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## Policy Options for German Future Government

# Berlin – Moscow 2005 - 2008

After the Bundestag elections on the 18th of September, a new Federal Government could be inclined to distance itself from the current 'special' and 'strategic' relationship between Berlin and Moscow, and increasingly engage with the smaller Central and Eastern European states. On the other hand, it can be expected that the undeniable economic boom in Russia will continue to hold German companies in its spell, and politics will follow the strategic interests of the German economy.

Berlin and Moscow are faced with several problems that must be overcome in the next three years. In 1998 Gerhard Schroeder inherited a Russia policy from Helmut Kohl, which was still targeted at preventing chaos in Russia and sustaining the Russian economy from its threatened collapse.

On the occasion of the OSCE's 30th anniversary, Wolfgang Gerhardt, candidate for the post of Federal Minister for Foreign Affairs in a possible CDU/CSU/FDP government, advocated strengthening the role of this important European institution.



The year 1999, marked by the NATO war in Kosovo as well as the second war in Chechnya, led to considerable dissonance in the Berlin - Moscow relationship. Yet in early 2000, the new Chancellor was driven towards Russia by the leading captains of the German economy. Today Russia is largely economically rehabilitated, and its domestic policies are consolidated, but less democratic. Assistance for Russia as in the manner of the 1990's is superfluous, however, there remains a factional dispute about whether it is sensible or counterproductive for pan-European stability to engage in a strategic partnership with an economically attractive, but authoritarian Russia.

Thanks to Schroeder, Russia will assume the head of the G-8 in 2006, in Germany's place. Russian membership to the WTO is set to take place in the same year. Moscow is hoping for German support for its international agenda. In the past two years, Schroeder's friendship with Vladimir Putin appears to have paid dividends, especially for the economy. While the US, in the wake of the Yukos affair and the conflict over the Iraq war, has practically pulled out of the energy dialogue and the antiterrorism coalition with Russia, German corporations have been able to gain strategic advantages in the Russian market.

In 2007, Russians will vote for a new parliament. If the liberal parties miss their opportunity to return to the Duma, one can assume that the current authoritarian course will continue. The election of Putin's successor will be of even greater significance. Will the new president, to be elected in the beginning of 2008, use the power of the 'Putin System' to finally modernise and

reform the country? Due to the prevailing power constellations, suspicions are surfacing that Putin's successor will again come from within the secret service. In the same year, the Partnership and Cooperation Agreement signed in 1994 between Russia and the EU, is set to expire. Today it still defines the strategic relationships between both European powers. The EU is presently Russia's biggest foreign trade partner. In light of the stiff posturing from the new EU members, some of whom are even demanding a policy of containment towards Russia rather than a partnership, the gap between the EU and Russia could grow wider. Romania and Bulgaria joining the EU could increase the ranks of Russia critics. The question of NATO's third round of Eastern expansion (Ukraine, Moldova, Georgia and Azerbaijan) could become relevant already in 2007.

German politics under Kohl and Schroeder managed to assuage the Kremlin during difficult times and temper problems, as exemplified during the Kosovo war or the Ukraine crisis at the end of 2004. In the end of each dispute with the West, whether concerning transit to Kaliningrad, the Russian drive for hegemony in the CIS, NATO and EU expansion, the Kyoto Protocol, or support for Iran's nuclear programme, Yeltsin and Putin always found their way back to a policy of integration with the West. How can this subtle exertion of influence on the Kremlin be maintained after 2008?

### **Differences Schroeder – Merkel**

In the German media there has been speculation that for Schroeder, relations with Russia are primarily about business. For oil and gas he is said to be shutting his eyes to Putin's authoritarian policies. What really counts for Schroeder, however, is Putin's achievement of having rescued Russia from chaos. Western democracy and civil society are hardly likely to establish themselves in Russia from one day to the next, due to the country's traditions and different historical 'time frame'.

Although economic relations were the dominant ones in German – Russian dealings of the past years, they gained an additional security policy dimension under Schroeder and Putin. After NATO and the EU integrated the Central and Eastern European countries, the German government inevitably had to set its sights on stabilising an expanded Europe. The energy alliance

with Russia was to play a similarly binding role as did the European Coal and Steel Community between Germany and France after the Second World War. The Troika meetings between Germany, France and Russia were not meant to create an anti-American 'axis', but instead provide a temporary informal structure for integrating Russia into the West and bringing about agreements between the EU and Russia on other geopolitical issues. This initiative was meant to grant Russia a minimum say in the pan-European architecture, because Russia is excluded from decision-making bodies such as NATO and the EU. Even the OSCE and the Council of Europe are more concerned with transferring democracy to the East instead of thinking about how one could utilise this historic opportunity to build the Europe of the 21st century together with Russia.

If Schroeder stays, there will be no change of course in his relations towards Russia. However, a CDU/CSU/FDP government will want to set different priorities in its eastern policies. For the Black-Yellow coalition, playing a specific lawyer-role for Russia in the West appears to be less about fulfilling national interests than about looking back to the traditional German leadership role in finding consensus and balancing interests between large and small nations in Europe. The way the Kohl administration led the Central and East Europeans to NATO and the EU is a case in point. Even the CDU leadership, which was having discussions with Russian politicians at the 131st Bergedorfer Roundtables in Potsdam at the end of June, emphasised that it was only in this role that Germany could reclaim its function as a motor for European integration. Instead of a partnership based solely on interest, which shuts its eyes before Russia's democratic deficits, the degree of future relations is to be determined by the extent to which Russia will move closer towards western liberal values.

From the perspective of the CDU/CSU/FDP the building of the Berlin-Moscow-Paris axis, which was created in the wake of the Iraq crisis in 2003, has split the EU and damaged transatlantic relations. The opposition is demanding a fundamental repair of 'transatlanticism' and the rejection of any sort of 'Eurasianism.' A government under Angela Merkel plans to increasingly align its future policy towards the East with Poland rather than France. The German – French – Russian troika would be replaced by a German – Polish – Russian one, while the further continuation of the energy



The civil society dialogue between Russia and Germany is being carried out permanently and ambitiously at all levels, particularly in Berlin. Smaller dialogue formats are serving to support the yearly Petersburg Dialogue.

alliance with Russia would take into account the interests of Central and Eastern European transit countries more than previously.

### Options for Action

Germany is no world power; it can draw its international weight only from the integrated power of Europe. It appears more promising to work with the US superpower and the new Central and Eastern European EU member states on strengthening the West, rather than trying to establish a multi-polar world order with the previous world powers France and Russia against American interests.

One of the German government's important foreign policy tasks will be to stabilise the strategic neighbourhood of the EU. The EU's Neighbourhood Policy is far from maturing. Even now the Europeans are arguing with each other, whether to concentrate their common European Neighbourhood Policy (ENP) on North Africa, the Middle East or on the post-Soviet space. Russia is the most difficult factor for the ENP, for a peaceful European order in the 21st century hinges on a successful democratic transformation of Russia.

An important element of German policy towards the East and the ENP of the EU remains the energy alliance with Russia and other successor states of the

former Soviet Union. In the face of threatening instability in the Persian Gulf it recommends itself. Through cooperation in the energy sector, in the long-term a common Euro-Eurasian economic area can be created, which would strengthen the West's energy security, interlink economic structures in the East and West and expand investment opportunities on both sides. In order to use energy politics to set the pan-European union on the right track, Germany must guarantee that the Central and Eastern European countries as well as the Ukraine and Georgia be integrated into the larger energy alliance and in future energy consortia as equal partners and reliable transit countries.

The Federal Republic of Germany, in the spirit of strengthening the European Security and Defense Policy (ESDP), could support rapprochement between Russia and the Central and Eastern European states. Germany and the states of the 'old' West historically reconciled with Russia after the fall of the wall and began a strategic partnership. The former Warsaw Pact states reunited with the historical Europe and enjoy the protection of the US. Many of these new EU member states have however not yet reconciled with Russia, as political disputes remain unresolved. German foreign policy should not let itself be subject to one-sided interests, which could consequently lead to Russia's further self-isolation. The EU must find a unified and constructive agenda for Russia, otherwise Russia's future relations with the West will run on bilateral tracks even more than they do now. This does not mean that the German government should not do more to dismantle Central and Eastern European fears of a German-Russian axis.

Naturally the partnership with Russia depends substantially on Moscow's will to continue its rapprochement with the West, and orient itself according to the EU's understandings of values and justice. At a conference of leading German Russia specialists, organised recently by the Hanns-Seidel Foundation in Wildbad Kreuth, the majority held the opinion that the system of 'guided' democracy that was established six years ago is likely to get stronger even after 2007/2008. In the strategically important industry and natural resource branches, state guided holdings would be created, which should be increasingly targeted at the national interest. The economy would not be further liberalised by this, but there would be no signs of an economic crisis and consequent political upheaval

that could change the power constellation in Moscow, as there has been in the Ukraine and in Georgia.

So the tension in Russia between positive economic development and the lack of a civil society will remain in the following years. Providing a remedy for this could become a long-term goal of future German Russia policy. An instrument for this is the Petersburg Dialogue, which is putting its hopes foremost on the younger generations, who are now taking their place in society. The fundamental problem is that the Russian leadership in its paranoia is viewing the revolutions that took place in the post-Soviet space as a western conspiracy, and would like to deny their own NGO's all support from the West.

Furthermore it is to be recommended to the German government, to do more to ensure that the post-Soviet space does not become a new conflict hotbed. Countries

such as the Ukraine and Russia should not be separately divided, but rather both should be kept in parallel on a western course. The revolutions in Georgia, the Ukraine and Kyrgyzstan have not really led to more democracy, and there is still a lot that needs to be done to aid these transformation processes.

Democratic changes in Belarus can probably only be effected with Russia. If Russia falls back into

Experts from Russia and Germany present their strategy paper to a broad audience in Berlin.



totalitarian structures, then Germany and the EU must at least save the other countries of the strategic eastern neighbourhood from instability. That is why to begin with, a stronger concentrated effort to transfer democracy to Eurasia beyond previous European efforts would be advisable.

There are numerous possible fields for cooperation through which western opportunities for influence in transferring democracy and values to the post-Soviet space could be strengthened and further strategic partnerships initiated. Some examples would be fighting poverty together within the G-8 framework, joint peace missions in the Caucasus, western reconstruction aid for Chechnya, regional cooperation to tackle water supply in the Caspian area, the consolidation of the NATO-Russia council, joint prevention of Islamic terrorism in Central Asia (as Moscow is supporting the German-French peace mission in Afghanistan and the EU could definitely strive for observer status in the Shanghai Cooperation Organization), mutual help in the fight against international crime, illegal migration and drug trafficking, cooperation in the high technology and aircraft industry sector as well as with natural disasters and accidents (as recently occurred with the rescue of the Russian submarine off Kamchatka).

Finally, the Russia policy of a new German government will be marked by sober realities. The German economy will not let the perspective of conquering one of the biggest growth markets of the 21st century in Russia, be taken away. The economy does not want to wait too long until Russia adopts western values, in order to become active on the Russian market. German economic interests will be covered by the states within which mighty CDU Prime Ministers reign. Yet without political support from Berlin, the German economy will hardly be able to achieve its goals in present-day Russia, where state power has again taken over control over the most strategically important industry branches.

*Alexander Rahr*



## II. Strategy paper of the Petersburg Dialogue's "Workshop on the Future"

# Germany and Russia facing demographic challenges

The Petersburg Dialogue's "Workshop on the Future" would like to pick out as a central theme the long-term challenge of Europe's demographic crisis and promote the working out of joint solutions for Russia and Germany. The contribution consists first of all in an analysis of the demographic situation in Germany and Russia. It will sound out whether there might be joint problem solving opportunities, which could be applied not just in content but organisationally, for example through joint work including the respective partners in the relevant international and inter-governmental organisations. The Russian G-8 Presidency in 2006 will provide a fitting opportunity for this.

Demographic development belongs to the global challenges of the 21st century. Parts of populations will completely change. While there is a population boom in Asia, Europe is experiencing a decline in population. Russia (including its Asian part) is in this tendency undoubtedly part of the European trend. In twenty years, there will be twenty million less people living in Russia. According to estimates of UN experts, the population of Russia could even shrink to around half of the current 145 million people by the end of the 21st century. Less than one percent of the world's population would then reside in the world's largest country by surface area.

The particular drama of Russian development in comparison with that of other European countries is given expression in the high death rate. In 26 out of 89 regions of the Russian Federation three times as many people are dying than being born. In 2002 (2.3 million), the death rate was 50 percent above the one of 1987 (1.5 million). In addition to that comes the drama of social and health policies, which point to continuing Soviet inheritance and completely insufficient social and health policies. Abortions, sexually transmitted diseases and alcohol abuse are frightening consequences of the population's social and moral decline.

Germany is also faced- *ceteris paribus*- by a dramatic demographic development: if the current birth rate and low immigration remain the same, then the 82

million of 2000 will decrease to 65 million in 2050. The influx of immigrants (600, 000) is countered by 547, 000 people emigrating from Germany (2004). The migration surplus is steadily decreasing. Even the influx of immigrants of German origin from Eastern European states will not be a significant force in the foreseeable future anymore (2004: 50,000). However, not only the change in absolute number of inhabitants will play a role for both states, but also their domestic distribution.

The demographic issue touches on a variety of domestic policy themes, including family policy, infrastructure and business development, health, environment, finance, tax and even defense policy.

### Aspects of the demographic challenge

In Germany, low birth rates and an immigration policy which is not viable are leading to a decrease in and ageing of the population. This long-term development is flanked by population movements: economically induced migration movements within Germany are augmenting social differences and creating further conflict potentials, which could find their expression in the popularity of extremist parties. For example, a population decrease in over 20 percent by 2020 is forecast in administrative districts in northeast and central Germany. Although billions are invested in the strengthening of infrastructure and business development, the structurally disadvantaged East is especially prone to emigration and high levels of unemployment. At the same time, there are regions such as Weimar, within which the trend of emigration and population decline have been halted and even reversed.

In Russia, one can observe populations migrating from the flat, rural parts of the country to the urban areas. Migration in Russia is particularly affecting those areas that are, as in the case of Germany, marked by unemployment and repercussions of bad infrastructure (such as supply problems). Formerly strategically important regions in northern Russia and in Siberia are suffering from a dilapidation of infrastructure. Recently, President Putin has pointed out that the

withdrawal of ethnic Russians from the North Caucasus is posing a problem for the entire nation. Moreover, many Russian citizens have left the country since 1991, among them over a million well-educated Russian Jews. This resulted in a loss of workforce in research, education and medicine. In addition, Russia is, like Germany, affected by a low birth rate. However, while in Germany life expectancy is increasing, Russia must tackle the problem of a low life expectancy due to medical and social challenges, especially amongst men.

These demographic challenges of Germany and Russia are leading to a series of economic, social and security implications. While for Russia, due to its territorial size, above all a quantitative aspect will come in useful (securing the social and governmental structures in the rural areas), a qualitative aspect seems more important for Germany (securing the social security net and the supply of qualified employees). Yet in Germany economically less developed regions are also facing great challenges. Due to its small size, compared to Russia, and the good quality of existing infrastructure, these developments should not be of much consequence here.

Due to its declining population, Russia is threatened with a crisis of defensive capabilities. The population group of 15-24 year olds will decrease in the next twenty years by 2025 by 45 percent. The number of those fit for military service will dramatically decrease. Compared to that, what Germany is expecting is rather unspectacular. At most, the change in population numbers could have repercussions on majority decisions of the EU, which are made according to population size. Also, in the case of sinking GDPs caused by demographic factors, the influence of Russia and Germany in international organizations (OSCE, UN) could wane, as their budgets are orientated according to economic strength of member states.

Changing demographic capacities do not remain without economic consequences. Russia's share of the world population will go back from 2,4 percent (2000) to 1,6 percent by 2025. The economic consequences are particularly dramatic for Russia. Yet danger is also lurking for Russia's trade partners. Russia is the recipient of comprehensive German investments and an important market for Russian products. The stability and possible expansion of this market are in the German interest. Regarding the investments, German

businesses are keen that the situation in Russia remains favourable.

That includes sufficient infrastructure and normal social surroundings at the location of German investments, even in remote areas. What counts above all in the conditions for success, however, is a qualified workforce and appropriate state structures. Yet with demographic fluctuations and the resulting adjustments of state activity, all these points are subject to changes. Already now the cost-benefit conditions of investments in the education of a skilled worker in Russia are distorted, when you consider that a twenty year old only has a 46 percent chance of reaching the retirement age of 65, while in the US a twenty year old has a 79 percent chance of reaching it. While the number of 15-24 year olds was 10-12 million between 1975 and 2000, in 2025 they will only account for 6 million. Herein lie the long-term consequences for the maintenance of economic power. Germany on the other hand will remain an important economic partner for Russia only if it manages to maintain its level of scientific-technical expertise and does not - due to high costs for social services and lacking reforms- lag further behind in international comparison. Because the demographic challenge in Germany can influence innovation capabilities and economic activity in the country, what is needed is to find solutions in the interest of both sides.

The population movements in Russia and in Germany led on the whole to a population decline in the peripheral areas. In both the destination as well as in the departure areas this leads to social problems. The destination areas, mostly large cities, must make living space available for the population arriving. Often they are poorer people. In addition, in Russia there is the problem of the different ethnic groups. The destination areas must ensure the integration of the population influx and prevent its ghettoisation. The areas that are being left behind are being more and more depopulated. What is especially problematic is that particularly young persons are moving away from these areas. Economically these regions are becoming increasingly unattractive, due to the lack of a well-educated, young workforce. Finally businesses are moving out as well, which drives even more young people to leave. A worrying cycle is created. Whole regions of Russia are threatened with depopulation, if the current tendencies continue. In the Far East of Russia, with a population density of 7 million people on 2,4

million km<sup>2</sup> there already is a kind of 'demographic vacuum'. The threat scenarios of people flooding in from China seem to remain a myth for the time being.

### Attempts at a solution

President Putin has described the demographic situation of his country as an approaching catastrophe. In fact, this issue is considered amongst the priorities of Russian domestic policy. The first legislative regulations for immigration have been put in place, but they do not suffice. For a long time ideological obstructions predominated which wanted to make the world believe that the HIV/AIDS epidemic would stop at the Russian borders. Critics of German social policy are pointing out that the previous incentives to raise the birth rate are not good enough. In Russia as well attempts so far have been insufficient. Attempts at solving the demographic challenge should be subdivided into internal reforms, joint interstate work and international initiatives.

In principle, there are two attempts to counter the demographic problem: raising the birth rate through state incentives or more immigration. Raising the birth rate through state incentives includes promoting it with child benefit, creating child care facilities, tax advantages for families, investments in the education system, parental time regulations, making it easier for mothers to come back to work etc. In addition, for Russia it is an important task to altogether modernise the state, which includes restructuring social policies. Important reforms have been initiated, partly against strong protest of the population. Only in a secured social environment does the willingness to start a family increase.

As a promising measure to solve the demographic challenge in Germany, it is usually proposed to effect a change in immigration policies. In this context, it can be observed that both in Germany as well as in Russia, immigration is being handled restrictively. A change on the basis of the domestic atmosphere can only be expected to a limited degree, until changing values of coming generations might provide possibilities for progress.

However, immigration poses new problems for society. Immigrants must be integrated into the society. Moreover, Germany and Russia are only attractive as immigration destinations, if they can offer immigrants an

improvement of their situation. In the competition for immigrants Germany and Russia must compete with much more open, economically competitive and innovative societies. Investments in education, research and innovation are thus necessary. Furthermore, basic legal conditions must also be adapted to the society. It is about the recognition of foreign qualifications, the possibility for foreigners to acquire property and possibly start businesses, and acquire the German or Russian citizenship.

The "Workshop on the Future" is convinced that Germany and Russia, because of their common attribute of being states with limited immigration policies, can look for solution models together. The German welfare state is cost-intensive and can only survive in a globalised world if similar standards exist in other countries. Solving the demographic problem in Russia and the parallel construction of a Russian welfare state thus pose great incentives for German politics to act upon. Russian interest is in the adoption of Germany's experiences in reforming the social sector. What goes for Germany in relation to Russia, goes likewise for Germany and Russia together and for the globalised world. In order to maintain current social levels, Russia and Germany should support reforms and higher living standards in the poorer countries in their neighbourhood. The G-8 as the relevant international organisation provides an appropriate framework for this.

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## After the Orange Revolution

# Paralysed between East and West

Ukraine's Orange Revolution was greeted in the West for three reasons. Firstly, the second-largest state of the former Soviet Union proved that democracy can indeed be fought for by the people in the post-Soviet region. Secondly, the EU demonstrated through its exertion of influence on developments in Kiev, that it was able to effectively implement a common foreign and security policy. Thirdly, the attempt by Russia to bring the post-Soviet space under control through a union with Ukraine was brought to a halt once and for all.

Ten months afterwards, the first two aspects of the Revolution have not lead to any results. Economically, the country is in decline with the growth rate having sunk from 12 to 4 percent. The Ukraine is far removed from a genuine market economy and a liberal judicial system. Economic policy is being steered by the government with the same old administrative methods and the people are being given token populist presents. The battle against the old oligarchs is reminiscent of the Putin regime's irregularities. There are hardly any western investors. The Ukraine is likewise far from political stability. In October a power shift from the Executive to the Legislative will occur. Then parliamentary elections will take place. If one considers that even in the third round of voting in the December 2004 presidential elections, 44 percent voted against Victor Yushchenko, it is possible that left-wing and other non-liberal parties might be able to effect revenge. A foretaste of this was provided by the current parliament's rejection of legislation necessary for the Ukraine to join the WTO.

Whether the Ukraine will in fact be able to sever its ties to Russia remains to be seen. Russian investments in the Ukraine's strategic industry branches have rather increased. Yushchenko and his former Prime Minister Yulia Timoshenko were trying hard to distance themselves from Russia's energy dependencies and even build up an alternative energy alliance with the West without Russia. In order to achieve this goal, Kiev is in intensive discussions with Turkmenistan, Iran and Turkey. Ukrainian oil refineries are to be constructed from scratch and ambitious pipeline projects, politically supported by Poland, Romania and the Baltic states are to be offered to the West. With regard

to Russia, the Ukraine is on the brink of a dangerous conflict. First Timoshenko tried to force Russian oil companies, who have long bought into the Ukrainian oil sector, to lower their prices, albeit unsuccessfully. Kiev also had to give way in the fight over the disappeared 8 billion cubic meters of Russian natural gas, which was unlawfully stored in Ukrainian silos on the transport route to the West.

With the exception of Poland, the EU is hardly showing any interest in the Ukraine. It is overburdened with its own problems after the failure of the EU Constitution. The Ukraine has not been offered neither the status of a free market economy, nor an affiliated membership in the EU, and certainly not any prospect of joining the EU. The Ukrainian leadership has repeated the old mistakes and has in its further reform process fatalistically only relied on western help and the unrealistic prospect of joining the EU. The European Neighbourhood Policy should engage with the Ukraine as soon as possible. The country is threatened with power struggles, reform standstill, corruption and nepotism. Coincidentally, the situation in Georgia after the Rose Revolution is similarly disappointing. In Central Asia meanwhile Russia and China now want to work together to prevent further revolutions and coups. If the Ukraine is not offered prospects of joining the EU, it will increasingly push for membership in NATO.

*Alexander Rahr*



Yulia Timoshenko rose to power through oil deals with Russia in the 1990s. Since she became a politician, she has been fighting for a radical diversification of Russian energy transports to the West.