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The German-Russian Modernisation Partnership – failing to meet great expectations

Justyna Gotkowska

Despite their very good political and economic relations, the pivotal project in German-Russian relations, the Modernisation Partnership which has been in progress since 2008, has not met the expectations of either Germany or Russia. At the moment, Germany has seen only limited results from its activities on the Russian market (for example, obstacles to the operation of German small and medium-size businesses), whereas the Russians see no results of the German government's support for their demands (including opening up their access to the German market). This project appears to be of key importance for the German economy, but they fear that their role as the main 'moderniser' of Russia may be weakened. Berlin may attempt to strengthen its position by putting forward political demands within the EU's framework aimed at broadening cooperation with Russia.

Consultations under the banner of economic relations

On 14-15 July, the 12th German-Russian inter-governmental consultations took place in Yekaterinburg. Chancellor Angela Merkel participated in them, together with several of her ministers, and President Dmitri Medvedev was accompanied by the heads of the corresponding ministries. The German government delegation was accompanied by a large group of representatives of the biggest German companies and German business associations. During the consultations, several ministerial-level agreements were concluded, and the German firm Siemens signed a declaration of intent concerning the delivery of trains and wind turbines, and the modernisation of Russian railway stations in collaboration with Russian partners. The Chancellor's visit to Russia was commented on in Germany as an example of Germany's 'economic offensive', and seems to be a response to previously expressed dissatisfaction in business circles at the current government's lack of political support for the activities of German businesses in Russia. Within the context of this visit, the dissatisfaction of both parties with the limited results of the Modernisation Partnership has also been expressed. The project was initiated in 2008 by the then German Foreign Minister, Frank-Walter Steinmeier (SPD); it was intended to bring German-Russian economic cooperation closer, including in the fields of energy production and efficiency, climate protection, research and development, medical services and technologies, and logistics. It was also intended both to bring flagship projects to large German firms, and also to bring about an increase in the activity of German small and medium-sized companies on the Russian market; such companies are the core of German exports, and are in large part responsible for the development of the whole German economy. In 2010, a 'Modernisation for Partnership' project was also created between the EU and Russia.

German expectations

Despite very good political and economic relations (see the Appendix), as well as a renewed rise in German exports to Russia expected both this and next year (after large falls in 2009), Germany is not satisfied with the limited results of the Modernisation Partnership. In their estimate, no 'offensive' of German companies in Russia has taken place in the above-mentioned fields. The reason for this is a lack of systemic action by Russia. Their involvement in the process of modernisation has not matched up to their rhetoric; there has been a lack of progress in the privatisation of Russian businesses; and there is insufficient support for both foreign investors and for Russian small and medium-sized businesses, who from the German point of view would be natural partners for similar German businesses. Germany is also afraid of weakening its position as the Russian economy's main partner, and likewise of the more active involvement of France and China therein.

Russian expectations

The Modernisation Partnership has similarly not brought about the results which Russia had expected. According to the Russians, the project's goal should not merely be to increase imports from Germany and German investments. Russia expects reciprocity – greater access for Russian companies to the German market, and the opportunity to take over some of the shares or controlling packages of German companies, and to transfer technologies from Germany to Russia. However, the German government is unable to meet these expectations. Despite political support from Berlin, attempts by Russian companies to take over German companies such as Opel (which was blocked by the Americans), Karstadt (a chain of large stores) and Infineon (a company producing components and software, including programs to secure and transmit data) have ended in failure. The government of Germany is not able to influence private German companies, which for their part are not disposed to become involved with the Russians. The only large Russian takeover of a German firm during the last two years was that of the East German shipyard Nordic Yards, which was going bankrupt at the time. Not only did the move fail to change their financial situation significantly, but furthermore, there has been press speculation about the planned participation of the Russian state-owned United Shipyard Company (OSK) in Nordic Yards, and the possible partial transfer of machinery and future production to Russian shipyards. In addition, Germany is not ready to support Russia's recent proposals to lift visa restrictions between the EU and Russia, which according to Moscow also limit trade contacts; due to its domestic politics, the German government can only support an easing of visa restrictions, not their abolition.

Conclusions

1. The limited effects of the German-Russian Modernisation Partnership result from the systemic obstacles which German companies encounter in Russia. On the other hand, the German government is unable to meet Moscow's expectations of increasing the Russian economic presence in Germany. This means that as intensive and dynamic economic cooperation within the Modernisation Partnership as both parties would like is not possible.

2. Despite the limited results of the very ambitious Modernisation Partnership project, economic relations between both countries will continue to develop. However, they will continue to be dominated by large German firms which can make breakthroughs, have sufficient resources in Russia, and are ready to transfer some of their know-how as part of their cooperation with Russian enterprises. A good example of this is Siemens, which has decided to expand onto the Russian market; during the intergovernmental consultations, concluded initial agreements worth several billion euros, which will be implemented in (partial) production cooperation with Russian enterprises as part of joint venture companies.

3. Germany has ambitions to be Russia's main partner in modernising the latter's economy among EU countries. However, it is aware of the growing competition from other EU members interested in investing in Russia, which the Russian government has artfully tried to exploit in order to increase pressure on Germany. Although Germany cannot respond to Russian expectations in the economic sphere, it can try to strengthen its position as the first partner of Russia in the EU by proposing political initiatives which Russia would welcome in the sphere of political and security co-operation – as in the case of the June initiative by Merkel and Medvedev to create an EU-Russia committee for political and security matters.

Appendix

Germany is the Russian Federation's most important trade partner. In 2009, the value of German exports to Russia reached €20.8bn (12.7% of the Russian market), whereas the value of Russian exports to Germany was €24.8bn (6.2% of total Russian exports). As for the size of accumulated investments, Germany is in fifth place with US$6.8bn (behind the Netherlands, Cyprus, Luxembourg and the United Kingdom).