

# DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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## RUSSIAN FEDERATION

### Politics

#### **Moscow And Beijing To Sign Defense Treaty?**

• Russia and China appear to be working on a political treaty of military and economic significance according to The New York Times on Sunday. The treaty is another indication of Russia and China shared concern with the US' global supremacy and plans to deploy a missile defense system. Diplomats cited in the Russian media were quoted by The Washington Post as saying that the treaty is likely to be signed in the middle of the year, when Chinese President JIANG Zemin travels to Moscow. Details of the treaty are scarce, partly because negotiations are incomplete, but the intent is clear – solidarity against the US global domination. The treaty is expected to include a broad formulation concerning China's strategic partnership with Russia with sections on Russia's weapons sales to China and its support for the Chinese missile and space program. An initial agreement to sign this friendship treaty was reached when President Vladimir PUTIN visited China in July.

According to The Washington Post, the pending agreement on a treaty constitutes a diplomatic success for Russia, which has already signed a similar treaty with North Korea. This follows the announcements of an expanded military and security partnership between Russia and Iran. For China, the treaty marks another step in a policy of avoiding a heavy reliance on the US as a big-power interlocutor, the modernization of its military and its attempts to dilute American power in Asia. According to The Washington Post, Russia has been China's largest advanced weapons supplier for the last decade. Since 1992, Russia has annually sold China an average of \$1 billion in weapons systems. This includes hundreds of advanced fighter jets,

submarines, four destroyers and 48 state-of-the-art anti-ship missiles. Russia is a strong backer of China's goal to unite with Taiwan. China in turn has supported Russia's war in Chechnya. The two sides have discussed cooperation against Islamic fundamentalism, which they view as a destabilizing factor in Central Asia.

On Monday, Moscow refuted Western press reports saying that China and Russia are holding negotiations to sign a bilateral defense treaty. "In fact Moscow and Beijing have started to draft an absolutely different document," sources told Interfax. "It is a matter of a new comprehensive political treaty between Russia and China to sum up everything positive that has been amassed in bilateral relations over the past decade and to serve as the basis for their development in the 21<sup>st</sup> century," they said. The treaty will be based on documents, "signed by Russia and China over recent years, which do not include any mutual commitments of the military-political kind, and even more so don't include agreements about assistance in case of an attack," the sources emphasized.

**Comment:** President PUTIN continues to pursue an active foreign policy objective of uniting governments outside of the Atlantic Alliance to oppose US global domination. The policy of the strategic triangle of Russia-India-China was first formulated by the former Prime Minister Yevgeny PRIMAKOV in his attempt to oppose further encroachment

of the US influence within Eurasia. Many factors have worked to Russia's advantage in pursuing this policy including the mistaken bombing of the Chinese Embassy in Yugoslavia by the US and the various human rights and economic issues with the Chinese government. India remains, as was true during the Cold War, a country with strong Russian connections and dependence in defense areas. The new BUSH administration's pledge to deploy the missile defense system provides a perfect rallying point for Russia to pursue this policy and even sow dissention among America's allies in Europe. This treaty will put more pressure on the incoming BUSH administration not only with Russia but also China.

### Economy

<p><b>Ruble = 28.35/\$1.00 (NY rate)</b>  <b>Ruble = 28.36/\$1.00 (CB rate)</b>  <b>Ruble = 26.71/1 euro (CB rate)</b></p>
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#### **Gerashchenko: Russia Is Able To Pay Debts**

- Russian Central Bank Chairman Viktor GERASHCHENKO said that the nation can pay the about \$1.9 billion of debts due this year to creditor nations. On Sunday, he said that the sum Russia owes on top of the amount included in its 2001 budget, "is not that large, just \$1.2 billion." Russia will struggle in 2003 to pay about \$18 billion that falls due that year, when debt payments to creditor nations in the so-called Paris Club peak, the Chairman said. Russia, which has said only about \$1.9 billion is due this year on Soviet-era debt, budgeted about \$600 million for debt payments to creditor nations this year, out of about \$5.9 billion that's due. The government also can use some of any extra budget revenue raised from the second quarter to make foreign debt payments. Creditor governments have been refusing to write-off part of the debt, claiming that Russia can make its payments. Alexander ZHUKOV, chairman of the Russian State Duma's budget committee, said it still is not clear whether there will be any extra budget revenue. He added that Russia may need to hold additional negotiations to reschedule the debt. Russia last year collected 1.1 trillion (\$38.8 billion) of revenue, or about 38 percent more than the 797 billion rubles of revenue forecast in its 2000 budget.

### Business

#### **NTV Offices Raided Monday**

- Investigators from both the public prosecutor's office and the Federal Security Service (FSB) raided the offices of *NTV*, the country's sole independent national television station, as part of an inquiry into the finances of its founder, Vladimir GUSINSKY. Journalists have viewed the constant raids as pressure from the Kremlin to curb *NTV's* critical coverage of its policies and military campaign in Chechnya. One of the investigators told *NTV* the group was looking for documents concerning credits extended to *Media Most* by the media arm of state-dominated gas group *Gazprom*. One of the accountants sought by the group, *NTV* said, had not worked at the television station for two years. Yevgeny KISELYOV, *NTV* general director and one of the country's most prominent journalists, said legal proceedings against GUSINSKY were turning into a farce, Reuters reported. Prosecutors also proceeded with several hours of fresh questioning of *Media Most's* senior account, Anton TITOV. Both his office and home were searched last week. Also subject to repeated questioning has been *Media Most* Deputy Chairman Andrei TSIMAILO. *Media Most* officials have suggested the questioning amounts to a deliberate attempt to keep both men from taking part in negotiations outside Russia aimed at finding a Western investor to buy a large share of *NTV*. In addition, Moscow Mayor Yuri LUZHKOV was summoned to provide written answers to prosecutors' questions concerning their financial dealings with the media group. Russia's Prosecutor General last week indicted Yuri KOROSTELYOV, head of Moscow's financial department, with negligence in connection with the case. He was charged with abuse of credit relations between *Media Most* and the city government.

#### **Kyshtym Cooper Output Rises In 2000**

- Russia's *Kyshtym Electrolytic Copper* plant produced 77,000 tons of refined copper in 2000, up from 64,000 tons the year before, deputy technical director Vladimir KARNAUKHOV stated today. The 2000 figure, which includes copper foil output, is above the 75,000 tons nameplate capacity of the plant, located in the Chelyabinsk region of the Ural Mountains, Reuters reported. "Last year was a good one for the company. We had raw materials and that allowed us to produce above capacity, after

some technical adjustments," KARNAUKHOV said. He added that the plant hoped to see the same output in 2001, provided there were no problems with raw materials. "The raw materials issue is not completely settled for 2001 yet, but discussions are continuing," he said. Last year, *Kyshtym* received blister copper from the Karabash smelter, in which it has an 80 percent stake, and copper concentrate and scrap from companies in Bashkiria. *Kyshtym* aims to triple copper foil output to 3,600 tons a year when it completes a revamp in April.

### EUROPEAN REPUBLICS

#### Tymoshenko Charged After Questioning

- Ukraine's top prosecutor on Monday charged Deputy Prime Minister in charge of energy Julia TYMOSHENKO with stealing Russian natural gas, falsifying documents, and tax evasion. She is accused of siphoning off 106 billion cubic feet of Russian natural gas piped through Ukraine. Prosecutors previously alleged that TYMOSHENKO sold the siphoned gas outside the country and hid \$1.8 billion in profits. The charges stem from her term as head of a private gas trading *Unified Energy Systems (UES)* of Ukraine. TYMOSHENKO denied any wrongdoing and claimed the case was politically motivated. She has also filed a complaint against General Mykhailo POTEBENKO. TYMOSHENKO insists that she is an efficient manager whose reform efforts have been thwarted by corrupt officials. TYMOSHENKO is the most prominent member of reformist Prime Minister Viktor YUSHCHENKO's cabinet. Oligarchs with close ties to Ukrainian President Leonid KUCHMA have urged YUSHCHENKO to remove her from office. Prior to the charges, YUSHCHENKO had stated that if TYMOSHENKO were sacked, he would resign. TYMOSHENKO's husband, Alexander, was put in custody last August on charges of theft and gas smuggling as a board member of *UES*.

#### Ukraine To Import Gas From Turkmenistan

- Ukraine will buy 7 billion cubic meters of gas from Turkmenistan in the first quarter of 2001, on top 12.4 billion cubic meters of gas it expects to get for transporting Russian gas to Europe, *Biznes Ukrainian* reported. *NAK NaftoGaz Ukrainy*, the country's oil and gas monopoly, said Ukraine will need 76 billion cubic meters of gas this year. Ukraine

agreed to transport 124.6 billion cubic meters of Russian gas to Europe in 2001, for which it expects to receive about 30 billion cubic meters of gas as transit fees, according to Fuel and Energy Minister Sergei YERMILOV. Ukraine and Russia have said they plan to agree on rescheduling about \$1.5 billion of debt Ukraine owes Russia for gas supplies.

#### IMF Predicts Estonian GDP Growth For 2001

- The International Monetary Fund (IMF) said it expects Estonia's gross domestic product (GDP) to grow by six percent this year, after a 5.5 percent year-on-year rise expected for 2000. In its country review of Estonia, the IMF added it expects average annual inflation of 4.4 percent this year, following a four percent rise in 2000. The Estonian statistics department will release full-2000 inflation figures on January 22<sup>nd</sup>. "The [IMF] mission concurred with [Estonian] authorities that there was no evidence of an overheating economy or balance of payments pressures and the budgetary targets for 2000 and 2001 remained appropriate," the report said. "The [Estonian] authorities acknowledge that high oil prices could negatively affect growth in Estonia's export markets and that domestic demand and unemployment have yet to recover fully," it added. The Estonian Finance Ministry has said the government sector budget deficit last year ran to some 400 million Estonian kroons (\$24.07 million), after a 2.1 billion kroons gap in 1999. The 2001 budget is seen remaining balanced, as passed, at 29.786 billion kroons. Estonia's jobless rate in November stood at 5.8 percent of the workforce, up from 5.5 percent in October and 5.2 percent in November, 1999.

### SOUTH CAUCASUS & CENTRAL ASIA

#### IMF Resumes Lending To Georgian

- On Friday, the International Monetary Fund's (IMF) board of directors decided to grant Georgia \$141 million in loans over the next three years. The first \$12.5 billion disbursement for the Poverty Reduction and Growth Facility will arrive within days. The aid will be spent to help support the national currency, the lari, and to help the government pay pensions and fulfill other social obligations. Georgian President Eduard SHEVARDNADZE on Monday hailed the decision to resume lending, after it was suspended for poor tax collection, inability to implement its financial plans, and corruption.

The President said, "The IMF's decision means that Georgia is a normal country with long-term prospects of development that can be trusted and deserves investment support." He stressed that the financial assistance provided to the country is aimed at perfecting the tax policy and structural reforms, support to small business and elimination of the "shade economy" and corruption. Georgia has turned around its economy following a devastating civil war and the after effects of Russia's financial collapse in 1998. In response to previous IMF criticism, the Georgian government boosted tax collection last year and has launched an anti-corruption program. IMF Deputy Managing Director Shigemitsu SUGISAKI said, "Given Georgia's large external debts and debt service payments, Directors noted authorities' efforts, in conjunction with their macroeconomic policies, to reach agreements on debt rescheduling with bilateral creditors, which the authorities are pursuing at the Paris Club." The IMF's latest mission last October gave a positive assessment of the economic situation. SHEVARDNADZE added that IMF decision gives a "green light" to other international organizations including the World Bank and the European Union for resuming their assistance programs.

#### **Humanitarian Donations Detained By Russia**

- Russian authorities have seized a large cargo of humanitarian donations from Switzerland destined for the Georgian Justice Ministry, which was registered as diplomatic. The Swiss government, within the framework of the NATO Partnership for Peace Program and the Program for reducing the Swiss Army, donated 50 Pinzgauer 4x4 vehicles produced in the 1970s to be used for the Penitentiary Department, 3,000 uniforms for prison personnel, warm jackets, medical equipment for hospitals etc. Russia claims that the supplies were suspicious and appeared to be aimed for Chechen rebels. Switzerland had previously granted similar aid to Russia and Ukraine. Russia media has circulated reports that it plans to confiscate the donations under customs regulations. Justice Minister Mikheil

SAKASHVILI pointed out that even though the vehicles were more than 20 years-old, "this donation is of essential importance for our Ministry." He noted in a statement that without the vehicles, the transportation within the prison system is limited to old Soviet-type trucks, which do not meet the minimum standards for their purposes. "All efforts of our Swiss friends to settle this issue through diplomatic channels have failed until now." He added, "We were specially alarmed when recently some Swiss representatives approached our Ministry unofficially and urged us to agree to receive only 20 vehicles and to hand over the other 30 vehicles to the Russian side, in exchange for their good will to release the cargo." SAKASHVILI believes that Russian authorities, motivated by politics, have artificially created the problems. He noted that this is not the first time Russia has detained cargo bound for Georgia. Previously, US military uniforms destined for the Georgian military were seized under similar circumstances. These dramatic seizures are part of a pattern of activity which seeks to link Western military aid to Georgia as destined for Chechen fighters. This has been matched by a continuous propaganda campaign against Georgia for not only aiding Chechen rebels, but harboring them. Georgia faces intense psychological warfare pressure from Russia ever since SHEVARDNADZE refuse to allow Russian military to operate freely against Chechen fighters on Georgia's territory. This pressure has even included several Russian bombings of Georgian border areas, which to this day Georgia has not received official apologies, frequent energy cut-offs, and a new strict visa regime aimed at prohibiting rebel fighters from crossing the border into Russia.

Similar accusation of aiding rebels have been launched against Azerbaijan. During Russian President Vladimir PUTIN's recent visit to Baku, he stated that there was no need for a strict visa regime with Azerbaijan.

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