Report from Bonn by Rainer Apel

The dangers of inaction

Germany's hesitation to push big economic cooperation projects with Russia is shortsighted and risky.

A report published for the government in late May, documented that in 1995, German investments in Russia have fallen below those in Slovakia. Rumors here have it that the drop is continuing this year, because of a hesitation to have more than a minimal presence in Russia, before its Presidential elections.

This wait-and-see approach, of speculating whether the Communist candidate Gennadi Zyuganov will win over incumbent Boris Yeltsin, and will return to a state-controlled economy, certainly has the support of many Russia experts and the banks in the West, but it is counterproductive. Worse, a hefty DM 5 billion (roughly $3.1 billion) has been promised in the last weeks to Yeltsin to help him cover some long-overdue bills and paychecks to select sections of the electorate. This money just papers over holes in the Russian budget, created by the insistence of the International Monetary Fund and the western creditor banks, on budget "consolidation" through cuts.

The money would have gone to much better use had it been put into projects for infrastructural, industrial, and agricultural development, which would increase the productivity of the Russian workforce, and thereby, the tax revenue base of the government.

Improved industrial and agricultural productivity would have resulted in increased Russian orders for industrial machinery, transport technologies, harvesting equipment, engines, and other products which the Soviets used to order from East Germany before 1989. Russian orders from Germany are down to roughly 25% of what they were in the late 1980s, and this very directly has to do with the IMF and the free market prophets who have advised the Russian governments since 1990.

About two years ago, a senior Social Democratic politician from the eastern state of Saxony told this author that the Russian disinterest in harvesters and other machinery, which the Soviets had been buying from Saxony for more than 40 years, could be traced back to the role of the Harvard-type, Anglo-American advisers. He said that these advisers told the Russian government that it was a "big waste" to spend money for capital goods from the West (predominantly from Germany), or to invest in a national industry. The international free market could supply Russia with all its needed goods more cheaply than nationally produced goods, and the "savings" could go into such "safe bets" as western financial markets, said the advisers.

The same source also confirmed that the billions of deutschemarks which the Russian Armed Forces received from mid-1990 to mid-1994, to cover the expenses of Soviet troop withdrawal from eastern Germany, had mostly never arrived in the hands of the soldiers, nor in Russia, but had been deposited in such financial oases as Luxembourg.

Meanwhile, eastern German companies and traditional suppliers to the Soviet farm sector, such as Saxony's Landtechnik, or Deutsche Waggonbau (the main producer of Soviet rolling stock), ran into deep trouble, when they lost their markets in the East.

The German government did little to try to change the situation, sticking with the neo-conservative dogma: "What the market can't achieve, the state won't achieve either." But without explicit government backing, conditions would not develop that would allow the flourishing of trade between Russia and Germany.

The money which German banks have failed to invest in Russia over the last five years, and which is now hurriedly being transferred to Moscow to bolster Yeltsin's reelection, could have been better made as a German donation for joint infrastructural development projects. For example, it could have been donated to launch a high-speed rail line between Berlin and Moscow, which has been much-discussed recently, and even called "important" in numerous public speeches by both German Chancellor Helmut Kohl and Russian President Yeltsin. The project, which would be the main artery of transcontinental European transport between East and West, would also promote the development of industrial and urban centers along its 2,000 km length.

It is certainly true that, for geopolitical reasons, Russian elites tend to oppose a direct rail connection with the West, fearing it might one day be used to invade Russia. But it is even more true that without such a rail link, the Russian heartland will never see genuine economic development, and will remain chronically underdeveloped. Moreover, such a rail link would consolidate an atmosphere of trust and mutual cooperation between Russians and West Europeans, and in the process of completion, this rail line would alleviate Russians' unreal geopolitical fears. The Russians are, naturally, cautious; but, the German wait-and-see approach is shortsighted: The very risks that the Germans claim they want to avoid, they will only create.