Russian Federation: Executive Branch

By Susan Cavan

Medvedev finally addresses Federal Assembly

President Dmitri Medvedev finally delivered his first address to the Federal Assembly, after two postponements alternately explained as due to rapidly developing economic issues or his intention to wait for results from the American election. (1)

Medvedev sounded some familiar themes during his speech, particularly regarding his intention to fight state corruption, but also set out specific political reforms, which will require changes to the Constitution.

Medvedev's proposed political alterations would include changing both the registration procedure (specifically signature gathering) for parties, allowing parties that reach a five percent threshold to have one or two seats in the parliament, and, interestingly, providing for greater oversight of the executive, specifically the government, by the legislature through "a constitutional norm that will obligate the government of Russia to report to the State Duma annually on the results of its activity and on the issues directly set by the parliament." (2)

Of course, Medvedev's proposal to extend the presidential term to six years, and the terms of Duma representatives to five years, has garnered significant attention. The extension of the constitutional limit on the president's term serves to confirm for many the concern that Putin merely stepped aside from the presidency in order not to contravene the constitution, but that he has every intention of reclaiming the position of president as soon as he is able. Medvedev's position on the matter may not even be relevant. Significantly,
Medvedev’s own current presidential term will not benefit from the proposed extension.

Medvedev did sound several seemingly popular themes throughout his address, particularly when he spoke of Russia's values and democratic development. Even his calls to expand citizen rights, such as free speech, were tinged with his oratorical attack on corruption: "freedom of speech should be ensured by technical innovations. Experience shows that trying to persuade officials to leave the media alone is practically useless. Instead of trying to persuade them, we should more actively expand the free space of the Internet and digital television." (3)

As for the economic crisis, Medvedev returned to themes from his address to the World Policy Conference, making it clear that the Russian government now sees some value in laying responsibility for both economic instability and international political/military tensions at the feet of the US: "Being closely linked to the markets of all developed countries while being the most powerful of them, the US economy dragged down the financial markets of the whole planet and this crisis also acquired a global nature. … The world cannot be ruled from one capital. Those who refuse to understand this will merely be creating new problems for themselves and others. The move by the majority of countries to a genuinely pragmatic multi-vector policy shows that the strengthening of international institutions is topical." (4)

Russia's call for "multipolarity" in the international community has intensified in the wake of the August war in Georgia, but the louder keen thus far has had little effect. Perhaps the expansion of the "polycentric" concept to the economic sphere will yield Russia the results it seeks.

**Could the economy rattle Putin’s plans?**
President Medvedev’s criticism of the United States as responsible for the international financial crisis has another purpose for the Russian government – it shifts blame for economic difficulties from its traditional resting place on the head of the Prime Minister. However, it is far from certain that as the extent of the economic difficulties Russia faces becomes clearer, Putin will be able to sidestep responsibility.

Prime Minister Putin certainly has been front and center in addressing the financial woes of a tumbling market, financier bailouts, and bank closings. Thus far, his role has been both to warn of the potential state response to "predatory" practices and to provide reassurance for favored oligarchs and banks.

In the banking sector, Putin addressed the credit crunch and liquidity issues of regional banks by demanding that regional leaders crack down on possible takeovers of smaller banks by larger ones, which theoretically, might have represented a form of private bailout of local banks. (5) Given the rapidity of developments in the crisis, however, Putin has had to acknowledge the dangers faced by the banking institutions by providing a federal bailout and putting federal deposit insurance in place. Seeking, one assumes, to reassure citizens that their money is still safe in Russian banks, Putin announced that he would not withdraw his own funds from the bank: "I had [sic] savings with Sberbank and VTB, I think, and they are all still there, and will remain there. I see no need to do anything with these funds. Our banking system is functioning and it's functioning smoothly." (6) Whether or not Russia's citizens find Putin's commitment to leave at least some of his money in banks (specifically, banks, for which the Russian government has just put together a state-funded bailout) remains to be seen.

One of the more difficult dimensions to the current international financial crisis is that the reverberations of any one government action, such as a bail out of one sector of the economy, resound across other sectors of the economy – a phenomenon that clearly is not restricted to individual national economies. In this
liquidity crisis, it is clear that financial pressure "finds its own level," much like water. Thus, as the Russian government attempts to bail out favored individuals in one sector (as, for example, the attempts to keep 25% of Oleg Deripaska's Norilsk Nickel out of foreign hands—See "Domestic Issues," below) leads both to increased pressure on Russian businessmen without Deripaska's pull, as well as pressure on other sectors of the Russian economy that did not benefit in the initial deal, and that now begin to appear weak, and suddenly require increased financial support from the government.

A multidimensional crisis of this magnitude particularly tests the Russian government, because the Putin administration implemented a policy of increased government oversight and ownership of several key sectors and companies by packing corporate boards and leaderships with apparatchiki. While the government's response to each company's economic demands can provide fairly reliable information about the relative status of various Kremlin clans, it also places inordinate pressure on the government's leadership as it attempts to keep ahead of the crisis. In September, it was reported that Putin had ended the traditional weekly meetings of the government, and even curtailed the presidium meetings, in order to accommodate his travel schedule. According to one analyst, "It seems simpler to Putin to resolve questions on an operational basis...." (7)

Given the dynamic nature of the crisis and the bottleneck created by centralized control of the response, it seems highly likely that Prime Minister Putin will be the focal point of attention, praise, and quite possibly recriminations, as the crisis spreads. Deflection of responsibility onto the US for the initial stages of the crisis (which might have some utility in foreign policy) is not a reliable strategy as the domestic implications of the crisis unfold.

Already, concerns about the government's handling of the mounting economic problems are appearing. News accounts have appeared recently reviewing the
beneficiaries of government bailout largesse and some analysts suggest this would be a fortuitous moment for the government to rein in oligarch independence. (8) Perhaps most dangerously for Putin, the man associated with rescuing Russia from its devaluation crisis in 1998 has reemerged to warn of the perils of the current crisis.

Former Prime Minister Yevgeni Primakov, who currently heads the Russian Chamber of Commerce, has "suggested" that the government act to reduce taxes on businesses concerned with "innovative activities" and took the opportunity to admonish and remind the government: "The problems of Russia's economic development cannot be taken separately from the effects of the world financial crisis on the country's socio-economic and political situation. We will face serious trials in the future." (9)

Of course, Putin has proven remarkably adept at evading responsibility for many of the bad decisions, adventurous choices, and avoidable catastrophes that have plagued Russia. Even his apparent plan to circumvent the constitutional limits on his presidency by placing the Kremlin in the hands of a caretaker until he would be eligible to serve again appears to be on track. Unless, that is, Russia's economic trauma leads to public discontent, and President Medvedev is persuaded to abandon his former mentor for a surer hand to steer the economic course.

Source Notes:
(1) "Postponed Medvedev speech set for Nov. 5," 29 Oct 08, UPI via http://www.upi.com/Top_News/2008/10/29/Postponed_Medvedev_speech_set_for_Nov_5/UPI-84211225303807/
(2) "Russian president Medvedev's first annual address to parliament," 5 Nov 08, Rossiya TV via Johnson's Russia List (JRL), 2008-#202, 6 Nov 08.
(3) Ibid.
(4) Ibid.
Russian Federation: Domestic Issues and Legislative Branch
By Rose Monacelli

Russian bailout issues
It can hardly be described as a silver lining on the cloud of Russia’s current financial meltdown, but it appears that Prime Minister Putin finally may have found a way to fulfill his 2000 presidential election promise to “destroy Russia’s oligarchs as a class.” (1) In the wake of last month’s announcement that the Russian government will lend $50 billion to companies that have seen massive losses in the past month, Russia's wealthiest men now are forced to choose between admitting defeat and accepting the Kremlin’s help. (2)
This is the opportunity that the government has been waiting for since it ceded control of many state-owned energy and production companies during the tremulous period of “loans for shares” privatization during the 1990s, when the oligarchs took major stakes in state-owned oil and metals companies as collateral for loans to the government. In recent years, the oligarchs have taken to borrowing heavily from foreign banks, a practice that was considered to be a minimal risk in light of the robust economic growth of the period. Although investors long have lamented the lack of diversity in Russia’s economy, the commodities boom of the past decade has, up until now, provided enough revenue to sustain the country’s financial system. However, in the wake of the global financial crisis, the prices of Russia’s major commodities exports, including metals, energy, and food, have plummeted. These three items constitute approximately 80 percent of Russia’s exports, a situation that was extremely beneficial when the prices were rising by more than 225 percent, on average, between 2000 and 2007. Since June, however, these numbers have tumbled by more than 20 percent, prompting foreign investors to demand restitution on their loans. (3)

Now that the oligarchs need help, the government has the chance to reverse the power balance of the past decade by reclaiming its lost assets, further consolidating its economic control. Additionally, the economic lever now may give the Kremlin even greater control over those remaining business moguls who, up until now, had proven troublesome.

Concern over the consequences of accepting loans from the government has not prevented some of Russia’s most influential individuals and companies from lining up for assistance. This may have less to do with the Kremlin than the fact that the oligarchs “would rather start pumping oil with their own hands than lose their assets.” (4) Oleg V. Deripaska, the wealthiest man in Russia thanks to his ownership of aluminum and mining company UC Rusal and the Norilsk Nickel company, was granted $4.5 billion last Wednesday, in order to keep 25 percent
of Norilsk out of the hands of his creditors. (5) Similarly, Mikhail Fridman announced last Friday that his Alfa Bank needed $400 million in emergency government loans to keep from defaulting on a $2 billion debt to a group of foreign creditors led by Deutsche Bank. If this happens, Alfa Bank would have to forfeit its significant (44 percent) share of VimpelCom, one of Russia’s leading telecommunications companies. Other firms that have put in bids for government aid include the property development firm PIK, state-owned Russian Railways, Rosneft, and AFK Sistema. (6) Some argue that the Kremlin’s plan has no sinister secondary effect, but rather that it is part of a wider scope of operations designed to help the economy recover, including fortifying state banks, relaxing regulations governing borrowing money, or encouraging the Russian people to keep their faith in the ruble. (8) For its part, the government maintains that “the expansion of the government's presence in the economy is a forced measure that is of a temporary nature,” in order to begin to regrow the economy as quickly as possible. (9)

However, as of Wednesday, VEB had received requests for over $100 billion in loans. This gap between requested and available funds is the source of the state’s sudden resurgence of power over private industry, a notable feat in an economy that already is controlled tightly by the government. (10) It remains to be seen how the power to decide which companies deserve to be saved and which do not affects the relationship between the Russian government and its independent corporate sector, especially as the state gains more and more control.

To date, the Kremlin has demanded that any company seeking government assistance will have to offer as collateral a portion of ownership in their companies, the same amount that was promised to the foreign banks to secure the loans in the first place. However, there is no telling what other conditions the government will place on its friendship. Possibilities include giving the state bank
veto power over companies’ financing decisions and the right to forbid borrowers from seeking other loans, (11) effectively giving the Kremlin control of privately-owned corporations’ future financial development.

In order to finance its massive bailout plan, the Kremlin has turned to its development bank, Vnesheconombank (VEB), chaired by Prime Minister Putin. VEB’s official mission is to use the country’s federal reserve, which at its peak ($531 billion) was the third largest in the world, (12) to fund infrastructure projects (13). However, in the past two months the government has begun to spend the reserve at an increasingly rapid pace, more than $30 billion in September and $15 billion during the second week of October alone. Overall, more than $200 billion has been pledged so far. (14) As of last week, the Central Bank reported that the foreign reserve currently stands at $484.7 billion, falling below $500 billion for the first time in eight months. (15)

In addition to the size of the bail out in total, the criteria by which individuals will receive Kremlin largesse is obscure, and therefore likewise controversial. In early October, the Russian Union of Industrialists and Entrepreneurs published a surprisingly direct letter calling for Putin to create transparent, public standards for financial aid distribution and warning about the dangers of favoritism. in light of the fact that if the spending continues, the reserve will last for less than two years. (16) Even the financial advisor who created the reserve strategy, Andrei Illarionov, has criticized his former employers for “frittering away the funds, directing them toward inefficient companies with political connections.” (17)

Beyond these immediate concerns, two other facts must be considered. The first is that foreign debt is approaching $450 billion. The $50 billion offered by the Russian government will do little more than pay off the most immediate debts that are due by the end of the year. (18) The second is that the same day that it announced Russia’s plan to finance the aid packages for the oligarchs, VEB cancelled many upcoming large-scale innovation and improvement projects,
including planned transportation infrastructure enhancement and the building of newer, safer airports. (19) By consistently choosing to focus on only one problem at a time, instead of the larger picture, the government has allowed for the possibility that even if it does manage to bail out its major corporations, there may be no end to the issues it will face in the future.

Source Notes:
(2) Natalya Vasilyeva, “Bailout could turn tables on Russia’s oligarchs,” Associated Press, 31 Oct 08 via http://ap.google.com/article/ALeqM5j0suOQ1bwH0qjbURWfxOe1VKO4PQD945NA380. Last accessed 02 Nov 08.
(7) Putin may use credit squeeze to ‘destroy’ Oligarchs, ibid.
(8) Ibid.
(9) Bailout could turn tables on Russia's oligarchs, ibid.
(10) Russia bails out its debt-ridden billionaires, ibid.
Russian Federation: Security Services

By Fabian Adami

Moskalenko not poisoned?
On 12 October, Karina Moskalenko, a well-known anti-regime lawyer, contacted police in Strasbourg, France because she felt unwell. When police searched her car, they discovered mercury. In an interview a few days after the incident, Moskalenko explained that the mercury did not constitute an assassination attempt, because the substance was so obvious, but rather a "demonstration," designed to warn her that she should curtail her legal activism. (1) Moskalenko's statements were echoed in a number of Western press outlets and received vocal support from Lev Ponomarev, leader of Russia's 'For Human Rights' movement, who told the Los Angeles Times that he had "no doubt" that the
incident constituted a "political crime," and that the Kremlin was "afraid" of the challenge represented by Moskalenko. (2)

Developments of the last ten days indicate that Moskalenko may not have been the target of an assassination or warning attempt by the Russian secret services. On 23 October, a report in Le Figaro, one of France's leading newspapers, referred to a summation by the French police that the mercury in her car was the result of an "accidental" spill from a broken thermometer left in the car by its previous owner, an antiques dealer. (3) According to another report, a French police official stated that the mercury, which a laboratory has concluded is “no longer dangerous,” came from a “barometer that broke while being transported by the car’s previous owner.” (4)

Moskalenko, according to Russia Today, has stated that she and her husband did not clean the car after purchasing it. (5)

Moskalenko obviously deserves to be commended for her work in defending opponents of the Russian regime. However, this incident raises questions. Obviously the treatment of dissenters by the Putin administration causes great concern, but Moskalenko seems to have jumped to conclusions before the full facts of the incident were known. If the French authorities are to be trusted (and at this stage there has been no challenge to their findings), Moskalenko may have changed her story, thus affecting her own reputation. Whether that is the case or not, there is something more serious at stake. As the 1999 apartment bombings, the Litvinenko and (probably) the Politkovskaya assassinations show, there is no shortage of accusations that can be leveled at the Russian secret services. Prematurely making indictments diminishes the chances of making genuine claims stick, and may potentially delegitimize the cases of those individuals who have been targeted.

FSB archives redux
In April 2007, then Director Nikolai Patrushev announced that the FSB had declassified some two million files in the preceding 15 years. Patrushev also claimed that the agency would release for publication some 300,000 files that would reveal the "real truth" about the great purges and famine. The announcement came with the caveat that files relating to operations and methods would remain classified. (6) It was clear at the time that the announcement was part of a broader attempt to prove the Secret Services’—and by extension the regime's—"humanity." That effort apparently is continuing at present.

On 23 October, during a press conference in Riga with his Latvian counterpart, Foreign Minister Sergei Lavrov announced that the FSB soon would be turning over to Latvian historians a selection of archival documents that, until now, had been sealed. What files specifically are to be accessed is not clear, with Lavrov only stating what is obvious – namely that the documents concern cases in which the Latvian historians "evinced interest." (7) It is probably safe to assume that the files will concern the mass deportations and forced collectivization that occurred in the Baltic states between the Soviet reoccupation in 1944 and Stalin's death in 1953, rather than anything politically relevant—such as information on Russian intelligence operations in the Baltics since 1991—to the present day.

**Patrushev role clearer?**

Within days of Dmitri Medvedev's accession to the Presidency in May of this year, a major personnel reshuffle was conducted in Russia's security apparatus. Nikolai Patrushev was transferred to head the Security Council, to be replaced at the FSB by Aleksandr Bortnikov. In light of Patrushev's connections to Vladimir Putin, it seemed likely that the move had two connected purposes: first, to ensure that Putin retained control of the Security bodies and secondly, to revitalize the Security Council and give it increased powers. (8)

In the last three weeks, Patrushev has been on two trips abroad that apparently hold great significance for Russia. In mid-October, as a significant portion of
Russia's navy was sailing towards Venezuela, Patrushev met in Caracas with senior Venezuelan officials, including Head of the General Staff Jesus Gregorio Gonzales, Foreign Minister Nicolas Maduro, and Vice President Ramon Carrizales. (9) According to Gonzales, he and Patrushev had wide ranging and productive talks, but the main issue discussed was the development of military-technical ties, particularly the updating of Venezuela’s armored capabilities. Gonzales claimed that Venezuela wishes to purchase between 100 and 500 tanks, as well as assorted helicopters, other aircraft and ships. (10) The armor being discussed is the T-90, an updated version of the T-72. (11)

A week later, Patrushev visited India, where he met with his counterpart, M. K. Narayanan. Patrushev's discussions with Narayanan centered on Russia's Caucasus policies, counter-terrorism, and energy. (12) Patrushev claimed that the Indian government "fully" understood the problems faced by Russia in the Caucasus, supported Russia's policies, and stated that India would in future take an active observer role in the Shanghai Cooperation Organization. Russia and India also will sign an intergovernmental declaration on Nuclear Power Cooperation when President Medvedev visits the latter country later this year. (13)

Patrushev's travels, and the fact that he now apparently has a major role in negotiating arms sales, indicate that the hypotheses about the Security Council's renewed importance were correct. Patrushev's role also indicates that the deduction made during the recent Georgian crisis—that Putin not Medvedev retains responsibility for national security matters—was accurate.

Border Guards: South Ossetia and Abkhazia

On 20 October, the FSB announced that its Border Guard Service was to be deployed on the Russian-Georgian border, i.e. in South Ossetia and Abkhazia. An agreement on the matter between Moscow, Tskhinvali, and Sokhumi is to be signed as soon as the Treaties of Friendship, Cooperation, and Mutual
Assistance with the two secessionist republics are ratified by the Duma. (14) Russia attempts to justify the deployment of the Border Guards in a number of ways. First, it claims that there is a need to "counteract threats of a terrorist or sabotage nature," supposedly emanating from Georgian soil. (15) Secondly, the Border Guards specifically are preventing heightened weapons smuggling (as a result of armaments abandoned by retreating Georgian forces), emanating from the two supposedly newly independent republics. According to Valentin Letunovskiy, Chief of the regional Border Guards Directorate, there have been 600 "border regime violations," since mid August, and the FSB has discovered a number of large weapons caches. (16)

The allegation that Islamist terrorists are entering Russia via Georgia is not a new one – indeed, it has been used already as a post-facto justification for Russia's actions. But the new Russian argument about weapons smuggling is completely transparent. If arms were being smuggled from South Ossetia and Abkhazia into Russia, would it not make sense to deploy troops on these entities' borders with Russia, rather than on the borders of Georgia proper and Russia? This supposition leads to the conclusion that the Border Guards’ deployment is little more than another attempt to create facts on the ground, in order to make the military objectives attained in August irreversible. Russia is seeking de facto, if not de jure, recognition of the new realities.

Sources Notes:
(1) See The ISCIP Analyst, Volume XV, Number 3 (23 Oct 08).
(6) See The ISCIP Analyst, Volume XIII, Number 2 (26 April 07).
(7) "FSB To Deliver Some Archival Materials To Latvia Historians," ITAR-TASS, 23 Oct 08; OSC Transcribed Text via World News Connection.
(13) Ibid.
(14) "Russian Border Service Reportedly To Guard Abkhazian, South Ossetian Borders Article by Vladimir Solovyyev: ‘Convoy to Follow Recognition. FSB To Appear on Borders of Abkhazia and South Ossetia,’" Kommersant, 21 Oct 08; OSC Translated Text via World News Connection.
(15) "Russia: Heightened Security Measures on Russian-Georgian Border (This Translation was Provided to OSC by another government agency), Report by Aleksandr Khrolenko entitled: The Border Guard Service is at Heightened Status," Krasnaya zvezda, 20 Oct 08; OSC Translated Text via WNC.
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Russian Federation: Armed Forces
By Lt. Col. Erik Rundquist

**Russian military reform: Change we can believe in?**
The Russian military has continued its well-advertised exercises and battle drills over the last few months. A large joint air defense drill was completed on 23 October, when Russian, Kazakh, Belarusian, Ukrainian, Tajik, and Uzbek militaries purportedly tested and exercised integrated air defense network operations. (1) The senior Russian Air Force officer, Colonel General Aleksandr Zelin noted, “All the tasks, including testing combat interoperability of CIS [Commonwealth of Independent States] air defense units, have been accomplished successfully.” (2) (Ukraine is not a CIS member, but participates in some exercises.) Despite this effort and the much-touted naval task force exercise starting in the Caribbean Sea, there has been a series of Russian military staff activities with an eye towards large-scale reform. These reforms are set to impact the organization, doctrine, manpower, and infrastructure of the Russian armed forces.

With regards to the Russian army, there are plans for reducing the intermediate level of command as the current four-tiered status of military district-army-division-regiment is scheduled to change to a three-tiered. Defense Minister Anatoli Serdyukov noted, “There will be no division-regiment level but brigades instead.” (3) Apparently, the Russian military assumes this reform will decrease military staff redundancy and increase command efficiency. This reorganization is scheduled for January 2009. (4) In addition to the army’s efforts, the Russian Air Force also has announced the reorganization of its conduct of air defense operations. The Russian Air Force now will have commands in the four zones of...
the Far East, Siberia, South, and Northwest. Colonel General Zelin noted, “The idea of the reform is to set up air bases to be built around air squadrons. The intermediate link between air formations and squadrons—air divisions—will be excluded from the air force.” (5) The air force clearly is following the Russian army model with an eye towards eliminating mid-tier leadership and staffs.

Doctrinally, the Russian military is attempting to create mobile brigades for each of the military districts. These brigades will be in a “permanent readiness status” and can operate independently or jointly with other smaller and leaner tactical formations. (6) Supporting the new, lighter brigade structure, the Russian General Staff has been directed to reduce the logistical footprint. The staff plans to cut army depots and military hardware by fifty percent. (7) The amount of hardware not only is scheduled to be reduced, but it is hoped it can be upgraded, as well. With regards to lessons learned during the August 2008 conflict in Georgia, Lieutenant General Vladimir Shamanov, chief of the armed forces' Main Combat Training and Service Directorate commented, “We are also laying emphasis on the troops' provision with modern geographic positioning and communication devices, integrated with the tactical fire control system.” (8)

These changes all are taking place in the midst of proposals for dramatic changes in Russian military manpower. On 14 October, Defense Minister Anatoli Serdyukov announced plans for the military force structure to cut 150,000 officer positions by 2012. This will enable the Russian military (currently with 32 percent officers) to trim down to “global standards” of 7 to 20 percent officer corps. (9) With the reduction of officers, the goal is to have a professional non-commissioned officer (NCO) corps pick up much of the leadership void. It is hoped that Russia’s warrant officers, whose numbers also are being reduced, will act as a bridge until the NCO corps is built within the next few years. (10) These manpower reductions are affecting not just the army, but all services. For example, the Russian Pacific Fleet is slated to lose approximately 4,500 officer...
positions and these reductions are scheduled to take effect by the end of 2009. (11)

Manpower not only is being reduced, but units from all services are being cut or disbanded. For instance, an initial review of the force reduction includes cutting Ground Troops from 1,890 military units to 172 units; cutting the Air Force from 340 to 180 units; the Navy from 240 to 123 units; the Strategic Missile troops from 12 to 8 units; and small reductions in the space and airborne forces. (12)

While there are potential cost and tactical advantages to these reform measures, there is concern about these changes. Military analysts opine that the timelines for implementing rapid change within the next few years are unrealistic, especially in regard to the requirement to upgrade technical systems, tactical intelligence, and command, control and communications. (13) MP Vladimir Kashin of the Communist Party of the Russian Federation (CPRF) voiced dismay at these rapid changes and even has called for the Defense Minister's resignation. The proposed reforms, Kashin states are, “so alarming that we need an urgent intervention of the entire public in resolving the army's problem.” (14)

Communist party deputies surmise that these changes are dangerous to Russia’s security and point out that, “it is planned to disband over 2,000 armed forces' units within three years. Not a single army of the world has had reforms at such a tempo.” (15)

There are on-going debates that cover a wide range of complex issues regarding this planned reform of Russia’s military. These include a thorough doctrinal and threat analysis of the roles and missions for the new brigades. They also include equally important staffing efforts to determine the military force composition, required infrastructure, equipment research and development, and training needs. In addition, emotional issues such as which organizations will be forced
to retire their regimental colors might even play a factor. The reform clock is ticking.

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(3) “Switch from divisions to brigades in Armed forces to begin in Jan 2009 – general,” Russia & CIS Military Newswire, 30 Oct 08; BBC Monitoring Former Soviet Union - Political via Lexis-Nexis.
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(10) Ibid.
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Department of Defense, or the United States government.

Russian Federation: Foreign Relations  
By Shaun Barnes

US sanctions prompt sound and fury
Russian officials are reacting with voiced indignation at the United States’  
imposition of sanctions on the state arms exporting entity, Rosoboronexport.  
Although the sanctions will have little material impact on the function of  
Rosoboronexport, the symbolic act is being interpreted in the context of chilling  
US-Russian relations and subjected to harsh criticism by Moscow's foreign policy  
community. It also may serve as a convenient justification for future Russian  
actions in opposition to Washington's interests.

On October 23, the US Department of State published an announcement of  
sanctions against Rosoboronexport, as well as a number of other “foreign  
persons,” pursuant to Section 3 of the Iran, North Korea, and Syria  
Nonproliferation Act. (1) That act drastically curtails US government agencies’  
abilities to deal with any organization providing a direct or “material contribution”  
to ballistic missile or WMD programs of the three listed countries. (2) This is  
actually the second time that the arms exporting intermediary has been
sanctioned under the act; the last application expired in August after a stipulated two year period.

Since cooperation between US government agencies and Russia’s state arms trader is insignificant, the material impact of the State Department’s sanctions is likely to be small. Some have speculated that the act could damage Boeing’s relationship with Rosoboronexport subsidiary VSMPO-AVISMA in Verkhnaya Salda, a major supplier of titanium for the aerospace firm. (3) However, the Boeing-VSMPO-AVISMA partnership antedates the original 2006 sanctions regime and similar concerns raised at that time proved to be unfounded. (4) The only arrangement of any consequence affected by the sanctions is the Defense Department’s acquisition of 22 Mi-17 transport helicopters for the Afghan military, and this deal received a waiver from the Secretary of State allowing it to proceed. (5)

The State Department thus far has not specified exactly what Rosoboronexport did to warrant sanction this time. (6) However, Rosoboronexport advanced its own theory in a statement, claiming “The reason for the decision […] is that the Russian Federation has supplied Iran with Tor-M1 SAM (surface-to-air-missile) systems and thereby has allegedly altered the balance of power in the region, among other things creating a threat to American armed forces.” (7) The linkage of sanctions to Russia’s relationship to Iran was also made by the Russian Foreign Ministry. Its statement on the matter explained, “As to Iran – it is precisely [military technical cooperation] with that country that the sharp edge of the new anti-Russian sanctions points to.” (8) Sergei Kislyak, Russia’s ambassador in Washington, reportedly dismissed the sanctions as “politically motivated and unlawful.” (9) In addition, Rosoboronexport officials, (10) as well as President Dimitri Medvedev, advanced the less plausible explanation that the action amounts to “unfair competition” on behalf of American arms exporters, with Medvedev oddly negating this argument in the same breath by admitting the decision “has practically no effect on us.” (11) What appears most significant
about these condemnations is that they choose to interpret legally mandated actions directed at one Russian agency as a political maneuver directed against the state as a whole.

Though Russian decision-makers have exploited the sanctions to score rhetorical points against Washington, some statements allude to the possibility of a more concrete response. Foreign Minister Sergei Lavrov assured reporters that “We will certainly take this into account in our practical affairs in relations with the United States, both in trade and economics and in other spheres.” (12) The M.F.A. comment brings the issue back to Iran, claiming the decision is an “unfriendly act” and will have “an adverse impact” on the multilateral dialogue on the Iranian nuclear program. It concludes, “It’s time for the United States to decide if it is ready to continue cooperation within the ‘Six’ [U.S., Russia, China, France, the UK and Germany] on the basis of agreed approaches.” (13)

From these statements, it would seem that the decision likely will be exploited to provide an ex ante justification for further Russian interference with America’s anti-proliferation efforts against Iran. Russia already opposes the latest US call for further sanctions on Iran, and the Rosoboronexport dispute will only harden its position. (14) The sanctions also likely widen, if only slightly, the rift between Moscow and Washington that has been increasing for the last several years.

Lavrov reaffirms Russia’s Indian ties
On October 20, Russian Foreign Minister Sergei Lavrov was in New Delhi for talks with his Indian counterpart, Pranab Mukherjee. It was the third such exchange in 2008. (15) The meeting was, at least in part, aimed at laying the groundwork for President Dimitri Medvedev’s visit to India in December. The two also signed off on protocols for consultations between the foreign ministries of the two countries. (16) At the press conference following his meeting, Lavrov was effusive in his characterization of Russo-Indian relations:

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Russia and India are strategic partners that have been developing their relations in all areas without exception – trade, economy, high technologies, science, education, culture, foreign policy. I absolutely agreed with Pranab Mukherjee that our many-sided strategic partnership, apart from its substantial importance for both countries, is one of the major factors for stability in the world as a whole. (17) His words echoed those of Mukherjee and reaffirmed the friendly nature of ties between Moscow and New Delhi.

Lavrov also called for a more prominent Indian role in global affairs. He voiced his support for India “to become more actively involved in […] various international structures, like the G8 for example.” The foreign minister then stated that India was a “strong candidate” for a permanent UN Security Council seat. (18)

Lavrov and Mukherjee also gave indications that further progress had been made on bilateral civil nuclear cooperation between the two countries. Although details were not revealed, this may refer to the proposed addition of four nuclear reactors to Kudankulam in India’s Tamil Nadu province. (19) This proposal, advanced as early as 2005, previously had run aground on concerns over the lack of a mandate from the Nuclear Suppliers Group (NSG) and the International Atomic Energy Agency (IAEA), due to India’s absence from the Nuclear Nonproliferation Treaty (NPT). (20)

However, since the two organs approved an end to restrictions on India at the behest of the United States, a new window of opportunity appears to have opened for Russia. When asked about these prospects, Lavrov responded, “Cooperation in this field [nuclear cooperation] will be developing on the widest scale.” (21) In fact, a preliminary agreement on civil nuclear cooperation already has been reached and Medvedev is expected to sign it when he arrives next month. (22)
The outcome of this exchange, especially the movement on nuclear cooperation, is indicative of the importance Moscow attaches to its relations with India. It can no longer take these ties for granted, as it could when India tilted toward the Soviet Union during the decades following independence. Russia is facing new competition in its traditional, lucrative role as India’s ally and arms supplier. It must therefore be vigilant to prevent India from becoming too closely aligned with the United States. New Delhi, on the other hand, while certainly wishing to expand its connections with Washington, does not wish to fall into the orbit of any single great power, and thus will continue its multi-vector foreign policy.

Source Notes:
(2) Ibid.


(14) “Russia opposes introduction of sanctions against Iran - deputy foreign minister,” Interfax, 24 Sep 08; OSC Transcribed Text via World News Connect.

(15) “Russian Foreign Minister to Discuss Strategic Partnership In India,” ITAR-TASS, 20 Oct 08; OSC Transcribed Text via World News Connect.

(16) Ibid.


(18) “Russia advocates India’s wider involvement in international bodies-minister,” RBK TV, 20 Oct 08; BBC Worldwide Monitoring via Lexis-Nexis.


(20) Ibid.

(22) “India, Russia discuss atomic trade,” Press Trust of India, 21 Oct 08; BBC Worldwide Monitoring via Lexis-Nexis.

Russian Federation: Energy Politics

By Creelea Henderson

Cassandra of Vilnius
Lithuania was the first republic to declare independence from the USSR in 1990. In the years since, the Baltic state has remained the last EU member willing to trust Moscow. When Russian tanks rolled into Georgia last August, Lithuania was among the most vociferous critics of Moscow’s aggression against a smaller neighbor. Now, as the EU sets the stage to resume talks with Russia on the Partnership and Cooperation Agreement, Lithuania's President Valdas Adamkus is heaping scorn upon his colleagues’ conciliatory attitude. “This is a humiliation for the entire European Union,” he said in reference to Moscow’s failure to respect the terms of an EU-brokered ceasefire. (1)

In Paris, EU Foreign Policy Chief Javier Solana brushed aside anti-Moscow concerns with the observation that “indignation is not a policy,” (2) but in Vilnius, campaign promises to address Russian hostility helped Homeland Union, a conservative party critical of Moscow, secure a majority of parliamentary seats in elections held late in October. (3) Andrius Kubilius, the Homeland Union leader who is likely to become the next president of Lithuania, says that, in spite of inflated rhetoric, Lithuania's leaders have been passive in dealing with Russia. He is urging the new coalition government to adopt a foreign policy line encapsulated by the statement “Russia is a threat.” “We think it is necessary to strive to call Russia what it really is at the European level. Russia needs to be called by its real name,” he told reporters. (4)
Cassandras in Vilnius, Lithuanian leaders are not safer than their European partners, for all their foresight. In the same election that brought the anti-Kremlin Homeland Union party to power, a referendum failed to extend operation of the Ignalina nuclear power plant that generated 70 percent of the nation’s electricity, leaving the country without a significant domestic source of power for perhaps a decade. (5)

In 2004, Ignalina, a Soviet-era nuclear power plant, was slated for decommission as part of a package of measures designed to bring Lithuania into conformity with western safety standards, when Lithuania joined the EU. (6) The first shut-down phase took place in 2004 and the second, final phase is set for the end of 2009. At the start of negotiations toward decommission, Lithuanian officials looked forward to replacing the decrepit facility with a new nuclear power plant that would be built in cooperation with Latvia and Estonia. In 2007, Poland signed on as a partner in the project. In June, a newly formed national energy company, LEO LT, announced a target date for completion between 2015 and 2018. (7)

In the meantime, Lithuania will have to look to neighboring countries to meet its energy needs. On a visit to Washington in September, President Adamkus discussed Lithuania’s quest for energy independence with President Bush, who promised that the United States would “try to help you as best as we can.” (8) Officials in Vilnius have been seeking partners among fellow EU members, but with little reported success. Most Western European nations prefer bilateral contracts with Russia’s state-controlled energy giant Gazprom, to cooperation with other EU members on a multi-national level. Lithuanian leaders are reluctant to deepen the nation’s dependence upon Russia as its primary supplier of energy. Already, the country relies upon Gazprom for its total volumes of natural gas, and analysts expect Lithuanian consumption to rise substantially as gas-powered plants are brought online to replace Ignalina. (9) There is concern among policy makers that Russia will take advantage of the fact that Lithuania depends on Russia’s natural gas to press for political concessions, or to deliver a
punitive blow to Lithuania's national economy, as it did in August 2006 when the Russian pipeline monopoly Transneft cut oil supplies to the country’s only refinery.

If Lithuania is serious about securing its energy independence, it is well advised to begin building its new nuclear power plant posthaste. On October 28, Russia’s nuclear energy state corporation Rosatom unveiled plans to construct a massive nuclear power station in Kaliningrad Oblast, on the Baltic Sea, Lithuania’s western neighbor. The plant’s first unit is slated to come online in 2015. (10)

Source Notes:
(2) Ahto Lobjakas, “EU Appears Ready To Return To Talks With Russia, If Not To 'Business As Usual,'” RFE/RL, 1 Nov 08 via http://www.rferl.org/content/EU_Appears_Ready_To_Return_To_Talks_With_Russia_If_Not_To_Business_As_Usual/1337214.html.
(8) "Bush warns Moscow against 'bullying' neighbors,” AFP, 29 Sep 08 via http://afp.google.com/article/ALeqM5hnZiWqxrTxcgqmnhxXFJkudgReH0A.
Aliyev and Sarkisian sign “joint declaration”
At a meeting hosted by Russian President Dmitri Medvedev, Armenian President Serzh Sarkisian and Azeri President Ilham Aliyev signed a joint declaration to “continue work, including through further contacts at the highest level, on reaching a political settlement to the [Nagorno Karabakh] conflict” and have directed their foreign ministers to work on the negotiation process with the OSCE Minsk Group co-chairs, representatives of Russia, the United States, and France. (1) Clearly, the document lacks new substance—agreeing to continue talks, while a necessary step, is hardly a substantive breakthrough.

In fact, the Azeri and Armenian foreign ministers have met several times in the last two months. What is significant, however, is Russia’s role as facilitator for the agreement and the reference to the Minsk Group as the format for talks. Recent meetings between the foreign ministers on the sidelines of the United Nations General Assembly took place within the format of the Minsk Group, but also later included a tri-lateral meeting with the Turkish foreign minister. Since the meeting of Turkish President Abdullah Gul and Armenian President Serzh Sarkisian in September, Turkey has taken steps to play a larger role in the Nagorno Karabakh talks. The meeting in Moscow seems designed to undercut Ankara’s attempt to exert influence in the region.

South Ossetia: Post-conflict situation
Russia has moved swiftly to consolidate its position within the rebel Georgian republic of South Ossetia. On 22 October, South Ossetian de facto president Eduard Kokoity nominated his candidate to replace former Prime Minister Yuri Morozov, who was relieved of his post on 18 August in the wake of the Russian invasion. Kokoity’s choice is Aslanbek Bulatsev, who, until confirmed by the South Ossetian parliament, had held the position of chief of the North Ossetian branch of the Russian Federal Tax Service. There is nothing subtle about the overt mingling of North and South Ossetian personnel or its indication of the consolidation of Russian influence in the separatist republic. Adding insult to injury, Moscow Mayor Yuri Luzhkov is sponsoring (from the Moscow city budget) the construction of a new settlement (“Moscow district”) in Tskhinvali, built on the site of a neighborhood occupied by ethnic Georgians before the August war. (2)

Even more overt is the announcement that the FSB will be stationing troops at the South Ossetian and Abkhaz borders that the separatist regions share with the rest of Georgia. (3) These troops are in addition to those already proposed by Defense Minister Anatoli Serdyukov in early September.

New Georgian Prime Minister
Lado Gurgenidze has been replaced as Georgian Prime Minister by former ambassador to Turkey, Grigol Mgaloblishvili. Gurgenidze will now head a newly established financial and investment commission under the president. Mgaloblishvili was educated in Tbilisi, Istanbul, and Oxford and has never held a political position. His previous experience has all been with the Foreign Service Ministry. He has announced as his goal “Georgia without poverty,” a reference to Saakashvili’s campaign slogan, but has stated that dealing with the aftermath of the Russian invasion and the global financial crisis will take immediate priority. (4)

Mgaloblishvili’s newly confirmed cabinet brought few surprises – he brought in new ministers of Justice, Culture, Refugees, and Environment, but retained the
controversial Interior Minister Vano Mirabishvili as well the Minister of Defense and others. One of his first actions as Prime Minister was to request permission to revise the 2009 draft budget in keeping with “the government’s goals.” (5)

Source Notes:
(3) Vladimir Solovyov, “Russian FSB to guard borders of Abkhazia, South Ossetia,” 22 Oct 08, Kommersant; RusData Dialine - Russian Press Digest via Lexis-Nexis.
(4) “Cabinet Wins Confidence Vote,” 1 Nov 08, Civil Georgia via http://www.civil.ge/eng/article.php?id=19872.
(5) Ibid.

Newly Independent States: Central Asia
By Monika Shepherd

Guaranteed employment the cure for Kazakhstan’s financial ills?
Although all of the Central Asian countries likely will suffer due to the global financial crisis, Kazakhstan seems to be the only one among them whose banking sector is suffering any ill effects. The other four Central Asian states may lose significant chunks of promised foreign investment, which could be devastating, particularly for the two weakest, Kyrgyzstan and Tajikistan, but their banking industries probably will be spared any direct blows. Kazakhstan’s banks, on the other hand, are feeling the consequences of the credit crunch, causing sufficient concern in government circles to warrant a US$5 billion bailout,
as well as other measures designed to increase liquidity at the central bank and help mitigate the effects of bad loans. (1)

Credit began tightening in Kazakh markets roughly one year ago, in response to the US mortgage crisis. In order to fund construction projects at home, in response to a high demand for housing in the country’s larger cities, Kazakh banks borrowed money internationally. The credit crisis followed much the same path as in the US – Kazakh banks lowered their interest rates and gave loans to borrowers whose credit was questionable as the pressure from construction firms and investors eager to capitalize on a high demand for new housing in urban areas increased. When the international credit market began to collapse, Kazakh banks raised their interest rates, as well as the criteria required for the issuance of additional loans, bankrupting some construction companies. These companies then in turn defaulted on their contracts with investors, leaving many people both without new homes and the funds that they had invested in their construction. Even housing projects financed by the government have been affected and now stand unfinished and abandoned to the elements. (2)

Industries that supplied the construction boom naturally also have been affected – the mining and metal industries have cut back production, due to both a drop-off in local and global demand for metals such as steel and copper. CEO of the Kazakhmys corporation, Eduard Ogai, announced that his company had suspended production at three mines and predicted an uncertain future for the industry as a whole: “the situation on the global metal markets is unstable, only those who have low production costs will survive.” (3) Minister of Industry and Trade Vladimir Shkolnik gave a more comprehensive overview of the problems facing the metals and mining industry: “…sales have declined at all companies operating in the sector. By the end of the year, according to ministry's estimates, there is a high risk of a decline in overall industrial performance including a possible drop in production at all ENRC [Eurasian National Resource Corporation] units.” (4) Since ENRC is one of Kazakhstan’s largest companies,
accounting for approximately 4% of the country’s GDP, with the Kazakh
government and Kazakhmys holding 24.8% and 18.8% stakes in it, respectively,
any significant downturn in its production could help trigger an even more severe
contraction in the national economy. (5)

Also according to Minister Shkolnik, Arcelor Mittal, a major player in both
Kazakhstan’s steel and coal sectors, has decreased steel production by 60% (6)
and laid off all of the workers at its Temirtau plant (Prime Minister Karim Masimov
referred to the lay-offs as a “mandatory vacation,” when meeting with Arcelor
Mittal president Lakshmi Mittal early in October). (7) The company’s steel
production facilities alone employ 50,000 people. (8) Given the gravity of the
situation in the metal industry, Shkolnik recommended a series of measures the
government should take to shore up this sector of its economy, to ward off further
employment lay-offs. His recommendations included the offer of state financial
assistance via the SamrukKazyna National Welfare Fund (a state fund recently
created to provide new loans to companies affected by the global financial crisis),
lifting export duties on aluminum (based on the fact that world market prices for
aluminum currently do not cover the production cost), and immediately
reimbursing all VAT owed by the government. (9) One of the main targets of
these financial bailout measures not only seems to be maintaining national
employment levels, but also guaranteeing that individual companies' workforces
remain employed in one way or another, period.

To that end, Kazakhstan’s Industry of Ministry and Trade and the country’s three
largest mining companies (Sokolov-Sarbai Mining Production Association,
Arcelor Mittal, and Kazakhmys) signed a five-party memorandum with regional
authorities, labor unions and SamrukKazyna National Welfare Fund on October
28 in which the companies pledged not to implement any more layoffs or
employment reductions, as well as to carry forward their investment projects. (10)
Given the current uncertainties in the global economy, which have brought some
of the wealthiest and most respected western firms to their knees, it may not be
so surprising that the Kazakh government has reverted to the use of the Soviet-era concept of guaranteed employment, in an effort to stave off the twin specters of large-scale unemployment and social unrest. And perhaps the scope of the bailout being offered to the three companies involved is such that their respective CEO’s consider their continued solvency to be foolproof – undoubtedly, time will soon tell.

However, should the global financial crisis continue beyond the next year, causing world markets to contract even further, the Kazakh government may need to revisit its bailout plan. Over the past nine months, the banking industry’s net profit was down 62%, 52.7% of loans made by the banking sector were deemed “questionable,” 3.3% were designated “unreliable,” with total liabilities to non-residents accounting for 44.7% of the banks’ total financial obligations. (11) If a significant proportion of these “non-residents” default on their loans, the effect on the Kazakh government’s ability to keep credit flowing and, thus, keep both large and medium-sized businesses afloat, could be severely challenged. The country currently is in a situation where revenues are dropping, while the government must pump billions of dollars from its reserves into banks and industries, in order to keep them from collapsing, while the fallout from the worldwide financial crisis has just begun to make its effects felt. Guaranteed employment for certain sections of the industrial workforce, even if it can be maintained, will not protect the average Kazakh citizen from a steadily rising cost of living or from the loss of their mortgage investments, for which neither the Ministry of Industry and Trade nor the SamrukKazyna Fund seem to have an answer.

Source Notes:
Newly Independent States: Western Region

By Tammy Lynch
BELARUS
Lukashenko’s latest balancing act

During the last week of October, Belarus began negotiations with the International Monetary Fund for a $2 billion emergency loan program. The request for assistance came as the country’s largest export customers in the Baltic States, Poland, and the Commonwealth of Independent States have curtailed purchasing dramatically.

Given the Belarusian economy’s lack of integration into the global financial system, and the continuing control of all media sources by the government, it is unclear exactly how deeply the country is being affected by the worldwide economic slowdown. As of 2005, the private sector contributed only one-fifth of GDP, while at the same time, over half of the country’s exports were controlled by just 20 huge, state-owned companies. (1)

Although the government has provided no figures, its largest exporters—for example, the BelAz trucking company, the Belarusian Metallurgy Plant and the Belaruskali fertilizer plant—are facing serious financial hurdles as prices for metals have plummeted and orders for transport vehicles have all but dried up. Moreover, since the banking sector is forced by state order to prop up the majority of the country’s unprofitable public enterprises, there is little doubt that Belarus must be facing a major credit crunch.

Bloomberg reported one week ago that the country already had expended over 10 percent of its financial reserves and continued to spend vigorously to prop up the currency and banking sector. (2) At the same time, the country announced that, for the first time, it would allow 50 percent foreign ownership of banks, should investors be located.
Even if the impact of the global crisis were minimal, however, the economy is far from sound, thanks to years of mismanagement. This means that even small shocks could be disastrous.

President Aleksandr Lukashenko must believe that the crisis is severe and must see no other alternative, since his government’s past relations with the IMF have not been smooth. In 1996, an IMF loan program was discontinued when Lukashenko stopped all privatization. In 1999, even as the economy was freefalling after Russia’s “Black Monday,” the Belarusian president refused to request IMF support. He accused the Fund of a desire to steal his country’s natural resources in return for funding. Only later, in the face of severe food shortages, did he request and receive $100 million.

In recent years, however, Lukashenko has chosen to depend on the kindness of Russia, which has supported his country with billions in energy subsidies and cash loans every year.

In 2006, the Bratislava-based Pontis Foundation completed an examination of Belarus’ energy market in relation to its economy, and found that Belarusian authorities and government-owned businesses make considerable profits by importing Russian oil into Belarus at bargain prices and then exporting it to the EU at market—or just below market—prices. These contracts with the EU are reportedly worth up to 3.3 billion euros each year and have allowed Lukashenko to maintain his country at a minimum subsistence level. (3)

In 2006, the former head of Belarus’ National Bank also studied the gas and oil trade between Belarus and Russia and concluded that the discounted prices paid by Minsk to Russia saved the country $4 billion per year. (4)

Therefore, thanks to its contracts with Russia, Belarus receives up to $10 billion per year through payments or subsidies. This total is equal to one-third of the
country’s GDP. Just one week ago, Moscow stepped up again, promising Belarus a $2 billion loan. The money will be applied to Belarus’ debt for gas and oil from Russia. Despite historically close relations, however, Moscow did not offer any further help.

Russia’s decision not to subsidize Belarus fully during this current crisis signals growing tensions between the two countries. In particular, Russia recently has shown irritation over Lukashenko’s refusal to recognize the independence of Georgia’s Abkhazia and South Ossetia separatist regions. Despite promising more than once to do so, no recognition has come. In fact, it seems unlikely that it will come any time soon.

On 8 September, after earlier promising to issue a statement himself, Lukashenko instead passed the question on to members of parliament. “They will address the issue of Abkhazia and South Ossetia,” he said. “We cannot keep silent.” He added, however, that the issue “is not only an issue of what Russia wants or doesn’t want,” before suggesting that he had “warm relations” with Abkhazia’s leadership. (5)

On 27 October, Belarus’ head of the lower house of parliament Uladzimir Andreychanka—an ally of the president—suggested that parliament would consider the issue only if a motion is brought on the issue. “But no such motion has been brought,” he said. (6) Further, he could not say who might introduce such a measure. This is despite direct requests to Lukashenko from the leadership of both separatist republics to follow Russia’s lead and recognize the independence of their regions.

Lukashenko acknowledged the receipt of such requests in a terse statement placed on his official website on 25 September. The statement left more questions than answers. In its entirety, it read, “President of Abkhazia Sergei Bagapsh and President of South Ossetia Eduard Kokoita have addressed letters
to President of Belarus Aleksandr Lukashenko with a request to recognize the independence of these republics. Response letters stating the position of the Belarusian side on this issue have been sent to the heads of Abkhazia and South Ossetia.” The statement notably ends before detailing the stated “position of the Belarusian side.” (7)

Belarus’ reluctance to support Russia’s Georgia policy fully came almost directly following suggestions from the EU that it would consider lifting the most severe sanctions facing the country. In particular, in August, the EU began quietly suggesting that, if certain conditions were met, it would lift the travel bans affecting up to 40 Belarusian politicians. The majority of these bans were put into effect in 2006, following Lukashenko’s reelection in a poll found to be fraudulent by all major electoral monitoring organizations. However, the country has been under some type of international sanction since 2000.

Therefore, Lukashenko has existed for almost a decade as a virtual pariah to all but Russia, a few former Soviet allies, and the world’s best rogue states. With each passing year, he and his country have become even more isolated and dependent on Russia’s financial and political support. That support, however, has become increasingly grudging. Even the once heralded Russia-Belarus Union State has passed into the realm of virtuality, with agreements and edicts, but no real structure or power – except for an appointed, toothless Parliamentary Assembly.

No one can ever know the mind of Lukashenko, but he reacted hesitantly following Russia’s invasion of Georgia, remaining silent for several days. Even later, Belarus failed to condemn Georgian actions fully. The statements of support expected by Russia for its actions never materialized.

On Lukashenko’s official website during the period of open Russian-Georgian hostilities, the President congratulated Olympians, wished ‘happy birthday’ to
other state leaders and expressed his solidarity with China, among other things. He made no mention of the war.

Finally, on 28 August, Lukashenko responded to Russian media questions about Belarus’ position in a letter to Russian President Dmitri Medvedev. He suggested that he supported the right of self-determination for the residents of Abkhazia and South Ossetia “in accordance with fundamental international documents,” and assured Medvedev that Belarus remained “a reliable and consistent ally of Russia.” (6) It was far less than Russia had desired.

The Russo-Georgian war also occurred directly before Belarus’ 2008 parliamentary elections. Every election held by Lukashenko since 1994 has failed to meet international norms for a free and fair election. In early and mid-2008, it seemed Lukashenko would conduct this one using the same methods of the past – jailing opposition members and campaigners and refusing to allow opposition candidates on the ballot.

But suddenly in August, Lukashenko released all internationally-recognized political prisoners and announced that opposition members would be allowed on the parliamentary ballot. Seventy opposition representatives contested the poll for 110 seats. The suggestion that Russia was prepared to incorporate small countries (or sections of them) by force apparently had an effect.

Although opposition members were allowed to run, they were not allowed to campaign, and none of the opposition candidates won a seat. Parliament will continue to be filled with presidential loyalists, suggesting that Lukashenko’s actions were little more than window dressing. Still, the EU used the very slight thaw in Lukashenko’s policies to justify lifting most of the sanctions against Belarus.
In reality, Czech Foreign Minister Karel Schwarzenberg admitted that the move was designed to take advantage of the seemingly tense relations between Russia and Belarus, and suggested that the EU realized that the only effect of its limited sanctions had been to push Belarus closer to Russia. “Frankly speaking,” he said, “by strengthening Belarusian links to Russia no further progress in democracy will occur.” (7)

EU leaders also privately suggested that they hoped the move would blunt Russian efforts to station a missile defense base on the Belarusian-Polish border. (8)

Now, Belarus is reaching out to an agency once ridiculed and attacked. The biggest question created by such a move is whether such overtures are sincere or simply designed to force Russia to provide more assistance. In the past, whenever Lukashenko has moved toward the West, the latter has proven true.

**UKRAINE**

**Will political instability undermine IMF support?**

On 5 November, the International Monetary Fund officially approved a 16.4 billion dollar credit line to Ukraine. The money is intended to be used by government officials to ease the liquidity crisis in the country’s banks, increase consumer confidence and help support the country’s faltering metallurgic industry, which has already seen tens of thousands of lay-offs. (11)

By accepting the loan, the country commits itself to conducting banking sector and currency reform, as well as a stringent economic policy low on social spending. Should it not follow through on its promises, Ukraine risks the loss of one or more tranches of the loan. Given the current atmosphere in Ukraine, the likelihood of losing the tranches far outweighs the country’s ability to implement financial sector reform.
The problem, as it has been for three years, is an ongoing battle between President Viktor Yushchenko and Prime Minister Yulia Tymoshenko. The President dissolved parliament on 8 October and set new elections for December in what was viewed by most as an attempt to remove Tymoshenko from her post. The Prime Minister, understanding that she may lose her position following December's elections, fought back by blocking all funding mechanisms for the election. She was assisted in her battle against the election by the global financial crisis, which soon forced Yushchenko to reinstate parliament for votes on the financial "anti-crisis" stabilization package supported by the IMF.

Following the successful vote on the package, Yushchenko surprisingly attempted to force through legislation funding the election. The president, it seems, was unconcerned about the effect of months of election campaigning followed by months of negotiating for a parliamentary majority in the midst of the worst global economic crisis in decades.

The majority of his supposed allies did not agree with his view; the election funding measure failed by four votes. In the end, faced with a burgeoning economic crisis, the parliamentary bloc of former Speaker Volodymyr Lytvyn and over 40 members of Yushchenko’s bloc joined Tymoshenko’s allies in voting against the measure. Yushchenko is now forced either to ignore or annul his decrees dissolving parliament and setting a new election. It is a major political defeat for the president, and a clear victory for Tymoshenko.

However, the president has not dropped his call for an election. Speaking in Western Ukraine, the president stated that elections were the only way out of the political crisis. He suggested that Tymoshenko had destroyed her relations with his allies, and members of his bloc had no wish to return to a coalition with her bloc. “I am sure,” he said, if the Prime Minister had acted honestly towards the coalition, hadn’t negotiated behind-the-scenes, hadn’t held consultations how to
Almost immediately, six out of the nine parties in Yushchenko’s bloc refuted the president’s statements, firmly expressing their opposition to an election and their wish to reformat the coalition that ended when Yushchenko removed his bloc from it. “We yet again responsibly declare that the coalition of democratic forces in parliament should and must be renewed in a matter of hours. For this only one thing is required - the wish and political will of the president,” they wrote in a statement. (12)

In fact, IMF officials privately worry that the disagreements within Ukraine’s political forces—and in particular between Yushchenko and Tymoshenko—will undermine the changes necessary to restore Ukraine’s economy. What politician, after all, would freeze pensions or wages in the midst of an election? How can investor confidence be restored while the work of the government is continually undermined by threats of parliament’s dissolution?

Tymoshenko seems to realize this and reached out to Yushchenko during a television debate one week ago. “Let’s for once not get into these political dogfights and come together as a national team with a united program,” she said. “Be a team in the face of this big global challenge.” (13) Yushchenko balked. Instead, he accused the government of gathering debt “like fleas on a dog.” (14) (some Ukrainian media have translated Yushchenko’s remarks as “like a bitch gathers fleas.”)

Moreover, looking toward Tymoshenko, Yushchenko rejected claims that the global crisis was affecting the country. “The world crisis? Lies! The crisis is sitting right here,” he said. (15)
Seeing this, it is no wonder that the IMF chose to disburse its aid in at least three tranches over two years.

Source Notes:
(3) The ISCIP Analyst, Volume XII, Number 7, 20 Jul 06 via www.bu.edu/iscip
(5) “Lukashenko: In the near future Belarus will recognize Abkhazia’s and South Ossetia’s independence,” The Caucasian Knot, 8 Sept 08 via http://eng.kavkaz.memo.ru/newstext/engnews/id/1228677.html
(9) Prague Daily Monitor, 13 Oct 08 via www.praguemonitor.com
(12) Forpost, 4 Nov 08 via www.lviv.ua.
(14) Ibid.
(15) Ibid.

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