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ANALYSES

Russian authorities prioritise power institutions in times of crisis

Over the last month, the Russian authorities have taken a number of decisions which have strengthened the position of the power institutions, especially the Interior Ministry and Defence Ministry, and safeguarded the stable functioning of the military-industrial complex by ensuring that the technological modernisation of the armed forces continues. At the same time, legislative work has started on draft bills to grant wider competencies and privileges to the army and the uniformed services. The priority treatment of the power institutions indicates that in the situation of a deepening economic crisis, these have become significantly more important to the Russian ruling elite. This implies that the Russian leadership views a rise in public discontent as a serious possibility, and intends to suppress any manifestations of such discontent using forceful methods. Moreover, it could also mean that Russia has not ruled out the possibility of using the armed forces again in the coming years against neighbours which refuse to accept its dominance.

The authorities are protecting themselves against social protests...

In mid-December 2008, the Russian authorities took their first decisions to counteract possible outbreaks of public discontent in connection with the deepening economic crisis; the December protests in Vladivostok, triggered by an increase in import duties on cars, were taken as a 'warning sign'. The regional structures of the Interior Ministry and the Federal Security Service were put on high alert. In order to co-ordinate actions at the regional level, the authorities activated the so-called operational staffs, which are bodies controlled by the National Anti-Terror Committee (an FSB-dominated body which co-ordinates the power institutions' activities in the particular regions of the Russian Federation). The most spectacular move, however, was the decision to suspend layoffs in the Interior Ministry's Interior Forces; the downsizing was halted at the level of 170,000, whereas the original plan had been to reduce these units to 140,000 soldiers. The official explanation for this was the need to provide security for the 2014 Winter Olympics in Sochi (the decision was announced on 17 December). On 26 December, a law on the activities of private security agents and detectives, proposed by the Interior Ministry, was adopted in a fast-track procedure. This law strengthens the Interior Ministry's supervision of security agencies operating in Russia (which employ a total of 762,000 people), and allows these agencies to be used as a reserve internal security force.

In January the authorities took further decisions intended as preparation for the possible pacification of any manifestations of public discontent. On 11 January, the Interior Forces commander, General Nikolai Rogozhkin, and

the head of the Interior Ministry Investigation Committee, General Alexei Anichin, became members of the Interior Ministry's top leadership. On the same day, a draft law on the citizens' role in protecting public order was tabled in the Duma, which substantially expands the possibility to mobilise the so-called 'popular teams' (police reserves made up of civilian volunteers), and grants their members the powers of police officers. Finally, on 12 January, a major pay rise for the Russian police was announced, which will be applicable to officers working on the beat (the bonus may even amount to US\$1300 per month).

...and continuing to modernise the armed forces

The negative financial and social consequences of the economic crisis have contributed to a relaxation of the Russian leadership's position on planned changes in the armed forces, presented (most vocally by the Defence Ministry) in the autumn of 2008, and against which some generals had protested. The deep cuts in the number of officer posts (by a total of around 200,000) have been spread out over a longer period; they will now end in 2016, as originally planned, and not in 2012, as announced shortly after the Georgian operation. In addition, the Russian army generals have been authorised to acquire property as part of the commercialisation of the armed forces' extensive backup facilities created back in Soviet times. On 29 December, PM Vladimir Putin signed a decision authorising the Defence Ministry to freely manage and trade in property and real estate, including the sale of land to private persons. This legalised the Ministry's commercial activities, which had resumed in 2003, and made them autonomous. On 14 January, a government-approved draft amendment to the Act on defence was tabled in the Duma, which would grant legal entity status to major military units; this would also legalise the military's business activities at the local level. Finally, the military have been granted new pay rises and welfare privileges (the priority treatment of military officers' children in admissions to care and education institutions is a novelty).

The concessions made to the armed forces' generals should be seen as a kind of safeguard intended to enable a relatively smooth continuation of another stage in the professionalisation of the Russian army. This is important because starting from February, non-commissioned officer training will cover only contracted soldiers (ultimately, conscripted privates in the armed forces are only to be recruited to non-combat positions in second-line and backup units). However, in conditions of a deepening crisis, the most important measure appears to be the continuation of the costly technological modernisation of the Russian army. The guarantees of purchases of new arms and military equipment have contributed to ensuring the stability of the military-industrial complex, which is important for the entire Russian economy. On 15 January, PM Vladimir Putin confirmed that around US\$190 billion would be spent in 2009–2011 on the implementation of state defence procurement (mainly arms supply contracts). Professionalisation and technological modernisation are perceived as prerequisites of the growth of Russia's military potential to a level that will enable the Russian Federation to effectively operate on a scale much larger than that of the operation in Georgia in August 2008.

Possible consequences

Facing the deepening economic crisis, the authorities have decided to substantially reinforce the sector responsible for the state's security and defence. In the short term (less than two years), this will ensure internal peace and stability. However, as a consequence the Russian ruling elite will become increasingly dependent on the army and the uniformed services. Should the unfavourable economic situation continue for a longer time, this will threaten to take Russia back to the situation observed in Soviet times, in which the budget became 'militarised'. This would significantly increase the importance of the power institutions in the Russian political system, and might result in a rapid rise in state repression against the citizens and, in the external dimension, more tension in the Russian Federation's relations with those of its neighbours who refuse to accept its dominance (first of all Georgia and Ukraine), or even an outbreak of a local armed conflict. In the latter case, the Russian authorities would need an external enemy in order to divert the public's attention from internal problems.

Andrzej Wilk, co-operation Piotr Żochowski

Medvedev in Uzbekistan – Russia sends contradictory signals to Central Asia

The Russian president Dmitry Medvedev paid an official visit to Uzbekistan on 22–24 January. Although no binding documents have been signed, the talks led to a thaw in Russian-Uzbek relations, which had been strained in recent months. Medvedev's declarations, which were beneficial to the Uzbek side, prove that Moscow attaches great significance to its relations with Tashkent. However, improving these relations may entail a deterioration of Russia's relations with Kyrgyzstan and Tajikistan, two states whose interests are clearly contradictory to Uzbekistan's. This shows that the conflicts between Central Asian states, which has usually been regarded as an asset in Moscow's hands, may in reality seriously hamper the implementation of Russia's policy and, if played awkwardly, could undermine Russia's credibility and weaken its position in the region.

Improvement in Russian-Uzbek relations

Uzbekistan was the last state in the region Medvedev visited after he was elected president. Only one joint communiqué, one memorandum on co-operation between the two states' ministries for foreign affairs in 2009, and several minor documents were signed during the visit. No decisions were taken concerning the economic issues that are important for both states (such as the takeover by Russia's United Aircraft Corporation of the Chkalov factory producing Il-76 and Il-114 aircraft).

The most important outcome of the two days of talks between Medvedev and the Uzbek president Islam Karimov consisted in the verbal declarations the two politicians made, which evidenced the meeting's good atmosphere and a willingness to repair bilateral relations, which had been systematically deteriorating in recent months. Tension between Moscow and Tashkent had been caused by the thaw in Uzbekistan's relations with the West which has been observed for about a year (such as the lifting of EU sanctions in November 2008, the fact that Tashkent had authorised US aircraft to use the Termez airfield for stopovers on the way to Afghanistan, speculation about an American return to the Karshi-Khanabad base, and Uzbekistan's participation in the Nabucco project, etc.). Relations further soured when Uzbekistan quit the Eurasian Economic Community in November 2008, amidst speculations about Tashkent's possible withdrawal from the Collective Security Treaty Organisation.

After the talks with Medvedev, Karimov declared among other things that Uzbekistan was prepared to sell all the gas it intended to export to Russia (16 billion m³ in 2009), and supported the modernisation and extension of the Central Asia-Centre gas pipeline crossing its territory (which transports Turkmen gas to Russia, and has been the object of Moscow's efforts for many years). Medvedev, for his part, confirmed that Russia would buy Uzbek gas at market prices (according to unofficial sources, in the first quarter of 2009 the price would be around US\$300 per 1000 m³; however, Gazprom has not confirmed this information). He also said that Russia would not support any hydroelectric power-plant projects in Central Asia which did not consider the interests of all states concerned in the region.

The regional hydro-energy context

The statement concerning hydroelectric power plants is particularly important for the Uzbek side. For years Tashkent has been objecting to the completion of the Rogun power plant in Tajikistan (on the Amu-Darya river) and the Kambar-Ata power plant in Kyrgyzstan (on the Syr-Darya river). Retaining large amounts of water in the artificial reservoirs that would be created there would threaten water shortages for Uzbekistan's agriculture (Uzbekistan's eastern regions are located on downstream sections of the two rivers). In addition, the power plants would end Tajikistan and Kyrgyzstan's dependence on Uzbekistan, and offer these states a major instrument to pressurise Tashkent.

Medvedev's declaration may mean that as the Russians view relations with Tashkent as a priority (due to Uzbekistan's role in the Russian gas policy in Central Asia, among other factors), they do not take seriously the pledges made in recent months to Dushanbe and Bishkek concerning the financing of the construction of the two power plants in question. Medvedev's words caused negative reactions in both states: the Tajik Ministry for Foreign Affairs stated it "did not understand" the Russian president's declaration, while the press in Kyrgyzstan published alarming articles to the effect that Moscow had "betrayed" Kyrgyzstan. The latter state has good reason to be concerned; Moscow has promised Bishkek a loan of US\$2 billion, US\$1,7 billion of which was to be invested in the Kyrgyz hydroelectric energy sector. The media have been speculating for several weeks that in return for the loan, the Kremlin would expect Kyrgyzstan to withdraw its authorisation for the US army to use the Manas airfield near Bishkek.

The consequences of Russia's inconsistency

The measures undertaken to improve relations with Uzbekistan, and the discarding or further postponement of decisions concerning Russia's participation in the construction of hydroelectric power plants in Kyrgyzstan and Tajikistan, may seriously impair Moscow's relations with Dushanbe and Bishkek. Currently both states are deeply dependent on Russia in economic terms (because of their labour migrants working in the Russian Federation, among other reasons). However, the dramatic social and economic situation in which they have found themselves as a result of the global economic crisis may push them towards the West or, much more likely, towards China, even if such a decision would risk a negative reaction from Russia, as it could seriously undermine the latter's position in Central Asia.

Russia's attitude towards the hydroelectric power plants in Tajikistan and Kyrgyzstan undermines Moscow's reliability towards its Central Asian partners, and exposes the weakness of Russian policy in the region. The conflicting interests of the Central Asian states, which are usually regarded as a factor facilitating the achievement of Russia's objectives, are seriously complicating Russia's policy in Central Asia, as they force Moscow to make choices between the different states. This offers some room for manoeuvre to the other players in the Central Asian 'great game' (especially the USA and China), who seek to weaken Russia's position in the region.

Maciej Falkowski

EVENTS

Russia: Authorities prepare for social unrest

On 21 January, President Dmitry Medvedev held a meeting with the presidential envoys to the federal districts, the head of the Presidential Administration and the cabinet ministers, including the heads of the power institutions. The meeting was devoted to examining possible ways of neutralising the consequences of the crisis, and was the second of its kind, after the president's consultation with the regional representatives of the United Russia party on 16 January. The fact that the *siloviks* have been taking part in the current consultations suggests that the Kremlin is preparing to counteract the effects of a possible destabilisation of the social situation in the regions.

The main topic of discussion concerned the situation in the Russian labour market. The regional authorities are preparing programmes to stimulate employment, and are expected to allocate additional funding from the regional budgets to this end (the federal budget is to provide 43 billion roubles). The implementation of the programmes is to be supervised by the presidential envoys. Medvedev has also called for "prudence with regard to employing foreign workers", emphasising that 1.5 million unemployed have officially been registered in Russia (the Federal Employment Service estimates that the actual number is 6 million).

Apart from the labour and welfare ministers, the meeting also included the head of the Presidential Administration (AP), Sergei Naryshkin, and the influential deputy head of the Administration Vladislav Surkov, as well as the director of the Federal Security Service and the ministers for the interior and defence. Their involvement may suggest that, in fighting the crisis, the Kremlin is not only preparing programmes to address the situation in the labour market but – concerned about the possible destabilisation of the social situation in the regions – is also developing variants for coping with potential social unrest by means of force. <JR>

Ukraine faces serious budget problems

The Ukrainian PM Yulia Tymoshenko has assured the public that the budget in January would be fully implemented. However, there are more and more indications that the budget is in fact unrealistic. Even if the Ukrainians do not start to feel the effects of the budget difficulties in January, problems are very likely to occur in the following months.

Due to the deep economic crisis, as early as the beginning of the year Ukraine is struggling to implement its budget. On 27 January Yulia Tymoshenko assured the public that the government would implement the budget for that month, but at the same time admitted that the payments of welfare benefits and pensions might be delayed by 3 to 4 days, which indirectly confirmed the existence of budget problems. According to the deputy chief of the President's Secretariat, Oleksander Shlapak, the situation is much more serious. In December 2008, the budget deficit reached 13.1 billion hryvnia, whereas

budget revenue as of 21 January amounted to 3.5 billion hryvnia, compared to the 16.138 billion hryvnia planned for January. The tax administration has also warned that budget revenue has been overestimated; for example, excise revenue was calculated incorrectly on the basis of overstated, invalid rates. Tax revenues from the sale of currency will also be lower than expected, because the government intends to comply with the requirement imposed by the IMF and lower this tax from 0.5 to 0.2%.

In the light of the above information, it appears that the Ukrainian government will face difficulties paying out pensions in the coming months, unless it forces the National Bank of Ukraine to make an additional issue to cover the budget deficit, a move which, in turn, would inevitably stimulate inflation growth. <AnG>

Belarusian authorities nominate contractor to build nuclear power plant

On 21 January, the Belarusian Energy Ministry announced that initial agreement had been reached between the Belarusian government and Russia's Rosatom company concerning the construction of a nuclear power plant in Belarus. This means that the decision on this issue has been taken without any tendering procedure. If carried out by the Russian contractor, the investment will deepen Belarus' energy dependence on Russia.

During the talks, the parties agreed that a Russian-Belarusian intergovernmental agreement on the peaceful use of nuclear energy would be signed in the first quarter of 2009, which would permit the start of direct negotiations concerning a detailed agreement on the construction of the nuclear power plant. The fact that the main contractor has been nominated without a tender indicates that the Belarusian authorities are sticking to the practice, which they have been employing for years, of selecting foreign investors arbitrarily. The arrangements made are of a general nature; no final decisions have been taken and no specific agreement has been reached as to the financing of the undertaking or the power plant's ownership structure. Only the plant's location has been defined so far: it will be located in the Ostrovets district, near the Lithuanian border (around 150 km from the Polish-Belarusian border).

The nuclear power plant will certainly result in a decrease in the proportion of gas, 100% of which is imported from Russia, in Belarus' energy mix. However, the fact that a Russian company has been tasked with implementing the investment may make Belarus dependent on nuclear fuel supplies from Russia; this would in turn call into question one of the main objectives of this undertaking, namely the diversification of energy sources. <kam>

India – a new direction in Kazakhstan's foreign policy

On 26 January, Kazakhstan's president Nursultan Nazarbayev completed a four-day trip to India. The visit resulted in the signature of a strategic partnership agreement between Kazakhstan and India, as well as two important preliminary agreements: on co-operation in the field of nuclear energy, and on the joint operation of the Satpayev field in Kazakhstan's section of the Caspian shelf. The documents are likely to form the basis for mutually beneficial co-operation between Astana and New Delhi.

The agreement between Kazakhstan's state-owned company Kazatomprom and the Nuclear Power Corporation of India not only provides for long-term supplies of uranium from Kazakhstan to India (the detailed terms and conditions of supplies are to be defined at a later stage), but also states that Kazakhstan will gain access to nuclear technology. The agreement between KazMunaiGaz and ONGC Mittal Energy Ltd. states that 25% of shares in the Satpayev field will be sold to the Indian partner. While encouraging investments in Kazakhstan, President Nazarbayev highlighted the need to promote the development of the pharmaceutical and IT sectors, as well as financial and banking services. Kazakhstan also declared its readiness to open up special economic zones for India.

The documents signed during the visit prove that Kazakhstan is open to a new direction of co-operation, and at the same time very clearly demonstrate the terms on which Astana wishes to develop this co-operation. In return for access to energy resources, a factor of strategic importance for India, Kazakhstan expects not only assistance in the development of the extraction sector and access to technology, but also investments in other branches of the economy. <wol>

CES

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