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Russian Interests and Russian-German Relations in 1994

Prepared for the project
International Institutions and Russian-German Security Relations
in the Post-Cold War European System

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Executive Summary

This report is based on research which was conducted in Moscow in May-August of 1994. The purpose of the study was to learn whether Russian policy towards Germany had changed after the December 1993 Russian parliamentary elections. We found that Russian-German relations continue to play a central role in Russian foreign policy, for four reasons. First, Germany remains Russia's largest economic partner and its main creditor. Second, Russia sees Germany as a means for providing a connection between itself and those European international institutions which do not include Russia. Third, Russian officials and academics emphasize historical and cultural ties with Germany. Fourth, Russian-German relations are seen as a central element for overall stability in Europe and for Russia's ability to influence European decisionmaking after the Cold War. Proximity and close economic ties between the two countries lead Russians to believe that Germany has a larger interest in Russia's stability than any other Western country. This gives Russia the opportunity to use Germany as its major partner in the West for promoting its foreign policy interests.

An important transitional period in Russian relations with Germany came to an end with the withdrawal of the remaining former Soviet troops from the former GDR on 31 August 1994. Although the necessity for the withdrawal of troops was clear, by 1994, its implementation and terms were strongly criticized by all parts of the Russian political spectrum for inadequate compensation, poor administration of assistance, failure to balance the withdrawal of Russian troops with the withdrawal of other allied troops, an inadequate time frame, and failure of the German side to meet construction deadlines. In particular, the concerns of the Russian military should be understood in the context of the deep economic crisis which caused a quick shrinking of the military budget.

Nevertheless, withdrawal was accomplished without incident, and the reason behind this was the Russian government's concern for its reputation and international standing. According to representatives of different political parties, the withdrawal of troops from Germany was necessary for both improving Russian prestige abroad and changing the perception in Poland and other Central European countries of Russia's intentions in Europe. Withdrawal was seen as a foundation for building new multipolar relations in Europe.

A second concern of particular importance raised by our interview subjects was the
decline of German economic interest and activity in Russia. Russian officials and scholars cite German focus on resolving the problem of Russian debt, restrictions on guaranteed credits, reduction in private investment, and Germany’s shift in focus to economic relations with central European countries. Nevertheless, we also found that officials and scholars were well aware that for the most part, these trends are the result of unfavorable and unstable economic conditions in their country. They therefore viewed it as a matter of Russian responsibility to create more favorable and stable conditions, and remain optimistic that, given the right conditions, German economic interests would follow.

The changes in Russian relations with Germany in 1994 result from and contribute to two contradictory tendencies in overall Russian foreign policy: a recognition that Russian interests are not identical with those of all Western countries, and a renewed emphasis on relations with Europe and its regional problems and policies. Although the former tendency makes relations with Germany more problematic, the latter gives those relations even more importance.

We found that Russian foreign policy increasingly emphasizes bilateral ties with Germany, although Russia, in order to avoid isolation, at the same time pursues multilateral policies and integration in international institutions. This preference for bilateral ties is due to the Russian perception that European institutions are products of the Cold War, and represent the union of Western powers against Russia. Russia can more effectively act in bilateral relations because it does not have to deal with the joint efforts of several countries. Russia gives priority to bilateral relations with Germany for two particular reasons: on the one hand, Russia and Germany are on relatively equal balance, while on the other hand, Germany can mobilize additional resources from other members in international institutions in support of Russian reform.

Russians are generally unconcerned by German policies in Central Europe. Indeed, many of the officials whom we interviewed welcomed German investment and trade in the region as a force for stability and development from which Russia will eventually profit. Similarly, Russians view Germany’s involvement in the Baltics as positive, largely because Russian officials are confident that German policies support Russian policies and perspectives on protecting the rights of Russian minorities in that region. We found, however, that
officials were far less comfortable with German-Ukrainian relations, and insisted that Germany should develop its relations with Ukraine only in the context of its relations with Russia. Similarly, Russian officials were clear and consistent on the issue of NATO expansion in Central Europe (favored by Germany). They see such a move as a threat to Russian interests, although they differ as to whether the "threat" lies in political isolation or traditional calculations of the balance of power in the military.

Partnership for Peace offers little to Russian officials because it is not a comprehensive security institution in which Russia is an equal member. Indeed, we found clear and consistent evidence that Russians consider PFP to be a step backward from the North Atlantic Cooperation Council (NACC). PFP was a set of bilateral and varying agreements, whereas NACC was a single, consistent forum for political security consultation. Finally, we found that Russian support for OSCE both remains strong and is based upon reasoning and policies discussed in earlier reports from this project.

We conclude that our evidence supports the argument that Russia remains fundamentally interested in international and European institutions because Russian officials value their concrete resources and their capacity to help overcome obstacles to coordination and cooperation. Russian officials remain concerned about uncertainty and instability, and value those institutions that enable Russia to secure its interests through political and economic cooperation. Nonetheless, Russia’s commitment to these institutions is not principled (as one can argue Germany’s is), but rather instrumental and practical. This means that Russia’s commitment to multilateralism lasts only as long as the benefits of such policies and instruments remain clear and substantial. Because Germany is a leading member in all the important international institutions which affect Russia, and remains especially interested in and committed to Russia’s political and economic transition, it is in this regard that Germany remains crucial to Russian security.
Introduction

This report was based on research which was conducted in Moscow in May-August of 1994. The purpose of the study was to learn whether Russian policy towards Germany had changed after the December 1993 Russian parliamentary elections. During the second half of 1993 and the beginning of 1994, Russian foreign policies became driven by more clearly defined national interests. Russian attempts to establish spheres of influence around its borders and to redefine the Russian position as a Eurasian superpower influenced its relations with Germany, which remains committed to the development of Central European countries within an integrated Europe.

Since 1993, Russian foreign policy underwent a pronounced shift from American centrisim toward greater attention to Europe. In the perceptions of senior Russian officials, Russian integration into European international institutions, in both economic and security areas, remains critical for Russia's future. German foreign policy is important for Russia because Germany supports Russian membership in the G-7 and the Council of Europe, and Germany also plays a central role in NATO, OSCE,1 and other important European and global institutions. German officials have stressed on many occasions that they would support a special agreement on Russian cooperation with the European Union. On the other hand, strong German support for integration of Visegrad countries into NATO and the European Union ahead of Russia has caused Russian consternation.

Russian-foreign and economic policies remain very unstable and unpredictable. Both Russia and Germany are searching for new post-cold war foreign policies. It is fair to say that Russian-German relations continue to evolve in a period of substantial uncertainty. Complete withdrawal of Russian troops from Germany on 31 August 1994 had successfully ended the bilateral initiatives negotiated by Gorbachev during the period of German unification, but no new major bilateral arrangements were established in the period covered by this research. This provoked speculation in Russia that after the withdrawal of Russian troops, German interests in Russia would significantly decrease and Russian-German

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1 The Conference for Security and Cooperation in Europe (CSCE) was changed to the Organization for Security and Cooperation in Europe (OSCE) in January 1995. We use the acronym OSCE to refer to the organization in this paper, except in direct quotes where the original used "CSCE."
relations would enter a more problematic period. Other factors that contribute to Russian skepticism about developing economic cooperation with Germany include: the high costs to Germany of rebuilding the former GDR, growing German investment in Central Europe, the unresolved problem of Russian debt to Germany, and the political and economic instability in Russia.

Given all these issues, it is important to learn how Russian politicians and scholars assess the current state of Russian-German relations, how they view the factors that will influence those relations in the upcoming period, and their strategic vision of Russian-German cooperation in the European and global contexts.

The research for this report was composed of two parts. The first consisted of interviews with Russian policymakers and foreign policy experts, including officials of the Foreign and Defense Ministries, members of Russian parliamentary committees on foreign policy and defense, and representatives of several Russian research institutes (the Institute of Europe, the Institute of World Economy and International Relations, the Institute of the USA and Canada, the Council of Euro-Atlantic Cooperation, the Russian Foreign Policy Association, the Institute for Strategic Studies, the Eurasian department of Carnegie Endowment for International Peace, Moscow State University, and the Gorbachev Foundation). The second part was an analysis of materials from the Russian press, as well as official governmental statements and transcripts of parliamentary hearings.

The structure of this report is as follows. First, it examines the role of Germany in Russian foreign policy and changes since the beginning of 1993, with special emphasis on the withdrawal of German troops and Russian-German economic relations. Second, it discusses factors likely to determine the development of Russian-German relations in the next 5 to 10 years. Here we identify potential problems mentioned by Russian officials, analysts, and areas of common interest. Finally, the report considers the role of international institutions in Russian-German relations. In this part special attention is given to the Russian position towards different international institutions, such as CSCE, NATO (including the Partnership for Peace Program) and the United Nations.
1. The Role of Germany in Russian Foreign Policy

Both Russian politicians and academics emphasized the central role which Russian-German relations play in Russian foreign policy. There are four reasons for this. First, Germany remains the largest economic partner of Russia and its main creditor. Second, Russia sees Germany as a means for providing a connection between itself and those European international institutions which do not include Russia. Third, Russian officials and academics emphasize historical and cultural ties with Germany. Fourth, Russian-German relations are seen as a central element for overall stability in Europe, and for Russian ability to influence European decisionmaking after the Cold War. Proximity and close economic ties between the two countries lead Russians to believe that Germany has a larger interest in Russia's stability than does any other Western country. This gives Russia the opportunity to use Germany as its major partner in the West for promoting its foreign policy interests.

The importance Russia places on its relations with Germany was clearly expressed by Russian Prime-Minister Viktor Chernomyrdin during his visit to Germany in June 1994: "Germany still remains a key country for Russia, its largest trade, economic and political partner. The German share in Russian foreign trade balance is 17%. Regular meetings between leaders of Russia and Germany demonstrate the scale of current Russian-German relations."

Despite fundamentally close relations, 1994 was a critical year for the course of future relations. The withdrawal of Russian troops from Germany concluded the so-called "Gorbachev period" in Russian-German relations which involved implementing the bulk of bilateral agreements arising from German unification. In simplified terms, these relations relied on an underlying bargain: Russia withdraws its troops promptly and in accordance with international and German law, and Germany in return provides Russia with substantial economic assistance in the form of both credits and humanitarian assistance, including the construction of apartments for returning military officers. This project cost Germany over DM 8 billion. Originally, Russia was to pay for, or clean up, all environmental damage before the withdrawal was complete, and it was to retain all proceeds from the sale of Soviet

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2 Germany provided Russia with over DM 40 billion in credits and consolidated Russian debt to Germany is estimated at DM 87 billion.

3 According to the German Finance Ministry, Germany had paid DM 8.35 billion for construction of 45,000 apartments for returning military officers. DM 1 billion was spent to cover transportation costs for withdrawal. DM 200 million was spent for civilian training of retiring military, mostly for courses on management, marketing, and the foundations of a market economy.
equipment and holdings in the former GDR. Eventually, the original agreement was changed to allow for a trade in the value of Russian property against environmental damage, which increased the cost of the agreement to the German government.⁴

Though neither a majority of Russian politicians nor the Russian general public questioned the necessity for withdrawal of troops⁵, all parts of the Russian political spectrum criticized how it was implemented. Russian politicians criticized Gorbachev’s decisions on several grounds: inadequate compensation from the German side, poor administration of assistance, failure to balance withdrawal of Russian troops with withdrawal of other allied troops, the inadequate time frame for withdrawal, and failure of the German side to meet construction deadlines.⁶ Russian Defense Minister Pavel Grachev called Gorbachev’s decision to withdraw such a large number of troops (he put the number at 546,000) in such a short period of time (less than 4 years) a “severe political miscalculation”⁷.

The concerns of the Russian military should be understood in the context of the deep economic crisis which caused a quick shrinking of the military budget. Funds which were allocated for military purposes in the 1994 budget as well as in the debated 1995 budget are barely enough to cover military units already stationed within Russian territory, and must be stretched to cover withdrawal and redeployment. The rapid withdrawal of troops from Germany accompanied by simultaneous withdrawal from the Baltics made it nearly impossible to provide for the returning troops. Grachev and other Russian military officials accused Gorbachev of signing the agreement knowing that even minimal living conditions could not be assured. During a special ceremony in Moscow, Grachev said that had Russia conducted the withdrawal according to the standard for Western troops (5 battalions per year) it would have taken 15 years. According to a Russian military official, returning military officers will not only suffer primitive living conditions, but almost 85% of them will be dismissed from the armed forces in the following year without job guarantees. Russian

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⁴ Principal Investigator’s interview with Officer, Bundeswehr Liaison Commission with Western Group of Forces. Berlin, 9 November 1992.

⁵ According to the Russian news program Itogi which conducted a public opinion poll on “How will Russia position in the world change after withdrawal of troops from Germany?”:
35% - it will not change; 20% - will increase; 19% - will decrease; 26% did not know.

⁶ According to the Russian press, by the time the troop withdrawal was finished only 60% of the apartment construction had been completed. As a result, over 60 thousand military officers are left without homes.

⁷ Interview with the Russian news program Itogi.
officials fear that this situation may create major social unrest in the country.\footnote{Interview 19.}

Representatives of different political parties told us that the withdrawal of troops from Germany was necessary to improve Russian prestige abroad, and to change the perception in Poland and other Central European countries, about Russian intentions in Europe. Withdrawal was seen as a foundation for building new multipolar relations in Europe. However, many interviewees mentioned that Russia expects some respectful gestures to be delivered from its Western Allies. These sentiments grew as the 50th anniversary of the end of World War II approached. Many Russians claim that the war cannot be considered “over” with the withdrawal of only Russian troops, because the West has to withdraw the majority of its troops as well. Some tried to link the withdrawal of allied troops with the German desire to enter the UN Security Council, since no other member of the Security Council has foreign troops stationed on its territory. Another important result of the withdrawal of Russian troops is a likely change in German interests because Germany will concentrate its attention on other regions. One Russian deputy told us that withdrawal of troops would change the European geopolitical situation, thus, “we have to watch German behavior”.\footnote{Interview 9.}

The argument that the withdrawal of troops from Germany would significantly reduce Germany’s economic and political cooperation with Russia was based on some evidence. In 1991-1993, the German share in total international financial assistance to the CIS countries was estimated at 60%, of which the majority was given to Russia. Three-quarters of all Western humanitarian assistance given to Russia was provided by Germany. The first sign indicating change in German policy came in 1993, when during a Russian-German summit, Germany declared that in the next several years it would not provide Russia with funds, but rather direct all its attention to resolving remaining problems of debt. According to Russian estimates, Russian foreign debt to Germany from 1991 till 1993 totals DM 20-28 billion.\footnote{V. B. Belov, “Russian-German economic relations” Vneshnaya torgovlya, #4, 1994} Part of the debt consists of Russian obligations on transfer payments inherited from former Eastern German enterprises. According to German estimates this exceeds DM 15.2 billion. Russia and Germany have signed two main agreements in connection with Russian debt obligations. In December 1992, Germany agreed to postpone Russian debt payments for 8
years on transfer payments with enterprises of the former GDR. In addition, in September 1993, Germany agreed to delay Russian debt payments for ten years within the framework of the Paris Club.

Another factor which signals decreasing economic cooperation between the two countries is a decline in direct German investment. Based on German estimates, from 1991 until the Fall of 1993, these investments totaled DM 8 billion, or 60% of all foreign investments in Russia (the total was DM 12.5 billion). However, by the end of 1993, investment by German firms had decreased, and U.S. firms had surpassed them both in the amount of investment and in the number of investors. Officials and academics in interviews offered several reasons for the shift: many potential investors turned to eastern German enterprises; German firms invested significant resources in Poland, the Czech Republic, Slovakia, and Hungary -- all of which had created a favorable climate for foreign investment; during the last two years, the Russian investment climate had become even less favorable; and the majority of large German companies had already made their primary investment in the Russian economy, despite possible losses and dangers, while small firms took a more cautious approach since they were less willing to accept high risks.

Many medium and small firms invested in Russia two years ago and as result many are now at the edge of bankruptcy because the Russian government cannot meet its obligations. Russia has argued that Germany has to provide it with additional credits to be used solely to cover Russian obligations for Germany's small companies. The German government did not meet this proposal with optimism, knowing how hard it is to follow the path of the money once placed in the hand of Russian authorities. During 1993, German officials emphasized several times that priorities in German economic assistance to the East were changing from Russia to Central Europe, while claiming that Russia should not be left behind in political and economic isolation.

German-Russian relations have been affected by the overall shift in Russian foreign policy. Russian academics argue that in 1991-93, Russian foreign policy was evolving from naive democratic romanticism toward greater professionalism. Only from the beginning of 1993 did Russia come to understand that it had to concentrate on long-term tasks in its foreign policy, such as developing favorable conditions for Russian economic transformation and political development. After a period of attempts to balance short-term goals and long-term geopolitical interests, current Russian foreign policy and military doctrine have only begun to be based more upon its long-term interests: developing a democratic and free country, creating the conditions for a modern economy, guaranteeing good living standards
for Russian citizens, and financial-economic independence. Officials seek Russia's inclusion in the world community on a basis of equality, and as a country with many centuries of history, unique geopolitical position, sufficient military power, and significant technical and intellectual potential. Foreign policy objectives focus on resolving conflicts around Russia, preventing their spread into Russian territory, and securing international observance of human rights, including rights of ethnic Russians residing outside of Russian territory.

In recent years, Russia has come to realize and accept that its interests diverge from those of Western countries. According to Russian academics, their roots are not in antagonism of incompatible orientations of social systems (as it was explained during the Soviet period), but rather in the specifics of historical, geopolitical, and economic interests. However, both scholars and officials emphasized that these disagreements can be resolved within civilized interstate relations.11 On the one hand, Russian officials repeatedly emphasized the need for normal day-to-day relations with the West without major initiatives but rather as an equal partner. This attitude was demonstrated during the last 1994 G-7 meeting, where Russia did not press special requests, but sought to participate as one of the partners. This attitude also contributed to the decision to eventually drop requests for special status within Partnership for Peace.12

On the other hand, Russian officials think it is important to signal Russia's good intentions to the West. Several Russians whom we interviewed said that although Gorbachev made a mistake by announcing a very rapid withdrawal of troops, Russia had to take advantage of its mistake and get the largest possible benefit from the situation. For example, a former Soviet ambassador to Europe said that Russia has a right to say: "we followed all our commitments even knowing what domestic problems we create for ourselves, now it is the West's turn to respond by meeting their commitment to Russian reforms".13 Withdrawing Russian troops from Germany and the Baltics in accordance with previous agreements was meant to demonstrate that Russia is a reliable partner and that it has a benign orientation towards the West.14

11 This was a persistent theme, but was expressed clearly and authoritatively by government officials: Interview 3, Interview 4, Interview 7, Interview 9, Interview 12, Interview 14.

12 Interview 9, Interview 4, Interview 20.

13 Interview 5.

14 Interview 13, Interview 22.
Some Russian academics argue that the evolution of Russian foreign policy doctrine reflects understanding of the new status of Russia in world politics -- a transitional status from global to continental power. "A Russia which is accepted by the world community as legal successor to the USSR cannot establish itself as a world power, so Russia is returning to Eurasia. By the time Russia overcomes its economic and political crises, its Eurasian role can become a foundation for a new global role."\textsuperscript{15} Another view which was expressed in some of our interviews was that unlike in 1991-92, a time when Russia did not have a separate foreign policy line towards Europe and thus lost a lot of natural connections in this region, Russian bilateral relations with important western countries are now established on firmer bases. In the last two years, two separate lines in Russian foreign policy have started to evolve -- European and American. Russian-German relations are central to Russia's relations with Europe. Germany is the major Russian partner in Western Europe. The majority of our interviews indicated that Russian relations with Germany are not in any way directed against or meant to undermine Germany's relations with the United States. However, most agreed that growing Russian interests towards Europe and Germany result from the increase of anti-Americanism among Russian politicians and the general public.

The officials and academics whom we interviewed believed that Russian policy towards Germany still needs a more strategic perspective. Strong and stable relations between Russia and Germany would give Russia more authority and stability in European affairs. One of the most important factors in long-term relations with Germany is Russian interest in receiving German industrial equipment, new technologies, scientific-technological knowledge, and experience which are essential for the success of Russian economic reforms. In addition, it is important to remember that Russian-German relations have a long history and are rooted in traditional views of Russia's role and interests in the world. One Russian scholar suggested that as a consequence, any Russian foreign policy that exhibited a more pronounced German orientation would not be the target of domestic political opposition, as does an America-centric course in foreign policy.\textsuperscript{16}

The interesting issue is whether Russia sees its relations with Germany as a part of building cooperation with Europe or as an attempt to build isolated relations which can be used to hinder integration processes in Europe. Though the Russian government repeatedly

\textsuperscript{15} Michael Kozhokin, "Russia and Germany in the New Europe", \textit{Svobodnaya mazel} #4, 1994

\textsuperscript{16} This position was argued by Vyatkin, "Russia and Germany: potential for cooperation," \textit{Mirovaya Ekonomika i Mezhdunarodniye Otnoshenii} #4 (1994).
emphasizes the importance of multilateral relations within the framework of international institutions, many people whom we interviewed stated that Russia gives priority to bilateral relations with Germany over multilateral relations. The reason is that Russia perceives European institutions as being products of the Cold War and representing the union of Western powers against Russia. Russia can more effectively act in bilateral relations because it does not have to deal with the joint efforts of several countries. Russia gives priority to bilateral relations with Germany for two particular reasons: on the one hand, Russia and Germany are relatively equally balanced, while on the other hand, Germany can mobilize additional resources from other members in international institutions in support of Russian reform. Others emphasized that Russia gives priority to bilateral relations in this early stage when it is not yet accepted into international institutions. They believe Russia must also develop multilateral ties, especially in Europe, because isolation from these institutions could undermine Russia's capacity to play a major role in the region.

Finally, Russian politicians do not consider Germany as a threat to Russia. A Russian academic told us that the threat from both sides had disappeared after the disintegration of the Soviet Union, because now there are two buffer zones between Russia and Germany: the Central European countries, and the republics of the former Soviet Union. Although threats are absent, there is a strong impression of unstable equilibrium in relations between Russia and Germany, because both countries are still defining their post-cold war foreign policy doctrines and do not yet have clearly defined national interests vis-a-vis one another and of their other neighbors.

2. **Central Issues in the Development of Russian-German Relations**

According to a leading expert on strategic studies, at the current stage in Russian-German relations there are several objectives which are equally shared by both countries that constitute the essence of a strategic Russian-German partnership: maintaining stability in Russia and thus in Europe; support for Russian efforts on political containment of conflicts in the Caucasus and in Central Asia; and including Russia in the processes of European

17 Interview 22, Interview 2.

18 Interview 4, Interview 8.

19 Interview 5. This echoes evidence in earlier reports from this project.
integration, thus strengthening its European orientation in domestic and foreign policy.²⁰

In economic relations, the development of Russian-German relations will depend on two main factors: how quickly Russian economic reforms will create a favorable climate for German investment, and the amount of capital Germany would have available to invest given its projects in the former GDR and Central Europe. One thing is clear: neither Germany nor Russia wants to continue economic cooperation at the interstate level and both want to develop direct relations between Russian and German enterprises.

There is growing cooperation between the Russian and German private sectors. Both governments prefer that trade credits be given directly to enterprises, that the creditor assess the worthiness of projects, and that guarantees be provided by private firms rather than by the state. Former Russian Vice Premier Alexander Shokhin during his June visit to Germany described problems in interstate credits guaranteed by the Russian government. For almost three years Germany had provided Russia with large credits under insurance from the Hermes export insurance program, which favored Russian purchases of products from firms in the former GDR.²¹ The credit for 1994 was reduced to DM 2.5 billion. However, according to Shokhin, Russia will not be able to use even this smaller one, because the government cannot guarantee the credits, which would have to be accounted for in the budget and would exceed the budget limits approved by the Parliament.²² Given the government’s priorities on spending for social needs and maintaining industrial production, it cannot guarantee the credits. The government has sought to change the credit scheme towards direct financing of particular projects and decentralization of guarantees, so that the German government gives credits directly to firms for concrete projects, and is responsible for evaluating the firm’s potential for repaying the credits. Commercial risk will be the responsibility of German creditors, with the Russian government guaranteeing framework conditions. The main obstacle here, however, is the lack of a Russian tax system, which is

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²⁰ Kozhokin, "Russia and Germany in the New Europe."

²¹ For an assessment of the German program Hermes and German trade policy toward Russia, see Jeffrey J. Anderson and Celeste A. Wallander, "'The more things change...': Germany’s eastern trade policy after unification," paper presented at the 1994 Annual Meeting of the American Political Science Association, the New York Holden, 1-4 September 1994.

²² Report on statement by Alexander Shokin on Russian-German economic cooperation during Yeltsin’s trip to Germany in Knave Vremya, #20, 1994.
at best in the first stages of development.\textsuperscript{23}

A positive factor in Russian-German financial relations is the development of direct inter-bank cooperation. Several dozen new Russian banks have opened corresponding accounts in German banks, which has allowed them to reduce significantly the time required for money transfers. At the same time, several German banks have received the right to conduct operations in Russia. However, Russian banking legislation still prevents their active involvement in Russian banking operations. Russian scholars told us that they expected this area of relations to develop more substantially in the next five years together with the development of the Russian banking sphere.

Another new feature in economic cooperation is the participation of German firms in Russian privatization. According to the Russian State Property Agency, German companies have invested in the chemical industry, machine-building firms, and the food industry. In 1994, foreign investors received more rights for participating in Russian privatization -- including the right to buy an unlimited amount of privatization vouchers and to freely exchange them for shares of different companies. As a result, German firms have started to become more active in Russian privatization. Similarly, some Russian companies have even begun to invest in privatization in the eastern German Länder.

At the end of 1993 and beginning of 1994, one of the most important factors in Russian-German economic relations was the stabilization of trade, which had fallen almost by half during 1991-1992. While the volume of trade fell, the structure of Russian-German trade has remained relatively constant since 1990. Raw materials account for the bulk of Russian exports, and German manufactured goods constitute the majority of Russian imports. Germany buys mostly Russian oil and gas, but if world prices of these energy sources continue to decline, German trade with Russia automatically decreases in monetary terms. Russian officials hope for a change in the structure of Russian exports with the success of new Russian private companies, yet they feel that they cannot compete with Europeans in face of existing trade barriers.

According to Russian specialists, German officials support minimum restrictions for Russian goods in the German and generally European markets.\textsuperscript{24} Germany supported Russia

\textsuperscript{23} See also V.B. Below, "Russian-German economic relations" \textit{Vneshnyaya torgovlya}, #4, 1994.

\textsuperscript{24} Interviews with German officials confirm this is German policy. Principle Investigator’s interview with Official, department on political relations, Foreign Office, Bonn, 11 March 1992; Principle Investigator’s interview with Official, department on foreign economic relations, Foreign Office, Bonn, 25 September 1992.
in its negotiations with the European Union and contributed to including many Russian suggestions in the Russian agreement with the EU.25 Germany also supported the Russian positions in its negotiations with GATT. Given that Russia accumulated substantial debt to Germany, it is likely that in the upcoming five years, Germany will help Russia to establish closer relations with international organizations that can provide it with economic assistance and target the development of the Russian private sector.

In the sphere of technical-consulting assistance, the future of Russian-German cooperation is likely to be characterized by increasing German influence in Russian regions. A large part of German assistance is concentrated in particular regions because Germany has focused on experimenting with programs in individual regions and exporting successful models to other parts of Russia. Germany was one of the first countries to transfer the focus of its activities from Moscow directly into regions. One of the pilot programs is under way in the Vladimir region (Vladimirskaya Oblast'). Germany provided assistance in structural reconstruction of several industrial enterprises, and in housing and public utilities as well.

Another characteristic of German technical assistance is its concentration on particular types of firms or industries, like telecommunications and infrastructure. One of the projects which has just started is a European infrastructure fund which covers transportation and telecommunication systems as well as energy systems which will connect Russia, along with other states of the former Soviet Union and European countries. Other areas of German focus are development of oil and gas extraction facilities, creation of a single European energy infrastructure, exchange of modern nuclear technologies for peaceful purposes, and space research and conversion of military production. German technological assistance will be extensively directed towards preventing the spread of nuclear technology and the illegal export of nuclear materials.

Russian officials and academics tended to emphasize the importance of taking the initiative in these economic and technical assistance programs in order to avoid landing in the periphery of Germany policy and business interests. After a slow start and some confusion in 1992, the Russian government recognizes that it has to be more helpful in creating stable economic and financial conditions which will encourage private business efforts. Credits through the state channels as well as humanitarian assistance have to be replaced by such new ways of cooperation as joint ventures, leasing, compensation transactions and direct

25 For the agreement, see Agreement on Partnership and Cooperation, full text signed in Corfu on 245 June 1994 by the European Union and the Russian Federation, published by the Delegation of the European Commission in Moscow.
foreign investment. Officials emphasized that Russian vital interests lie in attracting private foreign capital, especially in small and medium-size businesses.

With respect to political relations, several factors were mentioned in interviews as being especially important. Political stability in Russia, German policy towards Eastern Europe, German policy towards Ukraine and the Baltics, and the evolution of European security institutions (especially NATO and CSCE) and Russian relations with these institutions were all of central concern. Several factors are likely to have less influence on bilateral relations as time passes, according to officials and experts, especially German actions in Kaliningrad and the position of Russian-Germans.

Officials and academics alike acknowledged that the development of Russian-German relations depends on Russian domestic politics and the dynamics of the evolution of Russian foreign policy. If nationalistic forces continue to increase their influence in Russia, greater friction in relations between the two countries is likely. These center on pressure from the army and military-industrial complex (still resentful of the withdrawal of troops and inability to assure minimal living standards in Russia), opposition in the Parliament, and demands for increasing economic assistance from conservative elements in the Russian government. One indication that Russian-German relations are still rather fragile is the concern over the return of German historic and cultural treasures which were taken from Germany by the Red Army at the end of WWII. The issue generated a hot discussion not only in the Russian press, but also in the parliament and raised many old anti-German sentiments.

None of our interviews indicated concern that growing German economic influence in Central Europe could become a factor for tensions in Russian-German relations in the upcoming five-year period. A Duma member said that there are two discrete and complementary processes -- German expansion and Russian voluntary withdrawal from Central Europe -- which means there will be no conflict of interests between Russia and Germany on this count. Russia lacks any immediate economic or political interests in Central Europe due to the crisis at home and in the so-called "near abroad". These interests may emerge with the development of a Russian private sector, which would search for external markets beyond the economically deteriorating republics of the former Soviet Union, but this will not happen in the near future. Today, when Russia does not have economic resources, its foreign policy position is that the more Germany does for development of Central Europe, the better it is for Russian businesses in the future. One Russian academic

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26 Interview 7.
told us that he does not fear that Germany will dominate the region, because if it tried to do so, it would cause resistance from Central Europeans themselves and create interest in bettering relations with Russia.\textsuperscript{27}

A separate and less benign issue, however, is that of Central European membership in NATO. Several interview subjects told us that if Germany continues to insist on including Central European countries in NATO and other security arrangements (WEU) without Russia, than Russian resistance will grow. Though a majority said that German insistence on NATO expansion does not have a directly anti-Russian character, they emphasized that for Russia, NATO enlargement does represent a threat. German support for such a policy therefore can produce suspicion of real German intentions.

Unlike the lack of concern about German policies in Central Europe, everyone agreed that if Germany were to increase its influence in the Baltics or in the Ukraine, this would create greater problems in Russian-German relations. Germany still has not defined its interests in the former republics independently of relations with Russia, but many believe that such interests are developing more and more in contradiction of Russian interests. The Russian side feels uneasy about Germany determining its relations with the Ukraine outside of the context of Russian-German relations. In particular, Russians expressed concern that the German government would establish increasing political connections with Ukrainian elites. In contrast, German economic presence in the Ukraine was not perceived as a problem.

In the Baltics, Russia is more willing to see higher levels of German involvement. One of the reasons is the hope and belief that German influence will press the Baltic states on the issue of respect for Russian minorities’ human rights in accordance with the norms of international law and commitments to institutions. Russian officials pointed out that the German government has on several occasions criticized as unacceptable certain anti-Russian declarations from the leaders of Baltic countries.

Another factor for potential problems between Russia and Germany is political competition in former Yugoslavia. Although almost all people whom we interviewed said that Russian-German relations remained unaffected by the German Constitutional Court’s ruling that German troops may be used abroad in accordance with Germany’s international legal commitments, all agreed that the case of former Yugoslavia is an exception. Russia will strongly oppose any use of German troops in former Yugoslavia under any auspices,

\textsuperscript{27} Interview 22.
because according to many Russian politicians, Germany is responsible for the war because it pressed the EU to recognize Croatia and Bosnia. 28

No one believed that German claims to Kaliningrad were likely. Many agreed that territorial claims were not in the German interest. Even the most radical elements in Russia think that Germany would not pursue direct territorial claims, but would act through political influence in the Baltics. There are many signs of little German interest in the Kaliningrad area. For example, Germany opened its consulate in Kaliningrad only in 1993, after all other countries had already done so, including Poland. German economic and technical assistance to the region is minimal. Germany did not include Kaliningrad in any of its pilot regional assistance programs. On the other hand, many noted that German private capital is very active in Kaliningrad, which gives Germany significant economic influence in the region. Several people mentioned pro-German attitudes in the regional administration which is advocating the creation of a free economic zone in order to attract German capital.

Furthermore, there is now another dimension to the Kaliningrad problem -- it has one of the highest rates of military concentration within the territory of Russia, because the majority of troops which were withdrawn from the Baltics were relocated there. This has led to expressions of concern from the German and Baltic governments, to which the Russian response has been "do not intervene in our internal affairs." Some expressed the view that German caution is also due to reluctance to provoke a more active Russian campaign for revision of the CFE Treaty.

3. The Role of International Institutions in Russian-German Relations

Even before its unification, Germany was a strong supporter of international organizations and took a leading role in European integration. Since the end of the Cold War, Germany has supported the reform of European institutions and their inclusion of Eastern European and former Soviet countries. Russia has a more instrumental approach to international institutions. A particular focus of Russian efforts has been to use these institutions to acquire economic assistance. Russian foreign policy relied upon multilateral strategies where those seemed most effective, but also tended to rely upon bilateral relations when multilateral institutions would restrict Russian options excessively. From the Russian point of view, therefore, Russian-German bilateral relations in 1991-92 were generally the

28 German officials rule out any military intervention in Yugoslavia, because of Nazi intervention and atrocities during WWII.
starting point in thinking about security strategies. At the same time, Germany consistently tried to emphasize the need for multilateral cooperation.

Since the end of 1993 and through most of 1994, Russian foreign policy priorities have shifted somewhat. Although not as deeply and broadly committed to multilateral strategies and international institutions as is Germany, Russia is coming to rely more extensively in its foreign policy.\(^{29}\) There are several reasons for such a change in policy:

First, Russia has passed the phase when it would count on massive Western assistance for economic reform, and has changed its objectives towards access for Russia products in foreign markets. In this regard, Russian participation in GATT and its association with the Council of Europe and the European Union (EU) is increasingly important. Second, Russia has focused more on institutions in part because of the focus of central European countries on NATO and the EU. An especially important catalyst for Russian strategies has been the issue of NATO expansion, where it had to react to the possibility of NATO enlargement without Russian participation.

Third, Russia has confronted its diminishing influence in the world. Since many important international institutions are legacies of the Cold War, they preserve Russian status and influence because Russia has inherited the rights and responsibilities of the Soviet Union within those organizations. In the United Nations, for example, Russia can claim equal status and maintains influence on decisions made by the powerful Western countries. This has led to Russian aspirations to become a member of the G-7, especially in its political consultations.

Finally, since 1992, Russia and the West have experienced growing tensions over the role which Russia plays in the former Soviet republics. Russia has realized that it cannot both act unilaterally and be accepted in the international community. Therefore, it has tried to use international organizations to legitimize its role and settle problematic disputes. For example, Russia has appealed to OSCE to monitor the rights of Russian minorities in the Baltics. It has also allowed OSCE to send observers to conflicts where Russia conducts peacekeeping operations. Finally, it has asked the UN to grant it official status as a UN peacekeeper, although it then rejected proposals to reform OSCE which would enable it to grant mandates for peacekeeping in the region.

\(^{29}\) At the same time there was an opposite shift in Russian attitudes towards relations with the "near abroad". In 1991-1992 Russian officials declared on many occasions that they were willing to pursue relations with Russia's neighbors within the framework of international institutions. In 1993 and especially 1994, Russia overwhelmingly relied on bilateral mechanisms, often even at the expense of development of the CIS.
This change in Russian policy towards international institutions strengthens its relations with Germany. Germany has supported Russia in developing relations with European institutions. Despite some fundamental differences in Russian and German positions, Russia still considers Germany to be its main chain for connection with major institutions. This can be explained not only by the fact that Germany has significant influence within these institutions, but also because Russian officials see the potential for bargaining with Germany since the two countries have strong mutual interests in some of these different arrangements. Nearly all Russian politicians and academics whom we interviewed mentioned that Russia has a better chance to get German support for bringing it into the G-7 because Germany is counting on Russian support to expand the UN Security Council. According to the interviews, Russians generally support expansion of the Security Council, but want to receive acknowledgment of their special role in this process, of which Germany will be the main beneficiary. Furthermore, Russia knows that Germany, more than any other country, is interested in Russian economic development because of the huge Russian debt to Germany. Finally, Russia sees that Germany and Russia both have potential interests in reforming OSCE. Though their proposals for OSCE reform differ, Russia has a better chance of getting German support than any other Western country, except perhaps France.

Russia plans to reform OSCE and transform it into the central element of European collective security based on three main principles. First, OSCE is a genuine post-cold war institution which reflects a preference for neither Russia nor the West. According to a senior Russian foreign ministry official, OSCE principles won the Cold War, not NATO principles. For many Russians NATO still raises the "image of the enemy," and its expansion is therefore viewed as a threat to Russian security. Second, the OSCE is comprehensive both in the sense of areas in which it operates and in terms of its membership. In something of a contradiction to this principle, however, Russia seeks to establish an OSCE Security Council (or Executive Committee) with permanent and rotating members who would be responsible for settling ethnic and other regional conflicts. Russia proposes that decisions adopted by the Executive Committee should have the same binding force as the ones taken at OSCE ministerial level meetings. This mechanism clearly contradicts the principle of universality. On the other hand, OSCE's flexibility regarding areas of involvement allows Russia to use it in some of its urgent foreign policy problems.

30 Interview 4.
One of the major components of the Russian proposal for OSCE reform is the adoption of a special charter on ethnic minority rights. Clearly, Russia wants OSCE to take some responsibility in settling issues of Russian minorities in the near abroad.\textsuperscript{31}

Thirdly, Russia wants OSCE to become the basis for a European collective security system because it is a full member and consequently can directly influence its decisions. Furthermore, Russia can exert additional indirect influence through other CIS countries which also belong to OSCE. However, unlike Western interpretations of Russia's support for OSCE, Russian officials do not have any intentions of having OSCE supervise NATO. Everyone whom we interviewed said that this idea is simply unrealistic and would undermine Russia's reputation in the West. However, it does appear that Russia seeks to create an alternative to NATO enlargement by involving central and eastern European countries in other regional security institutions.

In addition to granting OSCE a central role in providing European stability and security, Russia proposes establishing a division of responsibilities among all existing security arrangements: OSCE, NATO, and the CIS among them. Russian emphasis on OSCE reform came in response to NATO's Partnership for Peace program (PFP). PFP has caused substantial controversy in Russia. After a long period of debate, Russia decided to join the program on 22 June 1994. However, Russian officials (correctly) perceive PFP as a temporary measure and not the basis for a new European collective security system. The main motivation for joining was to prevent Russia's isolation, which would mean a reduction in its already shrinking influence on European affairs.

Interview subjects identified several problems which PFP creates for Russia. First, PFP replaces multilateral consultations within the North Atlantic Cooperation Council (NACC) with direct bilateral connections between NATO and individual countries. According to PFP documents, each member's country first signs a standard framework document and later develops an individual program with NATO which can be kept closed from other participants. Russian officials argue that this system creates suspicion among countries which are competing for NATO membership. Several officials argued that this approach will create tensions not only between Russia and Central European countries, but also between Russia and other members of the CIS collective security treaty\textsuperscript{32}.

\textsuperscript{31} On Russian OSCE proposals, see the documents "Kontseptsiya kollektivnoy bezopasnosti gosudarstv - uchastnikov dogovora o kollektivnoy bezopasnosti" and "Programma povysheniya effektivnosti CBCE."

\textsuperscript{32} Especially Interview 3 and Interview 7.
Second, there is enormous resistance among Russian military officials to any form of NATO enlargement. By joining PFP, Russia appears to have demonstrated that it wants to be associated with NATO in the future, but the matter is far from settled. Our sources pointed out that the Russian media did not broadcast the part of Yeltsin’s statements where he referred to possible full membership in NATO.

Finally, PFP does not solve Russian problems, because it does not provide any assistance in army reform and military conversion, which NACC had done. In military cooperation, Russia has broader cooperation with NATO member countries, like Germany, than that established in the PFP framework. According to many Russian officials, PFP will diminish the role of NACC and CIS, while at the same time not adding any significant benefits for Russia. Our interviews indicated that there is no consensus among Russian officials on whether Russia should try to bargain for relations with NATO according to the formula 16(NATO) + 9(CIS). Grachev has several times emphasized this as an alternative to PFP’s bilateral structure, but many emphasized that an underdeveloped CIS with a lack of financing and other resources can become a liability rather than an advantage for Russia in its relations with NATO. Based on all the problems mentioned above, one can conclude that future Russian priority in military cooperation with the West will be on bilateral programs with individual countries rather than PFP.

In conclusion, our interviews in 1994 confirm earlier findings from interviews conducted by the Principal Investigator in 1992 and 1993. The role of international institutions in Russian-German relations after the Cold War has not only persisted, but has become even more crucial in Russian calculations because an institutional framework constitutes a means for controlling, growing uncertainty. One often hears concerns that Russia and Germany will return to a traditional competition for influence in Central Europe and parts of the former Soviet Union, or that both countries will pursue bilateral relations and attempt to develop special relations at the expense of multinational strategies. Our interviews are evidence that neither appears likely today.

However, given the transitional nature of both Russian and German foreign policies and the inescapable importance of their bilateral relations, it becomes increasingly important to accelerate Russian integration in European economic and security institutions now while those strategies remain attractive to Russian officials. Of all the Western countries, Germany appears to benefit most from such integration because a weak and isolated Russia threatens German security interests in both economic and geopolitical terms. It is clear that Russia cannot become a full member in several of the most important institutions. However, the
real challenge for the West is how to find formulas which create incentives for Russia to continue its drift towards an integrated Europe, rather than developing a more isolated policy which entails a higher degree of uncertainty. If this effort fails, a natural reaction from European countries is to protect themselves from this uncertainty by diverting resources into stabilizing Central Europe and rapidly integrating it into European institutions. This, in turn, would confirm Russian fears of isolation and encirclement. On the other hand, the Russian challenge is how to combine positive signaling regarding common interests and cooperative intentions with pressure on Western interests to continue support for Russian reforms and integration. In this process, Russia continues to view its relations with Germany as central to its European policies and national security.
Interviews
1. Researcher (and former ambassador to Europe), Institute of Europe. Moscow, 13 September 1994.
2. Researcher and Special Assistant to M.S. Gorbachev, Gorbachev Foundation. Moscow, 12 September 1994.
4. Head of Department, Department of European Cooperation, Ministry of Foreign Affairs. Moscow, 9 September 1994.
7. Member of the State Duma, and of the Foreign Relations Committee of the State Duma. Moscow, 1 September 1994.
12. Member of the State Duma, and of the Foreign Relations Committee of the State Duma. Moscow, 30 May 1994.
15. First Secretary, Department of Disarmament, Ministry of Foreign Affairs. Moscow, 26 May 1994.

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