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THE NEXUS OF POLITICS AND THE ECONOMY:
A CASE STUDY OF RUSSIAN-GERMAN RELATIONS

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ABSTRACT

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TURGUNOVA VIKTORIA: The nexus of Politics and the Economy: A Case Study of Russian-German Relations

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In my Master thesis I focus on research of the nexus of politics and the economy on the example of Russian-German Relations. The object of study is economic and political relations between Russia and Germany. Economic cooperation between two countries is rather intensive and it has developed well during the last decade. It promotes to the intensification and improvement of cooperation on other fields, such as political, cultural, and leads to the strengthening of good-neighbor relations. Trade-economic cooperation between our countries has been beneficial for both, indeed. This increases openness in relationship and contributes to the equal partnership between Russia and Germany.

In this research project I concentrated on the analysis of the trade-economic relations and the key aspects of this field of cooperation between Russia and Germany. In addition, I aim at examining of architecture and dynamics of Russian-German political relations within the contemporary globalization process.

As a theoretical ground for the research project I chose the transnational theory of international relations as it reflects the character of modern economic relations between Russia and Germany. Furthermore, the theory of transnationalism demonstrates how trade-economic cooperation is implemented and how it affects the political relations between countries. It is important to consider transnationalism in the context of globalization because these two concepts are interconnected.

Firstly, the aim is to consider different approaches to the definition of transnational theory and to analyze the research of the well-known theorists who dealt with the study of this concept. Secondly, I will seek to clarify the most widespread transnational processes encountered in international practice. And lastly, I will evaluate the notion of "transnationalism" from different perspectives, predominantly focusing on the economic point of view.

The results of the research have shown that relations between Russia and Germany are strategic and mutually beneficial.

Key words: neoliberalism, transnationalism, neorealism, globalization, economic globalization, international regimes, Russian-German relations.

INTRODUCTION

The master thesis is devoted to the research of the nexus of politics and the economy on the example of Russian-German relations as good and practical.

Relations between Russia and Germany have been lasted for more than a thousand-year. The history of the Russian-German relations is saturated both with examples of cooperation and bitter rivalry.

It has happened in recent history of Russia's external relations that leader change in a neighboring country results in worsening of economic relations to the extent that it already has effect on economic relations. Georgia represents a case. This paper, however, argues that in the case of Russian-German relations that did not happen. Despite the leader change between Schröder and Merkel, and despite their different approaches to cooperation with Russia, it affected only political relations between the two countries without any effect on the economy.

Russia currently faces several issues amongst its European neighbors. The most important of those is Germany. The Russian-German partnership represents not only an independent unit in the Euro-Atlantic region, but as a stabilizing force for the development of the Russian economy. Underlying the coinciding interests of the two countries in a polycentric world order are much wider than discrepancies pertaining to several complex issues.

Russian-German relations are based on principles of equality and mutual respect, pragmatic mutual interest, and the search for collective responses to the challenges facing not only Europe but the world at large. An important impetus for the rapprochement of the two countries are factors such as intertwining economic potential, common history, culture, and the psychological compatibility of Russians and Germans in an integrating Europe.

The intensive Russian-German top-level political dialogue defines the general positive direction to the development of cooperation in various fields. A high intensity of bilateral summits including a mechanism of the annual Russian-German Government Consultations with participation of government members, the business community, and economic advisors. The group allows for a close working and good personal relationship to provide a progressive vector for a long term partnership. Cooperation exists at many levels, including the several government departments, inter-parliamentary and regional levels, and down to the business elite and civil societies of the two countries.

Russian-German economic relations are the motor of bilateral relations in general. The ever-increasing volume of foreign trade and investment and large-scale joint projects create a reliable foundation for the development of bilateral relations in politics as well as economics. However, it is

worth noting that political relations, cultural relations, and civil society also have a great impact on trade-economic contacts between Russia and Germany.

The relevance of the research topic is also explained by the degree of transformation of the Russian-German trade and economic relations in connection with Russia's recent accession to the World Trade Organization (WTO).

According to German researchers, modern Russian-German relations are predominantly built on a multilateral basis, with Russia having to deal with not just Germany, but simultaneously with Germany as a member of the European Union (EU). Nevertheless, a considerable range of questions exist in the area of bilateral relations between Russia and Germany.

Under the influence of the rapidly changing global economic system, Russian-German economic relations are influenced by new conditions, caused by two parallel processes. On the one hand, changes in the economic system of Russia, where foreign economic relations operate on market principles of management led to the decentralization of foreign trade relations. On the other hand, the development of the European integration process, which largely determined the German reunification becomes a factor of increasing globalization.

The issues mentioned above determine the scientific and practical relevance of the chosen research topic. Russian-German economic relations are a significant component of the political relations between the two states while at the same time promoting increased national wealth of Russia and Germany. A solid and reliable foundation is critical for the strengthening and developing political relations the two countries. However, due to the modern geopolitical climate this development must also include a coordination mechanism with interests of other countries on the basis of parity as a factor of sustainable development.

This study of the development of the Russian-German bilateral relations is supported by the following literature: K. Schlögel: "Russian-German special relations in the twentieth century: a closed chapter?"¹, I.F. Maksimychev: "The German Factor in the European Policy of Russia: 1914-2004"², "Ostpolitik" of United Germany: results of the first decade³, J. Gower, G. Timmins: "Russia and Europe in the Twenty-First Century"⁴, A.G. de Robertis: "International Relations and Foreign Policy in XXI century"⁵, P. von Aleksander: "The Reunification of Germany: Struggle for

¹ K. Schlögel. Russian-German special relations in the twentieth century: a closed chapter? Berg, 2001, p.221

² I.F. Maksimychev. The German Factor in the European Policy of Russia:1914-2004, Moscow, Institute of Europe RAS,2004, p. 156

³ I.F. Maksimychev. "Ostpolitik" of United Germany: results of the first decade. Moscow, 2001, p. 137

⁴ J. Gower, G.Timmins. Russia and Europe in the Twenty-First Century. London, 2007, p.165

⁵ A.G. de Robertis. International Relations and Foreign Policy in XXI century. St. Petersburg, 2006, p. 119

Europe”⁶, Angela E. Stent: “Russia and Germany Reborn: Unification, the Soviet Collapse, and the New Europe”.⁷

A significant contribution to the research and development of Russia-German relations was made by the Russian specialist in Germanic studies I. F. Msksimychev. He is the author of the several monographs on Soviet-German relations and numerous articles in periodicals.

This thesis is based on one of his studies, namely, “The German Factor in the European Policy of Russia: 1914-2004”, “‘Ostpolitik’ of United Germany: results of the first decade.” Msksimychev analyzes the key aspects of Russian-German bilateral relations in detail. His research is based on the historical background of the states. He shows the transformation of the Russian-German relationship from the strained and hostile to the friendly and expanding. The article provides the tools for understanding and explaining modern Russian-German bilateral relations. In addition, the author reveals how each of the countries is ranked in the foreign policy of the other. The author reflects the perspectives of both states. It helps to review the development of the relationship between Russia and Germany objectively. Furthermore, Maksimychev examines the special place of Germany in the Russia’s European Policy. In addition, the author gives an adequate assessment of the modern Russian-German bilateral relations based on historical facts and personal experience.

It is also worth noting the monograph of the foreign authors J. Gower and G. Timmins: “Russia and Europe in the Twenty-First Century”. This article highlights the Russian-German bilateral relations in the wider EU context. G. Timmins gives the analysis of the changes in Russian-German bilateral relations under the chancellorships of both Gerhard Schröder and Angela Merkel. It provides the tools to understand the main principals of the development and reasons of transformation of relations between the countries.

Furthermore, theoretical chapter includes studies of wide range of theoretical approaches proposed by such scientists such as S. Smith,⁸ A.P. Tsygankov and P.A. Tsygankov,⁹ A.V. Torkunov,¹⁰ Robert Keohane and Joseph Nye,¹¹ L. Campbell, Ove. K. Pedersen,¹² J. Mearsheimr,¹³ and definitions, studies and concepts related to the topic and provided by Russian, American and other scientists.

⁶ P. von Aleksander. The Reunification of Germany: Struggle for Europe. Moscow, 2007, p. 132

⁷ Angela E. Stent. Russia and Germany Reborn: Unification, the Soviet Collapse, and the New Europe. New Jersey, 1998, p. 243

⁸ S. Smith. Theory of International Relations at the turn of the century. Moscow, 2002, p. 79

⁹ A.P. Tsygankov, P.A. Tsygankov. Sociology of International Relations. Moscow, 2006, p. 119

¹⁰ A.V. Torkunov, P.A. Tsygankov. The Evolution of Western Theoretical approaches to research of International Relations. Moscow, 2004, p. 223

¹¹ Keohane, Robert and Joseph Nye. « Transnational Relations and World Politics: An Introduction » International Organization, 25 (3) 3 (summer), 1972, pp. 329-249

¹² L. Campbell. Ove. K. Pedersen. The Rise of Neoliberalism and Institutional Analysis, Princeton, 2001, p. 35

¹³ J. Mearsheimer. The Tragedy of Great Power Politics. New York, 2001, p. 32

The topic of the Russian-German relations is widely highlighted in Russian and foreign literature. Nevertheless, there are some aspects in the relations between Russia and Germany that are not well studied. Hence, the **research question** of the Master thesis is whether changes in political relations between Russia and Germany have an influence on their economic relationship.

My thesis examines the nexus between politics and economics using Russian-German relations as the test subject.

The question of what is the primary focus in interstates relations has always been a subject of dispute in the social sciences, including the theory of international relations. For many years, a generation of social scientists has tried to research this problem. Today, in the Baltic and Nordic region there are many different kinds of models and practices of balance between politics and economy in international relations. My task is to show and prove that cooperation between Russia and Germany is one of the most successful examples of cooperation at the intergovernmental level. Thus, the issues mentioned above highlight the **scientific novelty** of the research.

The object and the subject of the thesis are defined in such manner to put forward a **hypothesis**; that in German-Russian bilateral relations changes in politics does not have a great influence on economic relations between the two states. A specificity of this problem defined the object, subject, goal and objectives of the research.

A specificity of this problem defined the object, subject, goal and objectives of the research.

The **object** of the research is the Russian-German trade and economic relations and its influence on the whole system of intergovernmental relations.

The **subject** of the research is the activity of authorities, state, public and private organizations of Russia and Germany related to the development of the political and economic relations between the two states.

The **goal** of the research is to determine the interdependence and orientation between the political climate in Russian-German bilateral relations and the development of trade and economic ties. In order to achieve the research aim, this master thesis intends to fulfill the following research **objectives**:

1. To study transnational theory of international relations, its key aspects and shortcomings; to clarify the concept of “globalization” and “economic globalization” in order to explain the contemporary Russian-German bilateral relations in the field of economy and politics.

1. To examine the historical background of the Russian-German political relations; to compare the development of the bilateral relations under the chancellorships of Gerhard Schröder and Angela Merkel;
2. To consider the development of Russian-German trade and economic relations from the Russian and German point of view.
3. To discover the main trends of Russian-German economic relations at the contemporary stage and to consider the main branches of industry in economic cooperation between the two states.

In order to achieve the goal of this research paper, I used a **methodological basis** of analysis of the transnational theory of international relations, descriptive analysis, historical analysis, event analysis, comparative analysis and statistical analysis.

The transnational theory of international relations was chosen as a basic theory for the research. First, the aim is to consider different approaches to the definition of transnational theory and to analyze the research of the well-known theorists who dealt with the study of this concept. Second, I will seek to clarify the most widespread transnational processes encountered in international practice. And lastly, I will evaluate the notion of “transnationalism” from different perspectives, predominantly focusing on the economic point of view.

For better understanding of transnationalism I began with the basic principles of neoliberal theory of international relations. According to the research, the transnational theory explains the bilateral relations between Russia and Germany in the contemporary world. From this perspective of transnational theory the Russian-German relationship is pursued through the cooperation of numerous organizations, associations, business structures, transnational corporations, and cultural centers (for example Committee on Eastern European Economic Relations, Russian-German Chamber of Commerce). Neorealists will therefore argue that this cooperation can be pursued without the dominant role of the state, though the proponents of the transnational theory don't completely deny the significant role of the state in the implementation of bilateral cooperation between Russia and Germany. Thus, in the theoretical ground I analyze the studies of the founders of transnational theory, R. Keohane and J. Nye, who highlighted the main principles and key aspect of the theory. It is necessary to consider and analyze the transnational theory in the frame of globalization process including economic globalization. In addition in the research considers the concept of “international regimes” in order to explain the interaction between the states within transnational theory of international relations. The theoretical ground of the research includes also neorealism criticism of “transnationalism”. The critical approach is based on the research of such

proponents of neorealism as Kenneth Waltz, John Mearsheimer, Reinhold Niebuhr, and the Russian social scientist, P.A. Tsygankov.

In order to prove the hypothesis posed above and to understand what is the fundamental principle of the Russian-German bilateral relations politics or economy, I analyzed political relations between the two states separately from their economic cooperation

To prove the hypothesis of the research that changes in political relations between Russia and Germany do not affect the changes in economic relations between the states, I analyzed events in the historical background of Russia and Germany and examined how these events are reflected on the modern Russian-German relations. Furthermore, I clarified the role of Russia in German foreign policy and vice versa. A comparative analysis of the Russian-German political and economic relations under the chancellorships of Gerhard Schröder and Angela Merkel was applied in order to show the process of transformation in the relations between Russia and Germany. Nevertheless, it is necessary to note that unlike economic cooperation, it is too hard to estimate political relationships between the states.

However, it is possible to evaluate the political relations between Russia and Germany through the analysis of joint documents and a number of meetings and visits at the highest levels. It can be concluded that the more state visits or meetings, the more successful the development of Russian-German political relations.

An analysis of the results of the annual Russian-German Government Consultations in the frame of the “Petersburg Dialogues” allows for the description and evaluation the developmental dynamics of current Russian-German political relations.

A special role in the assessment of Russian-German bilateral political relations is played by mass media in both countries. Of course, it is worth noting that very often mass media distorts information about events in the political relationship between Russia and Germany. Nevertheless, mass media helps to evaluate the overall context and current discourse of Russian-German political relations. Thus, I analyzed numerous articles of both the German and Russian mass media. Furthermore the data and information from the official web sites of the government bodies of Russia and Germany were used in order to determine the official position of the states on differing issues. It is impossible to analyze Russian-German bilateral relations separately from the European Union for at least the following reasons:

1. Germany is the member-state of the European Union; moreover it is the leading economy in the European Union
2. Cooperation with the European Union is one of the priority directions in accordance with the Foreign Policy Concept of the Russian Federation, 2013; in this context Germany is a kind of mediator in the cooperation between Russia and the EU

Thus, the analysis of the Russian-German bilateral relations as well as the broader relationship between the EU and Russia allows for a better understanding of bilateral relations between Russia and Germany. In a broader context it reveals additional factors which influence the relationship between Russia and Germany. In addition it helps to evaluate the current Russian-German bilateral cooperation.

Trade and economic cooperation between Russia and Germany is considered and analyzed in detail. It is simpler to measure trade and economic cooperation as opposed to political. For the research of the economic cooperation between Russia and Germany I chose the method of the statistical analysis. In order to determine the developmental dynamics of Russian-German trade and economic relations I used and analyzed the following economic indicators of both states: the GDP, volumes of exports and imports, commodity turnover, volume of investment, investment climate, etc.

The economic indicators mentioned above were taken from the official web sites of the international economic organizations (such as the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD), the World Bank (WB), Federal Foreign Office, Embassy of the Russian Federation to the Federal Republic of Germany, Statistical Offices (such as Eurostat, Federal Statistics Agency “Pressemitteilung”), energy agencies (Russian-German Energy Agency “RUDEA” and German Energy Agency “DENA”), Russian-German Chamber of Commerce, and the Committee on Eastern European Economic Relations (CEEEN). This paper also makes use of data collected in an opinion poll on the issue of the business climate in Russia from perspective of German entrepreneurs carried out by Russian-German Chamber of Commerce and the Committee on Eastern European Economic Relations. The analysis of the economic and statistical data helps to estimate the development dynamics of the Russian-German trade and economic relations at the contemporary stage.

The structure of the research is the following: the research consists of introduction, four chapters and conclusion.

The first chapter is devoted to the theoretical background of the research. In this chapter I analyze the transnational theory of international relations and neoliberal theory as a source of the origin of transnationalism. Later I review the key aspects of the chosen theory and how they are clarified in this part of the research. It also includes the critics of the transnational approach. The concept of “international regimes” in the context of transnational theory is considered. In addition, I examined the role of the economic factor in international relations through the analyzing of such concepts as “globalization” and “economic globalization”.

The second chapter is devoted to the research of shaping and development of the political relations between Russia and German. In this chapter the historical background of Russian-German relations is briefly analyzed. This chapter describes how Russia is ranked in the foreign policy of Germany and Germany in the foreign policy of Russia. I also review the specific role of the “St. Petersburg Dialogue” and the Russian-German Government Consultations is emphasized in this chapter. In addition, Russian-German relations are considered in the larger framework of the European Union. This chapter contains the information about the institutions of the Russian-German partnership upon which the cooperation between the two states is implemented. The key point of this chapter is the comparison of Russian-German bilateral relations under the chancellorships of Gerhard Schröder and Angela Merkel.

The third chapter is devoted to the research of the development of trade and economic relations between Russia and Germany. This chapter analyzes the legal basis of Russian-German trade and economic relation namely the basic agreements. This part of the research includes the activity of Otto Wolff von Amerongen, who made a significant contribution to the economic cooperation between Russia and Germany. The main economic indicators of the Russian-German economic cooperation are analyzed in this chapter; it also includes the information about the German investments inside Russia. This chapter also covers the transformation of Russian-German trade and economic relations in the light of the Russia’s accession to the World Trade Organization (WTO). Finally, this chapter contains the detailed information about the role of the Committee on Eastern European Economic Relations and its activity in the promotion of the successful and fruitful cooperation between Russia and Germany in the economic field.

The fourth chapter is devoted to the main trends of economic development between Russia and Germany. The prospects of business development in Russia for German businesses are analyzed in this chapter. It includes the statistical information on the business climate in Russia as viewed by German entrepreneurs. Also covered in this chapter are the main branches of industry in economic cooperation between Russia and Germany. In addition this part contains economic indicators of the level of mutual trade between Russia and Germany. The chapter examines the role of the Northwest Region of Russia as one of the most attractive for the representatives of German businesses. The role of the German Energy Agency and the Russian-German Energy Agency in the development of the Russia-German partnership is also emphasized in this chapter.

1. LIBERAL PERCEPTION OF THE NEXUS OF POLITICS AND THE ECONOMY

1.1 Neoliberalism as a basis for the Transnational Theory

The theoretical school of liberalism, which is one of the oldest in the theory of international relations, is opposite to realism on the main positions. Researchers working within this paradigm based, primarily, on the works of J. Locke, I. Kant, Zh.-Zh. Rousseau, J. Mill, A. Smith and D. Riccardo.

The liberal approach in the theory of international relations has experienced periods of growth twice in its history – at the beginning and end of the XX century. Liberalism is largely associated with the name of President Woodrow Wilson who declared openness of the foreign policy and diplomacy, as well as the orientation in the foreign policy on democratic principles, cooperation and morality.¹⁴

After the end of the Cold War, during which dominated realists and neo-realists, the era of the liberal school begins again. This direction is transformed to neo-liberalism taking into account new realities of the international domain. Such well-known theorists as R. Keohane and J. Nye wrote, that there is a great number of connections and relationships between countries in which force or power is ineffective or non-essential tool of implementing policy.¹⁵ For this reason, according to the neo-liberal approach the factor of armed forces might become less significant, as neo-realists claim. Effect by means of armed forces on the other members of international relations becomes too expensive, according to the proponents of the neo-liberal theory. Economic and legal instruments are more effective means of influence. In this respect, proponents of the neo-liberal approach emphasize interconnection of politics and economy.

Although states in the neo-liberal approach are considered to be the main participant (actors) in the world, they are not the only ones. Other participants are made of up of intergovernmental organizations and non-governmental entities. The latter refers to the likes of human rights bodies, environmental agencies and those that do not belong to the state, nor are profit driven - often found operating in the international arena. On the other hand Government bodies typically include universal, regional and those that specialize by given area. Besides this transnational corporations and interstate regions of different countries are active participants in international cooperation.

One of the most important events of the late XX century consists of active participation on the world scene of non-state transnational actors – non-governmental organizations, multinational corporations and so on.

¹⁴S. Smith. Theory of International Relations at the turn of the century. Moscow, 2002, p. 79

¹⁵A.P. Tsygankov, P.A. Tsygankov. Sociology of International Relations. Moscow, 2006, p. 119

In the early 1970s this fact noticed R. Keohane and J. Nye who wrote about the transformation of the political system of the world based on the principles of Westphalia, where the only actor was the state. Activities of transnational actors can be further accompanied by¹⁶:

- A wide spread increase of the number of actors across the globe. Increase the amount of each of them on the world scene
- Involvement of many people in transnational relations
- Expanding the geography of its activity. Currently, transnational actors are actually all over the world
- Coverage across almost all fields of activity
- Emergence of new actors which become transnational. In particular, the “Global Mass Media” also become transnational actors, involved in international cooperation (i.e. mass media targeting worldwide audience, mostly English-speaking audience)
- Intersection of functions of actors. If earlier, for example, interstate authorities tried to influence only internal political processes of the country, and the international organizations – the issues that limited by the foreign policy sphere, but now the situation has changed. The intergovernmental organizations and institutions intervene in various domestic issues, and interstate regions tend to the external sphere of activity, sometimes even on an equal basis with the states - quite often causing concern of the central authorities.

Another very important factor in the political development of the world in the second half of the XX century became the scientific and technological revolution. As a result of this revolution, weak states or even a small group of people can cause damage to others, which previously could cause only major state leaders. The modern world has become dependent on the behavior of not only strong, but weak states (actors).

Neo-liberalism has many forms and directions which, on the one hand, largely overlap and, on the other hand, can sometimes be considered as separate theoretical schools.

Among them is the concept of transnational relations, proposed by R. Keohane and J. Nye in the “Power and interdependence: World Politics in Transition”, which was first published in 1977.¹⁷ It emphasizes the role of non-state actors in the world today, recognizing the diversity of actors and channels of interaction between them, and hence the need to abandon the analysis of the state as the only member of the international cooperation. Instead of the term “international relations” that implied only interstate cooperation, the research introduce another concept, more wide – “transnational”. For this reason this theoretical line was called “transnationalism”.

¹⁶A.V. Torkunov, P.A. Tsygankov. The Evolution of Western Theoretical approaches to research of International Relations. Moscow, 2004, p. 223

¹⁷Clement. C. Onyemelukwe. The Science of Economic Development and Growth. New York, 2005, p. 22

The active involvement of actors in international affairs has a number of consequences, according to the neo-liberal theory. On the one hand, states delegate a part of their authority to the other participants, and on the other, they have an opportunity to obtain new functions of power. These new functions may consist in coordination of efforts of different actors on the world scene or development of new rules of interaction. The distinction between foreign and domestic policy is erased. The world becomes more sophisticated and interdependent.

1.2 Key aspects of the Transnational Theory

Transnationalism is a social phenomenon and scholarly research agenda grown out of the heightened interconnectivity between people and the receding economic and social significance of boundaries among nation states. The term was coined in the early 20th century by writer Randolph Bourne to describe "a new way of thinking about relationships between cultures".¹⁸ He however, stole the term from a Jewish college mate of his.

From an economic point of view, the concept "transnationalism" can be defined as a process which involves the global reorganization of the production process, in which several stages of the production of any given product can occur in different countries, normally with the purpose of minimizing costs. Economic transnationalism, usually known as globalization was spurred in the latter half of the 20th century by the development of the internet and wireless communication, as well as the reduction in global transportation costs caused by containerization (a system of freight transport based on a range of steel intermodal containers). Multinational corporations could be considered as a form of transnationalism, in the sense that they seek to minimize costs, and therefore maximize profits, by arranging their operations in the most efficient means possible irrespective of political boundaries.¹⁹

Proponents of the transnational theory seek to facilitate the flow of people, ideas, and goods among regions. They suppose that it has increasing relevance with the rapid growth of globalization. Advocates of the transnational theory argue that it does not make sense to link specific nation-state boundaries with for instance migratory workforces, globalized corporations, global money flow, global information flow, and global scientific cooperation.

The change in relation between states, International Organizations and non-governmental actors has put into question the usual theories used in International Relations. This change has been brought about in part by increased interaction between countries by people who do not represent the

¹⁸Cram101 Textbook Reviews. "e-Study Guide for: Mirror for Humanity by Kottak" Cram101 Textbook Reviews, 2012.

¹⁹Clement. C. Onyemelukwe. The Science of Economic Development and Growth. New York, 2005, p.25

state. The increase in interaction is due to increased ease of communication, transportation, financial transactions and travel across borders.²⁰

These interactions have had various effects (R. Keohane and J. Nye, S. Tarrow). National interest groups have combined with each other in transnational structures, commonly transnational organizations. Such transnational organizations can have a profound effect on domestic policy, making certain policies impracticable.

Transnational Organizations or International Organizations have become more autonomous from the states and can often oppose government policy. R. Keohane and J. Nye among others have categorized these transactions, whether tangible or intangible, across state boundaries, where at least one actor is not an agent of the state, transnational relations – as opposed to international relations which occur between state actors. Activities such as those of multinational corporations and human rights activities are only two examples of activities that gain from the increase in transactions across national boundaries; they also introduce situations in which individuals and groups of individuals rather than states have influenced national or international policy.

In general there has been an increase in interdependence between state and non-state actors who have become increasingly sensitive to decisions and developments in other parts of the world. The increasing significance of the markets has also diminished the relative significance of state actors. States now encounter constraints on their actions from both domestic and external sources.

Another direction in the works of R. Keohane and J. Nye was the proposal of the concept of “comprehensive interdependence”. In compliance with this idea there are a great number of communication links on the basis of which the policy is formed. These include informal relations between political elites and governmental as well as non-Government bodies, etc. At the same, the interstate agencies are called separately (for example, interstate regions, the cities etc.). Violation of some connections and relations directly or indirectly affect almost all participants of the international cooperation.²¹

Thus it is possible to draw a conclusion that the world has become global and interdependent where any of actors of international interaction can influence an event occurring in the world today and, sometimes even affect the change of the whole system of interstate relations.

1.3 Neorealist critique of Transnationalism

Neorealism (structural realism) is a theory of international relations, outlined by Kenneth Waltz in his 1979 book “Theory of International Politics.” K. Waltz argues in favor of a systemic

²⁰Keohane, Robert and Joseph Nye. “Transnational Relations and World Politics: An Introduction” *International Organization*, 25 (3) 3 (summer), 1972, pp. 329-249

²¹L.Campbell. Ove. K. Pedersen. *The Rise of Neoliberalism and Institutional Analysis*, Princeton, 2001, p. 35

approach: the international structure acts as a constraint on the behavior of state, so that only states whose outcomes fall within an expected range survive. This system is similar to a microeconomic model in which firms set prices and quantity based on the market.²²

The neorealist theory, emerged largely from the American political science tradition, seeks to reconsider the classical realist paradigm of Hans Morgenthau, E.H. Carr, and Reinhold Niebuhr into a positivistic and rigorous social science. Generally, proponents of neorealism argue that power is the most significant factor in international relations. The most notable neorealists are Kenneth Waltz, Stephen Walt, Randall Schweller, John Mearsheimer, Christopher Layne, Robert Jervis etc.

John Mearsheimer, who is an American scholar on the subject of theory of international relations, made a significant contribution to the development of neorealism with his book “The Tragedy of Great Power Politics” which was published in 2001. In this book the author lays out the theory of “offensive realism”, clarifying its key aspects, estimation from early theory of realism, and providing prognosis for the future. Some of his predictions are regarded pessimistic, as the scholar views a world where conflict among great powers will never end.

According to Mearsheimer, offensive realism is a structural theory, which in contrast to the classical realism, accuses security competition of great powers on anarchy of the system of international relations, not on human nature. Offensive realism argues that states are not enjoyed with given power, but try to achieve hegemony for security as the anarchic order of the international system provokes states to seek opportunities to get power at the expense of competitors.²³ Thus, the author summarized this idea in his book “The Tragedy of Great Power Politics”: “Given the difficulty of determining how much power is enough for today and tomorrow, great powers recognize that the best way to ensure their security is to achieve hegemony now, thus eliminating any possibility of a challenge by another great power. Only a misguided state would pass up an opportunity to be the hegemon in the system because it thought it already had sufficient power to survive.”²⁴

According to Mearsheimer, it is impossible for a state to reach a global hegemony due to the landmass and oceans which he believes possess a strong stopping power. However, the scholar argues that states can reach a regional hegemony. Moreover, he claims that states are trying to impede other states to achieve regional hegemony. Thus, states which have become regional hegemons, such as the USA, will intervene in other regions only in the case if the great powers of those regions are not able to impede the hegemon’s rising.

²²D. Plehwe, B. Walpen, G. Neuenhoeffler. *Neoliberal Hegemony: a Global Critique*. Chippenham, Wiltshire, 2006, p. 40

²³ J. Mearsheimer. *The Tragedy of Great Power Politics*. New York, 2001, p. 32

²⁴ Ibid. P. 35

Neorealism has kept many provisions of classical realism, especially the definition of the state as a key element of the construction of international relations. This system of international relations largely determines the foreign policy of individual states.

The category of force is also kept in the neorealist approach as a key, but has become to include not only the military superiority although it remained the important one. The American scholar Kenneth Waltz compared international relations with the market, where states, like firms, acting in their own interests, compete with one and cooperate with others. However, the main focus in neorealism is placed on conflict and competition. In this respect, the Waltz's remark is quite interesting. He writes that when countries cooperate together and get some kind of common benefit, they wonder how to share it. At the same time they have to decide not only whether they gain a profit at all, but who exactly will gain more. Unlike neorealists, neoliberals proceed from the assumption that states are contributed together to gain more profit.

According to the neorealists, states act in the international arena, depending on their power. At the same time the concept of "balance of power" that, according to them, allows to keep participants from use of force in international relations is kept. They distinguish simple balance of power, known as the bipolar system, and the complex balance of power implying several centers of power (multipolar system).²⁵

Neorealists have made a significant contribution to the understanding of the interaction of states on the world stage. So, Buzan says about the formation in the modern world of "mature anarchy", which can be regulated. The role of the regulator, in his opinion, plays Western democracies, which act as a guarantor of international security.

Waltz has formulated three basic principles of the structure of international relations. According to the first principle, states are guided by the motive of survival in international relations. The researcher believes that states can have many different goals. However, the basis for achieving them is survival. The second principle is to identify the actors of international relations, which according to Waltz are solely the states. He notes that non-state actors (such as multinational corporations) only then will play a crucial role in the system of international relations, when they will have the same powers of authority and opportunities as a sovereign state. The states are affected and enforcement by the system of international relations, but they have a right to decide how to act in these conditions. Finally the third principle is that states are not homogeneous, and have different capabilities or potential. They try to increase it and this may lead to a change in the whole structure of international relations.

Waltz has paid much attention to the analysis of the balance of power, considering it as one of the key concepts in the theory of international relations.

²⁵Charles W. Kegley, Jr. and Shannon L. Blanton. *World politics: Trend and Transformation*. Boston, 2010, p. 43

As for the concept of “cooperation” in the context of international relations, neorealists argue that it exists to a limited extent. The proponents of the transnational theory, unlike the neorealists, claim, that cooperation exists in general, and not only in the area where it is needed, that is caused by beneficial interests of the states.²⁶

In recent years, neoclassical realism has emerged within the school of neorealism as a response to the structural realism. The representatives of this approach advanced an idea of returning to the origins of realism and the need to study the state's foreign policy. Neoclassical realism does not deny ideas and results advanced by structural realists, - it changes the focus returning again to the foreign policy of the state and paying attention to the importance of domestic political factors, as well as the personal characteristics of political leaders. Neoclassical realism became widespread in the United States at the end of XX - beginning of XXI century.

In addition, some scholars identify postclassical realism. The Russian scholar of international relation, Tsygankov P.A., refers to this school the Samuel P. Huntington’s Clash of Civilizations. Particular focus namely to the conflict rather than cooperation, emphasizing the aspirations of participants of the world politics to powers of authority in order to realize better their own interests, as well as the perception of the international environment as anarchic bring Huntington together with realism.²⁷

Generally, in recent years realism in its various forms is developed and continues to be one of the most important theoretical approaches of modern science on international relations.

1.4 The concept of “International Regimes” in the context of the Transnational Theory

Although politics remains a power struggle, it is the spreading of power that has altered to include non-state actors and international organizations. R. Keohane and J. Nye interpret politics as a relationship in which at least one actor consciously employs resources (material and symbolic), comprising the threat or exercise of punishment, to impel actors to behave differently than they would have otherwise.

This has put the realist paradigm and the state centered approach to international relations in question. R. Keohane and J. Nye have offered the world politics paradigm in its place. Interest has also turned to the concept of governance for dealing with the interactions of new actors. Governance involves the establishment of social institutions involving state or non-state actors as a

²⁶ D. Plehwe, B. Walpen, G. Neuenhoeffler. *Neoliberal Hegemony: a Global Critique*. Chippenham, Wiltshire, 2006, p. 49

²⁷ A.P. Tsygankov, P.A. Tsygankov. *Sociology of International Relations*. Moscow, 2006, p. 230

basis for cooperation. And unlike government, the notion of governance does not presuppose a material existence.²⁸ In this context it is important to consider such concept as “International Regimes”. J. Rosenau defines it as the form through which global governance is managed. According to O. Young, regime is a set of agreed upon decision-making processes, rules, norms and programs; that govern the cooperation of actors in specific issue areas. Even more often the members of the regimes are not the states. O. Young lists two possibilities. The first is that institutional arrangements are established by dominant members of society to control other members and protect or advance their own interests. The second is that regimes are agents of social change in international society. The latter option means that non-state actors can create and act as regimes to change society and that the global civil society will continue to grow and operate independently from the states. In spite of recognition of new actors, states continue to be important actors, if not the most important actors in the world. “Not only do they have central roles in national policy, but they are key figures in transnational actions”.²⁹ There is influence of non-state actors in the international sphere and across national boundaries, but criticize the debate over the dominance of the state-world or the society world (non-state actors) in international affairs; it is more important to understand the nature of their cooperation, their significance, and their mutual influence, than to question the predominance of one actor over the other. This requires a better understanding and defining of state and non-state actors.

The existence of ‘vertical targets’, such as international organizations or treaties, can extend links between activists across state borders. In general this implies that local actors can react to global issues or that local issues can be heard at the global level. The former permits citizens to respond to issues which emerge internationally, even if they have no voice in that institution. The latter allows action to occur even when domestic opportunities are lacking. The number of levels that issues can be operated upon is also increased by regional or international institutions. It provides multi-level openings for changes and influence.

1.5 Economic Globalization and Transnationalism

Analyzing transnational processes in the world politics, it is necessary to mention the phenomenon of “globalization”. Transnationalism has become a kind of forerunner of the study of

²⁸Young, Oran R. (1997). “Rights, rules and resources in World Affairs » and « Global Governance : Toward a Theory of Decentralized World Order” in *Global Governance : Drawing Insights from the Environmental Experience*, Cambridge, MA : MIT press : pp.1-23, 273-299

²⁹Tarrow, Sidney (2001) “Transnational Politics: Contentions and Institutions in International Politics.” *Annual Review of Political Science*. 4: pp. 1-23

such phenomenon in the modern world development as “globalization” that attracts more and more attention of the scientific community.

Globalization of the world economy is the increasing interdependence of the economies of different countries of the world due to the growth of cross-border movement of goods and services, exports of capital, intensive exchange of information and technology, labor migration. According to many researchers, the process of globalization started in the 60's with the rapid development of scientific and technological revolution. In the late 90s this process entered its ephobic stage.

The term “globalization” began to be used more commonly in the 1980s, reflecting technological advances that made it easier and quicker to complete international transactions—both trade and financial flows. It refers to an extension beyond national borders of the same market forces that have operated for centuries at all levels of human economic activity—village markets, urban industries, or financial centers.³⁰

Globalization is a process of cooperation and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, culture, political systems, economic development and prosperity, and human physical well-being in societies all over the world.

Policy and technological developments of the past few decades have increased cross-border trade, investment, and migration so much that many observers claim the world has entered a qualitatively new phase in its economic development.

In the most general sense one can speak of “global interactions” as movements of information, money, physical objects, people, or other tangible or intangible items across state boundaries. We can distinguish four major types of global interaction: 1) communication, the movement of information, including the transmission of beliefs, ideas and doctrines; 2) transportation, the movement of physical objects, including war material and personal property as well as merchandise; 3) finance, the movement of money and instruments of credit; 4) travel, the movement of persons. Many international activities involve all four types of interaction simultaneously. Trade and warfare, for example, both require coordinated movements of information, physical objects, money, and persons; so does most personal participation by individuals in foreign societies – “transnational participation”.³¹

I will concentrate on the economic aspects of the concept of “globalization” in the contemporary world order.

³⁰International Monetary Fund. Globalization: A Brief Overview // <http://www.imf.org/external/np/exr/ib/2008/053008.htm> 25.11.2012

³¹Keohane, Robert and Joseph Nye “Transnational Relations and World Politics: An Introduction” International Organisation, 25 (3) 3 (summer), 1972, p. 332

Economic “globalization” is a historical process. It is the result of human innovation and technological progress. It refers to the increasing integration of economies all over the world, specifically through the movement of capital, services and goods across state borders.

Since the World War II many governments have adopted free-market economic systems, increasing their own productive potential and creating new opportunities for international trade and investment. Governments also have negotiated dramatic reductions in barriers to commerce and have signed international agreements in order to promote trade in goods, services, and investment. Taking advantage of new opportunities in foreign markets, corporations have built foreign factories and established production and marketing arrangements with foreign partners. A distinctive feature of globalization, therefore, is an international industrial and financial business structure.

Technology has been another principal aspect of globalization. A progress in information technology, in particular, have dramatically changed and transformed economic situation in the world.

A core element of globalization is the expansion of world trade through the elimination or reduction of trade barriers, such as import tariffs. Greater imports offer consumers a wider variety of goods at lower prices, while providing strong incentives for domestic industries to remain competitive. Exports, often a source of economic growth for developing nations, stimulate job creation as industries sell beyond their borders. More generally, trade enhances national competitiveness by driving workers to focus on those vocations where they, and their country, have a competitive advantage. Trade promotes economic resilience and flexibility, as higher imports help to offset adverse domestic supply shocks. Greater openness can also stimulate foreign investment, which would be a source of employment for the local workforce and could bring along new technologies—thus promoting higher productivity.³²

Globalization is controversial phenomenon, however. Proponents of globalization claim that it allows poor countries and their citizens to develop economically and raise their standards of living, while opponents of globalization argue that the creation of an unfettered international free market has benefited multinational corporations in the Western world at the expense of local enterprises, cultures, and common people. Resistance to globalization has therefore taken shape both at a popular and at a governmental level as people and governments try to run the flow of labor, capital, goods, and ideas that constitute the present wave of globalization.

To find the right balance between costs and benefits associated with globalization, people of all nations need to understand how globalization acts and the policy choices encountering them and their societies.

³²International Monetary Fund. Globalization: A Brief Overview // <http://www.imf.org/external/np/exr/ib/2008/053008.htm>25.11.2012

Transnationalism as concept, theory and experience has nourished an important literature in social sciences. In practice transnationalism refers to increasing transborder relations of individuals, groups, firms and to mobilizations beyond state boundaries. Individuals, groups, institutions and states interact with each other in a new global space where cultural and political characteristics of national societies are combined with emerging multilevel and multinational activities. Transnationalism is a part of the process of globalization. For some it is “globalization”.³³

1.6 The role of economic factor in international relations.

Considering and analyzing the economic relations in the international system, analysts initially focused on the tenets of realism. However they soon were convinced that in this framework it is very difficult to explain many processes of political and economic development of the world after World War II.

All of this research took place in the period of the Cold War, when the majority of Western experts engaged in the analysis of international relations, have paid little attention to the study of political aspects of economic processes. At that time, economic problems that were in the background, received the name “low-level policy”.

Meanwhile, the economic factor is becoming increasingly important in the modern world order. There is a revival of economics of many European countries which were destroyed in World War II. In this context, the most striking example is the revival of the economy of Germany which today is one of the most prosperous and successful economies in the world.

In the 1970s researchers, who studied international relations, drew attention to the increasing role of the economic factor in the world. In the years to come, more and more research was carried out, giving birth to the term “international political economy” among the scientific community.

Another important aspect, as noted R. Keohane and S. Krasner, became the research to identify the relationship between the domestic politics of different countries and the international political economy, conducted by political scientists from all over the world. Issues that have been studied were aimed at identifying the determinants of foreign economic policies and strategies of the various corporations.

Research has shown that the internal organization of the state has a significant impact on its economic behavior both at the national and supranational level.

³³The New School for Social Research. Transnationalism: Theory and Experience // <http://www.newschool.edu/NSSR/courses.aspx?id=37336&DeptFilter=NSSR+Sociology&TermFilter=Spring+2010> 20.11.2012

For many decades, the economy has a significant influence on the global trend of political development. However, with development of globalization processes at the end of 20th – the beginning of the 21st century, the economic component has come to the fore. The financial crisis of the late 1990s and especially the crisis of 2008 clearly demonstrated the role and the importance of the economic factor in world politics.³⁴

Economics and politics have always been connected with each other closely. This relationship reflects the discipline - the international political economy, which considers such key areas as international trade and the international financial system.

Some authors, in particular J. Goldstein, emphasize as separate field of the international political economy an activity of multinational corporations.

An economic factor in world politics has begun to attract particular attention in the second half of the 20th century. One of the incentives was the energy crisis of the 1970s, after which it became clear that so-called “high-level policy”, determined by military power, was largely powerless to economy or “low-level policy”. But there were internal factors.³⁵

In democracies with growing confidence was demonstrated dependence between economic success of the country and popularity of the government. In turn, the economy due to the growing interdependence of the world became more and more conditioned by international factors.

The first studies to show the continuity of politics and economy in the new interdependent and globalizing world, appeared in the early 1970s. This is studied by S. Strange, R. Keohane, J. Nye and others. An important role in the development of international political economy played a book of R. Gilpin, in particular, "The Political Economy of International Relations."³⁶

1.7 Conclusion

The political system of the modern world is characterized by the presence in it of heterogeneous actors that can act in the world independently of the states.

Modern transnational actors are extremely diverse in many ways. Foremost among these parameters should be called resources. If an economic indicator is a key indicator for transnational corporations, multinational banks, the other actors having significantly low economic and financial capacity are politically influential.

³⁴S. Economides, P. Wilson. *The Economic Factor in International Relations*. New York, 2001, p. 35.

³⁵R. Gilpin. *Global Political Economy: Understanding the International Economic Order*. New Jersey, 2001, p. 175.

³⁶*Ibid.* P. 179.

Types of resources difficult to compare, and therefore the consequences of their various combinations are complex to calculate.

Non-state actors are very diverse in their goals. Their efforts can be directed at a multitude of purposes - from creating products and services, to building relationships, and the destruction of the existent (anti-globalization movements, terrorist organizations). Furthermore, the objectives of non-state transnational actors have different time frames. If states are usually based on the fact that they have no time limit, other actors may initially set themselves a time frame.

The question of the interaction of various transnational actors should be considered separately.

Very often it is possible to observe cooperation of the states and non-state transnational actors. Thus, the states may have an interest in reducing tensions in the conflict situations, as the conflict threatens to spread to their territory. In return for the business-community a conflict situation can be an obstacle for running businesses, a zone of violations of transport communications, increased political risks in the surrounding territories. For many non-governmental organizations, conflict resolution is an integral part of their charters. Of course, at the same time there may be business structures, interest groups in the state, for whom conflict escalation, however, is beneficial.

In general, as a result of interaction there is a development in not only the multilateral diplomacy which implies the inclusion of more than two states in the process of problem-solving, but also a multi-level diplomacy, when the problem is solved by the interaction of various state and non-state actors. For example, non-governmental organizations in a number of cases are more flexible and less bureaucratic than their government counterparts.

Unlike the official intermediaries, nongovernmental organizations are more oriented to work with the people and sometimes get the information, which the official intermediaries, representing the states and the intergovernmental organizations do not have. At the same time their weakness is the fact that, acting at the level of individual communities, it is very difficult for non-governmental organizations to see the whole picture of the conflict. Furthermore, involvement in conflict settlement of too many non-governmental organizations causes the difficulties connected with their interaction, elaboration of the single program. Here, the official diplomacy of the states and intergovernmental organizations is much more effective.

2. POLITICAL RELATIONS BETWEEN RUSSIA AND GERMANY

2.1 Formation of the Russian-German bilateral relations. A brief historical background

Germany was the first of leading foreign powers that recognized the Russian Federation as the successor to the former Soviet Union on December 26, 1991. The diplomatic relations between the USSR and Germany were established on September 13 in 1955.³⁷

The Treaty between the Federal Republic of Germany and the Union of Socialist Republics on Good-Neighborliness Partnership and Cooperation signed on November 9, 1990 and the Joint Statement of the President of the Russian Federation and the Federal Chancellor of Germany signed on November 21, 1991 form the legal basis for bilateral Russian German relations.³⁸ The Treaty on the Final Settlement with Respect to Germany was signed in Moscow on September 12, 1990 is also of fundamental importance.³⁹

After the end of the Cold War, the reunification of Germany and the collapse of the Soviet Union both Russia and Germany have entered the period of the serious transformation in its foreign policy. The role and significance of the two countries in the post-bipolar world has undergone major changes. This, undoubtedly, had a great impact on the Russian-German bilateral relations.

At the same time it should be emphasized that fundamental harmony of interests between Russia and Germany on a wide range of political issues was realized by both parties initially. Both countries were interested in maintenance of peace and stability in the former Soviet Union, in the multipolar nature of the new system of international relations, and, of course, in good neighborly – relations with each other. However, there were a number of factors which, as is often the case, complicated political dialogue. Like many states of Eastern Europe, with the beginning of the democratic reforms Russia drew its attention, primarily, to Germany. Meeting the needs of the Germans on the issue of reunification of the country, Russia expected from Germany no less serious steps.

For the past two decades, Russia and Germany have found solutions to issues remained from Soviet times. Indeed, in the early 1990s, Russian-German relations flourished and developed increasingly. It was promoted by the “personal friendship” between Helmut Kohl and Boris Yeltsin, which in Germany soon was known as so called “sauna diplomacy” and large-scale humanitarian aid sent by Germany in the most difficult period of the economic crisis in Russia.

³⁷K. Schlögel. Russian-German Special Relations in the Twentieth Century: a Closed Chapter? Berg, 2001, p.221

³⁸The Ministry of Foreign Affairs of the Russian Federation. Russian-German relations // <http://www.ln.mid.ru/bdcomp/nsreuro.nsf/348bd0da1d5a7185432569e700419c7a/0203fe9f64a3fb3844257a000043ba6a!OpenDocument> 30.11.2012

³⁹ German Missions in the United States // http://www.germany.info/Vertretung/usa/en/___pr/GIC/FWW__News/14__UnityTreaty__PM.html 30.11.2012

There have been arrangements on the withdrawal of Russian troops from German territory, the implementation by the German housing programme for their settlement in Russia and retraining of servicemen. Agreements on the care of military graves, payment by Germany of compensations to the Russian victims of Nazi persecutions were concluded. Finally a question of the negative balance in trade of the former Soviet Union with the former German Democratic Republic was settled.⁴⁰

However, Russia was disappointed by large-scale economic cooperation with Germany. Despite the rather great government credits and large volume of interstate trade, the German private capital keeps options open concerning development of the Russian market considering it volatile and unpredictable. Expectations that Germany will take full account of the interests of the Russian foreign policy were come short. Russian politicians and community realized that no one ever seriously considered the possibility of Russia's membership in the European structures, especially in the EU. This recognition was quite painful. In particular, Germany actively supported NATO and EU expansion to the East. Approaching of NATO to Russia's borders caused quite a painful reaction in Moscow.

Very sharp criticism in Germany caused a breach in Russia of democratic rights and freedoms, the rampant corruption, the apparent inability of the government to stabilize the country, and – to a greater extent – the war in Chechnya. German mass media has regularly published a series of articles about the “imperial ambitions of Russia”, often performed with obvious sympathy to the Chechen separatists.

In the late 1990s, the attitude to Russia became more rigid. German politicians declared determination to cooperate with Russia - but with Russia, meeting their view about democratic state. Of great importance were the issues of Russian debt (amounted in the beginning of XXI century 38 billion marks) and the issue of cultural property transferred to the Soviet Union after World War II. Coming in 1998 into power the leader of “Red-Green” coalition Gerhard Schröder immediately made it clear that "sauna diplomacy" and credit accommodation to Russia will be put an end. Henceforth, Berlin will be guided by purely pragmatic considerations.⁴¹

However, in the early 2000s relations between Russia and Germany have begun to warm up. Schröder government paid special attention to the relations with Russia. The German Chancellor claimed that European stability is impossible without Russia. In spite of existing problems, high-level relations between the two powers were quite warm.

⁴⁰The Ministry of Foreign Affairs of the Russian Federation. Russian-German relations // [http://www.ln.mid.ru/bdomp/nsreuro.nsf/348bd0da1d5a7185432569e700419c7a/0203fe9f64a3fb3844257a000043ba6a!](http://www.ln.mid.ru/bdomp/nsreuro.nsf/348bd0da1d5a7185432569e700419c7a/0203fe9f64a3fb3844257a000043ba6a!OpenDocument) OpenDocument 30.11.2012

⁴¹ K. Schlögel. Russian-German special relations in the twentieth century: a closed chapter? Berg, 2001, p.230

Significant progress was achieved in the way of historical reconciliation and confidence-building between the two countries, a clear manifestation of which was the participation of the Chancellor of Germany in the celebrations in Moscow on May 9 because of the anniversary of the Victory and the defeat of fascism (Kohl - 1995, Schröder - 2005, Merkel - 2010).⁴²In 2001 for the first time in the history the President of the Russian Federation and the Federal Chancellor of Germany played a joint wreath on the Piskaryovskoye Memorial Cemetery in Saint-Petersburg (in April) and on the Soviet War Memorial (Tiergarten) in Berlin (in September).

Since 2000 there were numerous meetings between Schröder and Putin. The theme of “male bonding” of the President and the Chancellor was extremely popular. The German mass media repeatedly criticized Schröder for too Russophile attitude. In the first half of the 2000s partnership between Russia and Germany reached an unprecedented before friendly atmosphere.

2.2 Russia in the foreign policy of Germany.

Russia plays a very significant role in German foreign policy. Since the early 1990s, German politicians often claim a special relationship with the Russian Federation. It does not mean that Moscow is the preferred partner of Berlin, but rather, it means that among all European countries namely Germany is mostly interested in strengthening of good-neighborly relations with Russia. Germany’s mission is to help Russia in realization of upcoming and inevitable transformation into a democratic and constitutional state.

In the 1990s, German politicians were deeply disappointed with situation in Russia. Instead of a quick transition to a democratic state with a market economy, they saw a semi-authoritarian system with criminalized market. Mass media expressed doubts whether Russia can preserve its integrity and cope with the chaos inside the country. In the late 1990s, the German political elite moved to the position of strict observance of German interests. According to the researchers, politicians proceeded from the fact that Germany is much more useful for Russia than Russia for Germany. Only the stabilization of the situation and strengthening of the Russian economy in the first half of the 2000s promoted to the improvement of the bilateral relations.⁴³

In Germany, Russia officially considered as a European state, which, however, must still have a long way to go in order to be in compliance with the harmonized modern European standards.

⁴²Geyer, Michael, and Sheila Fitzpatrick, eds. *Beyond Totalitarianism: Stalinism and Nazism Compared* (Cambridge University Press, 2009)

⁴³I.F. Maksimychev. “Ostpolitik” of United Germany: results of the first decade. Moscow, 2001, p. 137

Germany is largely interested in a stable and predictable development of Russian politics. Any instability and weakness of Russia is a threat to the European security in the eyes of German politicians. At the same time, the strength and stability of Russia shouldn't be achieved through the approval of an authoritarian regime, violations of democratic norms and human rights. Quite badly German political elite reacts to the demonstration of so called "imperial ambitions" of the Kremlin. In particular, the strongest criticism sounded against Moscow during the "gas conflict" with Ukraine at the beginning of 2006 and the armed conflict in South Ossetia in August 2008.⁴⁴

In Germany there is no the Foreign Policy Concept as a separate document. In the Coalition Agreement of 2005 towards Russia were set the following aims: "Together with our European partners, we are in favor of a strategic partnership with Russia, which will develop in all areas at the bilateral level and at the level of the European Union (...) Our goal remains Russia which prospers and, focusing on the European values, carried out the transformation into a stable democracy. We want to develop trade and create a long-term partnership in the field of energy without one-sided dependence."⁴⁵ These statements are relevant up to now.

Despite their importance, relations with Russia are prioritized after those of NATO and the EU in the view of the German political elite. It should be emphasized that among the major political parties of Germany there are no serious differences of opinion concerning the Russian direction of the foreign policy. Perhaps only the Social Democrats has traditionally more positive attitude towards Russia and intention to closer political relations with Moscow. This is proved by the activity of Gerhard Schröder during his tenure as the Federal Chancellor (1998-2005), and Frank-Walter Steinmeier during his tenure as the Minister of Foreign Affairs of the Germany's "Grand Coalition" (2005-2009). In 2004, Schröder stated: "Never before the relations between Russia and Germany were such close and strong as they are today".

German business also has a significant impact on the political elite towards the strengthening of friendly relations with Russia. In Germany, the economy and politics traditionally linked with each other - during the Cold War, foreign trade was the tool to strengthen the country's position on the world stage, so the German politicians tend to attach great importance to it and listen to the business world.

According to German researchers, in the future "the German policy will concentrate on two tasks. Firstly, it is a support of economic and political transformation in Russia and its integration into Europe. Secondly, Germany will prepare to address the consequences of the crisis in Russia if

⁴⁴A.G. de Robertis. *International Relations and Foreign Policy in XXI century*. St. Petersburg, 2006, p. 119

⁴⁵Francis T. Miko. *Germany's "Grand Coalition" Government: Prospects and Implications*. January 17, 2006 p. 112

the situation deteriorates in the next decade. Concerns about the future of Russia requires prudent, but at the same time cautious policy of rapprochement in the XXI century”.⁴⁶

2.3 Germany in the foreign policy of Russia.

Since the foundation of the Russian Federation as an independent state, Germany has played a very important role in the foreign policy of the young country. Russian politicians have constantly emphasized the special role and nature of relations with Germany, offering Germany a place of the “privileged partner” of Russia in Europe. In the eyes of the Russian political elite, this meant that Germany will advocate Russia in the EU in return of protection of German interests.

In the early 1990s, in fact, it seemed that such partnership is probable. Later, however, it became clear that Berlin prefers to follow its own interests. NATO expansion to the East and the German participation in operation against Serbia in 1999 seriously disappointed Moscow. Nevertheless, there wasn't another alternative to FRG as the main partner in Western Europe.

In the 2000s, hopes for a “special relationship” with Germany once again become relevant. Vladimir Putin, during his service in the Committee for State Security (KGB) working in Dresden and speaking perfect German, often demonstrated his special private attitude to Germany. German commentators became to call him as “German in the Kremlin.”⁴⁷

Russian political analysts and commentators talked a lot about the possibility of a new strategic alliance between Russia and Germany, the contradictions in the relations between the European powers and the United States from which Russia will be able to get benefit. But by the mid-2000s it became clear that Germany's foreign policy priorities remain the same, and drastic changes (“new Rapallo”) are not expected.⁴⁸

By that time, Russian politicians finally realized that unfounded illusions cannot be the basis for the development of relations with strategically important partner. The bet was made on the gradual rapprochement between Berlin and Moscow, taking into account the real interests of both sides. Germany is still seen as a kind of mediator between Moscow and Brussels, but the expectation that Berlin will play the role of Russia's advocate in the EU, are gone. Mutual pragmatic interest became a solid foundation of the Russian-German partnership.

In the “Foreign Policy Concept of the Russian Federation” on February 12, 2013 the development of relations with the countries of Western Europe, announced as one of the priorities.

⁴⁶ K. Schlögel Russian-German special relations in the twentieth century: a closed chapter? Berg, 2001, p. 195

⁴⁷ Alexander von Plato. The Reunification of Germany – Struggle for Europe. Moscow, 2007, p. 132

⁴⁸ Angela E. Stent. Russia and Germany Reborn: Unification, the Soviet Collapse, and the New Europe. New Jersey, 1998, p. 243

“Boosting mutually beneficial bilateral relations with Germany, France, Italy, the Netherlands and other European states is a considerable resource for advancing Russia's national interests in European and world affairs, as well as for putting the Russian economy on the innovative development track.”⁴⁹ In the list of above-mentioned states, Germany comes first.

2.4 Russian – German bilateral relations under the chancellorship of Gerhard Schröder

The purpose of this subchapter is to examine the development of Russian-German relations under the Social Democratic (SPD) chancellorship of Gerhard Schröder during the period 1998-2005. Relations between Russia and Germany are seen as being pivotal to the EU-Russia relationship and Schröder was quick following the election of the Social Democratic-led “Red-Green coalition” with the Green Party in 1998 to place Germany at the center of EU policy development on Russia.⁵⁰ This is not too surprising given the geopolitical context of German-Russian relations together with the extensive economic links that existed between the two states. The Russian-German relationship developed added significance under the Red-Green coalition given Schröder’s unwillingness to publicly criticize Putin on human rights, civil liberties and political reform issues at the time when international concern with respect to the direction of the Russia’s domestic policy was increasing and prompted charges that Germany was proceeding a “*Realpolitik*” which favored economic interests to the neglect of promoting (western) political norms and values. Given this pivotal role of Germany’s relations with Russia, it is to some extent contradictory that Germany would be considered as the EU member state doing most in order to damage EU policy.

There has been a significant continuity in the policy line initiated and accepted by chancellors of Germany in their dealings with the former Soviet Union and Russia in the modern context, and Gerhard Schröder in this respect wasn’t an exception. All they were in favor of the articulation of the Germany’s foreign policy over multilateral organizations and have endorsed a soft power approach of attempting to contribute economic cooperation as a means of developing the solid and reliable political relationships.

This policy of “constructive engagement” could be seen in the position taken by the Kohl chancellorship towards Russia soon after the end of the Cold War. Helmut Kohl had been the first western leader in 1997 to raise the prospect of a common economic space between the EU and

⁴⁹The Ministry of Foreign Affairs of the Russian Federation. Concept of the Foreign Policy of the Russian Federation. Approved by President of the Russian Federation V. Putin on 12 February 2013// http://www.mid.ru/brp_4.nsf/0/76389FEC168189ED44257B2E0039B16D 10.03.2013

⁵⁰ J. Gower, G. Timmins. Russia and Europe in the Twenty-First Century. London, 2007, p.165

Russia. The Christian Democratic Union (CDU) was at this time concentrated on the political project of extending the EU's institutional order eastwards and had already made a connection that enlarging the EU to the East would require a policy on Russia.⁵¹

The SPD was critical on Kohl's relationships with Yeltsin which had prompted accusations of "sauna friendship" during the 1998 German election campaign on the basis that Kohl had invested too much political capital in the Yeltsin regime to the neglect of democratic reform and the development of civil society in Russia.⁵² It is, consequently, to some degree ironic that the new Chancellor of Germany, Angela Merkel, has prompted a lot of similar accusations against Gerhard Schröder regarding his personal friendship with Vladimir Putin which has stretched from private invitations to birthday celebrations of each other.

During the 1998 election campaign Schröder had promised to make combating unemployment in Germany the highest political priority. Much as in the early 1960s when West Germany had been challenging its first main economic recession in the post-war period and Eastern Germany under Willy Brandt in terms of establishing diplomatic relations with the new Administration of Russia. It was not until December 2000 that Gerhard Schröder made his first visit to Moscow and had a chance to establish friendly relations with the new leader of Russia. However, despite these personal difficulties, election of Putin had opened the way of opportunity for Germany. Putin had represented the programme in which modernization of the Russian economy is defined as the top priority. The growing significance of the EU on the Russian foreign policy agenda was recognized in the Russian Foreign Policy Concept which was published in June 2000. While there was not direct reference to the EU in the Foreign Policy Concept of 1993, it was stated in the new document that "the Russian Federation views the EU as one of its main political and economic partners and will strive to develop with it an intensive, stable and long-term cooperation devoid of expediency fluctuations".⁵³ But the readiness of the new Administration of Russia to develop relations with the EU revealed the drawbacks of the Common Strategy.

There is no doubt that the period 2000-2005 will be recorded as having been something of the "gold period" in Russian-German relations as far as the deepening of the political and economic relations between the two countries is concerned. But this period was also remembered for its controversial nature given the sharp contrast between the positive state of Russian-German relationships and the frustration encountered in the political relations of the EU with Russia.

Both Germany and Russia, although for completely different reasons, were disappointed by the Common Strategy on Russia. Schröder was frustrated by the attenuation of the Germany's

⁵¹J. Gower, G. Timmins. *Russia and Europe in the Twenty-First Century*. London, 2007, p. 169

⁵²Christoph Nesshoever, "Russlandpolitik: Neue Bescheidenheit" in Hanns W. Maull et al (eds.), *Vier Monate Rot-Gruene Aussenpolitik*, (University of Trier: Arbeitspapiere zur internationalen Politik, 1999), No. 1.

⁵³ Foreign Policy Concept of the Russian Federation, June 28, 2000 // <http://www.fas.org/nuke/guide/russia/doctrine/econcept.htm> 23.11.2012

original agenda on providing political stability by means of the development of economic cooperation which placed the normative agenda at the center of the relations.

It was against this mutual disappointment that the June 2000 German-Russian bilateral summit in Berlin took place and provided an opportunity to restore good personal relations between Putin and Schröder and to develop substance around the concept “strategic partnership”.⁵⁴ The SPD talked up the summit by anticipating a “result-oriented” meeting which would foster Germany’s economic relations with Russia.

From the Russian perspective, Vladimir Putin saw an advantage in cultivating bilateral relationships with Germany for two major reasons. Firstly, investment from the West and technical support were key points to Putin’s intention to modernize the economy of the country. Although Gerhard Schröder was unable to prevent the slowdown in the Germany’s domestic economy, the big industrial giants were demonstrating record-breaking profits as a consequence of foreign investments. By 2000 Germany had become the world leader in exporting of manufactured goods. If closer economic relations with Europe were the immediate goal for the Russian leadership, Germany was viewed to be the most important and appropriate partner with whom relations within the EU could be maintained and developed. Secondly, the increasing view from Moscow was that the Commission didn’t have enough the political authority to work out a coherent European foreign policy line and that summits between the EU and Russia were little more than “exercises in symbolic posturing where Russia would be berated on its track record on domestic reform”.⁵⁵

In the article written for German *Die Zeit* in April 2002, one year on from Schröder’s piece claiming Germany supposed to be the motor for EU policy on Russia and on the eve of the Russian-German Government Consultations in Weimar, Putin declared that “Russia hopes on a great future for the partnership with Germany and pointed out to the intensification of the political relations between the two states since the emergence of their strategic partnership in Saint-Petersburg the previous year”.⁵⁶ The pay-off for the German diplomatic offensive came at the Russian-German bilateral summit in Yekaterinburg in October 2003 where a raft of political and economic agreements were reached and prompted Schröder to claim that “Russian-German relations are so good that they cannot any better”.⁵⁷

A joint investment at the tune of one billion Euro to fund a number of construction projects and a six billion contract to build the Nord Stream gas pipeline placed Germany obviously in front as the leading foreign investor in Russia with the joint investment at the tune of eight billion Euro by Siemens AG the largest single investor at the time. When in July 2004 both Vladimir Putin and

⁵⁴ J. Gower, G. Timmins. *Russia and Europe in the Twenty-First Century*. London, 2007, p. 170

⁵⁵ *Ibid.* P. 469

⁵⁶ Vladimir Putin, *Die Zeit* (10 April 2002)

⁵⁷ J. Gower, G. Timmins. *Russia and Europe in the Twenty-First Century*. London, 2007, p. 172

Gerhard Schröder presided over the signing of the contract between the German E.ON and Russian Gazprom energy concerns, and which introduced the single largest investment of Germany since the Siberian Gas Pipeline deal in the late 1970s. The headline “The Hour of the Strategist” in *Der Spiegel* summarized the view that Russian-German relations were driven by economic interests and energy cooperation in general.⁵⁸

But if relations between Russia and Germany were enjoying their warmest period and highest point under the chancellorship of Gerhard Schröder, criticism of Germany’s policy towards Russia was growing in Europe. The attitude of Schröder regarding Russian-German relations and the impact it was having on relations between the EU and Russia have caused concern in Brussels since 2001 when, following the attack on the World Trade Center in September 11, 2001, he was the first western leader to call for revision of the Russian military policy in Chechnya.

Schröder’s policy line towards Russia began to provoke active discussion within the political elite in Germany and in November 2003 was the topic of the parliamentary debate in which opposition criticized the policy line accepted by Schröder. Together with the SPD-led coalition hoping unlikely to win the federal elections in 2006, the CDU started to express the course in which it would take German policy. As Friedbert Pflüger, the main spokesman of the CDU on Russia, argued, although the CDU acknowledged interests of Germany in stable Russia and one with which Berlin had closed relations, “partnership (with Russia) demands straight talking from the Government of Germany and the European Union when in Russia human rights are violated and the rule of law is broken”.⁵⁹ The information that was slowly beginning to emerge was that the CDU-led government would continue a similar policy line with regard to the energy dialogue and international cooperation on combating terrorism but not at the expense of ignoring shortcomings in democratic reform. The policy line of Gerhard Schröder was also to put the Red-Green coalition under pressure. The representatives of the Green party had also outspoken against Schröder in the parliamentary debate in 2003 and in September 2004, the head of the Green party, Reinhard Bütikofer, joined more than one hundred politicians from all over the world to sign an open letter criticizing the failings of the policy of the West towards Russia.⁶⁰

The chancellorship of Gerhard Schröder began in 1998 amidst promises that European and foreign policy of Germany would be accomplished by a pragmatic agenda with placing the domestic economic situation the government’s highest priority. By the end of his period in power in

⁵⁸The New York Times. Putin Prompts Split in German Coalition // http://www.nytimes.com/2007/05/22/world/europe/22europe.html?_r=2& 25.11.2012

⁵⁹Deutscher Bundestag, Stenografischer Bericht, 75. Sitzung, Berlin: Donnerstag, den 13. November 2003 (Plenarprotokoll 15/75), p.647

⁶⁰ Stern Magazine (7 October 2004). The letter “An open letter to the Heads of State and Government of the European Union and NATO can be found at Johnson’s Russia List // <http://www.cdi.org/russia/johnson/8385-24.cfm> 30.09.2012

late 2005 the German home economy showed little sign of improvement and the level of unemployment increased. Russia was the only success that Schröder could assert for his own.

Yet growing criticism in Germany and outside of his unwillingness to say out on democratic shortcomings of the Putin's Administration were considered as the example of so called "*Realpolitik*" instead of constructive cooperation which undermined the EU policy towards Russia. Furthermore, when "Gerhard Schröder was appointed to the supervisory board of a high profile Russian gas pipeline project"⁶¹ and became a chairman of the consortium overseeing the building of gas pipeline under the Baltic Sea from Russia to Germany in December 2005, a project which he helped to materialize shortly before the elections in Germany in September, he did little to enhance his own reputation. This deal displeased the Polish government and provoked charges of a new Rapallo because the gas pipeline bypassed territory of Poland. The fear expressed by officials of Poland was the prospect that Russia could use its energy as a lever of political pressure to stifle requirements of Poland for a more assertive EU policy on Russia in much the similar manner as it was used to penalized the Ukraine and other former Soviet republics who took pro-western line of policy or expressed criticism of the Putin's Administration.

2.5 Russian – German bilateral relations under the chancellorship of Angela Merkel. Contemporary context

Under Chancellor Schröder, Russia-German bilateral relations were given high priority, In fact, Schröder's very close personal contacts with Russian President Vladimir Putin, to the extent that their families would holiday together, were a source of wide criticism. In view of this friendship, Chancellor Schröder was seen by some as soft-pedaling the erosion of democracy in Russia, the war in Chechnya, or Russian attempts to pressure and interfere with the democratic process in other former Soviet countries. His policies toward Russia were sometimes seen by Germany's eastern neighbors as threatening to their interests, as in the case of the agreed new gas pipeline between Russia and Germany that will by-pass Eastern Europe and the Baltic states, negotiated by the Schröder government before it left office.⁶²

Chancellor Merkel has been more critical of Russia and has made it clear that she will not follow in former Chancellor Schröder's footsteps in terms of the special relationship with Russian President Putin. Germany is likely to continue to pursue strong bilateral relations with Russia, particularly in light of Germany's growing energy dependence on Moscow. But Chancellor Merkel has indicated that relations will not be to the detriment of Germany's East European neighbors. She

⁶¹ Ian Jeffries. *Political Developments in Contemporary Russia*. New York, 2011, p. 247

⁶² Anne Applebaum. *What are the Russians Buying?* Washington Post, December 13, 2005.

has repeatedly emphasized the priority she will place on bilateral relations with Poland, a country that had been skeptical of the close Schröder-Putin ties.⁶³

When in November 2005 Angela Merkel took an office of the Federal Chancellor of Germany, many analysts expected a cooling of relations between Russia and Germany. However, in practice, it didn't happen – the only thing occurred is that the term “friendship” was replaced by more neutral “strategic partnership”. Two states have many common interests, especially in economic field. Russia is one of the most important sales markets and energy suppliers for Germany. Germany is the most important economic partner and investor for Russia. It is worth noting that between Russia and Germany established a special relations. Where it is really beneficial Germany acts in concert with Russia, ignoring the protests of Eastern European countries. The building of the Nord Stream gas pipeline under the Baltic Sea can be mentioned as an example.⁶⁴

Small crises in relations between Russia and Germany, for example the crisis connected with the events in South Ossetia in August 2008, have been unable to break general trend on building close strategic partnership. Currently, the partnership is developing in the following directions:

- The development of a political dialogue for taking a common stand on a wide range of international issues, such as nuclear non-proliferation, crisis and conflict prevention, etc.
- The development of the dialogue between Russia and the EU through the mediation of Germany, Russia's integration into the Euro-Atlantic space.
- Creating the framework conditions for the development of economic, scientific and cultural cooperation, including support for large-scale projects in these areas (“partnership in the field of modernization”).⁶⁵

First time since Vladimir Putin has returned to the presidency, the German-Russian Government Consultations are to be held on November 16, 2012. Chancellor Angela Merkel will meet Vladimir Putin in Moscow and attend the conference of the civil society forum, Petersburg Dialogue. These Government Consultations were postponed few times since Vladimir Putin took office for a third term. After the changes in Kremlin, Germany was the first country which Vladimir Putin and Dmitry Medvedev visited. Angela Merkel had invited Dmitry Medvedev to the Council of the Baltic Sea States which was on May 31, in Stralsund. Instead of the Russian prime minister, however, arrived his deputy. Angela Merkel met with Vladimir Putin in Berlin a day later.

At the same time, it should be mentioned, that political interrelations is different because Angela Merkel and Vladimir Putin have strained relations. Merkel was reliant on Dmitry

⁶³ Francis T. Miko. Germany's “Grand Coalition” Government: Prospects and Implications. January 17, 2006 p. 172

⁶⁴Center of Political Technologies. Russian-German relations: after the visit of Angela Merkel // <http://www.politcom.ru/2072.html> 07.02.2012

⁶⁵J. Gower, G. Timmins. Russia and Europe in the Twenty-First Century. London, 2007, p. 225

Medvedev. She thought Medvedev was capable to modernize Russia especially in social sphere and in the field of human rights. Later Medvedev and Putin declared that they both agreed to trade offices well before, Angela Merkel felt deceived.

The Chancellor was deeply disappointed and since it was an initial phase of silence between the Kremlin and the Chancellery. Before the presidential election Angela Merkel sent a message to Vladimir Putin. She told him that as a head of state he should regard making a gesture demonstrating to the West politicians that he was making a new, fresh start, such as the release of Mikhail Khodorkovsky from prison. Vladimir Putin, however, ignored the previous one.

Undoubtedly Vladimir Putin respects Angela Merkel, but at the same time he considers her as being excessively pro-American. Certainly, the Chancellery understands that Germany still remains dependent on many important questions, especially concerning energy supplies. Currently Merkel tries to pressure Putin other way. She has organized for a shake-up in the leadership of the Petersburg Dialogue which was created 11 years ago by Gerhard Schröder (then-Chancellor) and Vladimir Putin in order to provide Russia and Germany a discussion forum for consideration of social and other issues. But critics suppose the Petersburg Dialogue has become a so-called ritualized conference ruled by former leaders and Kremlin officials.

“We have to make it clear that we understand a partnership for modernization as involving more than collaboration in the energy sector,” said Andreas Schockenhoff, a prominent conservative politician and deputy head of the center-right Christian Democratic Union (CDU) party in parliament, who is a coordinator in St Petersburg Dialogue.⁶⁶ By his rigidly worded report on domestic and foreign policy of Russia, he insisted on changes in Russia. Besides, Schockenhoff announced that Germany should support the rise of the middle class in Russia, which demonstrated with their public protests following by the elections to the State Duma, he also added that it is a real force for modernization of Russia.

From the German point of view, Moscow leadership doesn't understand and recognize that Russia is no longer a world power and thus it needs Europe as a reliable and trusted partner for further cooperation. According to the view of the Berlin's administration Russia pretends to be strong because indeed it is actually weak.

The Kremlin sees this situation completely in another way. Vladimir Putin and his advisors consider the Western influence on world politics as decreasing. They noticed that, over the past 30 years, the European Union members' share of the world economy has been steadily declining.

⁶⁶Ria Novosti. Uncertain World: Will the Cold Snap in Russian-German Relations Last? // <http://en.rian.ru/columnists/20121115/177487605.html> 20.12.2012

Russian political scientist Nikolai Slobin claims that Putin is convinced the Western economic model has already a zenith of its global attractiveness behind it.⁶⁷

However, Vladimir Putin believes that Germany continues to play an important role on the global stage. By tradition Putin has presented significant foreign policy initiatives in the Federal Republic of Germany. In 2001, when he spoke before the parliament of Germany, he declared a goal of “united and secure Europe”⁶⁸ in which European countries and Russia could pool their resources.

The European Union is standing on the way toward rapprochement between the President of Russia and the German Chancellor. Vladimir Putin considers the political community as a weak institution with too complicated decision-making process. The Russian Federation wants true cooperation and partnership with Germany.

On the other hand, Angela Merkel recognizes that Germany, as one of the leading power in Europe, must demonstrate consideration to the European Union’s smaller member-states. Due to historical reasons, there is still feeling of profound mistrust among Moscow, Poland and the Baltics, which Merkel cannot disregard.

But it is not the only problems that are responsible for the logjam in relations between Russia and Germany. In this connection it is very important to notice that personal relationships have always played a major role in relations between Moscow and Berlin.

Chancellor Willy Brandt's swimming with Soviet leader Leonid Brezhnev near Yalta in 1971 paved the way for Germany's Ostpolitik policies aimed at normalizing relations and de-escalating Cold War tensions with the communist states of Eastern Europe. In July 1990, Helmut Kohl held talks with Mikhail Gorbachev wearing a cardigan; the wardrobe choice was intended to symbolize their close and trusting relationship. In 2001, Putin and Gerhard Schröder – who are on a first-name basis – took a horse-drawn sleigh ride through snow-covered Moscow.⁶⁹

Russian-German relations are based on equality and mutual respect a pragmatic account of mutual interests, attitude to find a collective response to the challenges of European and world development. An important impetus for rapprochement of the two countries are factors such as interweaving and complementarity of economic potentials, common history, cultural and psychological compatibility of Russians and Germans in integrated Europe.

An intensive Russian-German political dialogue at the highest level gives an overall positive direction of development of cooperation in various fields. A high rhythmicity of bilateral summits,

⁶⁷Deutsche Welle. Resentment strains German-Russian relations // <http://www.dw.de/resentment-strains-german-russian-relations/a-16382648> 10.12.2012

⁶⁸President of Russia. Speech in the Bundestag of the Federal Republic of Germany, September 25, 2001. Berlin // http://archive.kremlin.ru/eng/speeches/2001/09/25/0001_type82912type82914_138535.shtml 30.05.2012

⁶⁹By Ralf Neukirch and Matthias Schepp. Chilly Peace: German-Russian Relations Enter a New Ice Age // Spiegel, 30.05.2012

including the mechanism of the annual Russian-German Government Consultations at the highest level with the participation of members of government, close working and personal relationship of leaders provide an ongoing vector to the partnership for the future prospect. An interaction at the governmental, departmental, inter-parliamentary and regional levels, in the line of business and civil societies of the two countries has become systemic. Therefore, undoubtedly, the bilateral relations between Russia and Germany can be evaluated as positive.

So, in 2010 there were six meetings of the President of Russia Dmitry Medvedev and Chancellor Angela Merkel. Largely Russian-German summit in Meseberg on June 4-5 during which the leaders of the two countries initiated the establishment of the Committee of the EU-Russia at the ministerial level on issues of foreign policy and security policy had a breakthrough character.⁷⁰

The 12th round of the top-level Russia-German Government Consultations which have defined the main directions of bilateral interaction in line with positively proved format – the strategy “Partnership for Modernization” carried out on July 14-15, 2010 in Yekaterinburg under the chairmanship of the President of Russia Dmitry Medvedev and German chancellor Angel Merkel was of great importance. Prospects of trade and economic cooperation were considered. In addition priority measures aimed at its transition to an innovative way of development, promotion of significant investment projects, shaping of modernized alliances of the Russian and German companies, first of all, in hi-tech areas were defined.

The scale, depth and degree of branching of bilateral interrelations were confirmed convincingly by the state visit to Russia of the Federal President of Germany C. Wulff which has taken place on October 11-15, 2010. It is symbolic that the new President of Germany, who took office on July 2, made one of his first visits of such level to the Russian Federation. On November 25-26, 2010 the Russian Prime Minister Vladimir Putin paid a working visit to Germany. On November 7-8, 2011 President of Russian Federation Dmitry Medvedev paid an official visit to Germany, during which the opening ceremony of the first stage of the Nord Stream gas pipeline took place.⁷¹ Contacts at the level of foreign ministers, heads of other ministries and departments are regular.

Inter-parliamentary exchanges and contacts between the special-purpose committees and the parliamentary faction of the State Duma of Russia and the Bundestag of Germany are implemented according to the plan. Thus, it is possible to consider it as a sign of special relationship established between Russia and Germany. The State visit gave further impetus to the work carried out in the

⁷⁰The Ministry of Foreign Affairs of the Russian Federation. Russian-German relations // <http://www.ln.mid.ru/bdomp/ns-reuro.nsf/348bd0da1d5a7185432569e700419c7a/0203fe9f64a3fb3844257a000043ba6a!OpenDocument> 20.11.2012

⁷¹Radio “The Voice of Russia”. Russian-German Relations. // http://rus.ruvr.ru/2013_04_07/Rossijsko-germanskie-otnosheniya-Spravka/ 07.01.2013

areas of historic reconciliation, cultural and humanitarian cooperation and youth exchanges, interuniversity partnerships, inter-regional relations, including the movement of the twin cities and the dialogue of civil societies.

Arising from the past problematic issues between the Russians and the Germans closed in political terms, once and for all. This allows them to interact successfully today and set priorities for the future. This approach should be decisive in formation of harmonious international relations across Europe.

“The beginning of the XXI century has proved that the German-Russian partnership is developed successfully despite everything. This partnership is not directed against anyone. It is useless to seek in it the features of block, union or coalition”⁷² – rightly pointed out one of the leading Russian specialists in Germanic studies, I.F. Maksimychev.

2.6 The role of the public forum “Petersburg Dialogue” for the Russian-German cooperation

Undeniable contribution to the implementation and promotion of bilateral initiatives and projects between Russia and Germany made a public Forum “Petersburg Dialogue”, which was founded in 2001 and initiated by Russian President Vladimir Putin and former Chancellor of Germany Gerhard Schröder. It acts as an open, broad forum for the discussion of current political, economic, social, cultural and other relevant issues, as well as the main problems and prospects of the German-Russian relations. Creation of the Forum took place on the background of the rapid development of Russian-German relations and strengthening of the position of Russia on the world stage.

The main purpose of the forum is deepening of mutual understanding between Germany and Russia, establishment of a constructive dialogue between all areas of public life of the two countries. It promotes the creation of a solid and stable platform for bilateral fruitful cooperation, regardless of the current political situation. The value of the Forum is that on the basis of the “Petersburg Dialogue” many projects that affect almost all directions of cooperation between Germany and Russia, from the economy to health and culture, are implemented. The main advantage of the “Petersburg Dialogue” is that there is a process of discussion and finding the best ways of cooperation involved representatives from all areas of both Russian and German society.

⁷²I.F. Maksimychev. The German Factor in the European Policy of Russia: 1914-2004, Moscow, Institute of Europe RAS, 2004, p. 156

The Forum “Petersburg Dialogue” is managed by an independent, formed on a parity basis Coordinating Committee, which is responsible for the financing, planning, thematic preparation and convocation of the "Dialogue". Coordinating Committee includes 20-25 of the prominent figures of public life from Russia and Germany reflecting the full range of potential participants of the “Petersburg Dialogue”. Each side has a permanent secretariat. Secretariats solve organizational issues connected with the Forum and the sessions of the Coordination Committee.

The first Forum was held in St. Petersburg in April 2001. The topic of the Forum was “Russia and Germany at the turn of the XXI century - a look into the future”. It was attended by about 100 representatives of Russian and German society.⁷³ They are divided into eight thematic working groups – “Politics”, “Economy”, “Science and Education”, “Mass Media”, “Civil Society”, “Churches”, “Workshop of the Future” and “Culture”. The working groups discuss specific issues of cooperation between the two countries. The “Petersburg Dialogue” is held under the auspices of the President of the Russian Federation and the Federal Chancellor of Germany.

In the future the Forum was held annually. Venue for the annual Forum were alternately Russian and German cities. Until 2008, the venue for the “Petersburg Dialogue” in Russia has always been St. Petersburg, but then due to the urgent wish of the German side, it was decided to move to the rotation of the cities. The first chairman of the Russian Coordinating Committee became Interior Minister Boris Gryzlov, the German - the member of the supervisory board of the publishing house “Axel Springer” Peter Bönisch. In 2002, the Russian Coordination Committee headed by Mikhail Gorbachev, who in 2009 was replaced by Viktor Zubkov. On the German side after the death of Peter Bönisch the chairman of the Coordinating Committee was Lothar de Maiziere. In the early years of the “Petersburg Dialogue”, the number of participants was 70-80 representatives from each side, but in the second half of the 2000s, this number increased to 100-150.⁷⁴

Since 2001 a unified scheme of the conducting the annual Forum was gradually established. The Forum continued for 2-3 days. The plenary session followed after the official opening. In the frame of this session took place a podium discussion on the main topic of the “Petersburg Dialogue”. In the early years of the Forum 2-3 representatives from each side participated in the podium discussion.

After the podium discussion followed the sessions of the thematic working groups, each of which had its own agenda. In 2011, after the sessions of the working groups four thematic panel

⁷³Forum “Petersburg Dialogue”. The history of the Forum. // <http://www.petersburger-dialog.ru/Info/History> 10.02.2013

⁷⁴Deutsche Welle. “Not Everything Can Revolve Around Gas” // <http://www.dw.de/not-everything-can-revolve-around-gas/a-2199460> 23.11.2012

discussions were organized for the first time, and the choice, where to take part, was given to the participants of the Forum.

The final event is a plenary meeting with the leaders of the two countries on which the results of the Forum are summed up. For almost the entire history of the “Petersburg Dialogue” at the final plenary session made the reports co-chairs of the Coordinating Committee followed by brief speeches of the President and the Federal Chancellor of Germany. State leaders also answered the questions of participants of the Forum.

Sessions of the Forum are accompanied by a large number of numerous arrangements, which include cultural events, exhibitions, press-conferences. Very often in the frame of the Forum the most important bilateral documents are signed. Regarding the choice of the main topic of the Forum, each year it is defined by the list of the most relevant issues for Russia and Germany. So, for instance, the topic in the 2010 was “The Russian and German society in the next decade”, in 2011 – “Citizens, society and the state - partners in the modernization” and in 2012 – “Russia and Germany: the information society facing the challenges of the XXI century”. Forum participants both on the plenary sessions and in the working groups moved from the general and abstract questions to the specific problems and cooperation projects.⁷⁵

This is due to the fact that the parties had only to create an atmosphere of trust and cooperation and to exchange views on a wide range of issues, forming the basis for further, more specific discussions. By the second half of the 2000s, this task was largely accomplished. Since 2008, more and more time in the discussions is devoted to the problems of modernization. It is connected with the proclamation in 2008 of the Russian-German “partnership in the field of modernization”, in which the “Petersburg Dialogue” takes an active part.⁷⁶

A very important issue is the level of openness in dialogue and mutual understanding of the participants. This is one of the key issues, which is of great importance. It goes without saying that it is impossible to express the level of trust and understanding in the figures, however, in accordance with the subjective assessment of participants of the “Petersburg Dialogue”, from 2001 to 2012 at the sessions of the Forum, it has increased significantly. The discussions have become more open, the parties make efforts to understand each other better.

If in the first years of the “Petersburg Dialogue” its activity was limited essentially by the organization and conducting of the annual Forums, however, from the mid- 2000s the situation has gradually begun to change. The “Petersburg Dialogue” has become a year-round structure. First of

⁷⁵Forum “Petersburg Dialogue”. The history of the Forum. // <http://www.petersburger-dialog.ru/Info/History> 10.02.2013

⁷⁶Natalia Meden. Strategic Culture Foundation. Online journal. To the results of the Russian-German Government Consultations. November 20, 2012 // <http://www.fondsk.ru/news/2012/11/20/k-itogam-rossijsko-germanskih-mezhpravitelstvennyh-konsultacij-17783.html> 04.02.2012

⁷⁶Forum “Petersburg Dialogue”. The history of the Forum. // <http://www.petersburger-dialog.ru/Info/History> 10.02.2013

all, this was accomplished by enhancing the working groups, which began to hold meetings between the annual Forums. Today, each working group held on average 2-3 additional sessions a year.

Furthermore, the Forum held Russian-German conferences, seminars and workshops on a wide range of issues. Their number has increased dramatically in 2011. As an example, the Conferences of Young Scientists on the Russian-German relations, that are held annually at the St. Petersburg State University.

From the mid-2000s has begun a work on the specific projects under the auspices of the “Petersburg Dialogue”. In particular, the following major projects were implemented:

- Koch – Metschnikow – Forum. It was founded in 2006 with the aim of communication between representatives of the health care system of both countries).
- Partnership in the field of modernization. Advanced by Foreign Minister Frank-Walter Steinmeier in June 2008 the idea of the “partnership in the field of modernization” was enthusiastically received by the Forum-members. In October 2008, in the frame of the next annual Forum in St. Petersburg was signed the “Declaration on the development of the Russian-German partnership in the field of modernization”.⁷⁷ In 2011 was announced the first results in this field, in the frame of the annual Forum in Hannover were signed two Russian-German agreements.
- Projects in the field of culture.
- Peter Bönisch Award. It was founded in 2008 and is awarded to young Russian and German journalists, promoting by their activities to the rapprochement and mutual understanding between the civil societies of the two countries.
- Social forum. Russian-German social forum was founded in 2011 with the aim of close cooperation between Russian and German non-profit organizations working in the social sector, and to improve their interaction with the public authorities. Social Forum should be networked, uniting as much as possible different players.

It is worth mentioning about projects and events in the frame of the working group “Politics”. On December 15-18, 2011 at the Eco-Club (Valdai) was a meeting of the working group "Politics" of the Forum “Petersburg Dialogue”. The issues concerning the European Union and the Eurasian Union, in particular, prospects and limits of the European integration and prospects of integration in the former Soviet Union, relations of the EU/Germany to this process were discussed within the meeting. Furthermore, discussed was the question of the Pacific Ocean, whether it will be the new center of the world and what consequences should expect Russia and Germany.

⁷⁷ Forum “Petersburg Dialogue”. The history of the Forum. // <http://www.petersburger-dialogue.ru/Info/History>
10.02.2013

Besides were covered such crucial topics as: economic growth of East Asia: opportunities and Challenges for Russia and Germany / EU; whether Russia can be a bridge between Europe and the Pacific Ocean. On the last day of the session the political results of the year 2011 were summed up.

On March 1-4, 2013 was the next meeting of the working group “Politics” which took place in the summer residence of the first Federal Chancellor of Germany Konrad Adenauer in Cadenabbia. On the first day a report on the topic of "The Eurasian Union: integration or disintegration?" made Dr. Martin Sieg, Bundestag Deputy Bureau Manfred Grund, the German Bundestag, Berlin and Stanislav Germanovich Eremeev, Dean, Head of The Chair of the Russian policy of St. Petersburg State University, St. Petersburg.⁷⁸

Furthermore, Dr. Romanova, Associate Professor of St. Petersburg State University, produced the report about the current state of relations between the Russian Federation and the European Union. In addition, interesting reports on the topic of current political situation in Mali, Syria, Iran and North Korea were presented by Dr. Marina Lebedeva, Head of The Chair of Global political processes, Moscow State Institute of International Relations, prof. Dr. Carlo Masala, Professor of International politics, the University of the Bundeswehr, Munich and K.K. Hudoley, Head of the working group “Politics”, Head of the Chair of European Studies, St. Petersburg State University.

Discussions on the relevant domestic policy and socio-political processes in Germany and Russia took place on the second day of the meeting. Also, the participants of the meeting discussed the future plans of the group and possible development of the Forum “Petersburg Dialogue”.

The following important event in the frame of the working group “Politics” was International scientific conference “Russia and Germany in international relations: through centuries of history” which was held on March 7, 2013 in the St. Petersburg State University. It is the biggest joint conference of historians from both countries. It was attended by scientists from St. Petersburg State University, Institute of History, Russian Academy of Sciences, University of Hamburg, Heidelberg, Greifswald, other Russian and German research centers and universities.

At the conference, historians have discussed the most pressing scientific challenges of the relationship between Russia and Germany in the overall system of international relations - from the Middle Ages to the present. They examined specific aspects of Russian-German relations in the historical perspective of political and diplomatic cooperation, provide a scientific analysis of this relationship in a single historical context of international development.

⁷⁸Forum “Petersburg Dialogue”. The working group “Politics”. Projects and Events. // <http://www.petersburger-dialog.ru/Group/Policy/News> 11.02.2013

“In the relations between Russia and Germany were different pages from historical point of view, - said Professor Abdullah Daudov, Acting Dean of the Faculty of History of the St. Petersburg State University. – Today. Germany is the reliable partner of Russia in many different fields of cooperation such as politics, economy and culture. Our joint task is to seek and find common points, and new forms of rapprochement and mutual understanding between the two peoples. And scientific research in these areas is extremely important.”⁷⁹

“There are cases when the views of the Russian and German historians on the same events are different, but it does not prevent a joint search for the truth. In Soviet times, many problems were concealed, but now we can talk about them and argue,”⁸⁰ - said Professor Norbert Angerman.

It should be noted that despite the progress made in the Forum “Petersburg Dialogue”, a discussion platform loses its importance and effectiveness. On the one hand, it can be explained by the fact that for any such project is necessary a regular rotation of the agenda. On the other hand, there is such phenomenon as “overlapping” in the relations between Russia and Germany. It means that there are several structures and organizations that very often solve the same tasks and fulfill the similar functions. So, for instance, apart from the Forum “Petersburg Dialogue”, there is also the German-Russian Forum. The organization was founded in 1993 in Berlin.

The Forum is a private, independent and above party public organization that supports the development of social dialogue between Germany and Russia. Forum members are prominent figures in politics, business, science, media and culture. The work of organization is financed by membership fees. In addition, in financing of individual projects are involved various funds and sponsors. Currently, the German-Russian Forum has more than 270 members, of which 47% are representatives of economy, 7% - of Policy, 7% - of Mass Media, 12% - of science, and the remaining 11% comes from various unions, trade unions and NGOs.⁸¹

The German-Russian Forum serves as the organizational bureau of the “St. Petersburg Dialogue”. In addition Forum organizes and conducts conferences, seminars and panel discussions on the central themes of the German-Russian relations for young leaders and decision-makers from Germany and Russia. A special consideration is given to the field of politics, economy, culture, promoting young leaders and regional associations.

One of the numerous projects of the German-Russian Forum is a web portal about Russian culture in German – Kulturportal Russland⁸².

⁷⁹Forum “Petersburg Dialogue”. The working group “Politics”. Projects and events. // <http://www.petersburger-dialog.ru/Group/Policy/News> 11.02.2013

⁸⁰Deutsche Welle. Resentment strains German-Russian relations // <http://www.dw.de/resentment-strains-german-russian-relations/a-16382648> 10.12.2012

⁸¹German-Russian Forum. // <http://www.deutsch-russisches-forum.de/index.php?id=russisch> 01.03.2013

⁸²Cultural Portal – Russia. // <http://www.kulturportal-russland.de/veranstaltungen.jsp?find=true> 01.03.2013

Since 1994, Forum annually awards the Dr. Friedrich Joseph Haass - prize for outstanding achievements in the field of German-Russian understanding. This award is named in honor of the “holy doctor” from the town of Bad Münstereifel, who acted unselfishly for the rights of prisoners and exiles. The prize in the amount of 5,000 Euros is awarded to persons who have made a special contribution to the development of German-Russian relations.⁸³

Notwithstanding the foregoing, both the Forum “Petersburg Dialogue” and the German-Russian Forum are designed not only to strengthen the Russian-German relations and to promote mutual understanding between the two countries, but also to impact positively on the relationship between Russia and the European Union in general.

2.7 Institutions of the Russian-German partnership.

At the present time the Russian-German partnership in the political field is based on a quite broad institutional framework. First of all, it is necessary to mention the diplomatic missions of the two states.

Currently, in Russia acts Embassy of the Federal Republic of Germany in Moscow and four consulates general - in St. Petersburg, Kaliningrad, Yekaterinburg and Novosibirsk. Honorary consuls of Germany are in Omsk Oblast and in Saratov Oblast. In turn there is Embassy of the Russian Federation in Berlin, located in the building of the former Soviet Embassy in East Germany. Russian Consulates General are in Hamburg, Bonn, Leipzig and Munich. Through the institutions of the Ministry of Foreign Affairs implemented current contacts in the field of political relations, negotiations and preparation of international agreements.

In the line of inter-regional cooperation partnership relations support 23 federal subjects of the Russian Federation and 14 of the 16 Federal Lands of Germany (not covered only Saarland and Bremen). More than 170 regional agreements and arrangements of various kinds are implemented. The most close contacts with the German Länder support Moscow, St. Petersburg, Moscow Oblast, Nizhny Novgorod Oblast, Kaluga Oblast, Saratov Oblast, Kaliningrad Oblast, Ulyanovsk Oblast, the Urals Region and Krasnodar Krai. More than 100 pairs of Russian and German cities have established a partnership (the 11th meeting of the twin cities took place on April 13-15, 2011 in Rothenburg ob der Tauber). It is important to mention that social contacts and exchanges become deeper and more intensive.

Since the reunification of Germany summit meetings play a big role in the bilateral relations between Russia and Germany. Meetings of the first Russian President Boris Yeltsin and the Federal Chancellor Helmut Kohl occurred often enough, their “male bonding” was widely promoted. At the

⁸³German-Russian Forum. Areas of activity. // <http://www.deutsch-russisches-forum.de/index.php?id=304> 01.03.2013

beginning of the XXI century between Vladimir Putin and Gerhard Schröder had the same friendship - it was often called as “the strong vertical of the Russian-German relations”.

However, the leaders had already thought about how to set up a mechanism of regular meetings on a broader basis. Political dialogue between Russia and Germany has a systemic and progressive nature. In 1998, for the first time took place the Russian-German Government Consultations, in which, among the leaders of the States participated sectoral ministers. Since 1998 the Russian-German bilateral Government Consultations with the members of the governments of Russia and Germany are annually held.⁸⁴

On 18-19 July 2011 in Hanover was the 11th meeting of the Russian-German public forum "Petersburg Dialogue", initiated by the Russian President Vladimir Putin and the Chancellor of Germany Gerhard Schröder (inauguration meeting was held on April 8-10, 2001 in St. Petersburg).⁸⁵ At the same time in Hannover took place the 13th Russian-German Government Consultations. In November 2012 took place 14th Government Consultations. Thus such high-level meetings are of regular nature and participation in the negotiations of sectoral ministers can cover a wider and diversified agenda.⁸⁶

When in 2005 Angela Merkel came to power personal relations between the leaders pale into insignificance but it did not reduce the intensity of the contacts at the highest level. Meeting of the leaders of the two countries held several times a year, with not only discussions of the relationship between Russia and Germany, but also the world processes, there is also an exchange of views concerning the issues of international relations.

The working group “Politics” within the civil society Forum “Petersburg Dialogue” is of a great importance for political cooperation between Russia and Germany. Within its framework, there are politicians, experts and members of the public who discuss pressing issues of relations between the two countries in the atmosphere of free and open discussion. For example in 2011 the meetings of the working group “Politics” were devoted to the issues such as the architecture of European security, the threat of Islamic radicalism and growing role of the Asia-Pacific region in international relations.

⁸⁴Center of Political Technologies. Russian-German relations: after the visit of Angela Merkel // <http://www.politcom.ru/2072.html> 07.02.2012

⁸⁵Forum "Petersburg Dialogue" // http://petersburger-dialog.de/sankt_petersburg_2001 25.11.2012

⁸⁶Natalia Meden. Strategic Culture Foundation. Online journal. To the results of the Russian-German Government Consultations. November 20, 2012 // <http://www.fondsk.ru/news/2012/11/20/k-itogam-rossijsko-germanskih-mezhpravitelstvennyh-konsultacij-17783.html> 04.02.2013

3. TRADE-ECONOMIC RELATIONS BETWEEN RUSSIA AND GERMANY

3.1 Formation of the Russian – Germany trade and economic relations.

Relations between Russia and Germany have developed over many years. Russian-German relations are saturated with examples of cooperation as well as bitter rivalry. Culminating in outright conflicts which dramatically damaged not only Russia and Germany, but the world at large. Since the end of the Cold War and reunification of Germany both countries have developed a new direction in bilateral relations that calls for a “Strategic Partnership” in which energy is undoubtedly the most significant factor.

During his meeting with former Russian President Dmitry Medvedev, German President Christian Wulff said, “relations between Russia and Germany is an example of how it’s possible from the very difficult period of relationship to move not simply to the good neighborly, but rather to strategic partnership, friendly relationship.”⁸⁷

The basis for both expanded trade and increased economic integration between Russia and Germany are their legal agreements. Those agreements are: Agreement between the Russian Federation and the Federal Republic of Germany on avoidance of double taxation with respect to taxes on income and property, signed on Mai 29, 1996⁸⁸; Protocol of Amendment to the Agreement between the Russian Federation and the Federal Republic of Germany on avoidance of double taxation with respect to taxes on income and property, signed on October 15, 2007⁸⁹. The Protocol provides a correction of the maximum amount of capital investment required for the application of a reduced rate of taxation of dividends because of the transition of the Federal Republic of Germany to the new currency (Euro).

It is also important to mention the Declaration between Ministry of Economic Development of the Russian Federation and Federal Ministry of Economics and Technology on key areas of economic cooperation within the framework of the Partnership for Modernization.⁹⁰ Signed on November 26, 2010 in Berlin this Declaration affirms both parties:

⁸⁷President of Russia. Meeting with the Federal President of Germany Christian Wulff. // <http://kremlin.ru/news/13420> 20.11.2012

⁸⁸Agreement between the Russian Federation and the Federal Republic of Germany on avoidance of double taxation with respect to taxes on income and property. (Mai 29, 1996) // http://www.mid.ru/bdcomp/spd_md.nsf/0/998346DD5DAEA66244257B52001DCCFE# 15.11.2012

⁸⁹Protocol of Amendment to the Agreement between the Russian Federation and the Federal Republic of Germany on avoidance of double taxation with respect to taxes on income and property. (October 15, 2007) http://www.mid.ru/bdcomp/spd_md.nsf/0/FD62300148AC99DC44257B52001DA832 15.11.2012

⁹⁰Declaration between Ministry of Economic Development of the Russian Federation and Federal Ministry of Economics and Technology on key areas of economic cooperation within the framework of the Partnership for Modernization // <http://formodernization.com/partners/dec-Germany.pdf> 21.12.2012

- intent to strengthen cooperation in mutual investment
- intent to remove the barriers and restrictions hindering the commercialization of the results of innovative activity in the framework of bilateral economic cooperation
- intent to make further efforts to improve the business climate of economic management
- support the further development of cooperation between business associations of Russia and Germany
- agree to promote economic cooperation, including the area of mutual investment in key sectors of the economy
- confirmation of the key role of the Russian-German Energy Agency for further intensification of cooperation in the field of energy efficiency and increasing the use of renewable energy sources
- recognition of the key role of the Russian-German strategic working group on cooperation in the field of economics and finance for the development of the Russian-German economic relations to modernize the economy of Russia and Germany

Otto Wolff von Amerongen was perhaps the driving force behind the building of Russian-German trade and economic relations. He was one of the original members of the Russian-German Chamber of Commerce. He stressed, “in the hard years of the Cold War, only making continuous efforts, we were able to maintain the channel of business relationships, and so until the new political thaw has not come.”⁹¹ An activity of Eastern Union yielded favorable results very soon, - and this is largely due to the flair of Otto von Amerongen, his invaluable business experience and high communications and diplomatic talents.

Due in large part to the active promotion of the Eastern Union, Soviet-German foreign trade increased rapidly. As early as 1956 German exports greatly exceeded German imports from the Soviet Union. The significant progress in economic relations within the countries of the Treaty of Warsaw was felt far before the signing of the Soviet-German trade agreement in 1958. Though the real breakthrough in the German-Soviet economic relations, undoubtedly, was the first natural gas pipelines set up in 1970. It was "a deal of the century", and the culmination of the work done by Otto von Amerongen.

In the late 1980's and early 1990's, the political landscape of the Soviet Union and Eastern Europe underwent a dramatic change. Otto Wolff, who in the mid-1950s headed the Committee on Eastern European Economic Relations, not only welcomed, but encouraged the integration of former Soviet Republics into the world economy. In 1993, he helped create the Representative office of the German economy in the Russian Federation. In 1995 he founded the Union of the

⁹¹ Peter Danylow; Ulrich Soenius (Hg.): Otto Wolff. Ein Unternehmen zwischen Wirtschaft und Politik. München, 2005

German economy in the Russian Federation. Widely respected in both Russia and Germany, Otto Wolff was the logical choice to be the first president of the Union. He held that title honorary until his death in March 2007.⁹²

Germany is one of Russia's main trade partners; especially in regards to Russian trade with the European Union. Russian-German partnership was established as a political reality and represents an independent unit in the Euro-Atlantic region. Fields of coinciding interests between the two countries are based around a polycentric world order model. While there are certainly disagreements, this allegiance is a source of stabilization and provides a vital avenue of communication.

The transformation of the international political system and increased global economic cooperation accelerated by the global financial and economic crisis opens for Russia and Germany further opportunities for rapprochement. For example, European security architecture, strengthening global and regional stability, opening and implementation of the potential for cooperation within Russia – EU and Russia – NATO, interaction within the Group of Eight (G8) and the Group of Twenty (G20).

Since the fall of socialism, relations between Russia and Germany have been, on the whole, profitable. Though, there are sources of tension between these two countries. Recently, Angela Merkel - as well as several other EU countries - has been more critical and clashed with Russian president Vladimir Putin. The issues include human rights violations, political reforms, corruption, and Gazprom.⁹³ In this context it is also important to notice such problems of Russia with the EU as meddling in Russia's internal system, NATO missile shield, Magnitsky act support, visa free travel, etc. Nevertheless Angela Merkel had very good and pragmatic relations with former Russian President Dmitry Medvedev.

Today, Germany has a strong interest in Russia. Germany and Russia hold frequent meetings, high-level visits, and talks on not only trade and economic issues, but political, cultural, and travel issues as well. Trade and economic relations between Russia and Germany are extremely extensive. For many years Germany has consistently ranked first among trading partners in St. Petersburg. German entrepreneurs are the most active in the creation and development of new businesses in the city. This is supported by the amount of foreign tourists visiting St. Petersburg, Germans clearly are the largest group.

⁹²Otto Graf Lambsdorff: Rede anlässlich der Gedenkfeier für Otto Wolff von Amerongen am 26.11.2007 in Berlin

⁹³New York Times. "Putin Prompts Split in German Coalition." Landler, Mark (May 22, 2007) // http://www.nytimes.com/2007/05/22/world/europe/22europe.html?_r=1 30.11.2012

3.2 Development of the Russia – German trade and economic relations

The Chairman of the Committee on Eastern European Economic Relations, Eckhard Cordes, in one of his speeches at the German-Russian Congress on “90 years of German-Russian trade relations: directions of growth and innovation up to 2020” said that the two countries have considerable potential in the field of economic partnership, which is not fully implemented.⁹⁴

When analyzing trade and economic cooperation between Russia and Germany and its future prospects, it is necessary to mention the economic conjuncture in Russia, as well as Russia's recent accession to the World Trade Organization (WTO).

The Russian economy could recover after the global economic crisis thanks to attractive commodity prices. In 2009 was negative economic growth of 7.9 percent, but in 2010 and 2011 economic growth rates improved 4.3 percent. Furthermore, the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD) and the World Bank expect a solid growth rate of 3.3 to 4 percent in 2012. Experts estimate that in the next two years (2013-2014) GDP will increase from 4 to 5 percent. This forecasted rate is due primarily to higher oil prices an expected increase in oil prices. The public debt in Russia remains at a relatively modest 10 percent of GDP.⁹⁵

Structurally, the Russian economy is still highly dependent on natural resources such as oil and natural gas. These account for approximately 80 percent of Russia's exports and finance about 50 percent of the state budget. Unfortunately, these resources are hampered by high levels of corruption, a bloated and inefficient bureaucracy, and legal instability. According to the Doing-Business-Index of the World Bank Russia ranks at the end of Midfield (2012: 120 of 183). By comparison, Russia is ranked lower than every other BRICS country, as well as Germany (19 of 183). This has resulted in a relatively low rate of foreign investment.

Furthermore, Russia's net capital outflow increased from 27 to 60 billion Euros in 2011. While part of money goes toward the development of Russia's geopolitical aims, and another significant portion is foreign investment. The high level of foreign investment is due, in large part, to the low level of confidence in the Russian legal system or brought by foreign investors out of the Russian market.

Macroeconomic indicators in 2011 showed a minimal level of inflation over the past 20 years (6.6 percent). Consumer prices increased during this period almost in three times. Ruble exchange rate remained relatively stable during the year, and by the end of the year increased

⁹⁴Russian Newspaper. Russia and Germany Celebrated 90 Years of Trade Relations. // <http://www.rg.ru/2011/05/15/kordes-site.html> 17.11.2012

⁹⁵ A.L. Kevesh. Federal State Statistic Service of the Russian Federation. Russia and EU Member States 2011. Statistical book. Moscow, 2011, p. 156

significantly against the euro. Industrial production rose by 4.7 percent, though that is not enough to allow for the implementation of Russia's ambitious modernization plans.⁹⁶ On the bright side, 2011 was characterized by large investments in manufactured goods, which, among other things, was positively affected by German manufacturers of machinery and equipment.

There is additional good news in Russia's economic forecast. Russia's foreign trade balance, has sustained exceptionally strong growth. Russia's exports in 2011 totaled 516 billion dollars and in comparison with 2010 increased by 30 percent. Imports also increased by 30 percent, reaching 306 billion dollars. Thus, a positive foreign trade balance was reached again and totaled 210 billion dollars.⁹⁷

Competitive and high-quality products remain a scarce commodity in Russia, and are confined to the sphere of telecommunications, information technology and individual areas of aerospace and defense industry. Russia has tried to improve her current situation by means of importing high-tech products, machines, equipment, and technical “know-how”.

Recently, following the disputed presidential elections in 2011, mass protests broke out, driven by a new urban middle class. These citizens, unhappy over current social and political situation in Russia has forced the government announce several important political reforms. For example, the direct election of governors should be reintroduced, an independent, public television channel will be created, and in April 2012 an admission of parties was facilitated. Newly re-elected Russian President Vladimir Putin in a propagandized newspaper article in February 2012 laid out extensive economic changes. These changes include the privatization of large state enterprises. He went on to say that by 2020 Russia should have a diversified, global, competitive, and medium-sized businesses oriented economy with a high share of modern technology.

The most important step in Russia's economic diversification was its joining the World Trade Organization (WTO) on December 16, 2011. Russia's accession to the WTO should have a positive impact on the Russian economy, especially since it provides the basis for the establishment of a free trade area with the EU. The World Bank estimates the resulting growth of 11 percent of GDP by 2021. Joining the WTO will strengthen the integration of Russia into the world economy, open up the country to foreign goods and increase investment security. Joining the WTO will make export to Russia easier and cheaper. As a consequence, this will lead to an increase of fair competition, promote economic development and, ultimately, will be beneficial to the consumer. The staging of the 2014 Winter Olympics in Sochi and the World Cup in 2018 emphasize this positive development, as well as the joining the OECD Convention on corruption in February 2012.

⁹⁶ A.L. Kevesh. Federal State Statistic Service of the Russian Federation. Russia and EU Member States 2011. Statistical book. Moscow, 2011, p. 160

⁹⁷ Ibid. P. 169

3.2.1. *Economic relations with Germany*

A solid foundation and driving force of Russian-German relations is their large economic and trade cooperation. Before the recent financial crisis, the annual growth of trade with Germany - which for many years was the first by the value of foreign trade partner of Russia – averaged 15-25 percent that reached in 2008 a record 67.3 billion dollars.

During the global financial crisis, Russian-German economic relations generally reaffirmed their stability. However in 2009 the volume of bilateral trade decreased by 40.6 percent. At the same time though, none of the major investment projects was frozen and the process of forming strategic alliances between Russian and German companies in the industrial, scientific and technical cooperation continued.⁹⁸

Recovery of the Russian and German economies in 2010 contributed to the rehabilitation of advancing dynamics of the mutual trade. For the first three quarters a commodity circulation increased by over one third and amounted according to the Federal State Statistics Service 36 billion dollars.⁹⁹ At the same time in 2010, Germany gave way to the Netherlands and China on trade volume with Russia for the first time.

This situation is partly explained by the fact that an increasing proportion of German goods that are sold on the Russian market are produced in Russia. This, in turn, testifies to new quality of economic interaction in which a more and more important role is played in investment cooperation.

The German investments into the Russian economy in 2011 amounted 6387 million dollars. Thus, Germany took the third place after Great Britain and the Netherlands. In terms of direct investments into the Russian economy in 2010, Germany took fourth place after Cyprus, the Netherlands and France. The total amount of accumulated German direct investments in Russia in 2010 amounted to 348 million dollars.¹⁰⁰ Today German companies are represented in all sectors of the economy including strategic. Today German companies are represented in all sectors of the economy including defense.

Germany is Russia's second largest trading partner behind only China. In 2011, German exports to Russia rose 34 percent to reach 27 billion Euros (34 billion dollars), while imports climbed by 27 percent to reach 25 billion Euros. So, the trade volume set a new record and amounted to 75 billion Euros. Germany continues to strengthen its position within the Russian market. In comparison with 2010, trade increased by 16.9 billion Euros. Russian exports to Germany reached 40.5 billion Euros, while the volume of goods and services imported from

⁹⁸Embassy of the Russian Federation in the Federal Republic of Germany. Trade and Economic Relations. // <http://russische-botschaft.de/ru/dvustoronniensbpotnoshenija/rossiisko-germanskie-torgovo-ehkonomicheskie-otnoshenija.html> 24.11.2012

⁹⁹Ibid.

¹⁰⁰A.L. Kevesh. Federal State Statistic Service of the Russian Federation. Russia and EU Member States 2011. Statistical book. Moscow, 2011, pp. 260-261

Germany to Russia amounted to 34.4 billion Euros. Thus, in 2011, the Russian-German export surplus was again negative (6.1 billion Euros), that explained by the significant rise in oil prices (up to 109.8 dollars per barrel Urals).

Russian exports to Germany also continue to rise. On volumes of export to Germany, Russia is 7th, while on the volume of imports from Germany is in the 12th. German exports, mostly manufactured goods, increased by 31 percent, while imports, mainly energy sources, rose by 27 percent. In the meantime, about 6,300 German companies opened subsidiary enterprises and representative offices in Russia.¹⁰¹

A number of factors indicate the possibility of further growth of German exports to Russia which should reach all time highs in 2012. Russia's expected economic growth of 2-3 percent, joining the WTO, investing in the 2018 World Cup, 2014 Olympic Games, continued expansion of Russia's energy sector and health care system will continue to promote increased German investments and exports.

Macroeconomic conditions in Russia show a positive development, an expected growth of the gross domestic product will be about 3-4 percent. According to forecasts of the Ministry of Economy, GDP will grow by 3.7 percent, the experts of the Higher School of Economics predict 3.4 percent, and representatives of the bank Unicredit predict 3.9 percent.¹⁰²

The German automobile industry is also expected to see continued growth within the Russian market. Russia's WTO accession will lead to a decrease customs duties on new cars. The reduction of 25 to 30 percent, and on the used cars aged from three to seven years from 25 to 35 percent will lead to a reduced cost, which should lead to more sales. Within the next seven years Russia plans to implement a gradual reduction of duties by up to an additional 15 percent. At the same time the extremely high tariff barriers on imports of old used cars will not change.¹⁰³

Another industry that has excellent chances for the sale of German products is a Russian energy. By 2020, Russia has planned to build new plants for electricity generation and to invest upwards of 280 billion Euros to upgrade their existing plants.

The health sector is also characterized by the presence of promising prospects. Until now, the main suppliers of medical equipment were German manufacturers. One quarter of all imported medical equipment to Russia is imported from Germany. If the forecasts of the Ministry of Health and numerous market observers justify themselves, Russia's healthcare market should quadruple by

¹⁰¹ The Committee on Eastern European Economic Relations // <http://www.ost-ausschuss.de/russland#wibebeziehungen> 20.01.2013

¹⁰² Embassy of the Russian Federation in the Federal Republic of Germany. Trade and economic relations. // <http://russische-botschaft.de/ru/dvustoronnienspotnoshenija/rossiisko-germanskie-torgovo-ehkonomicheskie-otnoshenija.html> 24.11.2012

¹⁰³ Russian-German Chamber of Commerce. The success of the brand cars «Made in Germany» // <http://russland.ahk.de/ru/publikacii/impuls/inhalt-impuls-2008/mashinostroenie/> 11.12.2012

2020. This expected increase should make Russia one of the leading destinations for German suppliers, not only in 2012 but also in the years to come.

Contrary to the general trend, the German economy increased its investments in Russia in 2011. The number of German direct investment grew from 1.5 billion to 8.2 billion Euros. German companies have invested 21.4 billion Euros in Russia currently.¹⁰⁴

Due to the high demand for high-tech products, the Russian market will continue to keep its appeal for German producers and companies rendering services in the future. High purchasing power of Russia, in the first place, is beneficial to producers of consumer goods and automobiles. Expenditure on consumer goods rose in the period from 2005 to 2010 in 3.5 times. The volume of new car sales in 2011 reached 2.5 million units. The market for new cars in 2010 amounted to almost 60 billion dollars. The "density" of the cars across the country is only 233 cars per 1,000 people, which is far below the European indices.¹⁰⁵

3.2.2. *Investment*

Total amount of German investment at the end of 2011 was 28.7 billion dollars (22.2 billion Euros), of which 11.4 billion dollars (8.8 billion Euros) were direct investment. Thus, Germany was ranked fourth among the largest foreign investors. However, compared to 2010, the share of German participation in the total investment declined to 8.3 percent (2008: 6.6%, 2009: 7.2%, 2010: 9.3%).¹⁰⁶

Investment in the processing industry is particularly noteworthy. The German investment of 3.9 billion dollars shows the development of the localization of production, and the active development of the market orientation of the companies in the long term. The position of the German economy, industry and, in particular, medium-sized business is characterized by special loyalty to the Russian market, as evidenced by the growing number of companies and representative offices from Germany. At the end of December 2011 German companies operated in 80 of the 83 regions of Russia.

A high degree of German companies confidence in Russia's future economic growth is confirmed by a solid investment in production, which can only return in the long term. 49 percent of German companies taking part in opinion poll on the business climate in Russia plan to invest in the

¹⁰⁴International Affairs. German businessmen on prospects of economic relations with Russia // <http://en.interaffairs.ru/events/28-german-businessmen-on-prospects-of-economic-relations-with-russia.html>
27.10.2012

¹⁰⁵The Committee on Eastern European Economic Relations // <http://www.ost-ausschuss.de/russland#wibebeziehungen>
20.01.2013

¹⁰⁶Jahresbericht der Deutsch-Russischen Auslandshandelskammer, 2011, p. 7 // http://russland.ahk.de/fileadmin/ahk_russland/Dokumente/Publikationen/Jahresberichte/2011/AHK-JB11-web.pdf
21.11.2012

Russian market in the next 12 years, 64 percent will increase the number of personnel in Russia and invest almost 900 million Euros.

Foreign investments, including German to Russia, 2011¹⁰⁷

Branch	Sum, \$ millions	Share of total, %
Extractive industry	18634	100
Share of Germany	2028	10,9
Processing industry	41086	100
Share of Germany	5093	12,4
Production of paper products	770	100
Share of Germany	81	10,5
Metallurgy	9236	100
Share of Germany	2388	25,9
Mechanical engineering	1134	100
Share of Germany	208	18,3
Automobile production	2326	100
Share of Germany	146	6,3
Wholesale and retail trade	24456	100
Share of Germany	2246	9,2
Real estate	9237	100
Share of Germany	214	2,3

3.3 The role of the Committee on Eastern European Economic Relations in the development of trade – economic relations between Russia and Germany

The Committee on Eastern European Economic Relations (CEEER) considers the modernization of the Russian economy as a joint German-Russian challenge and therefore advocates a close partnership for modernization. Conditions for stability, independent from the world market price for energy growth are along with the modernization and diversification are the keys to the continued growth of the Russian economy. Furthermore, Russia requires both the extension of the value chain and the promotion of a wide-range of medium-sized businesses.

¹⁰⁷Jahresbericht der Deutsch-Russischen Auslandshandelskammer, 2011, p. 11 // http://russland.ahk.de/fileadmin/ahk_russland/Dokumente/Publikationen/Jahresberichte/2011/AHK-JB11-web.pdf
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Therefore, Russia needs foreign investment and technology. This requires a further liberalization and privatization of the Russian economy and the implementation of international law and environmental standards. The need for reform is still high.

According to a poll of the CEEER of November 2011 German companies expect a positive development in the Russian economy in 2012 and plan further investments. As before, such areas as bureaucracy, corruption, legal system, customs procedures, as well as migration and visa regulations are in dire need of reform.¹⁰⁸

Only a democratic and pluralistic society can be the basis for a comprehensive modernization of the Russian economy. The CEEER sees the vital role to be played by the German. On the one hand, medium-sized businesses in Germany are considered to be exemplary. On the other hand German medium-sized companies are desperately looking for partners in Russia.

The CEEER believes that Germany has to offer its experience and should be ready as a moderator of this transformation process. For this purpose the Committee will make appropriate proposals in the framework of the German-Russian Strategic Working Group and the German-Russian government consultations.

Russia is a part of Europe and an important member of the international community. The German economy welcomes Russia's joining the WTO, and advocates insistently for the creation of a common free trade area. A new Partnership and Cooperation Agreement (PCA) between Russia and the EU would also represent the relations between the two spaces on a broader basis. As for the "Eastern Partnership" of the EU and six neighboring countries of Russia, the German economy is in favor of opening the program along with the strong involvement of Moscow.¹⁰⁹

One of the important tasks of the German economy is the establishment a visa-free regime between the EU and Russia, as well as a reform of the strict registration requirements in Russia (Program Document of the Committee on Eastern European Economic Relations of November 2011). The announcement of Federal Foreign Minister Guido Westerwelle, in December 2011, about further facilitation of the visa regime, the Committee also welcomes, as well as the agreement between Russia and the EU on "joint steps" to liberalize the visa system. Visa waivers would facilitate the creation of a plan for economic recovery and new business opportunities, eliminate costs and investment barriers. Nevertheless the issue of a visa-free regime continues to be a very difficult question as it requires support of other EU member states like Poland, France and the UK.

On May 10 in Warsaw took place the third informal meeting of Ministers of Foreign Affairs of Russia (Sergey Lavrov), Poland (Radoslaw Sikorski) and Germany (Guido Westerwelle).

¹⁰⁸The Committee on Eastern European Economic Relations // <http://www.ost-ausschuss.de/russland#wibebeziehungen> 20.01.2013

¹⁰⁹The Committee on Eastern European Economic Relations. Ein Schub für die deutsch-russischen Beziehungen // <http://www.ost-ausschuss.de/ein-schub-f-r-die-deutsch-russischen-beziehungen> 12.11.2012

Ministers of Foreign Affairs discussed the progress of the implementation of agreements reached at previous meetings in Kaliningrad (May 2011) and Berlin (March 2012). During the negotiations Ministers identified new advanced fields of cooperation for creating of a positive political climate the Euro-Atlantic region. In addition the promising directions of mutually beneficial practical cooperation among the three states were defined. In the frame of the meeting the officials discussed the priority issues of the development of relations between the EU and Russia such as the liberalization of visa practice and progress towards visa-free travel for citizens, the preparation of the new visa-free agreement, the subject of energy cooperation, the implementation of the joint initiative “Partnership for Modernization.” It was agreed to hold the next trilateral ministerial meeting in St. Petersburg in 2014.¹¹⁰

The construction of the “Nord Stream” was an important step to stabilize energy relations between the EU and Russia. Russia is a key supplier of oil, gas, coal, and rare earth elements to not only Germany but the EU as whole. Therefore, the Committee advocates for a long-term partnership in energy and raw materials fields and supports a trilateral dialogue between Russia, the EU and transit countries, to improve the regulatory environment for the private sector transit and supply contracts and to enhance security of supply. The Nord Stream has faced strong opposition in parts of Europe. “Europe must decide whether it needs this pipeline or not,” Mr. Putin told Finland's prime minister, Matti Vanhanen, at a meeting in Moscow. “If you don't, we will build liquefaction plants and send gas to world markets, including to European markets. But it will be simply more expensive for you,” he added.¹¹¹

The high-profiled project was criticized by some states (such as Poland and the Baltic countries) and environmental organizations (such as the World Wide Fund for Nature). This project was considered as controversial for many reasons which include growing European energy dependence on Russia (debates about Gazprom monopoly and supply guarantee) and possible environmental problems.¹¹² At the same time, the European Commission energy commissioner office claimed that the European Union maintains this project and consider it an additional source of energy supplies from Russia to Europe.

The German economy has great interest in order to further develop its strategic partnership with Russia. Along with the Strategic Working Group on Economy and Finance, there is a well-functioning bilateral committee that initiates and supports projects. So the Committee on Eastern European Economic Relations is actively working towards a participation of German partners on

¹¹⁰The Ministry of Foreign Affairs of the Russian Federation. Press release on the Meeting of Ministers of Foreign Affairs of Russia, Germany and Poland

http://www.mid.ru/brp_4.nsf/newsline/838F827ACA49782044257B680025728A 11.05.2013

¹¹¹The Wall Street Journal. Putin Threatens to Scrap Gas Pipeline as Talks With EU Leaders Approach // http://online.wsj.com/article/SB122653533902022571.html?mod=googlenews_wsj 20.10.2012

¹¹²United Press International. Nord Stream environmental risk low // http://www.upi.com/Business_News/Energy-Resources/2012/04/26/Nord-Stream-environmental-risk-low/UPI-17511335438517/ 30.04.2012

projects such as Medvedev Skolkovo's innovation city and the automobile cluster Samara. Other significant projects for the development of the Russian-German partnership revolve around the modernization and the recovery of the Russian economy so that Russia may be fully prepared for the Olympics in 2014 and the FIFA World Cup in 2018.

There are also very good conditions for cooperation to increase energy efficiency, to develop renewable energy sources and to reduce environmental pollution in Russia. By 2020 energy efficiency in Russia should increase by 40 percent. Germany is among the world leaders in green technologies. By applying the most modern technology in Inland Russia, Germany will help Russia to better exploit its resources, while reducing its environmental damage. Pilot projects are underway, and they include as a joint Russian-German Energy Agency “RUDEA” and the project “Yekaterinburg - An Energy-Efficient City,” which could become a blueprint for other cities and regions.¹¹³

According to the Committee on Eastern European Economic Relations Russia and Germany have a great potential for cooperation in the agricultural sector. Russia has 120 million hectares with a share of nine percent of the world's arable land (with only two percent of the world population). Russia can make a significant contribution to world nutrition. To meet these needs the cooperation of German producers to modernize agriculture in Russia, as well as education and training of staff could intensify further. Russia possesses a significant potential with its forest resources and large agricultural areas in the bio-energy that could be explored together with Germany.

There are more than one thousand five hundred companies with Russian capital operating on the German market. Energy, steel and raw mineral concerns, such as “Gazprom” and “Rosneft”, are the main companies in Germany. They own the line's share of investment in the German economy. They pursue such strategic goals as expanding into new markets, strengthening of competitiveness, access to modern technologies and the end users.

However, about half of Russian investors are small and medium-sized firms. They are very active in such areas of the German economy as trade, tourism, logistics, production of luxury goods, construction, computer technology, agriculture, services, catering, hotels, car repair. The form of business organization is, as a rule, limited liability company (GmbH) with a minimum registered capital for Germany in 25 million Euros.¹¹⁴

¹¹³Russian-German Energy Agency RUDEA. Management // <http://www.rudea.org/about/management/> 29.10.2012

¹¹⁴Deutsche Welle. Russian investors have image problems in Germany // <http://www.dw.de/y-российских-инвесторов-в-германии-проблемы-с-имиджем/a-15359392-1> 20.12.2012

Thus, the Russian investment into the German economy in 2010 amounted 4023 million dollars. So, Germany is on the fifth place after Austria, the Netherlands, Cyprus and Great Britain. Direct investments into the German economy amounted 102 million dollars.¹¹⁵

Thus it can be concluded that the Committee welcomes the growing interest of Russian companies in the German market. If we speak about a strategic partnership, it should not be so called “one-way street” in trade and investment. It is clear that companies must observe the rules of the other country. This is true for German companies in Russia as well as for Russian companies in Germany.

3.4 Activities of the Committee on Eastern European Economic Relations

In 2012 there were three business meetings between high-ranking German and Russian government officials, in which German-Russian investment projects and the development of German-Russian economic relations were discussed. The annual German-Russian government consultations took place in Hannover on July 19, 2011. The Committee organized a meeting for for both German and Russian company representatives with Angela Merkel and Dmitry Medvedev. The main topics of discussion were a visa-free regime, opportunities for raw material partnership with Russia, and the localization strategy of the Russian government. They then went on to discuss the role of medium-sized companies in the modernization of the Russian economy. The Russian President, Dmitry Medvedev, announced in an interview with the entrepreneurs an enhanced privatization of Russian state-owned companies and encouraged in particular improved coordination between the German and Russian economies.

On November 8, 2011 another meeting was held in Berlin between the Committee and Dmitry Medvedev, where the Russian President was celebrating the commissioning of the first route of the Baltic pipeline. Company representatives had an opportunity to discuss current projects in the fields of automotive, engineering, energy, construction, tourism, health care, agriculture and finance.¹¹⁶

On November 16, 2011, a delegation of twenty German business representatives arrived in Moscow to meet with Prime Minister Vladimir Putin. The majority of the representatives were the German medium-sized business. During the meeting, which lasted for about three hours, current industrial investment projects and increased raw material cooperation on oil and gas were discussed in an open and confidential atmosphere.¹¹⁷

¹¹⁵ A.L. Kevesh. Federal State Statistic Service of the Russian Federation. Russia and EU Member States 2011. Statistical book. Moscow, 2011, p. 259

¹¹⁶ President of Russia. The Russian-German forum "Petersburg Dialogue" // <http://kremlin.ru/news/16848> 20.12.2102

¹¹⁷ Ibid.

The CEEER accompanied and shaped the economic dialogue between Germany and Russia in the framework of the German-Russian Strategic Working Group on issues of economic and financial cooperation (SAG), which finally was held on October 26, 2011 in Moscow and on May 16, 2012 in Berlin. The main topics of discussion were the infrastructure, car and supply industry, agriculture, and financial sector were in the focus.

The CEEER participates traditionally in the St. Petersburg International Economic Forum, which is held annually in mid-June. Undoubtedly, it is one of the most important economic platforms in Russia. The topic of the Forum 2011 was “Emerging Leadership for a New Era.” Here President Medvedev promised further incentives for investors. In his speech he acknowledged the poor investment climate in Russia and called for a decentralization of economic decisions. The Committee, together with Daimler AG were invited to a well-attended business lunch in the frame of the Economic Forum. In addition, the Committee chairman attended the Business Breakfast of the World Economic Forum on “A competitive Russia: Mission (im) Possible” and spoke on the BBC's Podium on the topic “Russia Facing West and East?” He stressed the need for closer cooperation between the EU and Russia, as well as common future prospects in competition with the U.S., China, India and Brazil, and to overcome the challenges of modernization.

An important approach to the work of the Committee with Russia is a promotion of regional cooperation between Germany and the Russian regions in the frame of regional days of economy. The topic “Smart Cities - Urban Future concepts for Russia” was the key point of the special exhibition "Metropolitan Solutions" at the Hannover Messe 2012. The main emphasis was put on the measures to increase energy efficiency in Russian cities and possibly German-Russian cooperation in this area. This event was organized by the Commit GmbH together with the German Energy Agency, the German-Russian Chamber of Commerce and the Committee on Eastern European Economic Relations.¹¹⁸

A branch in which there exists the need for special reform in Eastern Europe and Russia is the finance industry. The future prospects of banks and the financial center Frankfurt were the focus of discussion at the 14th Euro Finance Week in November 2011. Under the topic “New Opportunities in the CEE Finance Industry” the CEEER took part in the final discussion at the “Conference on Central and Eastern Europe” on November 17, 2011 in Frankfurt. The experts, included Dr. Herbert Stepic, CEO der Raiffeisenbank International AG, Dr. Andre Carls, CEO der Central & Eastern Europa Holding der Commerzbank und Peter Tils, Chief Executive Officer

¹¹⁸ Deutsche Welle. Trade fair can't mask German-Russian tensions // <http://www.dw.de/trade-fair-cant-mask-german-russian-tensions/a-16724399> 08.04.2013

Central and Eastern Europe, Deutsche Bank AG, and moderated by Prof. Rainer Lindner discussed the necessary financing instruments to create incentives for investment of Eastern Europe.¹¹⁹

The topics of Rights and Legal security in Russia were the key point in the events, organized by the CEEER. On December 1, 2011 in Stuttgart took place the eleventh Rights Conference dedicated to the topic Joint Ventures und Corporate Compliance. The need of consultation of German enterprises in Russia is still very high. Above all corruption and lack of legal security are the biggest obstacles to business deals.

On November 24, 2011, the Federal Ministry of Justice and the Ministry of Justice of the Russian Federation in cooperation with the Committee on Eastern European Economic Relations and AHK Moscow with the assistance of the Federal Foreign Office, organized the Compliance-Conference. There were over 150 participants from business, politics, administration and criminal investigation, who discussed the problem of corruption and compliance standards for businesses. Germany and Russia decided on the initiative of the Federal Foreign Office to focus the modernization partnership on rights cooperation. The conference provided presentations of best practices and a discussion platform for the block of relevant topics “Who needs compliance?”, “Organization of an effective compliance” and “Comprehensive and sustainable employee involvement as a success factor of compliance.” With so many featured events coming to Russia - including the World Sport Student Games in Kazan in 2013, the Formula 1 race in Sochi in 2014, the Ice Hockey World Championships in 2016 and perhaps the 2020 EXPO in Yekaterinburg - compliance with international standards would be of prime importance.¹²⁰

The CEEER established a working group by means of which the German economy is preparing for coming sports events in Russia. Here, there are great opportunities for the development of infrastructure in the field of logistics and transport as well as the tourism and management. In addition there are favorable conditions for the construction of stadiums and training grounds.

German companies are heavily involved in the energy sector in Russia. The Baltic Sea pipeline (Nord Stream) is a joint project being undertaken by Russian, Germany and other European businesses. The pipeline, which began operations in November 2011, has enabled a new supply route for transporting natural gas from Russian to Germany. It plays an important role in

¹¹⁹ Frankfurter Allgemeine Zeitung für Deutschland. Frankfurt: 14th Euro Finance Week. 14-18 November 2011. Finance, Business and Government – Restoring Trust and Securing Prosperity in Europe. P. 47-48 // http://www.malekigroup.com/web/media/event/de/EFW2011_Gesamtprogramm_17927.pdf 15.12.2012

¹²⁰ The Committee on Eastern European Economic Relations // <http://www.ost-ausschuss.de/russland#wibebeziehungen> 20.01.2013

diversifying oil supply routes to Europe. There are plans to connect other countries to this pipeline as well.¹²¹

The pipeline “Nord Stream” through the Baltic Sea with 1,220 km-long is one of the most important Russian-German cooperation projects successfully completed in the past decade. The project emphasizes again the importance of Russia as a raw material partner for Europe and Germany.

The strategy “Partnership for Modernization,” is designed to facilitate the transition of economic relations to the innovative path of development. This partnership is focused, mainly, on cooperation in the spheres of energy conservation and high technologies.

Undoubtedly, there is a positive dynamic in trade and economic relations between Russia and Germany for the last several decades. In general the noted positive dynamics allows us to hope for the speedy achievement of pre-crisis levels of economic cooperation between our countries, as well as its progressive development.

¹²¹ Federal Foreign Office. Economic and Energy Cooperation // http://www.auswaertiges-amt.de/EN/Aussenpolitik/RegionaleSchwerpunkte/Russland/Russland-Wirtschaft-Energie_node.html 15.12.2012

4. TRENDS OF ECONOMIC DEVELOPMENT BETWEEN RUSSIA AND GERMANY

4.1 Prospects of business development in Russia

Both in Germany and in Russia, small and medium business during the crisis played a significant role in creating new jobs and flexibly adapting to changing conditions. At the IV Russian-German conference on small and medium-sized enterprises, which took place in Moscow on May 31, 2011 the Minister of Economic Development Elvira Nabiullina summed up the results of joint cooperation with Germany at the present stage, “as in Germany, small and medium business has played a significant role during the crisis in Russia, by creating new jobs and flexibly adapting to changing conditions. Therefore, what we are doing now, discussing new projects and new contacts, to my mind, is very - very important.”¹²²

A recent opinion poll among the German entrepreneurs working in the Russian market showed that the overwhelming majority of them (64 percent) expect a positive shift in economic development, 25 percent expect stagnation and only 4 percent predict the economic decline.¹²³

The data was provided on February 6 by Russian-German Chamber of Commerce and the CEEER, which organized the opinion poll. These organizations are specialized in providing the assistance to businessmen from Germany working in Russia.

The founders of the Eastern Committee of Germany Economy were the Federation of German Industries (BDI), the Association of German Banks (BdB), the German Insurance Association (GDV), the Foreign Trade Association of the German Retail Trade (AVE), as well as the German Confederation of Skilled Crafts (ZDH). Each of these associations includes a number of smaller associations and unions. For instance BDI includes 40 industrial unions. The Russian-German Chamber of Commerce now includes 820 members.

Russian-German Chamber of Commerce and the Committee on Eastern European Economic Relations carry out opinion polls among German entrepreneurs annually in order to define the business climate in Russia. As a rule this form comprises several standard questions. The answers to these questions on the results of 2008, 2009 and 2011 are shown in the table below.

¹²²Federal web portal for small and medium sized enterprises. Economic ties between Russia and Germany have reached a very high level – Nabiullina. // <http://smb.gov.ru/content/news/federal/general/m,f,423758/> 20.11.2012

¹²³International Affairs. German businessmen on prospects of economic relations with Russia // <http://en.interaffairs.ru/events/28-german-businessmen-on-prospects-of-economic-relations-with-russia.html> 27.10.2012

Assessment of the business climate in Russia as viewed by German entrepreneurs (percentage of the total number of respondents)¹²⁴

Year	2008	2009	2011
<i>Over this year business climate in Russia has improved</i>			
	37	12	42
worsened	35	73	13
Not changed	28	15	45
<i>Situation at your enterprise in Russia is</i>			
Good			
satisfactory	27	58	25
bad	6	22	9
Percentage of those who plan to invest in Russian economy next year	62	40	49
<i>The number of personnel at my enterprise will</i>			
Be increased	66	48	64
Stay unchanged	32	44	39
Be reduced	2	8	2

Thus, two thirds of German entrepreneurs estimate Russia's business climate as good or very good (in 2009 only one of five respondents gave such assessment), and the same share of businessmen are going to increase the number of employees at their enterprises in Russia. The similar situation is with the estimations of changes of business climate over the year: about 40 percent of entrepreneurs in 2008 and 2011 noticed improvements while in 2009 only 12 percent were so optimistic. In 2011, the quantity of those who did not mark changes in business climate reached 45 percent (in 2008 this share was 28 percent, and in "crucial" 2009 – 15 percent, while 73 percent noticed the deterioration of the business climate).¹²⁵

For the moment the financial and budget crisis of the euro-zone is the main concern for the German economy. In 2011, Germany's exports to the countries of the euro-zone rose by 8.6 percent, total exports - by 11.4 percent, exports to Russia - by 30 percent. By comparison, German imports were: 12.9 percent, 13.2 percent and 26 percent respectively.¹²⁶ Thus, it is obvious that trade with Russia is growing much more rapidly than trade with the euro-zone and other countries.

The last opinion poll concerning the business climate in Russia was carried out in December 2011. The organizers wanted to understand, how political situation affects the economy and the future prospects of the Russian-German relations.

The head of the CEEER, Eckhard Cordes, wished the Russian Prime Minister V. Putin success with the forthcoming elections and claimed that his nomination as the candidate was a cheering piece of news. It is obvious that stability is of a great importance for the representatives of

¹²⁴Ost-Ausschuss der Deutschen Wirtschaft. Russische Föderation // <http://www.ost-ausschuss.de/russland> 27.10.2012

¹²⁵Ost-Ausschuss der Deutschen Wirtschaft. Business climate in Russia 2011/2012 // http://www.ost-ausschuss.de/sites/default/files/pm_pdf/2012_02-06_Auswertung_ru.pdf 20.12.2012

¹²⁶Federal Statistics Agency Pressemitteilung Nr. 044 vom 08.02.2012, the Committee on Eastern European Economic Relations // <http://www.ost-ausschuss.de/deutscher-handel-mit-russland-boomt> 27.10.2012

the German business elite connected stability in Russia with so called “Putin’s return”. In an interview with SPIEGEL ONLINE, Gerd Lenga, the head of the Russian department of Knauf, a well known producer of construction materials, said that Putin’s re-election will “ensure further stability in the country which cannot be said about other political forces.”¹²⁷

Businessmen from Germany take the increasing political activity of Russians as a new opportunity for progress and development, as an impetus for the realization of needful modernization.

Simultaneously the lack of obvious progress on the way to development and modernization of the economy in Russia invoke concern amongst some trade partners from Germany and they offer different methods for solving this problem.

Among different factors that contributed the progress of the Russian modernization in 2011: government support of investors – 35 percent, investment in the field of high-tech – 31 percent, and the evidences of the separation between the government and business elite – 14 percent. The remaining 12 percent of the participants of the poll also noticed the enhancement in the activity of the educational institutions.¹²⁸

In this connection, in spite of the negative connotation of the expectations of the most part of Western politicians concerning the forthcoming Russian presidential, and unlike the forecasts predicted by the officials of banking groups as HSBC; the German businessmen optimistically estimate the economic prospect in Russia and the future of trade – economic relations between Russia and Germany.

4.2 The structure of economic relations between Russia and Germany

4.2.1. *Mechanical engineering*

Among the countries of Eastern Europe, Russia is the most important sales market for German machinery and equipment. In the field of engineering, extensive contacts between Russia and Germany began many years ago. This is due, in large part, to Russian (Soviet) control of the market of occupied East Germany. Even after German re-unification - and Germany withdrawal from the Soviet sphere of influence - Germany remains the most important supplier for Russia in this field.

Russia slow economic turn around after the collapse of communism, have left a significant percentage of equipment either out of date or in need of repair. Products with the label «Made in Germany» are especially in demand, thanks to the historical ties between the two, and the ability of German manufacturers to produce quality products. 25 percent of Russia's imports of machinery

¹²⁷ Benjamin Bidder. Deutsche Wirtschaft setzt auf Putin// Spiegel, 05.12.2011

¹²⁸ Ost-Ausschuss der Deutschen Wirtschaft. Russische Föderation // <http://www.ost-ausschuss.de/russland> 27.10.2012

come from Germany. Since 2000, export of German cars to Russia has constantly increased. In 2007, the German deliveries rose by 23.5 percent and reached 6.5 billion Euros.¹²⁹

Speaking about cooperation between Russia and Germany in the field of mechanical engineering, it is very important mention the VDMA Representative Office in Moscow and Russia of the German Engineering Federation (VDMA). It serves the Russian-German trade and economic relations in the various engineering sectors. The office promotes the activities of the VDMA member enterprises in Russia. The Office maintains close relations with Russian and German companies, Embassies and Consulates, Russian Industry and various Russian Industry Associations. The following salient features of the VDMA Representative Office in Moscow can be identified:

- Acts as a "bridge-head" between the German and Russian Industry.
- Organizing symposia and similar presentations of German technology in Russia.
- Participating in and serving bilateral programs, such as those in existence, with governmental participation between Germany and Russia.
- Furnishing of information about the complete product program of the German Machinery industry to assist Russian companies to identify right partners for mutual business relationships.
- Providing information on market trends, prospects, future development, new projects and tenders.
- Facilitating Tie-Up / Joint Ventures / Collaborations between German and Russian companies for mutual benefit.
- Assist Russian Entrepreneurs to promote their business in Germany under "License and Cooperation Center" (LIKO).¹³⁰

German exports of machinery and equipment to Russia reached almost 9 billion Euros in 2011, a 36 percent increase over the maximum pre-crisis data as remarked the Federal Statistical Office of Germany.

According to the VDMA foreign manufacturers will be able to secure further competitive advantages in the Russian market, both within its own production facilities in Russia and providing the country with high-technology equipment. In the future, by reducing import customs rates, access to the Russian market will be even easier.

In addition the German Engineering Association (VDMA) believes that Russia's manufacturing base in in a position for success, thanks in large part to the reduced cost of

¹²⁹Deutsch-Russische Auslandshandelskammer. Mechanical engineering // <http://russland.ahk.de/publikationen/impuls/inhalt-impuls-2008/maschinenbau/15.02.2013>

¹³⁰ VDMA Representative Office in Moscow // http://www.vdma-russia.org/russia_office.html 03.02.2013

production. However, Russian suppliers often do not provide the necessary quality and quantity of products that are not in line with current requirements of the market.

Strong and long-term ties with customers are the special mission of German manufacturers of machinery and equipment. In some branches of engineering, reliable relations between Russia and Germany have been established and maintained for a long time. It can provide a good example of the effective partnership. The German Engineering Association (VDMA) promotes maintenance and development of these contacts. This Association acts as a connecting link between echelons of government of Germany and Russia, industry associations and enterprises of the two countries, and conducts various industry events and activities in Russia.

Mutual trade of equipment and machinery¹³¹

Export from Germany to Russia, mln EUR	2011	Change from previous year, %
Office equipment and computing machinery	932,1	3,0
Machines for the mining and construction industries	889,5	43,4
Metal processing machines	852,0	18,3
agricultural equipment	665,0	72,2
Hoisting machines; lifting and transportation facilities	597,9	41,1
Pumps and Compressors	502,9	43,2
fittings	340,5	11,6
Engines (except automobile and aviation)	297,7	30,9
Machines for food and tobacco industry	279,8	3,3
Bearings, gears, actuators	220,0	36,4
Machines for processing rubber and plastics	183,6	47,0
Machines for paper and printing industry	170,0	43,8
Equipment for rolling-mill shops and foundry shops	149,5	54,9
Machines for the textile and leather industry	115,7	115,9

¹³¹Jahresbericht der Deutsch-Russischen Auslandshandelskammer, 2011, p. 17 //

http://russland.ahk.de/fileadmin/ahk_russland/Dokumente/Publikationen/Jahresberichte/2011/AHK-JB11-web.pdf
21.11.2012

Import from Russia to Germany, mln EUR	2011	Change from previous year, %
Metal processing machines	34,8	47,5
Engines (except automobile and aviation)	16,3	1,1
Bearings, gears, actuators	11,2	64,7
Fittings	7,0	-3,4
Pumps and Compressors	6,9	217,8
Office equipment and computing machinery	5,3	175,3
Machines for the mining and construction industries	3,1	546,0
Agricultural equipment	2,3	-14,6
Machines for processing rubber and plastics	1,5	73,7
Hoisting machines; lifting and transportation facilities	1,3	1506,1
Machines for paper and printing industry	0,9	20,3
Machines for the textile and leather industry	0,4	-55,3

4.2.2. Automobile production

Automobile market in Russia, along with other sectors of the national economy, has undergone significant changes. According to the Ministry of Industry and Trade of Russia, in December 2011 the bulk (92.7 percent) of total sales accrued to the cars of domestic manufacturing. Total share of German cars reached at the end of 2011 12.7 percent, at that such brands as Volkswagen and Opel gained a particular popularity. Nine of ten best-selling models are produced in Russia. Import volumes are reduced.¹³²

According to the forecasts of the Ministry of Industry and Trade of Russia, by volume of cars sold, Russia will be able to overtake Germany in 2020, and thus become the largest automobile market in Europe.

Associations and unions of national and international manufacturers of original equipment and suppliers of original components are focusing on three federal districts: Northwestern, Volga and Central. For example, BMW has its own production in Kaliningrad, Volkswagen - in Kaluga, Opel - in St. Petersburg, Mercedes - in Naberezhnye Chelny. Such localization has both quantitative and qualitative benefits, it allows for more efficient logistics, a higher level of mutual cooperation, and more cost efficiency. Now it is difficult to predict how the Russian component suppliers will

¹³² Jahresbericht der Deutsch-Russischen Auslandshandelskammer, 2011, p. 20 // http://russland.ahk.de/fileadmin/ahk_russland/Dokumente/Publikationen/Jahresberichte/2011/AHK-JB11-web.pdf
21.11.2012

affect the accepted norms providing that at least 60 percent of used components should be supplied by local producers. Some experts talk about strengthening the Russian industry, others make less optimistic forecasts and predict displacement of Russian manufacturers by foreign suppliers.

4.2.3. Energy efficiency

Germany is a world leader in energy technologies. In October 2009 Russia and Germany established the Russian-German Energy Agency RuDEA, approved by Dmitry Medvedev, whose shareholders are the German energy agency Dena (Deutsche Energie-Agentur), Gazprombank and Energy Carbon Fund. General Director of Ltd. "RuDEA" Mikhail Prokudin said, "the main task of the Russian-German Energy Agency is to bring the world's leading energy saving practices and technologies to the Russian economy."¹³³ The objectives of RuDEA also include improving energy efficiency in the field of industry, generation of electric power, streamlining transportation facilities, applying of energy-saving technologies for the rehabilitation of buildings, and active implementation of renewable energy sources.

Russia could use the accumulated experience of Germany to its great advantage. It, in particular, shows convincingly that a crucial role in improving energy efficiency on a national scale plays a centralized, independent competent Energy Agency.

The Agency participates in industry and public debate on the rights of the independent experts and advises the Russian government. Russian and German companies cooperate with the agency to organize technological transfer. Target groups are branch energy enterprises, industry and small production, workshops, research institutions, federal and regional authorities, and end users. The most important projects are in the rehabilitation of buildings, industry and small enterprises, as well as in energy saving production and transportation of oil and gas.

According to the Chairman of the German Energy Agency (DENA) Stefan Koller, Russia and Germany are on the way of energy saving.

Russia is one of the most energy-rich countries on earth. More than 30 percent of the world's natural gas reserves on its territory. Therefore, the energy sector plays such an important role in the Russian economy. Unfortunately, Russia has not diversified its economy and remains too energy dependent. The low cost of energy prices, and the abundance of supply, have led to inefficient consumption. According to the Ministry of Energy, Russia could save up to 40 percent on energy through more efficient use. Considerable benefits for the national economy resulting from the reduction of energy consumption are becoming increasingly apparent. The less Russia provides to the domestic market, the more it can export, and the more money it can bring in. In addition, investments in energy efficiency improve the competitiveness of enterprises creating for this a long-

¹³³Russian-German Energy Agency RUDEA. Management // <http://www.rudea.org/about/management/> 29.10.2012

term basis. Germany has a long experience of the efficient use of energy and therefore it is an important partner of Russia in this field of cooperation. It is also important to note that Russia only drills about 50 percent of each oil field. In addition to just allocating resources better, better technology will allow Russian Business to get increase the return from each oil/gas field.

Energy is the focal point of Russian-German cooperation, and has been for more than 30 years. In this area, the two countries have developed a reliable partnership that is constantly deepening through consultations of politicians and joint projects between Russian and German companies. Successes in joint production and transportation of oil and gas achieved in the last decades, are now applied to the sphere of energy saving. To determine this intensive cooperation, German Foreign Minister Frank-Walter Steinmeier has introduced the concept of a modernization partnership between Germany and Russia.¹³⁴ Both the challenges and opportunities in this area are enormous. The Russian government has approved the government program "Energy Efficiency and Energy Development of the Russian Federation" through 2020. According to "Kommersant" its main objectives are providing a stable flow of fuel and energy resources and reducing GDP energy intensity by 40 percent.¹³⁵ In the development of its energy-saving potential, Russia relies on the support of Germany. This is, naturally, because German companies have extensive experience with modern technology, and technological advances in this field.

Joint efforts to improve energy efficiency through different forms of cooperation such as, technology transfer, implementation of joint projects, the creation of effective tools for collaboration are of a great importance. Cooperation based on mutual benefit: there is a modernization of the Russian economy and infrastructure, which is becoming more stable, and German companies find new markets for its energy-saving products and technologies. An essential prerequisite for success is the creation of a legal, structural and institutional framework. This would simplify the implementation of joint projects and avoid the high cost of transactions. An important step in this direction was the creation in 2007 of the Energy subgroup in the framework of the Russian-German strategic working group. This was created as a tool for deepening the strategic partnership in the implementation of specific joint projects.

Creation of the Russian-German Energy Agency helped to speed up the process of energy saving at all stages - from production, to transportation, to consumption. In addition, it is a signal to the market encouraging investment in energy-saving products and technologies in Russia. That opens a wide range of opportunities for German-Russian collaboration.

¹³⁴Deutsch-Russische Auslandshandelskammer. Von Partnerschaften profitieren
//<http://russland.ahk.de/publikationen/impuls/inhalt-impuls-2009/energieeffizienzpfad/> 01.02.2013

¹³⁵Kommersant. Energy-saving economy // <http://www.kommersant.ru/doc/2142884?583003b0> 02.02.2013

4.2.4. *Transport and logistics*

The Russian market is an area of importance for German transport and logistics companies. However, Russian customs policy and the poor quality of transport networks hinder the development of business. Improvement of the situation is slow. Upcoming changes will positively affect the work of not only Russian, but also German transport and logistics companies. The list of major foreign companies operating in Russia includes DHL, Rewico/Fiege Group, Militzer&Münch, Hellmann Worldwide Logistics and Schenker. Russian seaports are also characterized by strong growth. Trade relations with the German seaports play significant role in the revitalization of cargo shipping. For example, during the first half of 2011, the volume of container shipping between the ports of Hamburg and Saint-Petersburg increased by 45 percent.

In addition, at an industrial exhibition in Hannover "Hannover Messe-2013", which was visited by Vladimir Putin, was concluded one of the most important agreements between Russian and German engineering firms. According to the press service of the UralVagonZavod (UVZ), President Putin has shown Angela Merkel exhibition samples of the Russian-German production. The statement of the General Director of "UralVagonZavod", Oleg Sienko, on the economic dialogue "Russian-German Business Summit," in the frame of which he reported about the joint work of the Ural train builders and Bombardier on creation of the new tram for Moscow Metro,¹³⁶ became a proof of fruitful cooperation between Russia and Germany in the production of public transport.

In the presence of Russia's Minister of Industry and Trade, Denis Manturov, and Germany's Federal Minister of Economics and Technology, Philipp Rösler, the two companies, represented by Oleg Sienko, General Director of UVZ, and Laurent Troger, President Rolling Stock Atlantic and Services, Bombardier Transportation, signed agreements that establish their long term partnership in the metro market in Russia and the Community of Independent States. Both companies are also considering a possible extension of their partnership through further cooperation to ensure technical support throughout the lifecycle of the metro trains.¹³⁷

Hannover Messe is the world's largest industrial event, which has been held since 1947. Company executives of 160 Russian companies and research centers arrived in Hannover including "Gazprom", "Rosneft", "Russian Railways", "Rosnano", "Rostechologies", "Skolkovo", "UralVagonZavod".¹³⁸ Hannover Messe is planned to conclude a number of agreements between Russian and foreign companies.

¹³⁶ Bombardier Transportation. Bombardier and UVZ Highlight their Partnership at Russia's Pavilion at the Hannover Trade Fair. // <http://www.bombardier.com/en/transportation/media-centre/press-releases/details?docID=0901260d802b0edd> 08.04.2013

¹³⁷ Ibid.

¹³⁸ Vesti. Putin and Merkel are expected development of Russian-German cooperation. // <http://www.vesti.ru/doc.html?id=1073265> 08.04.2013

4.2.5. Chemical industry

In 2011, the chemical industry has continued to occupy an important place in Russian-German foreign trade. Last year, Germany exported to Russia chemical products valued at approximately 4.9 billion Euros, which is on 11.8 percent increase over the previous year (2010: 4.3 billion Euros). The volume of imports of chemical products from Russia in 2011 was nearly 640 million Euros, slightly less than 2010 (650 million Euros).¹³⁹ On volume exports of chemical products from Germany, Russia ranked second after China among the BRIC countries. Russia's chemical industry during 2011 continued its positive development, increasing exports from the previous year. According to Vladimir Putin, the most important resource to continue improvement is further investment.

4.2.6. Health care

At present, German companies are the main provider of Russian health industry. Such companies as Stada and Berlin-Chemie deliver pharmaceutical products to Russia. The third part of all imported equipment in Russia belongs to the companies Siemens, Dräger and Fresenius Medical Care.

4.3 The Northwest Region of Russia appeal for German business

The results of the regional poll of the Russian-German Chamber of Commerce showed that the conditions for investment in the region become more attractive. German companies are increasingly expanding activities in the Northwest of Russia, where Saint-Petersburg and the Leningrad Oblast play the central role. The determining factors are:

- high economic potential
- well-developed infrastructure
- sufficient energy supply
- competent personnel
- good geographical location

The largest seaport in Russia is in Saint-Petersburg. Major pipelines are laid here, and the bulk of Russian shipping departs from this region. In addition, in St. Petersburg and the Leningrad Oblast have created pharmaceutical and automotive clusters.

To entice German enterprises into the region, the Saint-Petersburg administration intends to stimulate the German side's interest in investing. The Ministry of Regional Development of Russia

¹³⁹Jahresbericht der Deutsch-Russischen Auslandshandelskammer, 2011, p. 25 // http://russland.ahk.de/fileadmin/ahk_russland/Dokumente/Publikationen/Jahresberichte/2011/AHK-JB11-web.pdf
21.11.2012

has laid out its strategy for the Northwest Federal District. The purpose of the development of the Northwest up to 2020 is the improvement of the economic and social situation.

According to the established tradition, Germany is one of the most important trading partners of the Russian Federation. In 2010, Germany was the third largest exporter, and the second importer, among other partners in foreign trade with Saint-Petersburg.

The foreign trade turnover of St. Petersburg with Germany in the first half of 2011 decreased on 6 percent, compared with the same period in 2010, and amounted to 1.5 billion dollars. The large foreign trade deficit with the volume of imports of 1.3 billion dollars (up 24 percent), indicates a large demand for the products of Germany in the Northwest Region of Russia.¹⁴⁰

The key imports to the region are German engineering products, electrical equipment, motor vehicles, food products and semi-finished products for food production, optical devices, products for the chemical industry, components for cars and trucks, and medicines. The main exports to Germany are oil and other raw materials (such as ferrous and non-ferrous metals), electrical equipment, IT-products, and engineering products.

The development of the North-West region is gathering momentum. According to GTAI, no other region comes close to the north-west in terms of German led development. After Moscow, Saint-Petersburg is the most attractive city for German investors. It is called the second capital of Russia. There are in average about 850 representative offices of German companies.

Another key improvement, which should greatly enhance the ease of foreign trade is the project to modernize of the airport “Pulkovo” in Saint-Petersburg. In order to upgrade the airport “Pulkovo” Fraport AG with the project partners founded NORTHERN CAPITAL GATEWAY LLC. Fraport is partly a public company, because 51 percent of it belongs to the city of Frankfurt and Hessen.¹⁴¹ For projects that involve risks and not-transparent schemes, the company simply does not get permission.

What makes Saint Petersburg so attractive? There are several reasons for this. First, it is a city with a population of 4.8 million people (2010)¹⁴² and an appropriate area of supply. Second, it is a favorite destination of tourists, since Saint Petersburg remains a UNESCO Heritage Site. Third, it is very active in business travel, which ensures stable traffic volumes. This is an important criterion, because the objects that depend only on tourist flows connected with high risks. If, for some reason, the number of tourists decreases dramatically, it will immediately reflect on income.

¹⁴⁰ Jahresbericht der Deutsch-Russischen Auslandshandelskammer, 2011, p. 73 // http://russland.ahk.de/fileadmin/ahk_russland/Dokumente/Publikationen/Jahresberichte/2011/AHK-JB11-web.pdf 21.11.2012

¹⁴¹ Deutsch-Russische Auslandshandelskammer. Modernisation of “Pulkovo” airport // <http://russland.ahk.de/publikationen/impuls/inhalt-impuls-2010/modernisierung-pulkowo/> 15.02.2013

¹⁴² The Committee for Economic Development, Industrial Policy and Trade // http://en.cedipt.spb.ru/about_city/ 10.02.2013

Finally, Saint Petersburg is a city that receives a large amount of federal money to expand and modernize. It is the city that educated both President Putin and President Medvedev, and so the is assured a high levels of public financing.

All these features help to assure the regions great potential for development. At the initial stage of the project 1.2 billion Euros will be invested, which should last until 2014. Stage one should see the building of a new terminal for the approximately 14 million air travelers into "Polkovo", several additional airfields, a hotel and a business center and an expanded service platform. The old terminal will be renovated. The second stage has not been finalized and will, of course, will depend on the results of stage one.¹⁴³

German business talked about slow recovery of the Russian economy after the crisis. The former president of the Russian-German Chamber of Commerce Heinrich Weiss believes that separation of commercial and investment banks is needed. Gerhard Schröder called Germany the most important partner in the issue of modernization.

In general, Weiss evaluates the development of the Russian economy positively. He is under the impression that Russia will rely for quite some time on foreign know-how, and the German economy is ready to pass its knowledge and skills in full to keep striving for modernization. Chairman of the Board of the Russian-German Chamber of Commerce Michael Harms said Russia is still one of the largest markets with the dynamic growth, especially for German exports and production.

Schröder attaches great importance to the strategic partnership between Russia and Germany in the development of relations between Russia and the EU. Germany, according to Schröder, can play a decisive role in the modernization of Russia and act in cooperation with Russia as a high-tech industrial state. Schröder didn't see a dependence of the EU and Germany on Russian supplies of gas and oil: "To a greater extent Russia depends on payments from the EU. Same interests lead to a common trade." General Director of Severstal Ltd., Vice-President of the Presidential Council of the Russian-German Chamber of Commerce Alexei Mordashov has a similar point of view. He claims Germany is the most suitable partner for the development of such important and key for economy branches of industry as energy efficiency, infrastructure, aviation, chemical industry, and in collaboration with numerous research institutes and organizations.

However, many business people are still concerned about the tendency to protectionism, "Competitiveness in global markets cannot be achieved through high import duties," - said General Director of Volkswagen Group RUS Dietmar Korzekwa. Agreed with him Rainer Hartmann from the company E.ON for whom a strategic partnership is a very difficult question.

¹⁴³Deutsch-Russische Auslandshandelskammer. Modernisation of "Pulkovo" airport // <http://russland.ahk.de/publikationen/impuls/inhalt-impuls-2010/modernisierung-pulkowo/> 15.02.2013

CONCLUSION

According to the research, theoretical approach of transnational theory corresponds to the system of modern relations between Russia and Germany in the political and economic fields and demonstrates how this interaction is implemented. It is necessary to analyze the Russian-German relationship in the context of globalization processes, because the theory of transnationalism and the concept of globalization are interconnected, especially in regards to the global economy.

The globalization of the world economy is a modern stage of internationalization of production and capital. After the Second World War the process of internationalization has accelerated and deepened which resulted, on the one hand, in the dramatic expansion of the multinational banks, on the other hand, in the economic development of integration processes which have moved from the micro to the macro level and shaped as regional economic integration associations.

In the 90's of the XX century there was a transition to a new quality, which allows us to speak about the beginning of the next phase of internationalization, which is more commonly called globalization. Its immediate goal is to create a global world economy with certain specific features and structures, which never existed before.

Functionally, the global economy is expressed in the following aspects:

the global financial system, which gradually becomes so through the development of electronic communications and computer technologies;

global system for sharing the results of intellectual activity, starting with the traditional trade licenses for the use of technology and ending by computer information networks;

global system for promoting of products and services, including transportation, storage, insurance, marketing, advertising and commodity flows and other necessary operations.

This should also help to prevent international conflict, as countries will not want to risk their economic health to wage wars. That is the idea behind the EU, and eventually a more inclusive economic system.

A new phase of a drastic liberalization of international trade is a powerful lever of globalization. The importance of national borders has declined dramatically. The former external factors of economic development have become a kind of internal, not only for transnational business, but also for national entrepreneurship and national governments. Globalization demanded the transfer of part of their national management functions to supranational bodies. A good example to this argument is the activity of the World Trade Organization. It raises the question of what is the role of bilateral economic relations between such countries as Germany and Russia.

In the context of globalization these relations are of special importance, as the global economy enters a phase of geo-economic development. This means that under the new scenario in

the XXI century, a competition among the key areas of economic cooperation will become a leading factor. In the long term, this process means the creation and expansion of new regional “cores of development” which would combine high technology and natural resources. Economic competition will not be on the national government level, rather between the internationally organized enterprises and the “cores of development”.

Russia in the XXI century can play an extremely important and independent role in the new geo-economic process. Germany can provide valuable assistance as an initiator and stabilizer of global political and economic processes in the European region. Taking into account the immense scale of Russia and the wealth of natural resources, its inclusion into the system of economic relations of the European "core of development" will have wide international significance that substantially affect the balance of power in the world economy. Long-term prospects of the world economic development are largely determined by the Russian-German trade and economic relations.

Intensification of the globalization process has affected the economics of almost all countries of the world. Thus, we can argue that the modern world has become complex, rapidly changing and interdependent. With the emergence of new actors in international relations, the structure of intergovernmental cooperation has changed dramatically. This is not surprising, as in order to explain the processes taking place in the modern world, new approaches were needed. In this regard, the Russian-German relations are no exception.

It is possible to conclude that the globalization processes, mostly, influences the economic component of the bilateral Russian-German relations, rather than political cooperation between them. As the research has shown, relations between Russia and Germany are fulfilled not only through the dominant role of the states but also through other institutions, organizations, business structures etc. It should be noted that personal contacts have also a great importance in the development of friendly relationships between the two states. Thus, theoretical approach of the transnational theory gave me the tools for characterizing the contemporary trade-economic cooperation between Russia and Germany. It helps me to understand the nature of modern Russian-German bilateral relations and to reveal existing problems.

I examined the history of Russian-German relations through different periods. At the moment, Germany is Russia's leading trade partner. In turn, Russia is. For Germany, is the largest market for German goods and services, as well as an energy supplier.

According to the history of the Russian-German bilateral relations, close economic ties and political agreements alone are not able to ensure the sustainable development of the bilateral partnership, insured from crisis and conflicts. Such development can be implemented only through engaging of the civil society of both countries into the dialogue on the whole.

It should be noted that the civil society dialogue arises both spontaneously, “from the bottom”, and by the encouragement of the country's political leadership. Easing visa restrictions, financing of youth exchanges, measures for improvement of the investment attractiveness for small businesses are the next steps which politicians can considerably to continue to grow the cooperation between the civil societies of the two states. At the same time, various contacts between ordinary citizens of Russia and Germany (tourists, relatives, etc.) exist quite independently of any policy in this area. A crucial role in coordination of the development of a dialogue between the civil societies of both states plays the Civil Society Forum of Russia and Germany “Petersburg Dialogue”. It is designed to enhance mutual understanding between Germany and Russia, develop further bilateral cooperation in all areas of interaction of society and encourage further relations between Russia and Germany.

“Petersburg Dialogue” is an open and comprehensive forum for discussion of current social issues as well as issues of German-Russian relations. Its main task is establishing of a constructive dialogue between representatives of all areas of public life of the two countries. Therefore, it is attended by various agencies involved in the dialogue between the two states as well as non-governmental organizations. The forum discussed the most relevant and pressing issues of relations between Russia and Germany in all possible fields - from politics and economy to education and culture.

However, it should be noted that in spite of significant progress in the Russian-German bilateral relations achieved by the forum “Petersburg Dialogue”, the discussion platform gradually loses its value and effectiveness. Mass media writes that the forum has become a “ritualized conference”. It can be explained at least by two reasons. Firstly, for such project as “Petersburg Dialogue” there is a need of rotation of the agenda, it means that within the annual session the same questions are discussed again and again. It seems as though, throughout every Russian-German Government meeting energy cooperation, democratization, modernization of the Russian economy and problems with human rights in Russia are always on the agenda. Secondly, the recent conflict over the appointment of the new German coordinator Andreas Schockenhoff to the “Petersburg Dialogue,” is also a reflection of the inefficiency of the discussion forum. Thus, the forum “Petersburg Dialogue” needs to be reformed in order to bring back a lost level of prestige and high effectiveness.

In this connection it should be noted that after the Angela Merkel’s coming to power the political orientation of Germany towards Russia has changed. Under her chancellorship Germany has become more ideological and less afraid to make political declarations. The policy of Angela Merkel concerning Russia can be called as policy of “caution” or “strategic partnership”. It is obvious, that modern Russian-German political relations are not as warm and friendly as it was

under the chancellorship of Gerhard Schröder. It is worth noting that Angela Merkel had more friendly relationships with former Russian president Dmitry Medvedev. She believed that the changes he began implementing concerning the democratization, modernization and also problems with human rights in Russia was more in line with German values and direction.

After the presidential elections in Russia, Angela Merkel and the government were unsatisfied with the Putin's return to the presidency. It is true that cooperation with the North Atlantic Alliance is a priority for Germany's foreign policy and Angela Merkel is more sensitive to American criticism towards Russia. However, there is still a great deal of concern coming from Germany in regards the political situation in Russia. But it is wrong to argue that current Russian-German political relations became worse or enter into a new "ice age" as it is widely publicized in the mass media of both states.

Currently, the political relations between Russia and Germany can be characterized as reliable, stable and pragmatic. The Russian-German economic cooperation is based on a solid political foundation and a well-developed legal framework. In addition, the annual Russian-German Government Consultations, taking place parallel to the "Petersburg Dialogue", promotes to the development of political relations between the two states by means of mutual discussion of the current issues, future prospects and joint search for solutions to existing problems in the relations between Russia and Germany.

Angela Merkel is well aware of the need and importance of cooperation with Russia for many reasons: historical, political, economic, cultural, geographical, geopolitical, etc.

Germany is one of the most important trading partners for Russia. The relevance of this statement survives to this day. At the moment, the Russian-German economic relations are characterized by high dynamics, rise in the turnover, despite a slight decline in trading activity during the peak of the global financial and economic crisis in 2008.

Despite the fact that Germany is one of the leading economic powers in Europe and it is actively developing and implementing alternative energy sources, Germany continues to depend on Russian natural gas. For its part, Russia needs German investors in order to modernize the economy. Furthermore, there is an intensification of the economic partnership in some aspects of cooperation. So, despite the criticism and discontent of some states, the "Nord Stream" gas pipeline was implemented.

Minister of Industry and Trade, Denis Manturov, reports that many of the old stereotypes about Russia are no longer true. Over the last fifteen years much has been done: GDP and welfare of citizens have grown substantially, among all member-states of BRICS, Russia has the largest GDP per capita. This progress has a positive impact on cooperation between Russia and Germany. For example, the year 2011 was a record in terms of the Russian-German commodity turnover.

According to the Federal Customs Service of Russia, trade turnover with Germany in 2011 was 71.8 billion dollars, which is 37 percent higher than in 2010 (51.8 billion dollars) while other European markets continued to stagnate. While most part of the trade turnover is oil and gas supplies from Russia to Europe, the country's investment climate is improving and the attractiveness of Russian products is growing. So, more and more car manufacturers have begun to relocate their production to Russia. For example, the plant "Avtotor" which has produced BMW brand cars since 1999, in 2010 the volume production in Russia increased twofold compared to 2009. If this trend continues, it is safe to assume that this year Russia will surpass Germany by the number of cars sold.

Moreover, sporting events planned for the next few years - the Universiade in Kazan in 2013, the Winter Olympic Games in Sochi in 2014 and the FIFA World Cup in 2018 will continue to push Russia to modernize and expand its development of tourism and service industries.

Russia's need and interest in German investment for modernization of the Russian economy are huge. It requires a creation of more favorable conditions for investment activity by overcoming the excessive administrative pressure, corruption, and difficulties in access to infrastructure. The solution of these problems depends also on the participation of Russian regions in the international economic exchange and the prospects of creation of special economic zones in the Russian regions.

Foreign investors acknowledge improvement in this regard. So, according to research carried out in recent times by the Committee on Eastern European Economic Relations and Russian-German Chamber of Commerce, a half of German enterprises working in Russia have already noticed an improvement of the investment climate.

The last parliamentary and presidential elections in Russia were accompanied by very critical, if not unfriendly, comments of the European press. However, against the background of political statements about the problems with democracy, the position of the German business community remains very pragmatic – Vladimir Putin's return to presidency was viewed by investors as a factor of stability, because they are more or less aware of what to expect from him.

The potential of the trade and economic relations between the two states is far from exhausted. The Russian-German economic cooperation has a bright outlook, especially after Russia's accession to the WTO. It is still very difficult to predict how the Russian-German trade and economic relations will change after taking into account the new realities. However, it is possible to assume that reduction of import duties will increase the demand for German goods on the Russian market and Russian exports to Germany will grow. Besides, Investment opportunities should also improve and expand.

Today, Russia and Germany are strategic partners for each other. For Russia, Germany is one of its largest trading partners and an important investor through which it is possible to gain

access to high end technology. For Germany, Russia is a large and mostly untapped market and the most important supplier of energy resources.

However, there are several things that negatively affect the development of Russian-German economic relations. These are excessive bureaucratic regulation of the economy in both countries, the lack of state support for small and medium-sized business, and lack of innovative activity in Russia.

Both Russian and German experts predict a creation of economic alliance between the two states in the medium term, which will help them to overcome the global competition with the new developing countries. The Chairman of the Committee on Eastern European Economic Relations, Eckhard Cordes, holds this point of view.

One form of such an alliance could become a large-scale partnership in modernization, which will be beneficial for both sides. At the same time, it should be noted that the efforts of the Russian government on the development of high-tech industries will objectively create competition for German companies that are quite happy with the current "raw materials in exchange for goods." A future of the Russian-German trade and economic relations depends largely on what scheme of cooperation will be chosen, competitive or cooperative.

The German policy towards Russia is entering a new stage of development. Germany is obviously dissatisfied with the continuity of the rule of Vladimir Putin. It is quite clear that Putin's return to presidency hasn't precisely filled Germany with enthusiasm. Putin has firmly removed from the agenda of talking points of Dmitry Medvedev concerning the democratization and modernization of the system of government. On the contrary, similar to his first term in office, Vladimir Putin again started to further consolidate state power. It is obvious in legislative changes limiting the activities of civil society and a more inflexible approach to foreign policy.

Germany hasn't failed to take note of such developments and different parliament factions adopted a resolution (supported by the conservative party CDU/CSU, liberal party FDP and the Green party) in the most abrasive terms used since the collapse of the Soviet Union.

The partnership philosophy of Germany which intended to help Russia where it is weak and ensure democratization by means of economic cooperation has failed. At the same time, the official strategy carried out by the Foreign Ministry hasn't changed and Germany's politicians haven't yet worked out a new approach towards Russia. The Russian-German bilateral relations intensified at the beginning of the last decade under the chancellorship of Gerhard Schroeder's red-green coalition government with an emphasis on economic ties, because Russia needed investments and new technologies from Germany and Germany in turn needed fossil fuels. Gerhard Schroeder declared that economic interests are national interests (i.e. *nationale Interesse*). The intensive dialogue established by the former chancellor continues under the first government of Angela

Merkel. The continuity was ensured via Frank-Walter Steinmeier, who served as Chief of Staff in the German Chancellery under the government of Gerhard Schroeder and, thereafter, as foreign minister in the Angela Merkel's government.

In regards the prospect of further development of Russian-German relations, Germany is unlikely to work out a new approach towards Russia in the near future. The government and political elite are too preoccupied with many other problems, most of all with efforts to overcome the European debt crisis. The upcoming parliamentary election campaign (the elections are scheduled in November 2013) also does not leave much room for the deliberation of long-term strategies. At the same time, the global financial and economic crisis has clarified the role of Germany to a broader public.

Economic cooperation (strategic partnership) will remain the main area of the relations between Russia and Germany. However, against the background of these political relations the year of 2013 will be significantly influenced by the Bundestag election campaign. Progress on visa-free regime between Russia and the EU in the nearest future is unlikely, because public opinion in Germany is against it.

Taking into account the arguments mentioned above, it is possible to predict the following developments of the Russian-German bilateral relations in 2013:

- Taking into account the trends of development of economic cooperation between the two states and increasing inflow of German investments to Russia, it is evident that commodity turnover and trade-economic cooperation between Russia and Germany will grow significantly.
- As for development of the political relations between Russia and Germany, it is difficult to predict it. Basically, in the near future relatively little is likely to take place. Hopefully though, the recent level of belligerence and abrasiveness will end. Presumably, the political orientation towards Russia under the chancellorship of Angela Merkel will not completely change. It will continue to be the pragmatic and strategic partnership.

Thus, analyzing the relations between Russia and Germany under the chancellorship of Gerhard Schröder and Angela Merkel, it is possible to conclude, that political fluctuations and change of government don't influence on the development of economic cooperation between the two states. Trade and economic relations between the two states are rapidly developing and expanding. Both, Russia and Germany perfectly understand the need of cooperation with each

other. Nevertheless, the current Russian-German relations are rather pragmatic and mutually beneficial, than friendly.

In construction of a strategic partnership with Germany, based on the characteristics of the given country and its position within Europe and the modern world, Russia must place an emphasis on its prioritized orientation towards Europe and its interest in a closely tied integration with the European entities. The idea of formulating a common European economic space, which in itself would include the EU and Russia, even though complex to implement, it demands the need from both sides to gradually, but steadily move towards to designated goal.

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