Report from Bonn by Rainer Apel

Paradoxes of Germany's Russia policy

The government wants to stay on the IMF policy course, but its own postwar recovery is the model to look to.

Chancellor Gerhard Schröder's first visit to Russia on Nov. 16-17 could have been a breakthrough in relations, but it wasn't. The potential of these two days of about ten meetings with Russian leaders could not be tapped, because the German delegation insisted that the anti-crisis program of Russian Prime Minister Yevgeni Primakov get in tune with the International Monetary Fund (IMF). Schröder offered "support" for the Russians, saying that he would mediate between Russia and the IMF, and would try to modify the Fund's loan conditions.

Most of Schröder's Russian discussion partners—President Boris Yeltsin; Primakov; Foreign Minister Igor Ivanov; party leaders Gennadi Zyuganov (Communists), Grigori Yavlinsky (Yabloko); Yegor Stroyev and Gennadi Seleznyov (speakers of the upper and lower house of Parliament); and Krasnoyarsk Gov. Aleksandr Lebed—seemed to have stuck to the rules of diplomatic politeness, when the IMF issue came up. But most of the Russian politicians whom Schröder met with, are on the record for making very harsh statements against the IMF in recent weeks. The loans promised by the IMF are welcome in Russia, but the conditions are not. What Russia needs, is a new, workable policy without the IMF—and this is also what Germany needs.

It has to be recalled that after the Iron Curtain came down in autumn 1989, there was an intense debate in Germany about utilizing the existing export channels of the former East German state, to broaden economic cooperation between Germany and the Soviet Union. However, as eastern German politicians and industry managers have reported to this author, the fact that the German government, then led by Chancellor Helmut Kohl, allowed the IMF and the "Harvard Boys" to design the "Russian post-communist economic reforms" from 1990-91 on, helped kill German exports to Russia.

Particularly machinery exports, including harvesting equipment and other farming machinery produced in eastern Germany, and traditionally exported to the East, suffered from the IMF's monetarist design. The "reform-oriented" new governments in Moscow were told not to "waste" any money on imports of "expensive" German machinery, but rather to "invest" in the liberalization of the Russian banking sector and other deregulation steps that would allow Russia to be flooded with "cheap" imports from other Western states. The case of the agro-machinery combine Fortschritt, near Leipzig, whose workyards for several years were stuffed with brand-new harvesters that had originally been produced for, but never purchased by the Russians, was an ugly illustration of this IMF policy of Russian disinvestment.

Even as Russian harvests got worse every year from 1991 on, repeated German probes to the Moscow elites about revitalizing agro-machine imports to rebuild the Russian farming sector, proved fruitless. The only results from Germany's probes in Moscow, were small market shares for select food products (yogurt, pudding, cereals, and so on).

Even the German food products which Russia imported, collapsed when the big financial crisis broke out in Russia in mid-August.

Besides machine tools, rail technology and rolling stock, which were the dominant export products from eastern Germany to Russia before 1991, are, since the mid-1990s, no longer produced in quantities worth mentioning,

Paradoxically, Schröder told the Russians that new German loans would not be available, except for "concrete projects." But at the same time, he told his discussion partners to cooperate with the IMF—which means that no such projects would ever get off the ground.

Also paradoxically, Prime Minister Primakov told Schröder in their meeting in Moscow on Nov. 17, that what Russia is very much interested in, is the way West Germany rebuilt its economy after World War II. This, Primakov said, could be a model for what Russia should do now, to get back on its feet.

Primakov's reference is most appropriate, because the success that Germany had, turning the wartime rubble into an impressive industrial recovery in only 10 years, was only made possible by banking structures like the Kreditanstalt für Wiederaufbau (KfW), the Frankfurt-based Reconstruction Bank, which used money from the original Marshall Plan loans, for reinvestment in productive projects. The KfW did so on a long-term basis, at low interest rates, with long grace periods before loan repayments were to begin. And the deutschemark was not convertible during the first 10 years of its existence (1948-58).

If the German elites would refresh their memory of these reconstruction years, it would be to the benefit of Russian-German economic cooperation.