Conference Report

THE RUSSIAN TRANSITION

CHALLENGES FOR GERMAN AND AMERICAN FOREIGN POLICY

Washington, DC
9-10 June 1999

American Institute for
Contemporary German Studies
The Johns Hopkins University

Conference Report

THE RUSSIAN TRANSITION

CHALLENGES FOR GERMAN AND AMERICAN FOREIGN POLICY

Washington, D.C.
9-10 June 1999

American Institute for
Contemporary German Studies
The Johns Hopkins University

The American Institute for Contemporary German Studies (AICGS) is a center for advanced research, study, and discussion on the politics, culture, and society of the Federal Republic of Germany. Established in 1983 and affiliated with The Johns Hopkins University but governed by its own Board of Trustees, AICGS is a privately incorporated institute dedicated to independent, critical, and comprehensive analysis and assessment of current German issues. Its goals are to help develop a new generation of American scholars with a thorough understanding of contemporary Germany, deepen American knowledge and understanding of current German developments, contribute to American policy analysis of problems relating to Germany, and promote interdisciplinary and comparative research on Germany.

ISBN 0-941441-45-8

This AICGS Conference Report paper is made possible through grants from the German Program for Transatlantic Relations. Additional copies are available at $5.00 each to cover postage and processing from the American Institute for Contemporary German Studies, Suite 420, 1400 16th Street, NW, Washington, D.C. 20036-2217. Telephone 202/332-9312, Fax 202/265-9531, E-mail: info@aicgs.org, Web: http://www.aicgs.org.

CONTENTS

FOREWORD

Within its ongoing series of conferences entitled: Challenges for German and American Foreign Policy, AICGS provided an opportunity to examine the dramatic events unfolding in Russia during a meeting held in Washington on May 10, 1999. Held at the height of the war in Kosovo, the conference also took place the same week in which President Boris Yeltsin sacked Prime Minister Yevgeny Primakov and replaced him with Sergei Stepashin, underscoring the continuing volatile environment of Russian politics.

The primary focus of the conference was the domestic economic instability in Russia, foreign policy directions Russia may take and the continuing efforts to build democratic institutions in Russian society. A key goal of the conference was to determine whether and where there may be differences in approach or similar views toward Russia in Berlin and in Washington.

The overwhelming concern at the time of the conference—and the continuing worry in western circles—was the shaky economic and political future of Russia. The enormous challenges of creating an effective tax structure, banking system and legal controls to fight corruption remain the most pressing as Russia heads for its next presidential elections. Nine years after the implosion of the Soviet Union, Russia remains of central importance to the stability of Europe, but its greatest challenge remains—to secure both economic reform and political democracy. The collapse of the Ruble in August of 1998 has generated an ongoing debate over how Russia and its western partners can best assist the transformation Russia must make if it is to avoid a more serious political collapse. Criticism of the policies implemented by the western institutions such as the IMF or the World Bank in the early 1990s was exemplified by the enormous amount of capital flight, which has been estimated to be somewhere between $200 and $500 billion dollars, and by the appearance of an oligarchy, which has inhibited the reform efforts throughout Russia.

The plight of the majority of Russia who have not seen their lives improved since 1991 has led to references of a potential Weimar Russia environment in which the people have little trust in the government and less trust in western partners offering aid. The war in Kosovo added ammunition to those who maintain that Russia and the West have no common interests but rather that Russia was humiliated by western intervention in Kosovo or through NATO expansion and by wrongly designed aid programs.

Confronting these problems has not necessarily led to a seamless web of policies between Berlin and Washington. The dramatic situation in Russia is perhaps more tangible to Germans than to Americans. Professor Angela Stent

of Georgetown University has pointed out in her book *Russia and Germany Reborn: Unification, the Soviet Collapse and the New Europe* (Princeton University Press, 1998),

> United Germany is a rising power destined to lead the European continent once its own process of unification is complete. Russia will also shape European developments in the next century…whatever happens, geography and history will ensure that Germany will play an important role in Russia's future . . . Developments in Russia will also affect Germany's security…Between them, Russia and Germany will do much to determine the fate of postcommunist Europe.

Professor Stent also pointed out in her contribution in this volume that "for Germans, the contrast between the world of 1989 and that of 1999 is surely much greater than for those living in the United States." German dealings with Russia therefore are often marked by a more explicit emphasis on making Russia part of Europe than is often heard in the American debate over relations with Russia.

Recognizing this fateful link will have much to do with Germany's readiness and ability to contribute to Russian economic stability, Mr. Christian Meier of the Federal Institute for Russian, East European and International Studies in Cologne points out in his contribution that Germany is Russia's leading foreign trade partner and a leading investor. But Germany faces serious problems if agreement cannot be reached on scheduling payment on the debts left over from the Soviet Union. The United States may urge Germany to forgive those debts as they come due in the next few years.

As pointed out by Ms. Lilia Shevtsova, a senior associate for Russian Domestic Politics and Political Institutions at Carnegie Endowment, Moscow, both Germany and the U.S. invested heavily in the support of President Yeltsin, for better or for worse. The results were to enhance the power of Yeltsin and his immediate circle without strengthening the institutions and procedures needed by an emerging democracy.

As the post-Yeltsin period, coming up fast, will require a more diversified look at Russian leaders and its regions. It will also mean that Germany and the U.S. should seek more effective ways of helping to build the institutional tools of democracy.

As Dr. Christoph Bertram, director, Foundation Science and Policy, Munich, points out in his contribution, "western powers should engage Russians, not Russia on a much broader basis. . . . Only recently have western politicians and media become aware of the need to meet Russia not exclusively

in Moscow but through its regions." In this connection, the role of NGOs at all levels will be as important as those of direct governmental relations between Berlin, Washington and Moscow, as was pointed out in the contribution by Dr. Falk Bombsdorf, the head of the Moscow Office of the Friedrich Naumann Foundation.

Remaining problems also involve developing a common vision of Russia as partner and power. While domestic developments in Russia will determine its direction for the future, the United States and Europe remain uncertain about several things: To what extent is it necessary for the West to approach Russia as an equal partner and when and how must we confront Russia if differences are apparent? Kosovo exemplified the difficulties of dealing with crisis with Russian involvement. But it also exemplified the fact that NATO was able to act as it did in expanding NATO's membership: The question is: at what cost for relations with Russia was that accomplished, particularly at this precarious moment in Russia's domestic scene? What tools do we have to assure an effective dialogue with Russia? With which Russians? And does Germany or the U.S. have a clear enough picture of our own roles in Europe, let alone that of Russia?

The lessons to be drawn from the last ten years point in the direction of a long-term strategy, not driven by concerns for immediate jump start solutions to problems in Russia. That Russia needs Germany, Europe and the United States to help it through this transformation phase is clear. That Russia may choose not to act on that need is not out of the question. Finally, that Germany and the U.S. will play a particularly important role in influencing those choices is self-evident. That will require a well designed effort to coordinate German and American policies now and in the future.

The contributions in this volume present various views on these and other questions. I am grateful to Angela Stent who helped coordinate the conference agenda, and to the all the participants and speakers involved in the program. The Institute also expresses its gratitude to the German Program for Transatlantic Relations for its support of this event and publication.

Jackson Janes November 1999
Executive Director

ABOUT THE AUTHORS

Christoph Bertram is head of the Foundation Science and Policy, a research center on international affairs, which advised the German government and parliament. He is also contributing editor of *Foreign Policy Magazine* and member of the Board of International Crisis Group. Prior to that he was senior editor of *Die Zeit*, writing on international and strategic affairs. From 1974 to 1982 he was director of the International Institute for Strategic Studies in London.

Falk Bombsdorf has been head of the Moscow office of the Friedrich Naumann Foundation since 1993. From 1978 until 1993 he was research associate at Stiftung Wissenschaft und Politik, Ebenhausen. His research focussed on security policy: arms control, western negotiating policies, security of the northern rim, and security policy of the Soviet Union.

Christian Meier has been senior researcher at the Federal Institute for Russian, East European and International Studies since 1969. His main fields of research include: eastern enlargement of the EU; regional economic cooperation in East Central Europe and the Baltics; German-Russian Relations; and Russia and EU, WTO, OECD, G8, IMF, and World Bank. His most recent publication is "German and EU-Assistance for the Transformation Process in Ukraine," in: W. Bonusiak (pr.), *Polska - Niemcy - Ukraina - Doswiadzenia z transformacji I wspolpracy*, Rzeszow 1998, pp. 21-36.

Lilia Shevtsova is currently senior associate at Carnegie Endowment for International Peace in Washington, D.C. and Moscow. From 1989-1995 she was deputy director of the Institute of International Economic and Political Studies of the Russian Academy of Sciences, as well as director of the Center of Political Studies. Her main fields of scientific interest include: comparative study of political systems; problems of transition in the post-Communist societies; scenarios of development in the post-Soviet space; and state-building in Russia and other post-Communist countries.

Angela Stent is currently professor for government at Georgetown University. She served as director of the Georgetown Russian Area Studies Program (1984-87) and was a visiting scholar in Soviet Studies at the Center for Strategic and International Studies (1982). She is the author of numerous books and monographs including: *Russia and Germany Reborn: Unification, The Soviet*

Collapse and the New Europe (1988); *Economic Relations with the Soviet Union: American and West German Perspectives; Areas of Challenge for Soviet Foreign Policy in the 1980's.*

U.S.-RUSSIAN RELATIONS SINCE THE END OF THE COLD WAR

Angela Stent

Americans and Germans have perceived and evaluated the end of the Cold War in somewhat different ways. For Germans, the contrast between the world of 1989 and that of 1999 is surely much greater than it is for those living in the United States. In 1989, there were two German states, 380,000 Soviet troops in the GDR, and the United States had occupation rights in Germany, guaranteeing West German security against Soviet encroachments. In 1999, there is one Germany, there are no occupying powers, Russian troops are a comfortable 1000-km away, and Germany is a fully sovereign state. In the United States, however, the end of the Cold War has not been that palpable, because of the very different geographic and political circumstances. Because the changes have not been immediate and tangible, the collapse of communism has not had as great an impact in America as it has in Germany. Nonetheless, the United States government and population developed a set of expectations about relations with Russia after 1991 that have only been partially met, and the perceived gap between expectations and reality has increasingly marred the relationship over the past few years.

When the USSR collapsed, the U.S.'s main interlocutors were those in the new Yeltsin government who favored a pro-western policy both domestically and internationally. They promoted the move to a market economy and democracy and a policy of cooperation with the West. The Bush administration welcomed the new government rhetorically, but could arguably have given more material assistance in 1992 to support the struggling new government facing the unprecedented and enormous challenge of a political, economic and post-imperial transition. However, the expectation in both Washington and Moscow at this point was that the pro-western reformers would prevail and that somehow Russia would develop a viable foreign policy that would promote its integration into Europe.

Once the Clinton administration came into office, the high American expectations for Russia's transition were translated into a multi-faceted policy of integrating Russia into a set of international institutions. However, Russia's role, from the American point of view, could only be that of a junior partner because of Russia's political and economic weakness and because of Russia's own ambivalence about its foreign policy role. Increasingly, Russia vacillated between seeking a role as a European power and focusing on its partnership with the United States and a new global role. Indeed, the question of what

Russia's legitimate national security interests after the Cold War are remains unanswered both in Moscow and in Washington.

After a brief "honeymoon" period between the United States and Russia, Foreign Minister Andrei Kozyrev came under increasing criticism domestically for what was perceived as a policy that was too slavishly pro-western, one that had produced few results for Russia. U.S.-Russian relations thus came under critical scrutiny partly because of the increasingly difficult domestic economic situation in Russia, where doubts about the value of a market economy led to questioning of the broader relationship with the U.S. After the U.S. supported President Yeltsin during his attack on the Russian Parliament in 1993, this reinforced the debate within Russia about what U.S. intentions really were. Within the United States, the growing economic and political reversals in Russia and questions about the use to which American assistance has been put led to greater questioning about the wisdom and feasibility of an American policy of partnership with Russia. Thus, the mutual questioning that began six years ago has continued and intensified since then. Russia's realization that one of major reasons for U.S. involvement is the fear of the consequences of Russia's weakness has also caused growing skepticism in Russia about U.S. intentions.

RUSSIA, THE UNITED STATES, EUROPE AND BEYOND

One of the key questions for U.S.-Russian relations has been what kind of role Russia should play in Europe. At the time of German unification, Gorbachev and his advisors were given to understand that, in return for agreeing to permit a united Germany to remain in NATO, the USSR would be included in a new European security system after the collapse of the Warsaw Pact. Germany would, in the Soviet perception, have taken the responsibility for shaping the Soviet Union's new role in Europe. However, the redesigning of European architecture was derailed by the outbreak of the war in Yugoslavia and by ethnic conflict in other post-communist countries. In place of a new security, architecture came a remodeling of existing structures, with NATO emerging as the major security institution to survive the Cold War. NATO created a variety of new programs and institutions—including the Partnership for Peace and the NATO-Russia Permanent Joint Council—to include the former communist countries, and eventually extended full membership to Poland, Hungary and the Czech Republic. But Russia remained, to use Soviet terminology, a candidate member of all the organizations, a junior partner both in security and economic terms, as it eventually was given partial membership in the G-8. The only organization in which it is a full member is the

Organization for Security and Cooperation in Europe (OSCE), whose role in resolving European conflicts, while important, remains limited.

The enlargement of NATO and the prospect of EU enlargement within the next decade both reinforce, for Moscow's perception, Russia's role in a European no-man's land, standing outside Europe's door, with one foot in and one outside. Yet Russia itself has yet to determine what its role in Europe should be, and this ambiguity reinforces western doubts about whether Russia is ready to assume its position as a full European player. The one conflict in which Russia played an active role was in the Contact Group dealing with the Bosnian problem and in the Implementation Force and its successors in Bosnia. Indeed, Russia military cooperation with NATO in Bosnia was quite productive. Yet, the lack of a defined role for Russia in Europe was a major factor in influencing the Russian reaction to the Kosovo conflict.

While the United States and Russia have cooperated on a variety of issues in Europe, they have also clashed over other foreign policy questions, particularly those outside Europe. The lack of a consensus in Washington or Moscow over what Russia's legitimate national security interests are has led to a negative reaction in the U.S. towards Russia's relations with countries which the U.S. deems to be "rogue" states, particularly Iraq and Iran. America has also been deeply concerned over Russia's transfer of nuclear and conventional arms to a number of states. For its part, Russia has complained that the United States, as the sole remaining nuclear superpower, is trying to create a unipolar world, and Russia has joined China in calling for a multi-polar world.

American involvement with other Commonwealth for Independent States (CIS) countries, especially those that share the wealth of the Caspian energy resources, has also become a source of tension between Russia and the United States. Not only has Russia lost its internal empire, but it has to deal with a U.S. that has declared that the Caspian basin is an area where the U.S. has legitimate security and economic interests. The presence of most of the CIS states at the April 1999 Washington NATO summit—Russia was a notable absentee—and the formation of the GUAM alliance between Georgia, Azerbaijan, Moldova and other newly-independent states—reinforced Russian suspicions about the role of the United States in the post-Soviet space, which is still perceived in Moscow to be a vital sphere of interest. Nevertheless, the private sector in Russia has cooperated with U.S. companies in this region at times when the respective governments have been at loggerheads. The role of the private sector in Russian foreign policy complicates a linear view of U.S.-Russian relations and means that cooperation is more possible on some issues than on others.

Although there have been some achievements in arms control, there have also been setbacks. The Duma has so far refused to ratify that START II treaty,

and the Russian government has insisted that the 1990 Treaty on Conventional Forces in Europe must be renegotiated. The U.S.'s commitment to purse a Ballistic Missile Defense Program has elicited Russian opposition to renegotiating the 1972 ABM Treaty. The difficulties in this area raise questions about how much in the U.S.-Russian agenda has changed in the past decade. Some of the congressional debate about Russia sounds as if it might have emanated from a prior decade. In response to a 1998 Chicago Council on Foreign Relations survey question "In which countries does the U.S. have a vital interest?" Russia ranked second after Japan. In response to the question of possible threats to U.S. vital interests in the next ten years, "the military power of Russia" ranked eleventh out of thirteen, well below the potential threat from China and economic competition from Japan. Thus, the continued presence of Cold War thinking and rhetoric in some parts of the U.S. political spectrum is not reflected in threat perceptions of Russia in this survey of attitudes.

KOSOVO AND U.S.-RUSSIAN RELATIONS

The conflict in Kosovo marked the lowest point in U.S.-Russian relations since the end of the USSR. The United States and its allies were surprised by the initially vehement public Russian reaction to the conflict. Russian popular anger at the NATO bombing of Serbia manifested itself in street demonstrations against the United States—despite the fact that this was a NATO operation, America was singled out for criticism—and constant official and private criticism of NATO actions against Milosevic. The depth of popular Russian anger can only be understood as the culmination of a decade of feelings of frustration and humiliation and impotence against U.S. actions, but it also represented a venting of feelings by the Russian population against their own government, a reaction to their difficult economic situation. Nevertheless, the popular reaction against the conflict was tempered by a Russian government that was eager to secure a further $4.5 billion tranche from the IMF to cover its interest payments. Thus, the government cooperated in a variety of ways with the United States and played a role in helping to end the conflict. The difficulties in working out an appropriate role for Russian forces in Kosovo now that the conflict is over reveals continuing Russian sensitivity to not being a full partner in decisions over the former Yugoslavia, but also indicates a continuing Russian willingness to negotiate over these issues.

It will take some time for Russia's relations with the United Sates and with NATO to recover from the Kosovo conflict The Russian reaction to Kosovo underlined the fact that Russia is often a difficult partner for the United States,

a country that still has the potential to act as a spoiler. For the Russians, Kosovo symbolized the unpalatable reality that the United States and NATO will continue to make decisions about security and take actions in the Balkans—or in other areas—even if Russia objects. Thus far, the U.S.-Russian partnership is limited, but it is limited to a large degree by the instability of Russian domestic politics, with a series of changing government since 1996.

For the next year, domestic developments in Russia will largely determine how the U.S.-Russian relationship develops. A less fractured domestic situation in Russia would increase the likelihood of a more viable U.S.-Russian partnership being structured. Both sides have yet to define more coherently what that partnership would look like.

The most hopeful scenario would be one in which Russia plays an active and constructive role in implementing the peace in Kosovo and that this leads to a renewed U.S.-Russian partnership in Europe and a reconstructed NATO-Russia relationship. This will, however, also depend on the outcome of the Duma and presidential elections over the next year. The U.S.'s wariness over dealing with a Russia still recovering from a major financial crisis and beset by governmental change will likely last well into both the Russian and American election seasons. Thus, a revitalization of the U.S.-Russia relationship awaits the next millennium.

THE RUSSIAN ECONOMIC CRISIS AND ITS EFFECTS ON GERMAN-RUSSIAN ECONOMIC RELATIONS

Christian Meier

1. INTRODUCTORY REMARKS

With the plunge of the ruble in August 1998, Russia's economy and politics reached another deep crisis. This crisis caused much surprise in Russia and abroad, especially since the transformation recession under way since the end of 1997 seemed to have come to a standstill. In reality, however, the Russian economy's chronic slump had never stopped: Russia has remained an economy with negative surplus value and growing structural disproportions. It was only a matter of time until it was no longer be possible to conceal the real economic plight of the country with the help of financial policy manipulations. Since then, the interest of German specialists on Russian affairs has concentrated on three issues:

- first, on the evaluation of the Russian economic crisis management since August 1998;
- second, on the effects of the Russian crisis on private and public actors in German-Russian economic-financial relations, and
- third, with regard to the ongoing Russian economic crisis, on reasonable guidelines for a redefined economic partnership with Russia.

2. THE POLITICO-ECONOMIC CRISIS MANAGEMENT IN RUSSIA SINCE AUGUST 1998

German analysts generally agree that the August crisis in Russia was not exclusively an economic-financial crisis but also represented a deep crisis of the political system. Therefore, when trying to find an answer to the question "how the Primakov government has tackled the problems of the August crisis up to May 12, 1999 and how the succeeding Stepashin government will try and tackle it further," we have to concede that the results are mixed.

2.1 Crisis Management under Primakov and Stepashin

After his appointment as prime minister was approved by the *Duma* on September 11, Primakov, a compromise candidate, concentrated primarily on stabilizing the political situation of the country. The overriding importance of unity and stability was demonstrated by the composition of the new government. Its members included both prominent reformers and leading

conservatives. The result was a cabinet as disparate as it was indecisive. The government's leading economic policymakers, Yuri Maslyukov and Mikhail Zadornov, rarely expressed the same views with respect to any major economic policy issues. They contradicted each other almost daily in public. Under these circumstances, the immediate priority of the Primakov government was to get the country through the winter 1998/99, at virtually any price. In short, the agenda was restricted to short-term crisis management which did aim at freezing, not resolving the crisis.

The anti-crisis program adopted by the cabinet at the end of October 1998 was less a clear plan than a package of general objectives and proposals which were not bundled into a practicable overall concept. Moreover, these were subject to constant revision, as the government itself acknowledged. As of October 30, the main objectives included:[1]

- eliminating the requirement that exporters sell 25 percent of their hard-currency receipts directly to the Russian Central Bank (RCB), while raising obligatory sales of hard currency by exporters from 50 percent of their hard-currency receipts to 75 percent and shortening the period during which mandatory hard-currency sales must be executed (currently 180 days);
- guaranteeing full payment of current wages and pensions und ensuring timely payment of wages and pensions in 1999;
- restructuring of the commercial banking sector; issuing Central Bank credits to a limited number of commercial banks which have realistic programs for restoring operations;
- eliminating guarantees on ruble and hard-currency deposits in *Sherbank*, the state-controlled savings bank, and commercial banks; ending the ban on offshore banks opening accounts in Russian banks and on Russian banks opening accounts offshore;
- depriving regional governments of the power to vary the rate of profit tax but allocating them two-thirds of profit tax revenue rather than the current one-third;
- introducing a cap on price mark ups on socially significant goods at 20 percent above wholesale prices;
- reducing the value-added tax (VAT) and exempting some advance payments to exporters from VAT;
- restructuring frozen state securities and resuming secondary debt trading in them; creating a unified system to monitor and manage the state debt, including the debts of regional administrations and of state-owned enterprises and banks;

- freezing the prices charged by the so-called natural monopolies (rail, gas and electricity) for the following two to six months and subjecting them to controls in future;
- restructuring and simplifying the tax system along the following lines;
- reducing the profit tax rate from 35 percent to 30 percent;
- combining all budget receipts into a single account under the control of a federal treasury;
- introducing a property tax of 0.5 percent of a property's market value;
- introducing greater tax relief on reinvested profits;
- ending the taxation of imputed revenue from below-cost sales;
- introducing higher penalties for late tax payments and tax evasion;
- eliminating tax breaks for businesses and enterprises;
- setting tax on a second income at 20 percent; and
- introducing a less rigid, socially oriented tax system starting January 1, 1999.

German analysts were skeptical about this approach to overcome the crisis. Time and again they pointed out that a successful crisis-management in Russia depends on the at least partial fulfillment of several equally important preconditions. Among them are first, a real and long-term consolidation of the political authority of the leadership and the establishment of a professionally competent government acting as a team. Also needed is a combination of all individual objectives pursued so far into a well coordinated "policy mix" which is only possible if clear objective priorities and a reasonable sequencing of measures can be determined. In addition to such a newly designed process-oriented policy it is of the utmost importance to truly improve the institutional framework of the Russian economy.

A long-term politico-economic stabilization of Russia also depends on whether or not the Russian society, and especially the politically and economically influential elites, find a new widely accepted social consensus. One of the main reasons for Russia's crisis after the collapse of communism has to be seen in the fact that the different elites do not share a common idea of what "Russian public interest" is. Instead, the most influential economic actors proceed with strongly profit-oriented and even exploitative behavior, often acting against each other rather than with each other. Therefore, one key question has already come to the fore: Is Russia only a belated or an already decoupled transition country?[2]

Despite all critics from western analysts and international organizations one has to acknowledge that Primakov achieved his short-term political objectives without either producing another economic collapse or a social

explosion. The pursuit of stability required him to win over the representatives of all major social and political interests to the greatest extent possible, and thus to cultivate a solid image as a safe pair of hands against whom no major faction harbored great ill will.

Yet Primakov's actions, primarily his "peace initiative," a non-aggression pact between Yeltsin and the *Duma*, indicated that he was probably pursuing a more ambitious agenda. Although he denied any presidential ambitions, the premier continued to assume presidential functions suggesting that he was Russia's acting president in fact if not in name, and that Yeltsin was destined to reign rather than to rule for the remainder of his term. Primakov did behave increasingly like an emerging oligarch. As Russia's political center of gravity is likely to shift leftwards in the forthcoming elections, Primakov tried already to embody Russia's new political equilibrium.[3] But he could not avoid getting caught very quickly between the opposing branches of power while in office and in the end he was ousted by a deliberate maneuver of the Russian president.

Yeltsin explained the dismissal of Primakov and his government on May 12 by arguing that they had achieved their aim of creating political stability but lacked a clear policy for further economic reform and recovery. Although accurate, this was not the true reason for the ouster. Yeltsin's main motive was to demonstrate his regained political authority which he felt was being undermined by Primakov's popularity among both the elite and the electorate. Primakov was the first prime minister who was not firmly in the president's camp in terms of personal loyalty as well as economic policy.

The summary sacking of the Primakov government, *Duma*'s failure to bring the much-heralded impeachment of president Yeltsin, and its speedy approval of an apparently unlikely candidate, Sergej Stepashin, for the premiership on May 18 strongly confirmed that the state of Russian politics continues to remain fairly unstable.[4]

Whether the new government will be weaker than the previous one remains to be seen. But there are signs that it is more dependent on the Kremlin's inner circle and some of the oligarchs. This is especially true with regard to the new economic *supremo*, the former railway Minister N. Aksyonenko who tried to make clear that he enjoyed strong backing from the president by proclaiming his intention to run the economy. Yet Stepashin has shown some independence in building his team because other important economic portfolios were filled by younger moderate reformers: V. Khristenko (deputy prime minister for macro-economic and financial affairs as well as international financial organizations), M. Kasyanov (minister of finance), M. Zadornov (negotiator with the IMF).

However, conflicts between Khristenko and Aksyonenko, who had been appointed head of the department for structural and investment policy,[5] were

bound to surface because there are important points of contact between both areas of responsibility.

Even though major economic initiatives which go beyond endeavors for economic "stabilization of the surface" were not to be expected, analysts noticed with surprise that from the beginning of his premiership Stepashin energetically pushed for a final agreement with the IMF and has already been successful in implementing key parts of the IMF-catalogue of prerequisites.

Prior to upcoming parliamentary and presidential elections politics certainly creates many uncertainties, but one has to take into account the Russian top leaders' great experience in diffusing possible crisis-prone developments in politics and economy through a permanent process of adaptation and "muddling through" and to maintain the country on the course of "there will always be another day." Or in the words of a German expert for Russia's banking system: "It seems that no crisis can ruin Russia."[6]

2.2 The Russian Economic Scene in Early Summer 1999

In the early summer of 1999, Russia's economy was still in the middle of its crisis. Some of the macro-economic indicators point to a probable continuation of the economic slump, although to a lesser degree. Other factors could be interpreted as signs for a certain stabilization of individual sectors.

The GDP which fell by 4.6 percent in 1998, further declined by 4 percent during January-March 1999. There was a new contradiction of investment. FDI went down by almost 40 percent to less than $3.4 billion in 1998. Real incomes of the population dropped by 27 percent and average real wages fell by some 40 percent in the first quarter of 1999. The monthly dollar wage plunged to around $50 in the first months of 1999 as compared to $180 in July 1998, and living standards deteriorated accordingly. The devaluation of the ruble by about 74 percent since August 1998 made imports more expensive and demands shifted from imported to domestically produced goods. Consequently branches of industry, primarily all chemicals, building materials, and food industry have recovered since October 1998. After a drop by more than 5 percent in 1998, the industrial output nearly bottomed out in the first quarter of 1999, while in March and April the production even started to grow.[7]

The Ruble devaluation has also brought an improvement in the trade and current accounts. For all of 1998, exports dropped by 16 percent and imports by almost 20 percent compared to 1997. The export decline resulted mainly from depressed energy prices. The estimated export revenue loss was $9 billion in 1998. The import plunge of the second half of 1998 was a direct consequence of devaluation. After a deficit on the current account in the first half of 1998 ($5 billion), the result for the whole year was again slightly positive ($2.4 billion

surplus). These trends continued during the first months of 1999 as well; from January to April Russia registered a trade surplus of $9.1 billion. With a trade volume of $35 billion (-29 percent) imports fell by almost one half down to DM 13 billion compared to the previous year while exports declined only by 10 percent to $22.1 billion.[8]

Russia defaulted on its short-term domestic debt in August 1998. After protracted negotiations, most disappointed holders of the frozen GKO/OFZ debt have grudgingly accepted the Russian restructuring offer in March 1999. Only a tiny fraction of investments will be recovered and a larger part of outstanding claims will be converted into new longer term bonds. The next and more serious issue is the looming default on the country's $150 billion external debt and/or its long-term restructuring. On June 2, 1999 Russia failed to make a second payment to London Club creditors on post-Soviet restructured debt. Russia's tactics in the current exploratory debt negotiations is to manifest its readiness for the timely service of financial obligations incurred after 1992, the so-called Russian debt of about $50 billion with the Eurobonds included, and to insist on a new restructuring or even canceling of at least parts of the old Soviet debts. Difficulties in meeting the outstanding debt service facing Russia and its creditors nowadays are not limited to the current year only. Also during the next decade, with scheduled debt service payments at around $15 billion annually and persisting economic and institutional weakness (ongoing huge capital flight), the debt service is quite likely to exceed the expected capacity of the Russian economy over this period.

With regard to the main international actor in Russia, the IMF, German analysts point out that it has up to now contributed to the Russian disaster by exclusively focusing on low GDP deficit ratios and low inflation rates while failing to emphasize in its approach institution-building and the rule of law.[9] Some people at the IMF obviously did not understand that Russia's economic opening-up process took place in a period of rapid international capital flow and that early moves towards capital account convertibility would endanger the Russian transformation process which made slow progress in reality. It is well known from the economic literature that early liberalization of capital accounts is irresponsible in an environment of unsound banks and poor real adjustment mechanisms. One has to agree with the arguments of Joseph E. Stiglitz, senior vice president and chief economist of the World Bank, who has pointed out that reform models based on conventional neo-classical economics are likely to underestimate the importance of informational problems, including those arising from the problems of corporate governance, of social and organizational capital and of the institutional and legal infrastructure required to make an effective market economy.[10]

A preliminary agreement with the IMF—a prerequisite for the opening of formal restructuring negotiations with Paris and London Club creditors—was signed on April 28, 1999. It holds out the prospect of IMF-disbursements of $4.5 billion over eighteen months, of which around $3 billion would be made available during the next year. The budget law of February 1999 envisaged a primary surplus of 1.65 percent of GDP which was later raised to 2 percent of GDP on the insistence of the IMF, and a consolidated deficit of just 2.5 percent of GDP. At the current exchange rate the federal revenues amount to just $20 billion while the scheduled debt service is $17.5 billion. The budget parameters should be revised on a quarterly basis, the originally planned tax reductions were postponed, and new revenue-raising measures are being considered by the *Duma*. The budget is fairly restrictive but the IMF is demanding additional steps to cut budgetary spending and to raise revenues. The adoption of a bank restructuring law and the provision of a detailed account by the Central Bank regarding the use of previous credits are other conditions that should be met before the IMF resumes its financial support. The envisaged new IMF credit would enable Russia to roll over its debts to the Fund and thus avoid default on its IMF obligations during the election period of 1999-2000. A final IMF agreement would trigger the release of a two-year $2.3 billion World Bank loan and a $1 billion Japanese government loan, as well as clearing the way for the rescheduling of Russia's Soviet-era debt to the Paris and London Club of creditors.

Until the beginning of July 1999, and thanks to its resolute efforts the Stepashin government had succeeded in obtaining the consent of the *Duma* as well as the Federation Council to a series of reform laws. Among them was also a law on the restructuring of the Russian banking sector. According to the IMF, most of the preconditions will be met in the nearest future so that the release of the agreed upon loan billions of dollars can begin.[11]

3. GERMAN-RUSSIAN ECONOMIC RELATIONS

Three spheres of bilateral activities have to be considered concerning the effects of the Russian crisis on private and public actors in Russian-German economic and financial relations: trade, economic cooperation and financial relations.

3.1 Trade

When at the turn of 1997/98 world market prices for petroleum, petrochemical products and metals started to fall observers predicted for the entire year not only a decline in growth rates for Russian commodities exports

to Germany but also a marked reduction of the high increase rates of German processed industrial exports, since the Russian economy was still struggling with considerable growth problems. But with the Russian financial crisis and the strong ruble devaluation since August 1998 all these predictions became irrelevant. In fact, the crisis caused a drastic cut in German-Russian trade. In 1998, the overall trade volume fell by 12.9 percent to DM 29.2 billion. German exports declined by 11.7 percent to DM 14.5 billion while German imports fell as much as by 14.1 percent down to no more than DM 14.7 billion (see table 1). With 10 percent of Russia's foreign trade Germany was still the country's biggest trade partner. But seen from the German point of view, Russia's foreign trade importance continued to decrease. In the ranking list of German trade partners in the East, the Russian Federation slipped to number four after Poland (DM 40.6 billion/+15.8 percent), Czech Republic (DM 35.8bn/+18.2 percent) and Hungary (DM 29.8bn/+32.3 percent). It is to be expected that in 1999 east central Europe will further increase its leading position among Germany's eastern trading partners.

It looks as if the downward slide of German-Russian trade has not yet come to a halt. Already in the first quarter of 1999, German exports to Russia amounted to no more than DM 1.819 billion, or 58.6 percent less than in the previous year when exports reached the sum of DM 2.884 billion. During the same period of time, imports from Russia, too, decreased by 15.9 percent, from DM 3.636 billion to DM 3.138 billion.[12] It is true that German circles concerned with eastern trade do warn not to dramatize this big drop in exports. Still, overall prospects for German-Russian trade in 1999 are generally considered not to be very promising. A general reduction of German exports to Russia by probably 20 percent is expected for the current year. As a main reason for these negative trends concerning German exports to Russia it has to be stressed that a large part of them are consumer goods and food stuff which are especially at risk during economic and currency turbulences. Foods and luxury foodstuff, medicines and clothing registered a slump of 70-80 percent in the first two months of 1999. On the other side, exporters of machines and equipment making, who provide a little more than 20 percent of German deliveries to Russia, had to cope with losses of no more than 40 percent. Another proof that the Russian economic crisis leaves painful marks in the bilateral flow of commodities is the increase in barter deals. The *Bundesverband des Deutschen Groß- und Einzelhandels* (BGA: Federal Association of Wholesale and Retail Sale) shows a clear increase in such barter transactions and believes that at present as much as one third of all trade is conducted on this basis.

Table 1: Trade Exchange between the Federal Republic of Germany and Russia 1997-98
Imports from Russia

	1997 Mill. DM	Quota in percent	1998[2] Mill. DM	Quota in percent	changes in percent
Overall[1]	17164.6	100.0	14746.5	100.0	-14.1
Food Industry	359.8	2.1	485.1	3.3	34.8
Industrial Economy	16709.8	97.4	14175.9	96.1	-15.2
Raw Materials	5754.6	33.5	4114.6	27.9	-28.5
Semi-finished Goods	9954.2	55.9	8520.7	57.8	-11.2
Finished Products	1361.0	7.9	1540.6	10.4	13.2
Primaries	695.8	4.1	843.3	5.7	21.2
Endproducts	665.2	3.9	697.3	4.7	4.8
Important Goods					
Fuel, Natural Gas, Lubricants	5869.5	34.2	5156.6	35.0	-12.1
Oil (crude)	5544.1	32.3	3896.6	26.4	- 29.7
Non-ferrous Metals and Goods	2957.3	17.2	2548.9	17.3	- 13.8
Chem. a. pharm. Raw Materials and Products	693.1	4.0	698.4	4.7	0.8
Iron and Steel Goods	559.5	3.3	479.1	3.2	- 14.4
Fish and Fish Products	248.3	1.4	396.6	2.7	59.7
Textiles/Clothing	206.4	1.2	193.2	1.3	- 6.4
Wood/Wooden Products	190.0	1.1	171.2	1.2	- 9.9
Machines	90.6	0.5	111.1	0.8	22.6
Vehicles	73.8	0.4	60.6	0.4	- 17.9
Oil-bearing Fruits for Consumption	71.4	0.4	56.8	0.4	- 20.4
Paper and Cardboard	71.0	0.4	144.8	1.0	103.9
Synthetics, Synthetic Goods	61.1	0.4	59.2	0.4	- 3.1
Electrotechnical Products	55.5	0.3	87.1	0.6	56.1
Precious Stones, Jewelry, Pearls (processed)	7.8	0.0	30.0	0.2	284.6
Gold for commercial use	19.2	0.1	155.7	1.1	710.9

[1] Including returned goods and parts supply; [2] Provisional results
Source*: Statistisches Bundesamt*.

Exports to Russia

	1997 Mill. DM	Quota in percent	1998[2] Mill. DM	Quota in percent	changes in percent
Overall[1]	16433.5	100.0	14513.0	100.0	- 11.7
Food Industry	3040.7	18.5	2202.7	15.2	- 27.6
Industrial Economy	13376.9	81.4	12299.6	84.7	- 8.1
Raw Materials	36.0	0.2	36.8	0.3	2.2
Semi-finished Goods	222.8	1.4	191.8	1.3	- 13.9
Finished Goods	13118.1	79.8	12071.0	83.2	- 8.0
Primaries	1390.5	8.5	1270.1	8.8	- 8.7
Endproducts	11727.6	71.4	10800.9	74.4	- 7.9
Important Goods					
Machines	3173.0	19.3	3419.3	23.6	7.8
Electrotechnical Products	2229.1	13.6	1944.6	13.4	- 12.8
Vehicles	2206.5	13.4	1836.0	12.7	- 16.8
Chem. a. pharm. Raw Materials and Products	1520.9	9.3	1267.6	8.7	-16.7
Synthetics, Synthetic Goods	879.9	5.4	766.4	5.3	- 12.9
Other Vegetable Foods	777.5	4.7	587.1	4.0	- 24.5
Iron/Steel Goods	615.8	3.7	575.2	4.0	- 6.6
Milk/Butter/Cheese	541.6	3.9	322.1	2.2	- 40.5
Cacao Products	484.3	2.9	185.4	1.3	- 61.7
Textiles/Clothing	478.2	2.9	502.8	3.5	5.1
Products of Precision Mechanics and Optics	382.6	2.3	371.7	2.6	- 2.8
Meat/Meat Products	349.7	2.1	306.9	2.1	- 12.2
Wood/Wooden Products	338.7	2.1	267.4	1.8	-12.2
NF-Metals and Goods	273.7	1.7	246.7	1.7	- 9.9
Tobacco Products	199.9	1.2	165.8	1.1	- 17.1
Vegetable Oils and Fat for Consumption	196.2	1.2	226.0	1.6	15.2
Leather Shoes	112.6	0.7	104.3	0.7	- 7.4
Vegetable, Fruit Preserves and Juices	109.7	0.7	89.7	0.6	- 18.2
Spirits	47.2	0.3	27.1	0.2	- 42.6
Beer	45.2	0.3	33.9	0.2	- 25.0
Wine	27.7	0.2	18.9	0.1	- 31.8
Sugar	20.4	0.1	17.8	0.1	- 12.7

[1] Including returned goods and parts supplies; [2] preliminary results.

Source: Statistisches Bundesamt.

Despite this painful slump of German-Russian trade relations the Federal Republic of Germany was able to maintain its position as Russia's leading foreign trade partner in 1998 with a quota of 9.8 percent (1997: 9.5 percent). Next on this list were Ukraine with 8.1 percent (7.7 percent), the U.S. with 8.02 percent (6.2 percent). Belarus with 7.99 percent (6.8 percent), Italy with 4.4 percent (4.5 percent), the Netherlands with 4.2 percent (4.2 percent), the PRC with 3.8 percent (3.8 percent) and Kazakhstan with 3.3 percent (3.8 percent).[13]

3.2 Bilateral Economic Cooperation

The Federal Republic of Germany is not only Russia's main trading partner. It has also the largest foreign business community in the Russian capital. In December 1998, there were 940 company offices registered in Moscow, 694 German-Russian joint ventures, 394 subcompanies with 100 percent German capital according to Russian law as well as thirty-three subsidiaries.[14] The German industry concentrates most of all on consumer goods, foodstuff and the building sector. And in contrast to most of the other foreign investors, German business people increasingly enter the country's economically interesting regions. Moreover, Germans tend to switch from supply to local production which is especially true for the consumer goods sector.

The financial and economic crisis of August 1998 was a serious blow for German business in Russia. But there was not much of a panic because German firms were well aware of the difference between short-term crisis and long-term chances for deliveries to a chronically under-supplied market, as the German economy's delegation office in Moscow believes. At the same time, the recent change of government from Primakov to Stepashin in the midst of a continuing critical situation has caused new irritations making it ever more difficult to develop business plans in Russia. This event was used by leading representatives of the German economy to repeat their well-known demands to the new Russian government, namely the demand for a reasonable taxation policy, for transparent administrative procedures, medium-term calculable framework investment conditions and for a solid financial and currency policy.[15]

Since drastic changes cannot be expected, German enterprises are trying to develop crisis management strategies according to the motto "necessity is the motehr of invention." They hope to thus avoid further losses of market shares and to position themselves anew in the Russian market. Among measures taken are for example the use of Russian instead of imported raw materials, or to withdraw partially or on the other side to place new investments. Some simply hope for better times and adopt the "wait and see" attitude. One cannot help

noting, however, that recently fewer and fewer newly interested German business men among the middle-class entrepreneurs ask for information on how to do business in Russia. Inquiries concerning Russia amount at the moment to no more that 10-20 percent of what came in at the beginning 1998, according to the DIHT (*Deutscher Industrie- und Handelstag*).

The Hannover biscuit producer Bahlsen has for the time being closed its representation in Moscow and withdrawn lesser know products from the market because in these times of empty pockets Russians switch to comparatively cheaper local products. Those who, in contrast to Bahlsen, possess their own production facilities in Russia try to at least reduce the high costs of imports. The chemical giant Henkel, which has its main factory for the production of washing and dish washing powder and liquids in Tosno near Saint Petersburg, is already replacing between 85 percent and 90 percent of the raw materials originally imported from Germany with Russian ones. In another factory for a new production line of industrial glues in Engels near Saratow at least half of all foreign ingredients are to be replaced by local ones till the end of 1999.[16] Still, one should not overlook the fact that despite numerous difficulties there are new enterprises coming to Moscow. Ikea-Germany plans to open its first furniture store early in 2000 in Moscow and expects the latest change of government not to influence the current business activities.

Contrary to original reports of *Goskomstat* according to which German direct investment in the first half year of 1998 presumably rose to $244.5 million, or to more than the total amount of 1997 ($228.4 million), the latest calculations come up with only $213.2 million till the end of September 1998. But all signs point to the fact that despite the recent financial and economic crisis German enterprises have not invested less but rather slightly more than in 1997. At the basis of the still valid German-Soviet treaty on investment promotion and protection, the German government has granted German investors in Russia capital investment guarantees (Hermes) amounting to DM 1.310 billion until June 30, 1998. More applications with a capital cover of DM 996 million have been submitted for approval.

To which extent parts of the German economy orient their commitment in Russia despite continuing financial and economic crisis towards strategic objectives becomes apparent with the Ruhrgas AG of Essen. Before Christmas 1998, it bought 2.5 percent of Gazprom shares to become a partner of the enterprise which dominates 90 percent of Russian gas extraction. At the auction, Ruhrgas had offered $660 million for the block of shares (DM 1.09 billion) and made the deal against its French competitor Interoil Finance Ltd which was only willing to pay $651.5 million, slightly more than the minimum

offer of $651 million.[17] As the result of a Primakov order, Ruhrgas was even allowed to take the shares, which must not be sold for five years, out of Russia.

In mid-May 1999, Ruhrgas had exercised the agreed upon option of another 1.5 percent Gazprom shares and will then have paid a total of DM 1.6 billion for a 4 percent participation. The announced joint venture with VEP Gazexport, Gazprom's foreign trade subsidiary, has already been established by Ruhrgas and will receive 0.5 percent of the quota. Ruhrgas will directly acquire 1 percent but will not leave a seat on Gazprom's board of directors. Ruhrgas had with foresight arranged this deal when in May of 1998 it extended a series of gas supply agreements until the year 2020 and agreed on additional supplies worth about DM 25 billion. Apart from the present participation in Gazprom shares Ruhrgas managers signed a long-term supply contract until the year of 2030. With this contract, the agreed upon supply volume currently about 1,400 billion cubic meters of natural gas, will increase by another 25 percent.[18]

The enlargement as well as intensification of the cooperation between Ruhrgas AG and Gazprom apparently served as starting signal for the conclusion of a long prepared strategic-operative cooperation treaty at the end of March 1999 between the German chemical concern BASF (Ludwigshafen) and Gazprom. Accordingly, the BASF subsidiary Wintershall Gas GmbH (Wingas) will take part in three projects of the Gazprom group to explore and extract, transport and sell natural gas and petrol in the regions Timan-Petshora and western Siberia.[19] The project's investment volume could amount to about DM 4.5 billion which BASF and Gazprom have invested since the beginning of their partnership in 1990 in the construction of a common pipeline network. These investments in pipelines and storage capacities will soon rise to DM 5.5 billion and lengthen the network from 1,600 to 2,000 km. The Wingas Gmbh (Kassel), in which BASF participates with 65 percent and Gazprom with 35 percent, wants to enlarge its share of the German gas market from 12 to 15 percent in the next two years and even reach 25 percent in the medium term.[20]

Against the background of political disputes over the exit from nuclear energy and the expected loss of cheap atomic electricity, at the end of March 1999, the Bayernwerk AG (München) together with the *Österreichischen Verbundgesellschaft* (Vienna) concluded a basic agreement on the supply of Russian electricity to Germany with the shareholding company United Electroenergy System of Russia (RAO EES Rossij), headed by Anatolii Chubais. After the completion of the technical preconditions for a linkage of the currently incompatible Russian and West European electricity nets for which not date is yet set, Russia could deliver electricity amounting to up to ten billion kwh per year.[21]

Apart from these enterprises of the energy sector there are also a number of top companies of the automobile industry which are ready to firmly commit themselves to business with Russia. The Volkswagen AG (Wolfsburg) has been able to double its sale in 1998 to 4.536 cars. In mid-June 1999, the company has concluded a preliminary agreement with the armament factory Tekmash in Orjol to establish a an assembly plant for the model Bora with a yearly production total of at least 25,000 and at most 100,000 cars and to invest up to DM 500 million in this enterprise.[22] Of lesser dimension is BMW's project (Bayrischen Motorenwerke AG - München). On the basis of a contract with the Russian sales company VITAL and the car factory AVTOTOR, BMW wants to build its own assembly plant in Kaliningrad by the end 1999 with an annual capacity of up to 10,000 cars of the Five-Series as well as Landrover off-road vehicles, to be achieved by the end of 2002. This year already 1,200 units are to leave the assembly lines.[23] BMW has been represented in Moscow since 1994 by one office only. Together with its Russian partners, it plans to invest in the next three years DM 50 million in the production and DM 75 million in sales activities. The decision for the Kaliningrad location was explained by the fact that it lies within a special zone guaranteed by Russian law and thus offers tax advantages, has a good infrastructure and an ice-free sea port.[24]

3.3 Aspects of Bilateral Financial Relations

Consequences of the Russian crisis have proven especially serious for bilateral financial relations. German investors bought in the first half of 1998 alone GKO- and OFZ-papers to an extent of $2.39 billion (39 percent) which have practically been frozen since August 17, 1998, and for which a mutually acceptable rescheduling of debts has already been presented. The implementation of a first partial agreement on repaying the debts to German enterprises from the times of the former USSR has been endlessly delayed by the Russian government. As of autumn 1998, Russia was de facto insolvent since it was unable to pay back arrears of DM 735 million due in 1998 for Hermes debts totaling DM 1.6 billion. This fact has drawn the attention to the extent of Russian debts payable to the Federal Republic of Germany.

According to figures provided by the Federal Ministry of Finances, the debt total Russia has to pay to the federal government amounts to DM 77.4 billion; 55 billion are old debts of the USSR which, in effect, have been completely taken over by the Russian government. These debts have been rescheduled in four rounds and have to be repaid starting with 2002. The repayment period then runs until 2020. Russia itself has to pay DM 22.4 billion which are divided into DM 15 billion for Hermes export credit guarantees, DM 5 billion for untied financial credits and DM 2.4 billion for capital investment guarantees. The

overall amount of debts to be repaid by Russia as of 1992 is due in the next eleven years. If both the Russian government and also the Russian banks and enterprises fail in their obligations and deals covered by Hermes guarantees as well as investment agreements will not be honored, the federal government would have to pay for all damages. In the worst case of Russia's total insolvency, the German government would have to take over all of those DM 77 billion. These sums would have to be paid until 2020. The federal budget would be debited with an average of DM 3.6 billion per year. Germany's level of indebtedness on a yearly average could then rise by 0.1 percent.[25] The federal budget of 1999 has taken the precaution to reserve the sum DM of 3.6 billion to service the loans of German banks and credit institutes in case Russia can not pay.

For 1999, the financing question will become the central problem of German-Russian economic relations. It has two main aspects. First, there is the question to which extent new export credit guarantees could be made ready in order to prevent the bilateral flow of goods from declining further. At present, covering transactions are on a backburner. Of the 1998 platfond totaling DM 1.5 billion and exclusively meant for medium and long term covering, there were still about DM 130 million left in mid-February. But the value of the prepared business deals was higher than the leftover sum of money. For the time being, there is therefore practically no possibility to finance medium and long-term projects. Short-term trading deals, however (up to 180 days), were covered and the agreements concluded amounted to DM 400-500 million for the second half of 1998. But even for these short-term business deals arrears are now increasing. Seen in this light, it will hardly be possible to establish new export credit guarantees to the same extent as in the previous year.[26]

On his part, President Yeltsin decreed on August 28, 1998, to no longer grant any more state guarantees and thus destroyed the basis for Hermes coverages on the ground of state guarantees. Before the beginning of the Russian financial crisis, about a dozen banks were recognized as guarantors for Hermes coverages. At the moment, there exist only three banks in Russia which could be considered for this: Sberbank, Vneschtorgbank and the Moscow International Bank.

Then there is the question of how to respond to the Russian government's desire to reschedule old obligations from Soviet times and of new ones accumulated since the foundation of the Russian Federation. It has become a fact that the Russian government is not in the position to service obligations it has with western creditors which are due in 1999 and amount to $17.5 billion. It has therefore unilaterally and without consulting with its creditors announced

a reduction of payments to $9.5 billion. Some experts even believe this sum to be much too high in view of the catastrophic financial situation in the country.[27]

It comes then as no surprise that the Russian government is secretly hoping for a partial release from 75 percent of its old Soviet debts, namely $75 billion, and it can even count on U.S. support.[28] This will be of great harm to the German government which in 1999 has to shoulder old Soviet debts amounting to DM 3.2 billion. At the same time, the repayment of new Russian debts of altogether DM 2.6 billion is due.[29] In order to save at least a minimal financial reliability at international credit markets, the Russian government should at least honor these obligations, according to Finance Minister Hans Eichel.[30]

4. OUTLOOK

However difficult it may be for any Russian government to fulfil the already mentioned internal preconditions to overcome the economic crisis, there is another problem simultaneously facing the country, namely to **redefine its economic partnership** with the community of western states and their international economic organizations. From a German point of view several reasonable guidelines should be given special attention:

1. stop viewing Russia as a convenient test-field for unrealistic transformation concepts. There are hopes that the latest agreement between Russia and the IMF marks the beginning of a new IMF approach towards Russia as heavy stress is laid on basic institutional reforms as a precondition for stability and growth;
2. therefore consulting and technical assistance should primarily be aimed at institutional restructuring for promoting institutional stability;
3. new loans should mainly be granted primarily for banking reform and to allow restructuring of the Russian debt;
4. the European Investment Bank should be incorporated into the financing of Russian infrastructure projects for enlarging trade and cooperation;
5. more emphasis should be put on economic cooperation with the Russian regions which should be included in decision-making processes of EU-TACIS and be encouraged to open a representation, a “House of Russian Regions,” in Brussels; and
6. the political basis for a comprehensive dialogue on restructuring of Russia should be enlarged in order to increase public acceptance of and support for democracy and market economy;

- it is important to maintain Russia's supportive attitude towards the EU enlargement. Special attention should be paid to potential negative effects from the establishment of the Schengen border regulations in the accession countries—in particular in relation to Kaliningrad. The trade status of Kaliningrad could also be an important topic for EU-Russian cooperation;
- Russia needs to be pressed harder to create a more favorable investment climate. While working on the implementation of the Partnership and Cooperation Agreement (PCA) and a possible free trade regime, focus on future WTO accession—an issue that very much concerns Russia's future role in the international community—must not be lost; and
- Russia should be encouraged to play a more active role in organizations for regional cooperation in Europe which are linked with the EU.

These by no means complete guidelines which are to be or may already have been incorporated partly into a new common strategy of the EU on Russia approved at the EU-summit mid-June in Cologne, make it clear that the future concept of German policy towards Russia is meant to be a committed but always pragmatic and realistic partnership. The scenario of Russia's "marginalization" on account of its serious state, economic and financial crisis can neither be in German nor in America's interest for foreign and security policy reasons.

ENDNOTES

[1] The Economist Intelligence Unit (EIU), Country Report Russia, 4th quarter 1998, p.18.
[2] Hans-Hermann Höhmann/Christian Meier, Rußlands "Ökonomische Sicherheit" in europäischer Perspektive, in: *Berichte des BIOst*, No. 32, 1998, pp. 11-18.
[3] EIU, Country Report Russia, 1st quarter 1999, pp. 6-7.
[4] EIU, Country Report Russia, 2nd quarter 1999, pp. 15-18.
[5] Vereinigte Wirtschaftsdienste (vwd) Rußland, No. 117 (June 22, 1999), p. 2.
[6] Hans-Hermann Höhmann/Christian Meier, Rußland 1998/99: Politik, Wirtschaft, deutsch-russische Beziehungen, Köln 1999, unveröffentlichtes Konferenzpapier.
[7] Peter Havlik, Russia: Stability threatened by pre-election infighting, in: Peter Havlik et. al., *The Transition Countries in 1999: A Further Weakening of Growth and Some Hopes for Later Recovery*, The Vienna Institute for Comparative Economic Studies (WIIW), No. 257, June 1999, pp. 76-77.
[8] *Handelsblatt*, June 23, 1999.

[9] Paul J.J. Welfens, *Überwindung der Wirtschaftskrise in Rußland, schriftlicher Beitrag zur EIIW-Veranstaltung beim DIHT*, Bonn, June 24, 1999.
[10] Josepf Stiglitz, More Diverse Instruments, Broader Objectives: Movement Towards a Post-Washington Consensus, in: *Voprosy Ekonomiki*, No. 8, August 1998, pp. 5-35.
[11] *Frankfurter Allgemeine Zeitung*, July 5, 1999; *Nachrichten für Außenhandel*, July 5, 1999.
[12] VWD-GUS-Republiken, No. 119, (June 24, 1999) p. 2.
[13] Listed according to data given by the foreign trade custom's statistics of the Russian Federation for 1998; State Customs Committee (GTK) - *Nachrichten für Außenhandel*, June 16, 1999.
[14] BMWi-Tagesnachrichten, No. 10895, June 14, 1999.
[15] *Nachrichten für Außenhandel*, June 2, 1999.
[16] *Kölnische Rundschau*, April 6, 1999.
[17] *Frankfurter Allgemeine Zeitung*, *Süddeutsche Zeitung*, *Financial Times*, *Neue Zürcher Zeitung*, December 21, 1998.
[18] *Frankfurter Allgemeine Zeitung; Handelsblatt*, December 22, 1998.
[19] *Handelsblatt; Frankfurter Allgemeine Zeitung*, April 1, 1999.
[20] *Handelsblatt*, March 29, 1999.
[21] *Süddeutsche Zeitung; Handelsblatt*, March 26, 1999.
[22] *Nachrichten für Außenhandel*, June 17, 1999.
[23] *Neue Zürcher Zeitung*, July 5, 1999.
[24] *Frankfurter Allgemeine Zeitung*, April 10, 1999.
[25] *Nachrichten für Außenhandel*, September 9, 1998.
[26] *Nachrichten für Außenhandel*, February 18, 1999.
[27] Miriam Neubert, Rußland: Fiktion und Realitäten, in: *Süddeutsche Zeitung*, January 21, 1999.
[28] *Handelsblatt*, February 12/13, 1999.
[29] *Frankfurter Allgemeine Zeitung*, June 19, 1999.
[30] *VWD-Rußland*, No. 112, June 15, 1999, p. 1.

DID THE WEST INFLUENCE THE TRANSFORMATION PROCESS IN POST-COMMUNIST RUSSIA, AND, IF SO, WHAT WERE THE RESULTS OF THIS INFLUENCE?

Lilia Shevtsova

After eight years of post-communist development, the main results of Russia's transformation have been obvious. In the minds of the majority of Russian observers these results are far from comforting. The planned economy was liquidated in Russia, and state regulation of economic processes was curtailed. But the new economic relationships that arose (which some call "the virtual economy"), although they include some elements of a market economy, in practice served as the basis for predatory *nomenklatura* capitalism. The formation of this system has not only spawned a deep and socially dangerous polarization in society; it has become the source of the deterioration of the entire economic system.

The political system that arose in Russia has, in the final analysis, degenerated into an "elected monarchy." The Russian government is formed through the democratic process, by general elections, but it functions as a monarchy, with almost all the attributes of the tsar's court. The only thing it lacks is the institution of the hereditary transfer of power (although it is worth noting that Yeltsin and his family constantly bring up the question of the heir and the successor). This form of government is preserved largely due to the fragmentation of the ruling class and of society itself, and to the absence of real alternatives to the current ruling group. Moreover, the constant personnel shakeups (over the past twelve months, from March 1998 through June 1999, Russia has had four governments) are witness to the fact that the Yeltsin regime has become the primary source of political instability.

The government system that has evolved under Yeltsin has perpetuated irresponsibility among the chief political institutions and actors; it precludes the possibility of forming a genuine multi-party system, a responsible parliament and an effective executive branch. This system, in essence, is a mechanism for the **realization** of the narrow, self-centered interests of the small ruling group which has formed around the president's family, the "family corporation," which identifies its own personal interests as matters of state. Even confirmed optimists have a difficult time defining Russia's political formation as a democratic system. More common are terms like "*nomenklatura* capitalism," "oligarchical capitalism," "mixed, hybrid regime," etc.

The question naturally arises: Was such a course of transformation historically inevitable given Russia's traditions and the Soviet legacy, or is it the result of lost possibilities, or of mistakes, by the elite that came to power in

1991? These questions remain to be analyzed. But one thing is clear: The type of undivided, personified power which keeps perpetuating itself in Russia is by no means a fatal inevitability. In a number of other formerly totalitarian states (Germany, Japan, Spain) the historical past was also not conducive to the development of liberal democracy. But the political elite in the transition period was able to reach a consensus on the democratic rules of the game, and to implement them in practice even without sufficient experience in democracy.

It is obvious that Russia's transformation was primarily the result of internal developmental factors. The influence of the external world, primarily the West, on the course of events in the new Russia was not decisive. In this Russia differs from many other countries, for example, from postwar Germany and Japan, from Spain and Portugal, from formerly communist countries which made the transition to democracy with considerable support from the West.

Russia's ruling class chose a system of coordinates for further development, a model of economic reform, and created a political regime primarily under the influence of its own interests, and under pressure from internal preconditions. But one cannot totally negate the influence of the West in Russia, even if it was, in most cases, indirect. Mainly this influence involved stimulating tendencies in Russia's development that had already emerged. At times the West's indifference, silent assent or tolerance played a definite role in Russia's transformation, in the resolution of certain problems, for example, during the war in Chechnya. This was taken by the Russian leadership as carte blanche, or even approval for certain actions.

But even given the minimal influence of the West on the development of the new Russia, we can conclude that this influence was, unfortunately, not always positive. We will try to identify those aspects of the West's attitude toward Russia that, in our opinion, have played a negative role, reinforcing the negative tendencies in Russia's development. The first thing that comes to mind is the clear preference the West has had for supporting individual leaders, at times to the detriment of institutions and procedures, which only intensified the personalization of Russian power. An example of this is the nearly total, unquestioning support the West gave to Boris Yeltsin, in spite of his limited democratic vision, his support of the clans and of oligarchic forms of rule. Even the dissolution of parliament, which led to numerous victims, and the war in Chechnya, which according to some estimates cost 100,000 lives, failed to change the West's attitude toward Yeltsin.

In principle, no matter how paradoxical it sounds, the leaders of countries that are used to institutionalized political life supported a regime in Russia that was based on the personalization of politics and that ignored the necessity for a stable system of checks and balances. This can only lead to the conclusion that

western leaders were trying, in Russia, to support not so much democracy as a leader who would conduct a pro-western policy.

Even the majority of those non-governmental western organizations that are active in Russia placed their emphasis from the beginning on the organization of elections, the formation of parties, not always demonstrating a desire to help instill new political rules, primarily a system of checks and balances, under which parties and elections could play a significant, rather than merely decorative, role. In short, for various reasons, the West's support in Russia was primarily for electoral democracy, without giving sufficient attention to the development of liberal constitutionalism and respect for the law. Under the regime which has formed in Russia, both the party system and the electoral mechanisms are, unfortunately, more a democratic facade, which aids the clans in preserving their dominant role and has little to do with genuine democracy.

International financial help for Russia also comes in for its share of criticism. The noble intentions of the western and international institutions which provided this help are obvious—they were trying to support reform and ease the burden on the socially vulnerable sectors of society. But, as they say, the devil is in the details. The fact is that a significant portion of western aid, especially financial, went primarily to support the regime itself, at times making it possible to postpone long, overdue structural reforms. It is unlikely that western politicians were so naive that they did not suspect where their aid was going and for what purpose it was being used. There is serious evidence that western credits were not only frivolously wasted by the Russian government, they were also directed to the support of the war in Chechnya and to Yeltsin's presidential campaign in 1996. In short, the West was drawn in to supporting the Yeltsin regime, a regime that could hardly be called democratic and acting in the interests of Russia.

The role of some western circles during critical turning points in the history of the new Russia must also be examined—including the process of confrontation between Yeltsin and the parliament in 1992. According to Yeltsin himself, in his memoir "View from the Kremlin," he met several times with Chancellor Kohl before embarking on the armed dissolution of the parliament, and he proceeded only after he thought he had the approval of the West. The forcible liquidation of the parliament, which caused many deaths, was a turning point in the history of the new Russia, making it easier to form a quasi-authoritarian, clan-type regime. Russian observers are of the opinion that the Chechen war was a direct sequence of this show of force in Moscow, which convinced the Russian leader that he could get away with anything.

Thus, on the one hand, the end of the Cold War provided favorable international conditions for Russia's transformation, but on the other hand, the West's rather simplistic attitude toward the Yeltsin regime and its perception of political events in Russia solely through the prism of a struggle between communists and democrats, its desire to ignore complications and contradictions in Russia's transformation, aided the formation of Russia's "elected monarchy." This is a regime that is adept at manipulating public opinion, in the West as well as at home, and which uses market and democratic rhetoric while in practice implementing the narrow interests of the "family corporation" and the sectors of society, often criminal, that serve it. Such a system, if it is not reformed, will inevitably lead to the strengthening of oligarchy rule, or to attempts to establish an authoritarian regime. The constitutional system itself, which ensures the power of one leader, merely serves to make this more possible.

It also must be noted that the West has an inconsistent "double standard" in its attitude toward Russia. Western leaders, while openly declaring their support for Yeltsin and accepting him into their "presidents' club," nevertheless made the decision to expand NATO. This decision is seen in Russia as a sign of mistrust and suspicion on the part of western leaders, who, in spite of their friendly talk, apparently continue to view Russia as a threat.

In the final analysis, relationships founded mainly on the personal feelings of leaders and on rhetoric, but not sufficiently supported by a commonality of interests, and, what is more important, by an adherence to the same political principles, cannot be stable or constructive. So the cooling in relations between the West and Russia, which occurred after NATO's expansion, was not at all unexpected. The events in Kosovo have strengthened the elements of suspicion in these relations.

Of course, we should note here that Russia's position, its sharply negative attitude toward the means chosen by the western allies to resolve the Kosovo problem, can be explained not so much by its concern for international problems and the principle of Yugoslavia's territorial integrity as by its own complexes. The West's initial lack of attention to Russia's position on Kosovo just reignited nostalgia among the ruling class for Russia's lost status as a superpower, and reinforced already existing feelings of helplessness and humiliation. Russia's reaction to the Kosovo crisis demonstrated that Russia has not yet been able to find either a new role in the international community, or to bring its ambitions, which to a great extent have historical roots, into line with its new, limited possibilities.

The Kosovo crisis has strengthened the desire among part of Russia's ruling class to resolve its complexes and problems by reinstating old mechanisms of

consolidation, rather than through a pragmatic search for a new rule and a new concept of national-state interests. These attempts have, fortunately, not yet become the official policy of the Kremlin, which during the Kosovo conflict was able to remain within the bounds of pragmatism, avoiding Russia's isolation and becoming involved in the peaceful regulation of the Kosovo conflict.

But there are no particular grounds for optimism regarding the future of relations between Russia and the West. These relations have sustained damage. Part of the blame for this rests with the West, with its idealistic and ill-considered policies, which tried to draw Russia into its orbit, and when it became apparent that Russia's transformation into a new state could not happen quickly, began to wall itself off with a new Iron Curtain, trying to ignore Russia. Russia's ruling class also bears its portion of the blame. It has not yet been able to design a new system of coordinates, and is trying to find someone to blame for its failures, in the West as well as at home.

The West's political circles must still derive the lessons from its former and not always successful experience of cooperation with Russia, and find new forms for this cooperation, which would he in the interests of the majority of Russians, and not of a narrow group of small clans.

HOW TO DEAL WITH RUSSIA?

Christoph Bertram

Dealing with Russia is no longer the challenge it once was during the period we have come to call the Cold War. Then, any misstep could have led to a world war, however robust the balance of deterrence proved to be in the end. Today, mishandling the relationship has less severe but nevertheless disturbing consequences. It could increase Russia's nuisance power. It could block joint efforts for regional and international order. And it could slow the process by which, one day, Russia can find her way to a cooperative and trusted relationship with the democracies of the West.

How to deal with Russia remains, therefore, one of the major challenges for western policy over the next decades, despite the fact that Russia's power has shrunk so dramatically. Russia is no longer capable of threatening the West with military force. But the long-term political and democratic strength of this huge country with eight time zones and thousands of nuclear weapons is so obviously a major western interest that any effort must be made to define and pursue a policy which can help bring this about.

A MARGINAL POWER

To devise such a policy, it is, first and foremost, essential to realize what kind of Russia we are facing now and in the foreseeable future.

Western assessments on Russia now and tomorrow are still largely influenced by the Soviet past. Russia may be weak today, but, it is being argued, we have to assume that she will be strong again tomorrow and hence should treat her accordingly. Western rhetoric all too often suggests that if the West only continues to treat Russia as a great power she is likely to behave like one. Many in the United States still pay tribute to the centrality of the bilateral U.S.-Russia relationship, many in Europe still like to declare that without Russia there can be no functioning structure of security on the continent.

Such views are, of course, politically convenient and enjoy wide political support in many western countries. Although the Cold War is memory, continuing to regard Russia as a major power helps to convey a sense of order and hierarchy in today's often opaque international multilateralism. It also attracts those who resent America's current international predominance; calling for more respect for Russia is a subtle way of criticising American superpower arrogance as well as to suggest that the U.S. status of today of the lone superpower is not (and should not be) permanent.

But assertions that Russia remains a major actor and must be treated as a true partner are indicative less of careful analysis than of old prejudices and wishful thinking. Not Russia's power but her weakness and vacillation make her a problem for European stability and international security, and her uncertain evolution from instability to consolidation render her, for the foreseeable future, unpredictable and hence unfit to be a reliable and resilient partner for the common order.

To recognize this does not mean either to neglect the damage that Russia can still do to international order or to advocate a western policy of isolating that big and troubled country. But it does mean to realize that, as long as Russia remains in the doldrums of stagnation and drift she is not truly capable of underpinning international stability in a sustained way. That stability has to be provided by the West without relying on Russian support.

Since it is Russia's internal condition, not her external power which pose the central problem, her greatest relevance for international order lies in her ability to overcome the immense domestic problems ahead of her. The prospects for this to be achieved soon remain dim. While the ability of the post-Soviet system to muddle trough has been impressive, its ability to build domestic consolidation and renewal has been poor indeed. Only a year ago, there were many in the West willing to look for more hopeful signs. But the collapse of Russia's financial system on August 17, 1998 revealed the brittleness of economic reforms in the absence of fundamental structural and societal renewal. There are no indications that Russia's present or future leadership, whatever leadership, will have the vision, the patience and the strength to complete such renewal for a very long time to come.

This, therefore, has to be the baseline from which western strategy towards Russia has to proceed.

UNRELIABILITY ABROAD, INSTABILITY AT HOME

Since Russian internal instability is the chief challenge, that strategy has to try both to limit the damage that a weak Russia can wreak abroad as well as to encourage her internal consolidation, structural renewal, and democratic resilience.

To limit the danger that Russia can do abroad and to encourage the building of a modern society and functioning state from the outside requires a high degree of interaction and cooperation—more than the West has undertaken so far. At the same time, western policy will have to avoid reenforcing illusions of grandeur on Russia's part and encouraging the foreign policy elites of the country in their preferred attitude of demanding great power status without

being able to honor it. Significantly, those Russians who claim loudest a place for Russia at the head-table for old times sake are also generally those least prepared to promote significant reforms in the country.

The danger of Russia causing damage to international order is most marked in the field of weapons of mass destruction and the export of the means to deliver such weapons. Because Russia was a military superpower, she is also today potentially one of the most effective proliferators. And her nuclear arsenal represents her sole claim for still being treated as a world power.

Should western policy therefore humor the Russian status-love in order to make progress in non-proliferation? This is, after all what Russian negotiators, particularly those outside the military, insist on. But it is doubtful that the pretension of power can provide a strong basis for coping with proliferation. After all, it is precisely the loss of state power and cohesion in Russia which has produced the Russian aspect of the proliferation challenge: Because the state has lost control, the danger of "loose nukes" exists. Moreover, if nuclear weapons were once the status symbol of a great power, they have lost the significance with the end of the Cold War. To pretend otherwise vis-à-vis Russia would not discourage but, on the contrary, encourage nuclear investments in states hoping for status gains from such a move.

If Russia is to reduce her nuclear arsenal, to agree to export constraints, to maintain tight control on weapons of mass destruction she will only do so if she deems it to be in her own security interest. It is to this interest that the West has to appeal. Signaling that Russia is a big player because of her WMD arsenal would scarcely promote a sober, interest-related attitude in Russia to these weapons and their control.

To encourage democratic consolidation and economic modernization in Russia is an even more difficult task than restraining Russian international damage capability. As experience with development assistance in the Third World has repeatedly shown, foreign assistance is only effective when domestic elites are firmly committed to domestic change. In this respect, Russia, too, is a developing country.

Public affairs are run for personal gain, the policy process is not based on institutions but on a network of personal relations, lubricated by material incentive. Taxation is discretionary, long-term investment is discouraged by uncertainty and the temptation of short-term gains. The very condition for effectively encouraging domestic renewal and democratic progress do not exist and will not exist for decades.

This is bound to effect Russia not only internally but also internationally. Domestic uncertainty will undermine credibility abroad and make international

commitment hostage to domestic upheavals and leadership changes. Russia is thus structurally incapable of acting as a reliable partner for the West.

The scope for western policy is, therefore, highly limited. It must avoid isolating Russia in order to encourage a habit of cooperation. It must not humiliate her because doing so would strengthen the forces of Russian self-isolation and xenophobic nationalism. At the same time, the West must be careful not to appease Russian delusions of grandeur so as not to undermine the realism needed for serious reforms and for a sober assessment of Russia's true international interests. The West must both engage Russia to encourage a spirit of shared interests and, at the same time, avoid relying on her cooperation.

WALKING A TIGHT ROPE

This is a tall order. How can western governments respond?

For one, the West should engage Russians, not just Russia, and on a much broader basis than so far. Official contacts, even in institutions set up specifically to promote them such as the NATO-Russia Council or the partnership arrangements with the EU, have in practice been restrained in number and depth. They should be expanded to include the whole range of issues and personnel involved in their respective fields, including parliamentary groups, NGOs, cultural groups, political parties, teachers and students etc. Only recently have western politicians and media become aware of the need to meet Russia not exclusively through Moscow but through the regions as well. Exchange programs for students and teachers, for communal workers or civil servants have never attained the density with which the United States conducted such programs towards West Germany after World War II. Yet efforts of such magnitude and ambition are needed. For Russians to realize that they can and should become part of the West, they have to learn to feel comfortable with western society and western values.

For another, western policy should not refrain from promoting stability merely for the sake of not upsetting Russian sensitivities. The invitation of the young democracies once controlled by the Soviet Union into western institutions is a case in point. After all, the best western instrument for effective crisis prevention in Europe is the progressive enlargement of NATO and the European Union. It makes no sense to forego improving regional stability because an unstable Russia opposes it. Delaying the enlargement of NATO because official Russia might be offended taints enlargement with what many Russians suspect anyway, namely that it is directed against Russia—which it is not—rather than to produce greater stability in Europe—which it is.

Acting if necessary without Russian consent has, of course, its difficulty where Russia has a legal blocking capacity. In the UN Security Council, her representative can veto any resolution. Yet even here the West must make clear that if action is deemed to be of vital interest, it will not be stopped by Russian lack of cooperation. While clearly it is preferable to intervene in a crisis with force legitimated by a united Security Council, there can and there will be exceptional circumstances—such as Kosovo—where such unity cannot be achieve.

The case of Kosovo, of course, may have helped Russia to be more forthcoming next time. She now knows that blocking a vote in New York does not necessarily prevent the West from intervening where it sees a need. If this were to become a precedent, both the authority of the Security Council as well as Russia's influence in its affairs will suffer. Just as in the European Union the introduction of majority rule in the Council of Ministers has facilitated consensus decisions, so the eventuality of western action without a mandate will reduce the temptation for Russia of vetoing a Council resolution.

Third, the West rather then trying to placate Russian sensitivities over the loss of empire should base its policies on Russian self-interest. In the short run, Russia cannot survive without western credits; in the long run, there is no future for Russia that is not of one of close relations, even integration with the West. A growing number of Russians are fully aware of this. A sober, not a resentful assessment of Russia's interests is essential for the country to leave the ghosts of its past behind. Emphasizing interests rather than nostalgia is a contribution to building a civil society in Russia.

The notion, therefore, that Russia needs to be spared the humiliation of its now marginal role is deeply flawed. It is even counterproductive. It leads Russians to believe that there will get a better bargain if western governments treat them to what they want to be than what they are. It encourages them to posture rather than to reflect, to resent rather than to reason. Once Russians are forced to identify their true interests, they are taking the first step to becoming responsible partners.

Fourth, since there is by now, at least in major parts of Russia, a relatively free press, there is also an audience to which the West can appeal. Russians reading in their own media about the atrocities in Kosovo will be less inclined to believe that by going in without Russia's consent NATO wanted to humiliate their fatherland. Arguments made by western governments on common issues can now get across to Russian citizens, provided they are carefully advanced and fairly presented. The audience for western statements is no longer limited to the government and Duma of Russia but includes those that have a vote in

electing them. So far, western governments have not made a serious effort to reach them.

FOR THE LONG HAUL

Dealing with the real Russia will imply less cosmetics and more directness on the part of the West. Much of official western policy seems to be based on the somewhat cynical view that if Russia is only constantly reassured of her undiminished importance, she will accept more easily that she has in fact become marginal. That, however, is a highly questionable approach.

Paying lip-service to Russian claims for status entails a double risk. It could make the West dependent on Russian cooperation, and it fosters delusions of Russian power. That price may have to be paid in some exceptional circumstances. But it should be carefully considered beforehand. While it is wise to consult with Moscow as widely as possible, it is unwise to offer to the Russian government the power of veto where its cooperation is not essential.

Western policy towards Russia needs to be both more engaging and less diplomatic—tough, straightforward and positive all at the same time. Russia's transformation will take generations. It requires from the West both a long view and a lot of patience. The challenge is no less than the one the West had to face at the beginning of the Cold War—to develop a strategy for the long haul. Western governments will remain tempted by quick fixes and tactical devices in dealing with Russia. They will have to resist that temptation if they want to influence Russia positively on her long and difficult road ahead.

BUILDING CIVIL SOCIETY IN RUSSIA

Dr. Falk Bomsdorf

GERMAN POLITICAL FOUNDATIONS IN RUSSIA: TEN YEARS OF WORK

The German political foundations, well known all over the world in particular for their work in developing countries and states in the process of transformation, started their activities in Eastern Europe in 1989. That year the Friedrich-Ebert-Foundation, which is close to the Social-Democratic Party of Germany (SPD), opened an office in Moscow; its partner was the Institute for Marxism-Leninism affiliated with the Central Committee of the CPSU. The Konrad-Adenauer Foundation, close to the Christian-Democratic Union (CDU), followed in 1990, the Heinrich-Seidel Foundation, close to the Bavarian Conservatives (CSU), in 1991 and the Friedrich-Naumann Foundation, which is close to the German liberals (FDP), in 1992, all of them staying without a principal partner because this is no longer required. In the meantime, the Heinrich-Böll Foundation from the Green part of the political spectrum has also come to Moscow. And in the future we will probably see the Rosa-Luxemburg-Foundation of the German postcommunists (PDS) opening an office of their own in Moscow.

All the German foundations working in Russia have their specific concepts and their specific goals according to the political concept of the parties they represent if not de jure, then de facto. They are funded from the same sources, mainly from the Ministry for Economic Cooperation and only partly by the German Foreign Office. Although there is, of course, some rivalry between them they do not really compete with each other. Russia leaves room for all foundations. Instead, they meet regularly and, at least to a certain extent, coordinate their activities. In a way the German foundations practice in Russia what they are used to in Germany: pluralism. Thus, their activities as such serve as a very valuable example for Russian society: The foundations display a diversity of views as well as create a feeling of common ground and tolerance vis-à-vis each other which the Russian side has come to regard as one of the best parts of what might be called “civility.”

GENERAL APPROACH: COOPERATION, NOT HELP

Very many foreign organizations working in Russia—and they are very numerous indeed, Russia probably being the country with the largest density of these organizations—regard their work and, consequently, their organizations

as being altruistic in character. This belief is not shared by the Naumann Foundation; indeed, it is believed to be a gross misperception with virtually important consequences. The Naumann philosophy is just the opposite: While altruistic motivations in one area or the other are not been negated the main thrust of the Foundation's work goes in a different direction: that of national interest. Germany as a country heavily dependent on foreign trade needs a congenial security environment, security understood in a broad sense. It needs stable trading partners a *tous azimuts*. It needs, among other things, a stable, and if not a flourishing then at least not a further deteriorating Russia. To paraphrase Hans-Dietrich Genscher's *ceterum censeo* about the interdependence of western and eastern Europe: Germany's well-being cannot continue while Russia's situation continues to deteriorate. A weak, internally fragile Russia is not in Germany's interest. On the contrary: Germany is interested in a strong, flourishing and, it should be added, democratic Russia. In general, the West should not fear a strong Russia, provided its strength is kept in check by a democratic regime; it has, however, every reason to fear a weak Russia.

Germany's foreign and security policy aims at furthering conditions which are favorable for the development of a civilized Russia. The German political foundations being an unofficial part of Germany's foreign and security policy—security again understood in a broader sense—by definition share these goals. They get their funding from the federal budget precisely because with their work in Russia (and other parts of the world) they are aiming at promoting stability. Thus, in trying to overcome the legacy of the past in Russia and cooperating in building a civic society there the German political foundations act in Germany's national interest and, it should be added, in the interest of the West as a whole. Consequently, their work is not motivated by motives of altruism but what one can call enlightened egoism. That their work is, in the final instance, also in the interest of Russia itself only highlights the fact that in the interdependent world of today, particularly in Europe, there is a common interest in stability and the well-being of the old continent as such.

Against this background, it is not accidental, as the Soviets were fond of saying, that every event organized by the Naumann Foundation, be it a seminar, a conference, a colloquium or a discussion in the framework of the Liberal-Club-program is ushered in with words explaining the Foundation's concept. It is constantly pointed out that it is not help that the Foundation has to offer. The reason for that, apart from what has been said above, is simple: Russia needs no help. It has everything necessary to build a modern society. It is a country rich in resources. This holds true in the first instances for the vast amount of mineral resources including oil and gas and other raw materials where Russia in some areas possesses up to 60 percent of all known world reserves. But, so the

argument goes on, Russia's main resources are its human capital, the large numbers of talented people which can be found all over the country. This is the real wealth of Russia. The principal question, however, is how to use these resources, how to set them free in the interest of the well-being of Russia. As the classical Russian question goes, what is to be done? Until today this question has not been really answered by Russian society. Quite a few words about reforms have been heard, but the country has not seen any of them really carried through. This is the answer the Naumann Foundation gives in its work in Russia: cooperation. This word, which in Russian as in English means work which is done together forms the basis of the Foundation's concept. The Naumann Foundation wants to work together with its Russian partners in creating elements of a civic society in Russia, in taking steps which lead to this goal. In this process of cooperation the Naumann Foundation acts as a sort of catalyst which contributes to the beginning of specific developments inside Russian society with the aim of instigating these processes and enhancing those already under way. From this perspective it becomes evident that the concept of the Naumann Foundation does not and cannot consist of help. Consequently, this notion and the underlying connotations do not belong to the vocabulary the Foundation uses in the framework of its work in Russia. Every other organization and, by the way, also every government would be well advised to follow this example. It is, in any case, embarrassing to hear western officials in the highest echelons of power time and again advocate help for Russia. These people do not know what they are talking about.

WHERE TO WORK? CENTER VS. REGIONS

When the Naumann Foundation began to think about starting work in Russia it went without saying that the office had to be in Moscow. There were some who wanted to have the office in St. Petersburg (then still Leningrad) but that was more the result of the fact that liberals sometimes just want to do things differently than use a rational approach. But an office in Moscow did not mean that the Foundation's activities would mostly take place in the capital. On the contrary, it was clear from the very beginning that most of the work of the Foundation had to be done in the provinces or, as it started to be called in Russia, "the regions." As subsequent years shoed, this approach was justified—it corresponds to the needs of Russian society. Looking back on Russian history one can see that every undertaking to move Russia towards modernization was conducted from above: Moscow gave orders, and the provinces had to follow. This top-down approach has almost totally failed, Mikhail Gorbachev's Perestroika being the last in the long series of blunders. It has become clear that

in order to have a profound and lasting effect reforms have to go the other way, from the bottom up. One cannot reform Russia *per ordre de Mufti*. You have to rely on the self-interest of the many subjects which are active inside Russian society, most of all in the cities and the villages as well as in the regions and their respective administrations, but also in the manifold non-governmental organizations which started developing in the Russian provinces at the beginning of the 1990s. This bottom-up approach is all the more needed as the Russian regions have become more and more independent of Moscow. It should be stressed that this fact was not the result of separatist ambitions but because Moscow's power over the regions and in the regions (not to talk about its hold) has been diminishing since the beginning of the decade. Against this background it is correct to say that Russia will survive and again become a respectable and respected power not because of Moscow but because of the regions and, as many Russians tend to think, in spite of Moscow.

Of course, this does not mean that the Foundation works exclusively in the Russian provinces. The capital with its ministries and headquarters, with its political parties and associations of all kind, with its manifold NGOs keeps its important place. And it goes without saying that seminars, conferences, and round tables of strategic significance are organized and held in Moscow as are all events where participants from institutions based in Moscow are indispensable. But even here the regional dimension should not be left out of sight: participants from the regions should be included wherever possible because their views are of utmost importance; consequences of the respective topic for the regions should be put on the agenda; any attempt made so often by Moscow participants to take Moscow for the whole of Russia should be counteracted.

But on the whole the gist of the Foundation's program is concentrated in the Russian regions. While at the beginning the ratio between capital and provinces was fairly balanced, the move to the regions intensified in 1995 when the Naumann Foundation in pursuit of its regional approach opened an office in Yekaterinburg in order to cover the mid-Urals. This office, after some initial difficulties, has flourished since then and contributed to the opening up of this region which until 1991 was closed to foreigners. In the meantime, around 90 percent of all events of the Foundation are organized in the Russian regions the Urals, the Lower Volga region (Astrakhan, Volgograd), and, most recently, Central and Eastern Siberia (Novosibirsk, Krasnoyarsk, Irkutsk) and the Far East (Khabarovsk) have been the scene of a large part of the Naumann Foundation's activities. Here, sometimes literally at the grassroots of Russian society and statehood, the Foundation's work is taking part in the secular

process of transforming the country and moving it slowly but steadily into the direction of modernity and civility.

PARTNERS

In the Russia of today it had become possible for a foreign organization to plan events totally on its own. It may choose the subject it wants to present or to discuss, invite those people it wants to see there, address the part of the political or social spectrum it is aiming at. The German foundations as well as its counterparts from other countries have in part been doing this, provided the respective events lend themselves to this kind of organization. However, in order to communicate its message and to reach its goals the foundations, as do all the other organizations in the field, as a rule need partners. Only then can one be rather sure that one reaches the desired audiences and meet their demands instead of relying solely on one's own ideas of what the country needs, which may very well be off the mark. The ideal solution would be to find partners who share one's own approach as well as one's own philosophy: These organizations could then conduct seminars and other events on their own behalf, the foundations restricting their role to that of financial sponsors and cooperation partners. In some respect this is the way the Heinrich-Böll Foundation close to the German Green Party has traveled, their principal partner being "Memorial," the Russian human rights organization (although the Böll Foundation has other cooperation partners, too.). The other German foundations, including the Naumann Foundation, have chosen a different path, mainly because their goals can hardly be achieved by cooperating with one or two principal partners. For that reason they prefer to cooperate with various and changing partners, in particular in the regions, where one depends on reliable partners.

A specific point is cooperation in the political field. In this regard the social democratic Ebert Foundation has the widest spectrum: it cooperates with all parties and political organizations from the democratic spectrum and includes also elements from the Communist Party deemed to be progressive. However, as a rule, they do not cooperate with these organizations as such but rather with individuals who are affiliated with them. The Adenauer and Seidel Foundation restrict themselves to the more conservative spectrum and cooperate mainly with representatives from "Our Home is Russia," "Democratic Choice of Russia" or "Russian Regions," and partly also from "Yabloko." The Naumann Foundation has chosen a somewhat different approach. In pursuit of its mission—to promote the development of organized liberalism in Russia—the Foundation in its political work has concentrated its efforts on one principal

partner, namely "Yabloko." In recent years this left-liberal or social-liberal grouping around the economist Grigoriy Yavlinskiy has more and more become what could be called a political party, while all the other political forces—with the exception of the communists (who still form the only real party in Russia)—are only electoral blocks in character and as such are in a constant state of flux as are the various blocks being formed once elections to the State Duma approach. Moreover, "Yabloko" has assembled a group of talented deputies who are united by their wish to contribute to the modernization of Russia and who are prepared to work hard for the achievement of this goal.

The Naumann Foundation's cooperation with "Yabloko" is strengthened by the fact that the National Democratic Institute (NDI) works closely together with this party, too, which in its turn has led to the development of a fruitful partnership between NDI and the Naumann Foundation and to a sort of tripartite cooperation. Naumann's work with "Yabloko" has resulted in a whole series of conferences, seminars and round-tables in Moscow as well as in the provinces. At present, efforts are being made to extend this cooperation to the regions by directly connecting the regional organizations of "Yabloko" to the Foundation's work and in particular to the European liberal network. As has been the case with the opening of a regional office in Yekaterinburg the knitting of close ties with a political partner, i.e., "Yabloko," shows that once you concentrate on one place or one partner the results of your work are greater. The Foundation has achieved goals in this respect it could never have attained had it relied on various locations and changing partners only.

GOALS, BACKGROUND, DILEMMAS

What does the Naumann Foundation want to accomplish in Russia? Generally speaking, it intends to take part in the creation of a modern society, which is absent there in important aspects. There are many reasons for this void. The main reason, as the Foundation sees it, is that Russia, seen from a historical perspective, has mainly developed in the dimension of space and not in the dimension of time, as it were. In other words: instead of limiting itself to a given area and developing within this area over time and with time, Russia has constantly developed spatially, enlarging the territory it occupied while not developing temporally. Instead of intensive growth, there has been extensive growth. We have the results before us today: An enormous country with immense resources, but with insufficient strength and capability to use these resources in its own interests. As a consequence the country which could be one of the richest on earth, producing stability in the Eurasian region, rather

produces instability and has the potential to cause serious harm to the rest of the world.

Thus, the task which has to be tackled today is the promotion of the development of Russia in the dimension of time, is the intensive growth of Russia. This raises the question of belated development: how can Russia make and undergo developments in a short period of time, say ten to twenty or even fifty years, which the other, more fortunate countries underwent over a period of centuries? Or more specifically, is it possible in Russia to create those institutions necessary in a modern society out of thin air, so to speak? And can this be accomplished by means of external influence without basis in experiences of Russian society—since, to a great extent, such experiences are lacking?

This brings us to the first dilemma facing the Foundations' work in Russia in general. Belated development is time-consuming, because things have to develop organically, so to speak, to be purposeful and permanent. Time, however, is exactly what Russia lacks. And no one in Russia or the rest of the world can afford to have Russian society make the same mistakes that other societies have made in their developmental processes, sometimes with terrible consequences. The solution to this dilemma is to transfer western social and economic know-how to Russian society by way of a sort of social engineering, and to anchor it there firmly. This is essentially the way chosen by foreign foundations working in Russia, and the Naumann Foundation too first went this way.

There is reason to assume that this is not the right way. It is based on the belief that the Russian society—like all societies—simply needs to be organized in a sensible manner in order to transform it into a modern society. That is to say, the belief that changes in Russian society can be planned. This belief, however, does not take into account the laws which govern social systems. In reality, as German sociologist Niklas Luhmann has stressed time and again, such systems, for example government or the economy, are more apt to come about and function according to internal laws. These laws and rules are difficult to influence. Thus, they are immune to changes that are planned from above or from outside. That is, a system can only be controlled by itself. Systems develop, preserve and change themselves not so much through rational planning and decision-making, but rather through evolution. And this evolution is accomplished according to its own laws through a certain self-organization. It is these laws, this self-organization, that must first be analyzed and understood. Once you understand these laws, you can begin to act within this self-organization and contribute to the evolution of the system.

Applying this knowledge to Russia brings us to the second dilemma. Foreign foundations working in the country know a lot about Russia and the system which Russia represents. But seemingly they still know too little about Russia's self-organization, about "what makes Russia tick." This is, by the way, not only true for the foreign foundations, but partly also for the Russians themselves. Large parts of the political elites, probably its vast majority, have either no or no sufficient understanding of the internal mechanisms of Russia's political and social life.

Therefore, not infrequently, foreign organizations work in Russia on terra incognita in both the figurative and literal senses. While they are not completely in the dark, they are in a world in which there are many things which are perceived only by their silhouettes, and many things which cannot be seen at all, not to mention seen clearly or fathomed. Rather often the basis for the foundations' work in Russia is therefore the concept of "learning by doing." In this respect quite a few examples may be cited to make it clearer how this process of learning by doing is going on, how in particular the Naumann Foundation has gradually begun to understand the self-organization of Russia. In this connection other dilemmas should be pointed out which the Foundation constantly has to face.

In 1993 the Naumann Foundation began working in Russia in a field which at the time was considered to be decisive, namely federalism. The Foundation was one of the first to work in this field, based on the consideration that this gigantic country cannot be governed from a single, central point, and that democracy in Russia can only come after or with decentralization. Seminars, conferences, colloquia etc. with the Foundation's Russian partners were conducted in Moscow and in particular in the Russian regions, with the aim to explain federalism, its principles, its aims, its philosophy. German and Swiss federalism was explained; the asymmetrical Spanish federalism and federalism in the United States were included.

Since then, the Naumann Foundation has scaled down the intensity of its work in the area of federalism, because the Russian version of the federalization of a state is completely different from the Foundation's model of federalism which is based on a twofold compromise: firstly, between the centre and the subjects of the federation, secondly between the subjects of the federation themselves. In Russia there is a sort of "robber-federalism" developing, in which the stronger regions take what they can get as far as competences and privileges are concerned, at the expense of the center and of the other regions as well as at the expense of towns and villages, i.e., of local self-government. Furthermore, the Russian president has time and again used federal competences and privileges as bargaining chips in his power struggle with the

Duma: Those subjects of the federation that support him have got a bigger share of the federal cake, so to speak, from President Yeltsin, even though such deal-making is clearly not compatible with the Russian Constitution.

At the same time, we see that authoritarian forces have come to power in the Russian regions. Where once we had an authoritarian centralism in the form of the Soviet Union, we now have a "decentralized authoritarianism," a regional authoritarianism, which in part presents even more of a threat to democracy than Moscow's centralism. As Nikolai Petrov of Moscow's Carnegie Center so aptly puts it, by first quoting Montesquieu and his dictum that states can either develop as tyrannies or as federations, and then adding that "true to its habit of choosing both evils, Russia has taken the path of building a 'federation of tyrannies.'"

The result of this development is weak regions and an even weaker center—which, in its turn, leads to a weak society. And, it should be added, this leads to regional governments, governors or presidents, who only think about themselves, about the needs of the regional *nomenklatura*. In this situation there is not much room for western foundations to hold lectures about modern federalism—except in those few regions where more or less enlightened governors know that their respective regions do not have a future unless they leave the boundaries of authoritarian rule.

The same thing basically holds true on the local level. The development of local self-government is, as all the foundations see it, essential for progress of society in Russia. But what is happening in Russia? The Constitution guarantees local self-government, but does not create the necessary framework to make local self-government truly function also and with few exceptions, those in power in the various regions do all they can to hinder and repress the development of local self-government. Here, too, the traditional lectures and seminars on the purpose and character of local self-government are of no use.

Another area in which the Naumann Foundation is working is the regional media. Here, too, the classical approach makes little sense today. It hardly is useful to have seminars and discussions on free speech and freedom of the press like at the beginning of the Foundation's work years ago. Those concepts are familiar; moreover, it is only a shift exaggeration to say that freedom of the press in Russia ends at the Moscow city limits and is also endangered in Moscow itself. In Russia's regions, the local oligarchs and others in power have ultimate authority to decide what is to be written in the newspapers and shown on regional television. How a journalist in Russia can nevertheless make free use of his professional rights and publish what he wants to see in the press, show what he wants to be shown on television, is a question which hardly can be

addressed by the foundations because they lack the social know-how necessary to adapt to Russian circumstances.

Finally, two other areas should be mentioned where a new approach is also needed. First, the Naumann Foundation is works extensively with the younger generation. Here it has become more and more obvious that the classical political-education lectures, such as seminars about democracy and the rule of law, are no longer asked for to such an extent as was the case some years ago. On the one hand, these concepts, too, are, at least to a certain extent, familiar to the young generation. On the other hand, in light of the actual situation in Russia, all of this is often seen as something that may work in the West, but does not suit Russia. This leads ultimately to a view of democracy and rule of law as something exotic. Additionally, lectures on these subjects if not presented in a very skillful way are often boring for the younger generation. Second, the Naumann Foundation works very closely with "Yabloko," the left-liberal party run by Grigoriy Yavlinskiy. Here too, it can be seen that the perceived need for expertise on substantive matters has dwindled, at least on concerns the central, the Moscow branch of the party. There, "Yabloko" deputies only rarely ask for the Foundations's specific know-how. However, with regard to the regional branches of "Yabloko" it is somewhat different. In the provinces, the Foundation's services are therefore more directly being requested.

All this leads to the conclusion that Russia's development has made the original work of western foundations—providing information and offering and transferring social and economic know how—obsolete in important aspects. Either their traditional services are no longer needed or the political reality in Russia has made them partly obsolete. In other words, the self-organization of Russian society and of the foundations' partners has come to the point where a different strategy must be developed. How can this dilemma be solved?

SOLUTIONS: ADVICE, STRATEGIES, DEMOCRATIC PRACTICE

The solution the Naumann Foundation has found, its answer to the problems mentioned above is twofold. On the one hand, it consists of offering advice by assisting in designing reasonable political strategies on various levels. For example, the Foundation has in the area of federalism begun to advise administrations of the regions on the question of how a sensible regional economic and industrial policy can be pursued. This obviously is much more useful than the usual seminars on federalism which today are of only academic value. And the Foundation has begun to advise Russian cities and communities on the question—constantly asked by them—of how to expand one's financial

base, how economic and social strategies can be developed and applied at the local level. That is to say, the Foundation contributes to Russian communities' first understanding their needs and then developing strategies to put these needs into practice politically.

The same is essentially true of the Foundation's work with "Yabloko." Here too, advice is being offered. In the framework of what is allowed by Russian law the Foundation takes part in the development of a strategy. The strengths and weaknesses of the party are analyzed, possible strategies of "Yabloko" are elaborated—with the ultimate aim of supporting "Yablokok's" self-organization and expanding the social basis of the party. At the same time, with regard to the party's branches in the provinces the Foundation is, as has already been mentioned, continuing on its previous track of offering know how in the form of seminars and other events.

On the other hand, the Foundation's revised approach consists of attempting to promote a certain type of behavior which conforms to democratic norms. In other words, the attempt is to create conditions in the framework of which all that the Foundation's Russian partners have acquired in theory can be applied in a specific social setting, i.e., in practice. Democracy, pluralism, rule of law no longer are just to be taught, but are to be practiced. The Foundation's work with the regional media in the Urals may serve as an example in this respect. Here, instead of giving seminars and lectures on the essence of pluralism the Foundation is trying to establish and practice pluralism in Yekaterinburg and the Central Urals. For this purpose several forums have been established where pluralism can best be practiced. In particular journalists' clubs were founded together with local partners, among others the faculty of journalism of the University of the Urals ("Mass Media Club," "Club of Liberal Journalists"). These clubs meet on a regular as well as on a ad hoc basis and provide a forum in which the political public of Yekaterinburg along with local journalists can discuss questions which are of importance to local society and would not otherwise be discussed. Important political figures in the area are also invited. Thus, the Foundation has—to name but one example—brought to life a series of discussions known as "Journalists ask—politicians answer." These events take place on a regular basis, but are, of course, more in demand in times of election campaigns. Thus, before the gubernatorial elections which took place in the summer of 1999, a whole series of discussions of this type were organized where most of the candidates for this office attended and answered journalists' questions. This sort of exercise in pluralism is not an everyday occurrence for the Russian regions and their authoritarianism, this all the more so if one takes into account that Yekaterinburg, because of its military importance, was a closed city until 1991.

Another example for the Foundation's revised approach is its work with the younger generation. In this regard the Foundation is trying to do one thing above all, namely not so much to teach young people something about democracy or the rule of law, but to practice democracy together with them and thus assist them in their becoming truly independent, in forming individual views on political and social questions. So the Foundation has embarked on a major effort to give the younger generation a forum for the discussion of current topics. So called "Liberal Clubs" have been founded. These are discussion clubs, designed (although with much less ambition) on the British model of debating societies, where young people, the young elites, discuss topics of their choice in accordance with rules set by the Naumann Foundation. These "Liberal Clubs" were started in 1994, now they are active in over twenty-five cities in Russia: from Archangelsk in the north to Rostov in the south, from Bryansk in the west to Khabarovsk in the east. And, to give an idea of the topics discussed, here are a few: "Is there a responsibility for the past?," "Does a security service have a place in a democratic state?," "Should the Dzerzinskij Monument be rebuilt?," "Where is Sibiria going?," "Should Lenin be buried?."

The importance of these "Liberal Clubs" for the development of a civic society in Russia can hardly be overestimated. First, these clubs and their discussions contribute to breaking up the old bolshevist mind set which is still existent in Russia. According to these old convictions, there is only one truth in society; consequently, in discussions you are either right or wrong. In this mind-set there is no place for pluralism and tolerance. The discussions taking place within the "Liberal Clubs" teach another lesson: that what we have is not the truth but only a certain reflexion of the truth, something which may be called "reality," and that in democratic societies various realities—in the final instance everything has its own reality, according to its specific type and way of communication—are struggling with each other to become the essential reality, as it were, i.e., the reality from which society and state procede in their dealings. And that, in order to establish your own reality, you have to convince the others of the validity of your arguments. In other words, the discussion clubs teach those taking part in them that you cannot rely on quoting old or new authorities but that you have to use arguments of your own in order to gain something. They teach them, moreover, that once you do this and improve the quality of your arguments, fine-tune them and put them forward accordingly, success is guaranteed. Second and in connection with that, the clubs teach tolerance. Once the participants see that their discussion partner—a new notion for Russian society—with whom they share the same knowledge of the same facts—nevertheless comes to a different assessment, to a different "reality," and hence to a different argument, they get a feeling for the nuances, for the inadmissibility

of traditional black-and-white-thinking and, in the final instance, for tolerating different views. Third and very important in Russia, where the autocratic and authoritarian system relieved the big and small rulers on all levels of the necessity to provide their decisions and their views with a factual and argumentative base: discussion rules make everyone taking part equal, and nobody is "more equal" than others. In other words, the youngest first grader has the same voice as the full professor. What is decisive is the power of the respective argument. For very many participants this insight was a revelation, and to hear one young student express her joy at the end of a session in one Liberal Club by pointing to the fact that she had the same opportunity to explain her views, to present her argument as the dean of her faculty and that she, unlike him, had even won the approval of the audience for her argument.

Against this background it can be said that the Foundation with its work is contributing to the gradual development of new thinking, and therefore also new action in the younger generation. This seems at least to be an important investment in Russia's future, as it is the younger generation that will decide this future. And when one looks at the young people that take part in our discussions and even organize them themselves there is reason for optimism. At the same time the Foundation's work is a contribution to the development of the individual in Russia. The Foundation is thus taking part in a secular task, because it has always been the individual who is most been needed in this country, the individual who thinks independently and feels responsible for himself as well as for his country.

OBSTACLES: MYTHS, POLITICAL CLASS

The Foundation in its work is constantly facing a vast number of obstacles. They are different in character and range from difficulties in obtaining a legal status suited for the Foundation's work to customs problems of various kind and harassment of partner organizations, not to mention broken promises and the frequent no-shows of participants or—although this has improved during recent years—the endless contributions and speeches of quite a few of the participants who are used to the old style. The main obstacles, however, are provided by the present character of Russian society as such. In this respect two factors are detrimental to the Foundation's work as well as to Russian society itself: one is the creeping remythologization of Russian social life, the other is the role the Russian political class is playing in the process of modernizing the country.

At present, we are witnessing in Russia the progressive re-emergence of a belief in myths, which Russian society has been experiencing since the beginning of the 1990s and which acts as an obstacle to the enlightenment of the

population. The Russian intelligentsia has, after the orientation demanded of them by the communists for so many years, begun to think again, in the classical Russian manner, about their origins and the direction in which they are going, about Russia's identity and objectives and about the nature of Russian people and the meaning of their lives. In the process, a strange mixture of myths is re-emerging, some of which have their origins in pre-revolutionary Russia, especially the 19th century, and some of which came into being during the period of Soviet rule. They are being supplemented and strengthened by the myths that are in the process of development. Both old and new Russian myths have two functions in particular, namely that of providing an identity and a sense of direction and that of a defense reaction against external influences and of pursuing a policy of separation.

"Russia is something special," "Russia is going its own way"—it is with this basic myth that Russia is being recreated, as it were, in these turbulent times. Russia exists. More than that, when considered from this point of view it exists as something distinctive that cannot be compared to any other state. The myth, the "Russian idea" that is supposed to guide all action and all thinking in Russia, does not say what is "special" about the country or what its "own way" is. However, the "Russian idea" does not have a fixed meaning either. Everyone sees in it what he or she wants to see. For some it means autocracy and orthodoxy and for others it embodies Russian messianism. Sometimes the "Russian idea" is the bond that links together all the nations of a Russian empire, and sometimes it is an expression of Russian nationalism and imperialism. The "special Russian path" is most likely to become a meaningful concept through what is, according to the myth, a particularly—or, indeed, solely—Russian characteristic, namely "*dukhovnost*," the approximate meaning of which is "spirituality." Russians are characterized, the myth goes, by the fact that their actions are based on spiritual principles, on moral laws. Westerners, on the other hand—and it is here that the myth's function of resisting external influences begins to take effect—act predominantly for material motives, especially for the sake of personal benefit ("profit"), i.e., basically, it is suggested, for immoral reasons. The last in the chain of myths, and one that is only hinted at here, is the pure fiction that the "West" is something deeply alien, a myth that functions as a defense reaction. Although "the West" is admired in many areas and its products are used, it is ultimately rejected.

There are thus two opposing processes under way in Russia: "enlightenment" and "counter-enlightenment." The diversity of opinion outlined above reflects these two processes: the "modernists," which we shall call them here in order to avoid the term "westernizer," are with their values and ideas a product of the Russian enlightenment and its supporters in the same way

that the opposing group—revisionists, nationalists, imperialists and those who glorify power—embody and promote counter-enlightenment, i.e., the return to a belief in myths. Both processes and both groups interact with and influence one another. A specific mechanism seems to be at work here : it is of course primarily those who are enlightened, the modernists, who are being influenced. Almost imperceptibly, some of them are also being affected by this return to a belief in myths that is taking place in Russia, with the result that their values are changing and becoming adapted because of the process of counter-enlightenment. The bad ideas are beginning to eclipse the good ones, resulting in a strange mixture: the endorsement of modern values and ideas coupled with the pursuit of ideas that, if anything, hark back to the past. Market economists who demand an authoritarian state at the same time, modernizers who glorify power, and democrats who regard "the West" as the source of all evil—these and similar individuals are the consequence. The result is a precarious one: in Russia the forces of counter-enlightenment are threatening to force back the supporters of enlightenment.

In this situation particular responsibility is born by a group that is very important for Russia's future: the country's political class. At times of radical change the inhabitants of every country need people who can explain the new age, interpret its signs and inform them of the aims and tasks of this new order. This applies all the more to a state like Russia, in which the masses—as the people, using Soviet terminology, are still called—hardly know the meaning of the word "modernity" and hardly possess what goes to make up a civil society. They are unreasonably expected to familiarize themselves in a short time with things that people in other countries have been able to get used to gradually. More than that, the people in Russia must catch up on and undergo a development in a short period of time for which the luckier societies have had centuries at their disposal. Russia's political class thus faces a big task. It will depend to a decisive extent on these people whether the modernization process is successful or not.

Russia's political class is not very well-prepared for this task. This is not to say that it lacks intellectual abilities—on the contrary, in this respect it can rarely be denied that its members possess a brilliance often characterized by its formality. Nor do its leading representatives in any way lack political imagination and a wealth of ideas. However, the Russian political class is an obstacle to its own development. It is suffering from a handicap that it will only be able to overcome with difficulty, especially as it does not recognize it as such, namely the socialization of the Russian political class at the time of Soviet Russia (this term has been consciously chosen because it applies to the actual situation better than the term Soviet Union). The current Russian elites are in

many cases still under the formative influence of Soviet Russia. This means they have been inculcated with the idea that Russia is a "great power" (*velikaya derzhava*), they still think in the imperialistic categories that they have been taught and, in particular, they are used to the fetishism of power, the consequences of this being the most serious of all. There are other ingredients: the view that the lives of states are characterized by a struggle that is solely determined by individual interests; the dislike of a balanced compromise, which can at most be accepted if there is no alternative and if one has also been able to promote one's own position so far that it is hardly possible to speak of a compromise; the almost complete lack of any thought categories involving the concept of historical responsibility; and, finally—a crucial legacy—the view that "the West" in general and the U.S. in particular is a rival, indeed an enemy, whose aim it is to keep Russia permanently weak.

To be sure, this characterization of the Russian political class is somewhat exaggerated, and it certainly does not apply to all its members. However, by and large it does appear to be correct, with the following modifications: although a new phenomenon called "regional authoritarianism" seems to point to the contrary, it is less the regional elite to which this categorization refers than the political class in Moscow. The majority of the latter's members have ideas that have little in common with modern ideas and the principles of a civil society. The receptiveness for Soviet Russian ideas is all the greater the closer one gets to those not involved in business, to put it that way. Conversely, the more the members of Moscow's political class are integrated into the new private economy, especially the numerous new enterprises run exclusively according to economic principles, there appears to be less danger that they will succumb to the mental temptations of Soviet Russian socialization. It should, however, be added that some of the leading Russian bankers and financiers seem to have a nationalism of their own. Generally, the possible joining of forces of Russian big business with Russian nationalism seems to be one of the most severe dangers emerging in Russia. Finally, unless all appearances are deceptive, it is true to say that the younger a person is the less susceptible to such ideas he or she is—because the socialization process has ceased to be Soviet in nature and has not yet begun to include ideas of a Great Russia, which does, however, by no means exclude the existence of nationalist myths within the younger generation in Russia.

Against this background one thing becomes clear: the Russian political class, in the shape of a large part of the Moscow elite, is not very well suited to carrying out its task of leading the population of Russia in the process of modernizing the country, in the best sense of the word. It lacks the essential requirements for this. Those who ought to provide enlightenment need to be

enlightened themselves. Those who are only called upon to criticize the myths—the essential feature of any enlightenment process—are themselves involved in the return to those myths, i.e., in the process of counter-enlightenment. Those who are supposed to show the Russian population the world and interpret it for them, with all its contradictions and all its variety, in order to make it comprehensible do not understand this world themselves, or else they misunderstand it because they are only able to look through the prism of their own prejudices and false perceptions.

Nevertheless, Moscow's political class is getting down to the task, which it certainly recognizes, of leading the Russian people. However, this is not happening in the spirit of a well-understood responsibility towards the population. Rather, as so often in the history of Russia, the political class is turning to the people in order to promote its specific political aims. It wants to make its (false) ideas those of the Russian population, who cannot ask critical questions about them but take at face value what the elite groups tell them. The people who are shaped and influenced in this way can then be used as excellent political instruments: reference is made to their opinion—to the opinion of "the people"—and nothing is said about the fact that they had first been manipulated.

This does not serve the interests of the people in Russia. As a Polish observer expressed it, as was the case in the immediate and distant past, the Russian elite in no way represents the aspirations and expectations of the majority of the population. Rather it represents only itself and demonstrates in particular—as Liliya Shevtsova, one of the most enlightened Russian analysts, has put it—its inability to adapt to a life in a more modest dimension, to a new status and to a new system of values. The Russian population is currently becoming a victim of the great power thinking of those who do not understand that it is not the repeated reference to greatness that will make Russia a "great power" but only its unrelenting efforts to put the country back on an even keel. To use Max Weber's phraseology, the Moscow elites are, with few exceptions, not well suited to drilling holes in the thick planks of economic and social reforms. Instead, they are drilling holes in the thin boards of cheap big power rhetoric. All this has little to do with politics and a great deal to do with agitation.

All of this is not helpful for the Foundation's approach. More than that—the work of the Foundation in the political field, in particular in the area of political education, more often than not runs into specific difficulties caused by the two principal obstacles mentioned above which are, moreover, mutually enhancing each other: remythologization and the political class. The only way to overcome these obstacles consists in the constant effort to convince the political

public present at the events organized and offered by the Naumann Foundation of the validity of the concepts of liberalism, pluralism and the rule of law.

These efforts run into even bigger obstacles when the political situation is growing worse. The latest example in this respect was NATO's undeclared war against Serbia. The entire Russian—and not only Moscow—political class with very few exceptions as well as the majority of the Russian population were united in their opposition to NATO's actions against Serbia. The political class considered these actions as the latest proof that the West was no longer willing to treat Russia as a major power in times of weakness, and felt marginalized. The population was beginning to share this feeling of humiliation and took the side of the Serbs, whom they considered to be the victims. It became apparent that the Russians had been systematically misinformed by the media, television in particular, and presented a world where there were NATO attacks on innocent Serbs, but no burning villages in Kosovo, no murdered or displaced Albanians. Furthermore, the alliance's actions confirmed a view of NATO which the Soviet leadership had presented to the public throughout decades of indoctrination: NATO is an aggressive alliance and an instrument of the U.S., ultimately directed against Russia. As a consequence, a considerable part of the Russian population received a renewed enemy image: The enemy is "the West," the United States. There was the perception of the West, NATO, and its arrogance posing a direct threat to Russia: "Today Serbia, tomorrow Russia!". This development had given back to the Russians a crucial element of their previous identity. Now they could define and identify themselves again through their rejection of the West.

In the aftermath of the war against Serbia it can be said that the anti-western sentiment inside Russian society has to a great extent receded. This does not mean that Russians now think or feel otherwise. On the contrary, these sentiments have not really gone away. Rather, they have been internalized and can erupt again at any given time provided the political circumstances lend themselves to that. At the seminars and round tables conducted by the Foundation in the field of political education one can still see and feel the impact the war has had on almost all participants. And it needs pedagogic skill and, most of all, frankness to overcome this impact and, among other things, assure the participants of the benign goals of NATO's war against Serbia. For Russians molded for decades or even centuries in great-power thinking and geopolitical categories it is still inconceivable that NATO fought a war for humanitarian goals. Later events, however, helped to clear somewhat the Russian mind, although they were in no way similar to what NATO undertook in Serbia. The case in question is the war unleashed by the Russian government against Chechniya in the autumn of 1999 under the pretext of fighting terrorists.

Starting with this war many Russians viewing methods and aims seem to get the feeling of a sort of complicity with the West. This feeling was in no way justified, but it mitigated or even muted the critical Russian stance vis-à-vis NATO. It is very much to be regretted that it obviously needed a war to have this effect. And it shows how far the confusion of the Russian mind has gone. In reality, things were of course quite different than perceived by most parts of the Russian public: In this war, as one Moscow wag put it, the Russian government was using NATO methods to achieve Slobodan Milosevic's ends. The wag may well turn out to have been a farsighted analyst: His bon mot provided the best (and shortest) explanation of what was going on in the Caucasus in the autumn of 1999—with consequences not foreseen at that time.

CIVILITY FOR RUSSIA: AN UPHILL FIGHT

To sum up what the Naumann Foundation is currently doing in Russia: Naumann provides social know-how when it is asked for specifically by its Russian partners. Otherwise, the Foundation concentrates its efforts on the question of how the participants in Russia's political and social life can assert their interests, and on the practical application of behaviors characteristic of democratic societies: pluralism and discussion, tolerance and responsibility, in a word, that which is known as "civility." These are, in the final instance, the same goals that other German foundations as well as organizations from western Europe and the United States are striving at. In this respect there are no differences in principle, but only in style and technicalities. All organizations from the western world aiming at making life better in Russia are in the same boat; they travel the same sea. If we take all their efforts together, there is reason to believe that these small and large, well or not so well funded, mostly understaffed foundations and associations have to a considerable extent contributed to the process of bringing about a civil society in Russia.

Nevertheless they are fighting an uphill battle. As does Russia itself, they are struggling not only with 70 years of bolshevist rule, but with 700 years of autocratic rule and of (self)isolation, with the results of a development which culminates in the usual outcry when, on a large or a minor scale, one has to face something horrible again: "That's Russia!". It is always to be remembered that a civic society needs organic growth which in its turn needs time. Time, however, is exactly what neither Russia nor its western partners have. This lack of time for organic growth is also one of the reasons why it is still doubtful whether the relationship between Russia and the West can really be called a partnership.

This perspective must not lead to despair. Work in Russia has to continue and will continue—in the interest of western countries and of Russia herself. In traveling this road one should keep in mind what George Soros, rightly admired for what he has achieved in Russia and still is doing here, tells those who are working for him and with him:

> I always ask myself this question: do I need to continue to help Russia? . . . I keep asking this question and each time give a positive answer to it, no matter what. And that answer is "yes," that's the way it should be. Some battles are to be waged even if they know in advance to be losing battles.

The Naumann Foundation's philosophy or, to put it right, the philosophy of its representative in Russia my be summed up in three maxims: First, all western organizations working in Russia are building a huge mosaic, each of them with every single practical step adding a small stone to it. One should not so much look at this small stone but concentrate on the emerging mosaic. Second, when working in Russia one should adopt Gramsci's attitude: pessimistic in analysis, optimistic in action. And third, we should, together with Albert Camus, conceive of Sysiphus as a happy man.

CONFERENCE AGENDA

Panel I – Russia's Economy and the West

Chair: **Dr. Jackson Janes,** Executive Director, American Institute for Contemporary German Studies, Washington, D.C.

Mr. Christian Meier (M.A.), Senior Researcher (WOR), Federal Institute for Russian, East European and International Studies, Cologne

Ms. Kelly Knight, Country Manager, Cambridge Energy Research Associates, Moscow

Mr. Andreas Meyer-Landrut, Representative of DaimlerChrysler, Moscow Office

Mr. Vladimir Mau, Deputy Director, Institute for Economies in Transition, Moscow

Panel II – Russia's Foreign Policy and The West – How Much Cooperation is Possible?

Chair: **Mr. Arnold Horelick**, Vice President for Russian and Eurasian Affairs and the Carnegie Moscow Center, Carnegie Endowment for International Peace, Washington, D.C.

Prof. Angela Stent, Department of Government, Georgetown University, Washington, D.C.

Dr. Christoph Bertram, Director, Foundation Science and Policy, Munich

Mr. Andrei V. Kortunov, President, Moscow Public Science Foundation, Moscow

Dr. Christoph Zöpel, Member of Parliament, Bonn

Comment: **Dr. Hans-Dieter Lucas**, Political Counselor, German Embassy, Washington

Luncheon Keynote Speaker
Mr. Carlos Pascual, Special Assistant to the President and Senior Director for Russian, Ukrainian and Eurasian Affairs/National Security Council

Panel III – Building Democracy and Civil Society in Russia
Chair: **Thomas E. Graham, Jr.** , Senior Associate, Carnegie Endowment for International Peace, Washington, D.C.

Ambassador Nelson Ledsky, National Democratic Institute for International Affairs (NDI), Washington, D.C.

Ms. Lilia Shevtsova, Senior Associate, Russian Domestic Politics and Political Institutions, Carnegie Endowment, Moscow

Dr. Falk Bomsdorf, Head of Moscow Office of Friedrich Naumann-Stiftung

Mr. Klaus-Jürgen Hedrich, Member of Parliament, Bonn

Mr. Clifford Kupchan, Deputy Coordinator of US Assistance to the New Independent States (NIS), Department of State, Washington, D.C.

CONCLUSIONS

American Institute for Contemporary German Studies
AICGS Conference Reports

Gibowski, Wolfgang, Dieter Roth, and Hans Herbert von Arnim. *Whose Party is This? Transitions in the German Political Party System*. Washington, D.C.: AICGS, November 1996.

Janes, Jackson and Charles C. Loveridge. *The Future of Telecommunications: A German-American Dialogue*. Washington, D.C.: The Center for Strategic and International Studies and AICGS, November 1996.

Culpepper, Pepper. *Skills for the 21st Century*. Washington, D.C.: AICGS, January 1997.

Westin, Alan. *Data Protection in a Global Society*. Washington, D.C.: AICGS, May 1997.

Cowles, Maria Green. *The Limits of Liberalization: Regulatory Cooperation and the New Transatlantic Agenda*. Washington, D.C.: AICGS, July 1997.

Rahr, Alexander, Sherman Garnett and Zbigniew Brzezinski**.** *The Future of Ukraine: Challenges to German and American Foreign Policy*. Washington, D.C.: AICGS, July 1997.

Rudolf, Peter and Geoffrey Kemp. *The Iranian Dilemma: Challenges to German and American Foreign Policy*. Washington, D.C.: AICGS, July 1997.

Gibowski, Wolfgang, Josef Joffe and Dieter Roth. *The Road to Germany's National Elections*. Washington, D.C.: AICGS, February 1998.

The Parameters of Partnership: Germany, the U.S. and Turkey. Challenges for German and American Foreign Policy. Washington, D.C.: AICGS, April 1998.

Pavliuk, Oleksandr, Alexander Rahr and John Tedstrom. *Ukraine in Transition and Western Strategy: Challenges to German and American Foreign Policy*. Washington, D.C.: AICGS, August 1998.

MacDonald, Duncan. *Protecting Privacy: The Transatlantic Debate Over Data Protection*. Washington, D.C.: AICGS, September 1998.

Harris, Martha Caldwell, Kay Möller, Margot Schüller, and David Shambaugh. *Managing Conflict, Building Consensus: Germany, the United States and the People's Republic of China*. Washington, D.C.: AICGS, November 1998.

Telecommunications Reform in Germany: Lessons and Priorities. Washington, D.C.: AICGS, December 1998.

Environmental Diplomacy. Washington, D.C.: AICGS, February 1999.

The Russian Transition: Challenges for German and American Foreign Policy. Washington, D.C.: AICGS, November 1999.

American Institute for Contemporary German Studies
1400 16th Street, N.W.
Suite 420
Washington, D.C. 20036-2217
Tel: 202.332.9312 Fax: 202.265.9531

ISBN 0-941441-45-8