1990 (33 million DM) and rose to 138 million DM till the end of 1994. In 1995, however, another decline was registered. All these data are quoted from the German Federal Bank which bases its calculations on very strict delimiting criteria. It is therefore quite possible that data given by GOSKOMSTAT are more realistic which claim that German companies invested 293 million USD in 1995 alone and therefore rank on third position after the USA and Great Britain within the overall Western investment in Russia of 2.8 billion USD.

The USA tops by a large margin (1.66 billion USD) the ranking list of foreign investors in Russia compiled by Goskomstat for 1996. Then follows Switzerland (1.32 billion USD), the Netherlands (978 million USD), Great Britain (486 million USD) and Germany (289 million USD). The weak position of Germany when compared with other countries has its reason in statistics. Goskomstat includes all capital investment like trade credits and bank deposits in its calculations. This "sort of investment" accounts for the main part of commitments made by those countries ranging before Germany. However, if we define a foreign investment as direct productive long term capital investment then Germany is topped only by the USA because it invests in Russia more than Switzerland, the Netherlands and Great Britain added together.<sup>18</sup>

German investment concentrates predominantly on the city and oblast of Moscow which receive 54% of all financial means alone. Since the most important motive of German direct investment is the opening of markets, the Federal Government encourages investment activities of German firms by concluding investment protection and promotion agreements, by granting capital investment guarantees against political risks, by offering low interest credits for medium sized companies through the Kreditanstalt für Wiederaufbau (KfW) as well as with their own investment related activities through the Deutsche Entwicklungsgesellschaft (DEG). In accordance with the German-Russian agreement on the promotion and protection of investment of 5 August 1991 still in force, the German government has granted German investors in Russia till the end of 1995 capital investment guarantees amounting to about 260 million DM. Applications for another 710 million DM have been made but have still to be examined.

Figures for Russian investments in Germany given by German officials for the years 1992-1995 are as follows: 1992: 9 million DM; 1993: 305 million DM; 1994: 21 million DM and 1995: 149 million DM. It has to be pointed out here that quite a number of Russian firms are involved in the new federal states. Gasprom, for example, has a share of 35% in the joint venture Wintershall Erdgas Handelshaus, Berlin, together with Wintershall, Kassel. Gasprom's share in the Leipziger Verbundnetz Gas AG is 5%. Beschresursy AG from Bashkortostan has bought Addinol Mineralöl GmbH in Lützkendorf. Vereinigte Zellstoffwerke Pirna have been bought by the Moscow Sokolniki AG with an investment commitment of 303 million DM for an overall modernisation of the firm. The Russian Oil-Holding Rosneft has a 23% share in the conglomerate Mitteldeutsche Erdölraffinerie GmbH together with Elf Aquitaine S.A. Paris (43%) and Thyssen Handelsunion Düsseldorf (33%) to build a new oil refinery in Spergau (Leuna) costing 4.3 billion DM, of which 1.3 billion are state subsidies.

Despite the fact that for some time being Western enterprises are showing increasing scepticism concerning this form of foreign capital investment in Russia, the number of registered *joint ventures* rose by 10.6% in 1996 alone and numbers now 16,100.<sup>19</sup> Most of them have

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<sup>18</sup> H.F. Ruwwe, Das Auslandskapital bleibt zurückhaltend – Rußland ist 1996 als Investitionsstandort nicht attraktiver geworden, in: NfA, 14.4.1997.

<sup>19</sup> NfA, 15.4.1997.

been established together with American, German, Chinese, Ukrainian, British and Finnish firms. The number of German-Russian joint ventures should now amount to over 1800 or almost 12%. This number may be quite impressive but it has to be put into perspective. Supposedly up to two thirds of all joint ventures "founded" have not gone beyond the registration formalities. In addition, it is well known that "bridgeheads", "observer posts" and quite a number of sham joint ventures were created in order to be able to participate in international assistance programmes, and which can be activated or closed as required. Therefore, the capital investment in these joint ventures is rather small (less than 75,000 USD in 75% of all joint ventures founded). German partner enterprises are pursuing first of all sales oriented objectives. Apart from that they look for opportunities to purchase and procure goods. A third group of motives are related to regional activities since it is important to be present in all major regional markets. Considerations concerning low labour costs have up to now played a lesser role. Recently, German enterprises show the tendency to set up subsidiary companies (Tochtergesellschaften) rather than to participate in joint ventures.<sup>20</sup>

### *2.3.3 Para-economic relations*

Among various para-economic relations, the German CIS housing programme for military personal is the most prominent example. Vis à vis the USSR already, the German government had committed itself to finance a housing programme with a total volume of 7.8 billion DM for the 516,200 soldiers and civil personnel of the former Soviet Union who were to leave the new federal states (Überleitungsvertrag of 9 October 1990). In December 1992, this sum was increased by another 550 million DM to altogether 8.35 billion DM. On 6 October 1996, the successful completion of the programme was announced with the opening of the last 1,037 apartments in the new housing estate Nachabino near Moscow.<sup>21</sup> 800 buildings with 45,300 apartments at 39 building sites have been constructed of which 28 are located in the Russian Federation, seven in Belarus and four in the Ukraine. The programme included not only the buildings but the complete infrastructure as well. 40 schools with 1,120 full equipped class rooms were built, 60 kindergartens for more than 15,000 children, 33 hospitals and polyclinics including the whole medical equipment, 30 trade and shopping centres, 36 heating plants plus 32 water treatment and garbage disposal plants. Also two house building combines and 10 production plants for housing materials were set up.<sup>22</sup>

The housing programme was the biggest single item within the broad range of financial assistance projects undertaken in connection with the Soviet/Russian troops withdrawal from the former GDR amounting to an overall sum of 16.05 billion DM.

The programme contributed essentially to the early withdrawal of Russian troops from Germany and was as such a success. However, the German enterprises taking part in this programme saw their expectations fulfilled only partially. It had been agreed upon that only 1.2

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<sup>20</sup> Handelsblatt (H), 30./31.8.1996.

<sup>21</sup> Der Tagesspiegel, 10.10.1996.

<sup>22</sup> BMWi-Tagesnachrichten, 10516, 10.10.1996.

billion DM worth of orders went to German companies exclusively while international tenders were called for the larger part of the programme. Thus, many orders went to cheap suppliers from Turkey, Finland, Bulgaria and Slovakia. Furthermore, the high Russian inflation rate made building materials ever more costly to the point where German construction firms were not able to make profits any more. Almost all of them failed to establish themselves in the Russian house-building sector with the prospect of obtaining other large orders in the future.

## ***2.4 Instruments and Strategies to Promote Trade and Economic Co-operation***

### *2.4.1 Government Treaties and Institutions*

Since the Russian Federation was internationally recognized as the legal successor to the USSR, the Russian government considered the framework of treaties concerning the economic relations with the "new" Federal Republic of Germany which were concluded during the Gorbachev era as legally binding. In this context, the German side emphasized first of all the investment protection treaty of 1989, the economic aspects of the international unification treaty (2 plus 4-Vertrag) and the bilateral "Treaty on Good Neighbourhood, Partnership and Co-operation", both of 1990. On the other side, the Federal Government had to recognize a great number of still to be realized co-operation treaties between the former GDR and the USSR as the basis for future bilateral economic relations. However, the necessary institutional and treaty guidelines for German-Russian interactions were still not yet sufficiently defined.

In the "Joint Declaration" of 21 November 1991, Chancellor Kohl and President Yeltsin agreed to completely revise the existing institutional mechanism of economic co-operation. Both sides came to the understanding that a new German-Russian Co-operation Council should be established as a new institution for promoting trade and economic co-operation. This council met on 18 February 1992 for its constituent assembly and was supposed to meet every half year alternatively in one of the economically important cities of both countries. The tasks given to this institution can be summed up as follows:

- improving the legal guidelines for economic co-operation;
- officially supporting the business companies in making contacts with new institutions and officials in Russia;
- expanding and building up economic relations by promoting direct contacts between enterprises in both states;
- maintaining traditional business relations between companies of the new federal states and the Russian Federation by giving assistance to their restructuring;
- pushing on-going treaty negotiations on co-operation projects in individual economic spheres.

The council formed working groups for the following main sectors of future bilateral economic co-operation:

- consultations on questions of market economy;
- oil and natural gas;
- textiles and clothing;
- agriculture and food processing industries;
- chemistry and pharmacy;
- arms conversion;
- trade.

These groups were later enlarged, for example the team working on arms conversion now also covers machine building. Others were newly set up such as the groups working on questions of banking, infrastructure and telecommunication or aviation and space industries.

In accordance with the present state of the Russian transformation, the Co-operation Council is at the moment still dominated by state influence. The weight of participants representing business companies who mostly work in the sectorial groups will probably increase in as much as the restructuring of the Russian economy will produce more and more private partner companies capable of co-operating with German firms. After its second meeting in September 1992 in Moscow, the council was not called together regularly as it was supposed to be. There have been not more than six meetings altogether. The reasons are the continuing political and economic turbulences in Russia which limit the decision-makers' room to manoeuvre considerably. Therefore, the council's influence remains weak. It became clear that this state-administrative type of German-Russian co-operation gives little momentum to the bilateral economic relations. Parallel developments and experiences made with Central European countries led to the conclusion to dissolve the co-operation councils there. In the course of rapid and successful market economic transformation in these countries, bilateral chambers of trade such as in Budapest, Prague, Warsaw were established to replace the former inefficient state-controlled co-operation mechanism.

It will be some time to go before Moscow is ready for it. However, the sixth meeting of the German-Russian co-operation council taking place from 28 to 30 May in Yekaterinburg (Ural-Region) was a turning point in the development of this institution.<sup>23</sup> For the first time, the agenda of this meeting focused on furthering trade and co-operation relations with the so-called 89 Russian federation subjects which begin to play an ever more independent role in the country's foreign trade. There were two reasons why Yekaterinburg was chosen as location for the conference. Firstly, the city is centre of one of the most important industrial regions with branches of metallurgy and heavy industry. Secondly, the city is close to sources of all sorts of raw materials and offers many points of contact for German suppliers of plants and equipment, for industrial participation and the construction of modern industrial branches. Discussions with among others the governor of Yekaterinburg, E. Rossel, concentrate on the areas electric power industry, plants and equipment for primary industries,

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<sup>23</sup> VWD-Rußland mit GUS-Staaten, 103, 3.6.1997.

mining technology, component production as well as the service sector. In a memorandum, essential aspects were explained to the Russian partners which have to be taken into consideration when it comes to using guarantees of regional corporations and banks for trading deals.<sup>24</sup>

#### *2.4.2 Institutions of the German Economy*

In this context the Ost-Ausschuß der deutschen Wirtschaft has to be mentioned first. In order to adapt to the results of the radical changes in Russia, the Ost-Ausschuß was restructured. The working group Soviet Union was dissolved and replaced by among others a working group for the Russian Federation. Its main task consists of co-ordinating the interests and activities of the German business community with regard to its future economic relations with Russia, to help prepare and carry out bilateral business negotiations, maintain contacts to Russian partners and inform and advise commercial firms. A special working group was established dealing with questions of contractual arrangements and financing which is supposed to assemble high ranking representatives of banks and industries in a so-called "steering committee". The Ost-Ausschuß has set up a recording agency in the framework of the Berliner Kooperationsbüro der deutschen Wirtschaft, which has to record outstanding or soon to be payable, uncovered receivables of German firms from business deals with the former USSR which amount to almost 2 billion DM.

In mid-February of 1992, the Zentrum für deutsch-russische Wirtschaftskooperation (ZDRW) was founded in Düsseldorf. This institution wants to provide restructuring aid and support for individual projects. Russian and German experts are members at par. 40-50% of all German exports to Russia come from the federal state of Nordrhein-Westfalen (NRW) which therefore provides an initial financial assistance to the Center. The Russian counter-part to this center is the Center for Russian ministry of economic affairs, the Moscow city government and the Russian industrial association. The center mainly helps Russian firms to find business partners in Germany and to obtain commercial information and know-how. But also German companies can use the center to find Russian business partners.

On 5 March 1997 the Deutsche Industrie- und Handelszentrum (DIHZ) was opened in Moscow. It is a joint project of the DIHT and the Berliner Bank. Together with similar centres in Yokohama, Shanghai and Singapore it is globally the fourth such institution. Their task is to combine important institutions working locally for the promotion of foreign trade under one roof and to support German partners on the Russian market.<sup>25</sup> Represented in the DIHZ are the Delegation der Deutschen Wirtschaft, the Bundesstelle für Außenhandelsinformation (BfAI), the Verband der Deutschen Wirtschaft in the Russian Federation, and economic representatives of the federal states of Baden-Württemberg and Bayern, the Berliner Bank,

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<sup>24</sup> Gespräch mit P. Danylow über die Ergebnisse der Tagung des deutsch-russischen Kooperationsrates, in: Ost-West-Contact, 7/1997, p. 32.

<sup>25</sup> H, 6.3.1997.

the Bayerische Landesbank as well as a number of other German enterprises.<sup>26</sup> DIHZ offers services in practically all areas of trade such as opening up new business contacts, consultancy on distribution and sales strategies, market research, support for setting up new firms and choosing the right site, settling of payments, contacts to Russian associations and authorities, and so forth. In addition and equally under the direction of the Berliner Bank/Bankgesellschaft Berlin, the construction of a "Berliner Haus" is planned until the end of 1998 open first of all to smaller firms.

#### 2.4.3 Export Guarantees (Hermes)

Among German trade policy endeavours, export *credit sureties* (*Hermes*) are playing a special role. For 1997 as for 1996, the Federal Government has set a credit ceiling of 1.5 billion DM. This financing limit which is being used better and better by the Russian side should be sufficient to fulfil expectations the enterprises have with regard to exports. This limit also takes into consideration the Russian government's interest to honour its agreement on limiting foreign debts concluded with the IMF.<sup>27</sup> The sureties are divided into two covering funds ceilings. The funds of ceiling I amounting to 600 million DM are open to small and medium sized companies which do not belong to trusts. The sum of reference for a single deal is 50 million DM. The products have to come exclusively from the new federal states. In the case of capital goods a share of up to 30% may origin from the old federal states. The funds of ceiling II amounting to 900 million DM are open to enterprises both from the new and old federal states. The sum of reference for a single deal is 100 million DM. In principle, half of the products have to come from East Germany, but this rule can be by-passed if the producer is a small or medium sized firm and if the merchandise or part of it coming from the old federal states amount to no more than 20 million DM.

Even though there is no doubt that it were the Hermes-sureties that made a great number of business deals with Russia possible, the results of a comprehensive assessment are sobering. In this context, four factors are especially noteworthy:

- Firstly: the East German firms receiving preferential treatment suffer a steep decline in orders. The concentration of Hermes-sureties on the new federal states was not confirmed by business developments and the German-Russian exchange in goods was not improved but rather obstructed.
- Secondly: the export turnover of trade with Russia was clearly inferior to the volume of the Hermes-sureties.
- Thirdly: another reason why Hermes-sureties are playing only a relatively minor role is the fact that Russian companies are often incapable of paying the 15% down payment on the merchandise and that it is difficult to obtain the necessary financial guarantees from the Russian state.

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<sup>26</sup> NfA, 6.3.1997.

<sup>27</sup> BMWi-Tagesnachrichten, 10556, 4.2.1997.

- Fourthly: because of these difficulties, German enterprises make a special effort to find Russian partners who are willing and capable of making advanced payments or agreeing to counter-trade business deals.<sup>28</sup>

It would therefore be advisable to define different rules for East and West German companies with regard to the covering funds ceilings. In addition, conditions for obtaining Hermes-sureties should be relieved and the areas covered by such sureties should be enlarged to include counter-trade and project financing.

After signing the recent agreement with the Club of Paris, and not least because the German export enterprises insistently asked for it, the Federal Government has in May 1996 upgraded Russia from the Hermes-category five into four. This means that the fees for Hermes-sureties in business deals with Russia will be lowered by 25%. In addition, the German government accepts for the first time to a certain degree guarantees of Russian banks with a good international standing. Since the beginning of this year, the Russian government shows a much greater willingness to provide the necessary guarantees for such business transactions. It is therefore to be expected that the overall ceiling for Russia in the year of 1996 will be fully exhausted.

#### *2.4.4 Alternative Financial Instruments*

Since the Russian side still considers a Hermes-surety restrictive and costly and therefore difficult to obtain, German business circles started to look for alternative financial instruments which are supported also by the Federal Government.

Firstly, there is the Rahmenkredit- und Handelsabkommen (RKHA). In 1993, an agreement between the Siboil Bank commissioned by the Tjumen district administration and the Deutsche Bank AG was concluded concerning a basic treaty and special accounts. In accordance with this agreement, exports from the new federal states to Tjumen are financed by credits covered by Hermes-sureties. These credits are transferred back with money earned by long-term orders or deliveries of oil, and go through a special account in Germany. The credit programme runs (or ran) under the name "Tjumen I" and has been completed in the meantime. The first of the credits paid out so far are already in the process of being paid back. Negotiations and structuring of the financial package were not always without problems. During the ongoing business relations for example, the framework for counter-trade and other clearance and approval regulations were changed on the Russian side. However, both sides continued to look for pragmatic solutions and were often able to find them. The Bundesanstalt für vereinigungsbedingte Sonderaufgaben, a successor organisation of the Deutsche Treuhand, which is responsible for part of the new federal states' activities in Russia has recently concluded seven such open-to-borrow and trade agreements following the Tjumen-model with different regions of the Russian Federation (Tjumen, Perm, Swerdlowsk, Tsheljabinsk, Orenburg, Tatarstan, Komi). The overall volume of all orders amounts to between 6 and 7 billion DM.

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<sup>28</sup> H, 2.10.1996.

Given Russia's financial weakness the export oriented German industry has adopted the principle "finance by trade", i.e. finance by concluding trade-off deals. Different financial instruments of increasing importance have thus come into being in this context even if they are not considered cheap. In the meantime, suppliers such as the Deutsche Clearing and Countertrade GmbH (DCCG, Duisburg), the Wemex Handel GmbH (Ludwigsfelde) and the Finance by Trade GmbH (Berlin) are on the market. Russia, like other countries lacking in foreign currencies, delivers goods to firms specializing in barter trade. In this way, currency deposits accumulate on trustee accounts in Germany which in turn are used by the supplier to buy preferentially German merchandise. Here, too, the situation shows that there is still a long way to go until business with Russia is normalized. Still, counter-trade programmes can help create more possibilities for financing Russian imports.

Other special forms of new financing are described by terms like "tolling agreement" (the financing of job processing contracts), "preexport finance" (prefinancing of exports), structured trade financing with or without swing-credits. All these forms have in common that they are financing the flow of goods where granted credits are paid back with the sales proceeds of counter-purchases, the life of the loan is relatively short and the number of involved partners at least three but mostly more than three (German exporter, Russian exporter, trading company and bank).<sup>29</sup>

#### *2.4.5 Consulting and Technical Assistance*

"TRANSFORM", the German government's programme to provide consulting and technical assistance does not intend to convey a so-called "German way" toward the market economy. The Federal Government's objective is rather to support the general conditions necessary for building up a socially oriented market economy on the basis of a democratic constitution in Russia (and other countries in transition). Between 1994 and 1996, Russia has received 222.4 million DM or 25% of the programme's overall financial volume of 885 million DM. Because of financial constraints in the federal budget the resources for TRANSFORM have been sharply reduced. Within the total sum of 46.7 million DM planned for Russia almost 17 million DM (36%) are provided for central government consultancy and other projects above the regional level. About 30 million DM are to be spend for technical assistance within the Russian regions.<sup>30</sup>

In accordance with Russian officials, the priorities of the programme have been specified in the following way:

- advice for policies aimed at defining guidelines for the development of middle-class structures and midsize enterprises;
- assistance in restructuring of companies, for privatisation and de-monopolisation;

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<sup>29</sup> A. Hülsbömer, Alternative Finanzierungen im östlichen Osteuropageschäft, in: ID-Frankfurter Allgemeine Zeitung, Rußland – Stabilisierung mit Erfolgen, Aug. 1996, p. 21-23.

<sup>30</sup> BMWi/KfW (Hrsg.), Transform – Das Beratungskonzept der Bundesregierung für Osteuropa – Fortschreibung 1997, 418, Apr. 1997, p. 33 f.

- assistance in establishing a system of taxation, customs, insurance, banking, stock exchange;
- consultations in the agricultural area;
- education and training in economic law, assistance in building-up administrative structures;
- consultations in the fields of labour markets and social insurance;
- help to environmental protection.

It was agreed upon with the Russian side that the programme should not only consist of measures for the central government but for important regions. Originally, four target regions were chosen: Moscow city and the Moscow district, St. Petersburg city and the Leningrad district, Tjumen district and Wladimir district, Tjumen has been abandoned in the meantime.

To put the TRANSFORM programme into practice, the Federal Government uses the Kreditanstalt für Wiederaufbau (KfW) which has been and still is active also outside this programme when it supports transformation countries with financial and organisational services (granting of long-term credits under the condition of respective Hermes-sureties; granting credits in the framework of a special programme for small and medium sized business firms; carrying out the housing programme for returning soldiers and retraining measures).

Apart from the Federal Government, almost all Bundesländer (federal states) have their own sponsoring programmes for Russian regions they had mostly chosen already before the beginning of the TRANSFORM programme. Nordrhein-Westfalen (NRW) is particularly active. Several ministries under the overall if not always successful control of the Staatskanzlei together with the Westdeutsche Landesbank carry out a broad range of consultancy measures in the districts of Nishnij-Nowgorod and Kostroma concerning the following areas: environmental protection and agriculture (sewage and cleaning of the Volga); economic, technological and infrastructural development (promotion of industries, urban development, housing); education and professional training (among others supporting the technical university of Nishnij Nowgorod); health and social services; administration and public security (training programmes for the police).

Further technical assistance projects are carried out by other federal institutions, the Länder, the German economy and the foundations of the great German political parties (Konrad-Adenauer-Stiftung, Friedrich-Ebert-Stiftung etc.).

### **3. Conclusions and Perspectives**

#### ***3.1 The Overall Scene***

In relations between Russia as the force field between Europe and Asia on the one side and Germany as a weighty integral part of the West on the other side there do not exist any self-reinforcing tendencies – neither in direction of partnership nor towards new confrontation. The bilateral relationship has to be actively shaped on the basis of realistic expectations and

an accurate assessment of mutual interests. An important element could be the intensification of cultural relations which are by far not as lively as they should be between friendly nations – not the least because of financial reasons.<sup>31</sup> But first of all, it would be necessary to keep alive the younger generation's interest for the partner country. After the example of analogous institutions with France and Poland, the planned German-Russian Youth Organisation with a decentralised structure could be a means to achieve this purpose. For it is not at all certain that young people especially in Germany give as much attention to relations with Russia as the older ones who feel strongly attached to this country, in the positive (German reunification) as well as the negative sense (Second World War and its after-effects).

The Russian side would be well advised to continue further comprehensive transformation in order to improve conditions for German promotion as regards direct investment for example. Here, Russia must not overestimate Germany's ability to assist its reform processes materially since Germany will have to concentrate on the consequences of reunification for some time to come. In addition, Russians have to understand that Germany does not regard its relations to the countries of Eastern and Central Europe as a function of its relations to Russia but accords them an importance in themselves. The chances for a successful German-Russian partnership and more "good services" offered by Bonn to help integrate Moscow internationally will improve to the same degree as Russia accepts the free choice of its neighbouring countries and as those conceptions and groups in Russia gain in influence that give priority to economic factors over military projections in foreign affairs. There are signs that such conceptions are more and more being accepted within the government and opposition. To name a few: the group around the First Deputy Prime Ministers Chubays and Nemzov and the Deputy Head of the Security Council, Beresovskiy, or the liberal-democratic movement Yakoblo under Yavlinskiy. These groups of people concentrate on working for Russia's internal modernisation rather than seeking outward power projection. If they should determine Russian politics permanently then also in relations with Germany it will be to a large degree economic relations that define the quality of political relations.

Germany on the other side has to see clearly that for some time to come Russia will not be able to find a general consensus on fundamental values and national identity. Russia has entered a phase of transition where different and even opposing positions exist side by side: old and new politico-cultural tendencies; elements of freedom and authoritarianism; beginnings of market economy and elements of state economic control; insistence on centralised power and struggle for regional autonomy; concepts of traditional great power posture and turning to pragmatic realpolitik with partnership and co-operation. In view of the open outcome of developments in Russia it is important not to consider negative aspects as the last word on the matter. One should always remember that the Russian society, too, is able to evolve internally and to live as partner in the international community of states.

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<sup>31</sup> See I. Brachikov, "Tretye izmereniye" v otnosheniyach Rossii i Germanii, in: *Mezhdunarodnaya zhizn* (Moscow), 3/1997, p. 74-80.

To summarise the future of German-Russian relations in their multilateral aspects: there are problems and chances. Problems arise because Moscow is only insufficiently aware of the fact that European integration is a complex multilateral process based on voluntary renunciation of sovereignty and that Germany is fully integrated in this process. Only the future will show whether the German concept can be carried out successfully, namely whether both goals can be reached: integration of Eastern and Central Europe and partnership with Russia as the only means to avoid new rifts and new lines of conflict between Russia and Europe. To include Russia in the European processes and to acknowledge its outstanding role, however, demands of Moscow to shoulder more responsibility. Adventures like the war of annihilation in Chechnya or the support of Lukashenko's dictatorship in Belarus can only be counterproductive.

The chances are good not least because of the fact that "national identity" is not subject to historic determinism despite all historic lines of continuity. The formation of a national identity is as dynamic as the people themselves. This is true for Russia as it is for Germany which has dramatically changed its self-perception as well as its political culture within a few decades. Today it is without doubt that Russia is anchored in European traditions. This becomes apparent in public rhetorics as well as in the consciousness of the citizens (70 percent of whom live on this side of the Urals). And so it is to be expected that Russia will also in future be truly interested in giving priority to the European direction politically, economically and culturally which in turn will be the precondition for a close German-Russian partnership. And thus Germany together with its allies will be encouraged to work actively towards integrating Russia into a greater Europe despite setbacks and crises. However, since possibilities to influence Russia are limited it would already be a success if Russia could at least be kept open for European values, principles and norms.

### ***3.2 The Specific Economic Scene***

Each analysis looking into the prospects of the German-Russian economic relations has to start with assessing its determining factors. On the Russian side, it would be important to improve the macro-economic stabilisation and to establish a framework of rules and regulations for domestic and foreign trade reassuring potential German investors, to guarantee sufficient compatibility of central and regional laws with regard to the economy and foreign trade as well as the necessary protection against criminal acts and arbitrary behaviour of authorities.

Among the factors relating directly to foreign trade or the German-Russian economic relations, the following need to be emphasized:

- political reliability in the sense that commitments undertaken by the Russian government will be fulfilled and not have to be re-negotiated as happened quite often in the recent past;
- consistency of foreign trade policy as part of a general economic policy: the development of stable economic relations cannot be guaranteed if co-operation priorities agreed upon by both sides can be unilaterally changed by the Russian side due to internal conflicts within the government;

- higher efficiency and better co-ordination among all organisations on government and enterprise levels, which take part in the bilateral economic co-operation so that the Co-operation Council or its groups do not have to discuss the same topics at each of their meetings;
- measures to stop capital flight from Russia;
- establishment of an efficient system of export sureties;
- guarantees for sufficiently stable exchange rates which would at the same time improve the Russian economy's export chances.

Even if the factors on the Russian side are without doubt of a much greater significance for the future of German-Russian economic relations there are nevertheless a number of considerable contributions the German side could make in order to improve the situation. The following are of particular interest:

- fixing state Hermes-sureties for exports for several years in advance in order to create a long-term stable framework of provisions for German exports to Russia and other CIS states;
- broadening and strengthening of new financial models coming from the private sector such as the DCCG;
- enlargement and co-ordination of consulting and technical assistance provided by the Federal government, the federal states and communes as well as the private economy in the sense of a communication network of use also for foreign trade;
- on the political level: increased efforts on the part of the German government to integrate Russia into important institutions of the global economy such as the WTO.

Depending on the constellation of all factors mentioned in this analysis so far, different scenarios could be imagined concerning the Russian foreign trade in general and the German-Russian economic relations in particular.<sup>32</sup> The benign scenario of a speedy and successful systemic transformation including a comprehensive modernisation of economic structures cannot be expected and therefore no quick upswing of economic relations as well. Also unlikely is the malign scenario of political and economic turbulences in Russia with the consequence of a sharp bilateral trade-decline. Most probable is an "in-between-scenario" with a stop-and-go approach toward transformation and a status-quo-implication for bilateral trade and co-operation. The consequence would read: German partners will indeed find opportunities for further economic engagement but many deals will include considerable uncertainties. Instruments and strategies of the German government will continue to play their role as stabilizing factors but considering the heavy burden of Russian realities their impact will be limited. Therefore, a well proven maxim will further be valid: who wants to do business in Russia must be prepared to run great risks, needs a talent for improvisation and should have a broad and actual knowledge of the socio-economic environment as well as reliable partners on the spot.

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<sup>32</sup> H.-H. Höhmann/C. Meier, La RFA à recherche de nouvelles relations avec la Russie, in: Le courrier des pays de l'Est, juillet-août 1995, p. 30.

**Hans-Hermann Höhmann/Christian Meier/Heinz Timmermann**

## **Russia and Germany in Europe**

### **Recent Trends of Political and Economic Relations**

Bericht des BIOst Nr. 38/1997

#### **Summary**

##### *Introductory Remarks*

Relations between Germany and Russia constitute an important and indispensable element of European co-operation. Both Chancellor Kohl and President Yeltsin have on a number of occasions described each other's country as their "most important partner in Europe." This is certainly true, albeit in different ways for each country. Whereas Germany is Russia's most important world-wide trading partner, Russia is essential for Germany (and indeed for the West as a whole) in the establishment of a new order in East Central Europe. Nevertheless, the relationship is also a troubled one that is burdened both by unresolved issues outstanding from World War II as well as by differing ideas about the new European security arrangements and by the unsatisfactory conditions for foreign economic activity in Russia. The present report examines the problems of and prospects for German-Russian relations in both their bi- and multilateral dimensions. It draws on original sources, scholarly literature and press materials from both countries.

##### *Findings*

1. In terms of intentions the *interests of the two states* both in their bilateral relationship and in a multilateral context generally concur. *Germany's* main concern is that Russia should attain the status of a partner in international organisations and in the international allocation of economic assignments and should play a constructive role befitting a major power in the establishment of a new European order. This concept conforms with the interests of Russia, which in addition cherishes the hope that Germany will become its chief partner in bringing about the development, transformation and modernisation of Russia. Nevertheless, a number of decisive asymmetries in the relationship have meant that in spite of their many common interests frictions repeatedly arise between the two countries.
2. On the *multilateral level* Bonn has pushed hard for the international integration of Russia. Its role here, however, has not been one of referee or neutral intermediary between Russia and the West but rather that of Moscow's advocate, serving to elicit a sympathetic response within Western institutions to Russian causes that it considers to be justified. As examples of this the report cites the economic summit of the G-7 states and events

surrounding it, certain aspects of the debate over NATO's expansion eastwards as well as Germany's role in drafting the friendship and co-operation treaty between the EU and Russia.

3. These days the bilateral relationship between Russia and Germany is entirely overshadowed by international developments. Nevertheless, it is still of great importance because it builds the foundation for European processes. All in all the relationship has been very mixed: while political relations were given a positive impetus not least by the punctual withdrawal of the Western Group of Forces from Germany in August 1994, attempts to resolve other outstanding disputes have been marked by failures to keep promises or adhere to agreements. This has resulted in repeated irritations and outbreaks of emotion on both sides. This applies in particular to the issue of the "Russian Germans" and to the dispute over the so-called "pillaged art treasures," which the report examines in more detail.
4. Frustrations in the relationship at the political level are, however, counterbalanced by a wealth of activity at the grassroots. This includes numerous contacts between people from the two countries and co-operation between political, social and cultural institutions, groups and associations. Particularly important are the twin city schemes, of which there are now seventy. Also noteworthy are the growing number of direct contacts between regions of Germany and Russia.
5. Following German reunification there were great hopes that German-Russian relations would undergo a dynamic development. The fact that this has failed to happen has a lot more to do with Russia than with Germany, although the restructuring problems encountered by the east German economy in making the transfer to the market have no doubt had a negative impact as well. Nevertheless, at the root of the problem lies Russia's failure to resolve the problems of political and economic transformation following the collapse of the Soviet Union. This impedes economic co-operation and makes Russia an unpredictable partner for Germany in all key areas of German-Russian economic relations: trade, direct investment, technical assistance and advice, financial co-operation and para-economic ties. The latter include such things as the joint housing construction project for military personnel returning to Russia from the former GDR.
6. With regard to bilateral trade, reunited Germany is still Russia's most important trading partner in the "far" abroad, accounting for almost 15% of Russian foreign-trade turnover. By contrast, only 1.5% of German exports go to Russia and only slightly over 2% of its imports are Russian goods. Over the past few years the volume of trade has varied but on the whole has remained below its potential level. This is considerable given the positive tradition of trade between the two countries, the Russian economy's enormous modernisation requirements and the Russian habit of undertrading. There was something of an improvement in 1996, but a real trade boom is still being obstructed by the insufficient transformation of the political system in Russia and by the slow pace of change in the Russian production structure. This means that the rather undynamic state of German-Russian trade may become permanent.

7. Russia also still comes rather low down the list of recipients of German foreign investment. The current barriers to investment can be summed up in a number of key phrases: a growing security problem on account of increasing criminality (the mafia syndrome); increasingly frequent instances of official corruption; a rapidly deteriorating record regarding the payment of bills and the honouring of contracts; the lack of a consistent economic policy and in particular a consistent foreign-trade policy; blatant contradictions between regulations designed to promote investment and tax legislation together with arbitrary interpretation of these by the authorities; and the wrangling over spheres of jurisdiction between the central government and the regions. German companies will continue to be reluctant to invest in Russia as long as there appears to be no marked improvement in the offing and as long as the Russian government continues to underestimate the importance of creating an attractive environment for investors.
8. Since the end of the communist era the German government has supplied Russia with technical advice and assistance to the tune of DM 100 million annually. The intention here is not simply to transplant German methods. In line with the priorities set by Russia this assistance has concentrated on the following main areas: advice on economic policy aimed at creating conditions suitable for establishing medium-sized structures and businesses; assistance in enterprise restructuring, privatisation and disentanglement; the establishment of taxation, customs, insurance and banking systems; advice in the sphere of agriculture; training and further training in the field of economic law; assistance in establishing administrative structures; and advice on the labour market, social policy and environmental protection. The German government has also earmarked four main regions for special focus in its aid programme. These are the territory of Moscow and the cities and territories of Leningrad, Tyumen and Vladimir. In implementing this programme the German government is using funds from the "Kreditanstalt für Wiederaufbau". Other advisory projects are to be carried out by federal institutions and by the German business community.
9. There can be no doubt that without the stabilisation of the economic situation, without sufficient progress in economic and political systemic transformation and without permanent structural change there can be no lasting improvement in external economic relations. This goes both for Russian foreign economic ties in general and for German-Russian economic relations in particular. What is more, stabilisation and institutional and structural reform can be brought about only by Russia itself. Nevertheless, Western support in the form of a diverse programme of communication and co-operative partnership tailored to the special requirements of the Russian transformation process is necessary not least for political reasons. And if it is based on sound principles and efficiently co-ordinated then it will no doubt be of economic benefit as well.
10. Despite the existence of structural shortcomings with more long-term implications and the continuing unsatisfactory state of the transformation process in Russia, the German government and the German business community have tried since 1992 to develop a series of *strategies, institutions and mechanisms for promoting* Russian-German trade relations and

economic co-operation. These include the conclusion of a number of formal agreements at government level and the creation of government-level institutions. One business organisation that has an increasing role to play is the German Centre for Industry and Commerce, which opened in Moscow on 5 March 1997. Finally, in the context of promoting economic ties, mention should be made of the various instruments for trade financing, such as the traditional Hermes-export guarantee companies as well as other newer instruments of finance.

11. If one draws up a balance of the structural givens and the efforts being made to bring about political and economic change, then "best-case" and "worst-case" scenarios can be constructed for both Russian external economic relations in general and German-Russian economic relations in particular. At the most optimistic end of the scale is a scenario in which successful systemic transformation and rapid structural reform bring about a reversal of the trend in political co-operation. The "worst-case" scenario envisages the international marginalisation of Russia as a result of persistent if not indeed worsening internal destabilisation. While the optimistic scenario at present appears to be almost inconceivable, the pessimistic scenario, unfortunately, remains a gloomy possibility and must therefore be taken into account as an economic and political security risk. The most realistic scenario would appear to lie somewhere in the middle: i. e., stabilisation at a low level with alternating upswings and downswings. This scenario is based on the premise that in the absence of a clear or stable political profile on the part of those in power, Russia will continue to "muddle along" in its attempts to bring about transformation and society will simply adapt. For German partners this would mean that while opportunities exist for co-operation and trade, many ventures would be associated with a high degree of uncertainty. In other words, doing business with Russia continues to require a great willingness to take risks, a talent for improvisation, a detailed knowledge and continual observation of the socio-economic environment as well as reliable partners on the spot.