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Revisiting “Deutsche Mark Diplomacy”: Applying German Economic Statecraft to the Sino-Russian Axis on Iran’s Nuclear Issue

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What economic leverage does Germany have in achieving foreign policy objectives toward China and Russia?

How can Germany turn “dependence” into “interdependence” in its relations with Russia?

Introduction

As Iran continues unabated in its uranium enrichment program in defiance of the international community this month, the prospects of an effective fourth round of UN Security Council (UNSC) sanctions seem dismal. Iran has already defied three rounds of UNSC sanctions in the past, because veto-wielding China and Russia have systematically stonewalled and watered down UNSC sanctions due to their energy and trade interests in Iran.¹ In fact, the *New York Times* reported on 10 September 2009 that there is little prospect for a fourth round of sanctions, based on Russian foreign minister Sergey V. Lavrov’s remarks: “Some of the sanctions under discussion, including oil and oil products, are not a mechanism to force Iran to cooperate...they are a step to a full-blown blockade, and I do not think they would be supported at the UN Security Council.”² Additionally, on 9 September 2009 U.S. envoy Glyn Davies informed the International Atomic Energy Agency (IAEA) that time is running out before Iran reaches “breakout capacity” to create a nuclear bomb.³ On 28 August 2009 the IAEA released a new report on the status of Iran’s nuclear program, and the Institute for Science and International Security released an analysis on the same day that “break-out capacity”—enriching LEU⁴ to weapons grade uranium—can be accomplished within three to six months (e.g., November 2009 to February 2010) at either the Natanz facility or in a clandestine gas centrifuge facility.⁵ This timeframe was corroborated by a July 2009 *Stern* report in which the German intelligence service, the *Bundesnachrichtendienst* (BND), assessed Iran would have a bomb within six months (e.g., by December 2009).⁶ Given the urgency of stopping Iran’s suspected nuclear weapons program within a shrinking window of time, the question arises on how might the other permanent members of the UNSC, plus Germany (P5+1) engage the Sino-Russian axis to cooperate on Iran’s nuclear issue?

This paper will explore the role of Germany—a key member of the P5+1 and the EU-3 that addresses Iran’s nuclear issues as well as an important player within the EU and NATO—to engage the Sino-Russian axis via positive economic statecraft. Because Russia, China, and Iran all covet Germany’s high-technology, capital, and market access, Germany is well-poised to apply these economic tools in what Randall Everest Newnham coins “Deutsche Mark Diplomacy”—the success of German efforts to gain political leverage over Russia via economic means from the 1870s to the 1990s.⁷ With Russia and China systematically using lucrative energy issues to “divide and conquer” transatlantic relations, Germany—in tandem with efforts from other transatlantic partners—can wield its economic arsenals to hedge against the Sino-Russian strategy and perhaps pioneer new paths to resolve the current Iranian nuclear stalemate. In doing so, perhaps Germany can reframe its Eastern Policy not as one of asymmetric *dependency* on Russian energy, but as *interdependence* on a more equal footing whereby Russian energy offers for German political concessions are balanced by German offers of high-technology, market access, and capital markets for Russian political concessions.

Revisiting “Deutsche Mark Diplomacy” on the Sino-Russian Axis

In Randall Everest Newnham’s seminal study, *Deutsche Mark Diplomacy: Positive Economic Sanctions in German-Russian Relations*,⁸ he disaggregated economic sanctions into positive (e.g., trade incentives) and negative (e.g., embargoes) and measured their effec-

tiveness in achieving political objectives over time. Empirical evidence demonstrated that from the period of 1870 through the 1990s, Germany was more successful in achieving political objectives with Russia via positive economic linkages such as foreign aid, trade, and credit incentives, as opposed to negative linkages such as embargoes. Because negative sanctions need multilateral coordination with other states and can rarely be unilaterally applied successfully, positive sanctions are more effective in obtaining foreign policy objectives due to positive spill-over such as (1) being psychologically more acceptable by the target state than negative sanctions; (2) extending cooperation into other issue areas; and (3) being applied unilaterally. Due to past failures of three rounds of UNSC negative economic sanctions against Iran, perhaps now Germany can test Newnham's theory of positive economic statecraft in the case of contemporary Russo-German relations and take the lead in the EU-3 and work with remaining western partners in P5+1 to test "Deutsche Mark Diplomacy" on the Sino-Russian axis.

Germany indeed plays a pivotal role in engaging China and Russia to cooperate on the Iranian nuclear issue. It is the largest trading partner in the EU to Russia, China, and Iran, and the second largest world trading partner to Iran after China. As such, Germany can link its sources of high technology, finance, and large market to Sino-Russian cooperation on Iran as well as on North Korea (Democratic People's Republic of Korea, DPRK) in the UN Security Council. Because China and Russia have energy interests in Iran and the DPRK, they are reticent to apply sanctions on their illicit nuclear weapons programs. Russia needs Iran as a foothold in the Middle East as well as an export market for nuclear technology while China needs Iranian natural gas. Additionally, China and Russia need the DPRK as an energy silk-road to connect the Trans-Korean Railway to the Trans-Siberian Railway (TKR-TSR) to deliver energy to Northeast Asia. However, the flip side of this is that Russia and China also need market access to Germany, German capital, and high technology. Germany, as the largest EU nation, can thus link economic concessions to foreign policy objectives toward China and Russia.⁹

In the case of Iran, at present more than 5,000 German firms are actively conducting business with Iran. According to the former president of the German-Iranian Chamber of Industry and Commerce in Tehran, "Some 2/3 of Iranian industry relies on German engineering products." Moreover, an Iranian specialist at Jane's Information Group said that the Iranians distrust Russian technology because it is neither cutting-edge nor reliable, so the argument that Iranians facing western sanctions will turn to Chinese and Russian technological know-how is not plausible.¹⁰

Indeed China corroborates this analysis, as over the years it has outgrown Russian military technology, and is now actively engaged in industrial espionage in western nations. Such espionage is especially a rampant concern in Germany. In 2005 China tried to lobby the EU to overturn the arms embargo in order to access dual-use technology with military applications, but this endeavor failed in the face of strong U.S. opposition due to its defense commitments to Taiwan in the event of a cross-strait conflict. As such, access to German and western high technology still has strong utility as a hedge against Iran and Sino-Russian attempts to "divide and conquer" the transatlantic alliance.

Russia's Hedge Against "Deutsche Mark Diplomacy"

Russia, perhaps more so than Germany, recognizes the power of German economic tradecraft and is thus currently hedging against this potential "Deutsche Mark Diplomacy." It is attempting to buy up companies in Germany's strategic dual-use (military and civilian applications) sectors—shipbuilding, automobile manufacturing, and semiconductors—to increase Russian control over the German manufacturing sector in addition to its current energy stranglehold over Germany and EU countries. The outcome of the 14 August 2009 summit between Chancellor Angela Merkel and President Dmitry Medvedev is the Russian-proposed acquisition of German auto manufacturer Opel, shipbuilding company Wadan Yards, and microelectronics company Infineon.¹¹ Indeed this seems to follow in line with the 1982 Andropov Plan, whereby Yuri Andropov, a KGB chairman and general secretary of the Soviet Communist Party, put forth this authoritarian modernization plan to access western technology, capital, and skills—especially economic espionage—run by the KGB's Sixth Directorate.¹² These processes of interconnecting Germany's economy with Russia and structural integration in strategic sectors will have important implications for NATO, transatlantic relations, European security architecture, and politics.

In the case of Opel, saving the bankrupt auto manufacturer is important in an election year because Opel provides 25,000 German jobs. However, despite a U.S.-backed competitive bid by Belgium-based RHJ International, Merkel chose the Canadian Magna/Russian Sberbank offer with a €4.5 billion German government bridge loan.¹ Siemens, majority owner of microelectronics company Infineon, already has a large market presence in Russia and Iran. As such, Siemens agreed to spin off Infineon to Russia, and took further steps to increase ties with Russia by restructuring Siemens nuclear power division—breaking off its long-term partnership with French Areva and replacing it with Russian Rosatom.¹⁴ This is driven by Russia's Gazprom interests, because Rosatom is building a fleet of floating and submersible nuclear power stations in the Arctic to exploit oil and gas reserves. These 70-megawatt plants, each of which would consist of two reactors on board giant steel platforms, would provide power to Gazprom, such as allowing Gazprom to power drills needed to exploit some of the remotest oil and gas fields in the world in the Barents and Kara seas.¹⁵ The self-propelled vessels would store their own waste and fuel and would need to be serviced only once every twelve to fourteen years; however, other countries are concerned because Russia has a long record of polluting the Arctic with radioactive waste.

Russian energy security policy via Gazprom also appears to drive its takeover of Wadan shipyards in the Baltic coast. Wadan Shipyards build special LNG tankers (to maintain liquefaction temperature of -260 degrees Fahrenheit), Arctic transport ships, and ice breakers. Gazprom and the Russian merchant fleet currently lack western technology and capacity to build those types of ships in order to break into LNG trade (to prevent western Europe's attempt to diversify from Russian-controlled natural gas pipelines) and compete for Arctic resources.¹⁶ Moreover, in October 2008, Gazprom formalized its interest in becoming a global LNG player by creating a new wholly owned subsidiary Gazprom Global LNG Limited, with main projects in the Arctic (Shtokman, Prirazlomnoe, etc.).¹⁷ This, coupled with current discussion of setting up a Russia-Germany joint energy agency, would nip EU common energy policy in the fragile bud.¹⁸ Current Eastern Policy driven by German elections should not be at the expense of long-term EU common energy security policy.¹

Wadan Shipyards was sold for €40.5 million at the end of August 2009 to Russian investor Igor Yusufov, a former Russian energy minister and member of the board of directors of Gazprom.² While Gazprom has experience in onshore exploration, it lacks western technology and experience in offshore exploration. It especially needs German technology such as PetroMod, from Aachen-based Integrated Exploration Systems (IES), to search for hydrocarbon resources.²¹ Opel, Wadan Shipyards, Infineon, and Siemens-Rosatom are all further increases of German dependency on Russia in addition to energy dependency. At the same time, Russia is taking an increasingly militarized and aggressive stance toward energy security by building naval bases,²² submarines, and fleets and by demonstrating gunboat diplomacy to assert its territorial claims over the Arctic.

For example, Russian fighter jets increasingly graze past just outside NATO airspace. The Norwegian military registered eighty-eight Russian flights along the Norwegian coast in 2007 while it was only fourteen in 2006. Russia has even carried out a mock bombing run on Bodø Air Base, Norway's northernmost military command center.²³ Russian fighter jets also violated North American airspace and prompted Canada and the U.S. to scramble fighter jets more than twenty times since 2007.²⁴ In August two nuclear-powered Russian attack submarines patrolled in waters off the U.S.' eastern coast for several days, reminiscent of its provocative stance toward the U.S. in February 2008 when two Russian bombers buzzed the USS Nimitz aircraft carrier in the western Pacific. The U.S. scrambled two fighter planes to intercept the Russian bombers, including one that flew directly over the USS Nimitz twice at an altitude of about 2,000 feet.²⁵ All this underscores Russia's increasingly aggressive military posture to protect its energy interests.

Conclusion—Reframe Eastern Policy

In a *Newsweek* article by Owen Matthews and Stefan Theil, they caution that Germany's current Eastern Policy regarding Russian takeover of German industries may be misguided.²⁶ Berlin's policy of "rapprochement through interdependence" is an attempt to bind a resurgent Russia into the European order with a tight web of economic political and social ties, but it backfires when the "interdependence" is skewed in Russia's favor and becomes dependency—understandably during an

election season, the parties are concerned with preserving jobs of constituents where Opel and Wadon Shipyards are located. However, despite options of non-Russian controlled competitive bids, German preference for Russian acquisition may be short sighted, because Russian control of strategic German industries will further increase German dependency on Russian markets, state orders, and Russia's coercive energy stranglehold that limits Germany's freedom of action in its foreign policy objectives. This already has an impact on transatlantic relations such as contributing troops to NATO/ISAF in Afghanistan, NATO enlargement to include Georgia and Ukraine, missile defense in Poland and the Czech Republic, and supporting Nord Stream instead of a common EU energy policy or Nabucco.

However, the transatlantic alliance is not without leverage. Because energy is Russia's key arsenal against the West, the U.S. and EU need to have a multi-prong approach to reduce energy dependency. To that end, there needs to be a high-level energy dialogue for a coordinated transatlantic approach to hedge against Russia's weaponization of energy policy. Moreover, Germany can lead the EU on steps toward diversification of non-Russian controlled pipelines such as Nabucco, which would also anchor Turkey within European security architecture. Nord Stream at the moment is facing territorial disputes among the Baltic littoral states, especially with Sweden's strong anti-Nord Stream stance, so the pipeline may not be feasible in the near term. Germany can expand sources of geographic producers in Central Asia, West Africa, and North America, as well as diversify sources of energy mix—e.g., LNG, renewable, nuclear. It can also play an important role in energy conservation and efficiency, as it has a comparative advantage in green technologies.

Germany can also level the playing field to turn "dependence" into "interdependence" by tying political objectives to economic concessions. Germany should not give away its strategic industries to Russia with German government-backed loan guarantees and credits, without demanding some political concession in return. Russia is adept at the art of tied aid and economic statecraft, as exemplified by its aid package to Kyrgyzstan in order to evict NATO from Manas Air Base back in February 2009. Because China, Russia, and Iran covet German engineering products and high-technology goods, and Germany is the largest EU trading partner for all three countries, this gives tremendous leverage for Germany to conduct "Deutsche Mark Diplomacy," should it choose to do so. Currently the German government appears to be blindsided by domestic elections, but elections and a balanced Eastern Policy (based on mutual "interdependence" rather than "dependence") are not mutually exclusive. Given that the Sino-Russian axis is not willing to apply sanctions to Iran due to its energy interests, Germany can equally use Sino-Russian economic interest in the German market as a bargaining tool to negotiate some consensus and cooperation in P5+1 and UNSC resolutions. As Jan Techau of the German Council on Foreign Relations said, Putin "knows exactly how to play us...he knows our reflexes and our ingrained pacifism."²⁷ Owen Matthews and Stefan Theil lamented, "indeed, it may be the Russians who understand the German's soul, rather than vice versa."²⁸ However, there may be a part of the German soul that Russia underestimates—its special relationship with Israel due to the Shoah.²⁹ With Israel running out of time and the shrinking window to stop Iran's nuclear program, Germany must see that it has more power and options than it realizes. Now is the time that perhaps Germany can reframe its Eastern Policy to revisit "Deutsche Mark Diplomacy."

NOTES

¹ Louis Charbonneau, "Analysis—West wants Russia, China to back tough Iran steps," *Reuters*, 29 August 2009.

² Clifford J. Levy, "Russia says sanctions against Iran are unlikely," *The New York Times*, 11 September 2009.

³ "Iran 'closer to nuclear weapon'," *BBC News*, 9 September 2009.

⁴ Low-enriched uranium, which consists of 3-4 percent of the highly radioactive U-235 and the rest is U-238. Weapons grade uranium, or highly enriched uranium (HEU), requires over 90 percent U-235.

⁵ David Albright, Paul Brannan, Jacqueline Shire, "IAEA Report on Iran: Centrifuges increase; Rate of LEU production steady; progress on inspection requests at Arak and Natanz; no progress on possible military dimensions", *ISIS Report*, 28 August 2009, 2.

⁶ "Iran could have a nuclear bomb in six months," *Bild.de*, 15 July 2009; Assaf Uni, "Germany believes Iran could have nuclear bomb within 6 months," *Ha'aretz*, 18 July 2009.

⁷ Randall Everest Newnham, *Deutsche Mark Diplomacy: Positive Economic Sanctions in German-Russian Relations* (Penn-

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sylvania: Penn State University Press, 2002).

⁸ *Ibid.*

⁹ Christina Y. Lin, "NATO and the Shanghai Cooperation Organization: New Energy Geopolitics for the Transatlantic Alliance," *AICGS Transatlantic Perspectives*, American Institute for Contemporary German Studies, August 2009.

¹⁰ Benjamin Weinthal, "Iran Sanctions: The German Control Problem," *The Washington Institute for Near East Policy*, Policy Watch #1543, 26 June 2009.

¹¹ Paul K. Baev, "Medvedev pulls Germany into a Closer Partnership," *Eurasia Daily Monitor*, Vol. 6, Issue 158, 17 August 2009; Vladimir Socor, "Germany Facing Dependence on Russian Market and State Orders," *Eurasia Daily Monitor*, Vol. 6, Issue 159, 18 August 2009.

¹² "Victor Yasmann, "Russia: From Silovik Power To a Corporate State," *Radio Free Europe/Radio Liberty*, 25 September 2007; Peter Zeihan, "Russia: What Now?" *Stratfor*, 4 July 2006.

¹³ *Spiegel Online*, "End in sight for Opel Odyssey," 10 September 2009; Vladimir Socor, "German Election Year Politics Facilitates Russian Take-over of Opel," *Eurasia Daily Monitor*, Vol. 6 Issue 107, 4 June 2009; Vladimir Socor, "Russo-German Relations Promotes Oligarchic Economic Interests," *Eurasia Daily Monitor*, Vol. 6, Issue 159, 18 August 2009.

¹⁴ Vladimir Socor, "Russo-German Relations Promotes Oligarchic Economic Interests."

¹⁵ John Vidal, "Russia to build floating Arctic nuclear stations," *The Observer*, 3 May 2009.

¹⁶ Vladimir Socor, Bhartendu Kumar Singh, Yizhak Shichor, Michael Scheuer, "Merkel-Medvedev meeting in Sochi Details Russian Takeovers in German Industries," *Eurasian Daily Monitor*, Vol. 6, Issue 159, 18 August 2009. A 2008 U.S. Geological Survey estimated 25 percent of the world's hydrocarbon resources are in the Arctic region. For further discussion on militarization and competition for energy in "The High North," see Christina Y. Lin, "NATO and the Shanghai Cooperation Organization."

¹⁷ Roman Kupchinsky, "Russia LNG-The Future Geopolitical Battleground," *Jamestown Foundation*, June 2009, 13f.

¹⁸ *Der Spiegel*, "Believing Russia Can Rescue German Industry is Naïve," 17 July 2009.

¹⁹ Owen Matthews and Stefan Theil, "The New Ostpolitik: Germany has become Russia's Best Friend, but to whose benefit?" *Newsweek*, 3 August 2009.

²⁰ Steffen Eggebrecht, "Will Ship Come in for Bankrupt German Company?" *Spiegel Online*, 10 September 2009.

²¹ Christoph Seidler, "Taking Stock of North Pole Riches," *Spiegel Online*, 10 September 2009.

²² Russia's upgrading its port facilities in Tartus, Syria, as a main sea base for operations in four seas: the Atlantic and Indian Oceans and the Mediterranean and Red Seas. "Russia builds key naval HQ in Syria: Missile presence worries Israel," *Jerusalem News*, 21 July 2009.

²³ Christoph Seidler, "Who is Winning the Arctic Game of Monopoly?" *Spiegel Online*, 11 June 2009.

²⁴ Christina Y. Lin, "NATO and the Shanghai Cooperation Organization."

²⁵ Lolita C. Baldor, "Russian subs patrolling off East Coast," *Associated Press*, 4 August 2009.

²⁶ Owen Matthews and Stefan Theil, "The New Ostpolitik: Germany Has Become Russia's Best Friend, But To Whose Benefit?" *Newsweek*, 3 August 2009.

²⁷ *Ibid.*

²⁸ *Ibid.*

²⁹ Michael Brenner, Lily Gardner Feldman, Harald Kindermann, Shimon Stein, Frank Stern, *Sixty Years After the Founding of the Jewish State: Are German-Israeli Relations Still 'Special'?* AICGS German-American Issues 8, 2008.