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### **BREAKING NEWS**

#### **POLITICS**

**ON RISING WAVE OF ANTI-YELTSIN PROTEST, THREE INCUMBENT GOVERNORS LOSE ELECTIONS.** In runoff elections on 17 May, Aleksandr Lebed defeated incumbent Valerii Zubov in Krasnoyarsk, Sergei Katanandov bested Viktor Stepanov in Kareliya, and Aleksandr Prokhorov outpolled Anatolii Glushenkov in Smolensk Oblast. (For more details on Krasnoyarsk and Kareliya, see the Patterns of Regional Development section below.) Since the elections returned similar results from geographically disparate regions, *Izvestiya* (19 May) claimed that the results show that the voters did not vote against their particular governors as much as they were voting against President Boris Yeltsin. The paper suggests that, despite intense efforts including visits to Krasnoyarsk by Moscow Mayor Yurii Luzhkov and pop star Alla Pugacheva, the "party of power" is losing control over the country. (One small twist is that Kareliya's Stepanov was a communist and his opponent had the backing of Our Home is Russia, but the incumbent was nevertheless tarred with responsibility for the status quo.) The increasing number of "protest votes" could lead to a disastrous outcome in the 2000 presidential elections the paper warns. The government could avoid this outcome by adopting an effective policy toward the regions and achieving real economic growth soon.

**SMOLENSK MAYOR WINS GUBERNATORIAL ELECTIONS.** Smolensk Mayor Aleksandr Prokhorov defeated incumbent Anatolii Glushenkov by a margin of 67% to 26%, with 35% turnout. Prokhorov, who does not belong to a political party, had the support of the Communist Party as well as the presidential administration during the campaign (*Nezavisimaya gazeta*, 15 May). In cases where the presidential administration determines that the incumbent has no chance of winning, it usually throws its weight behind the opposition candidate in hopes of moderating his views. Moscow's unwillingness to help the incumbents suggests that it is no longer interested in dictating detailed conditions to the regions, but seeks to use "indirect levers" and only intervene in extreme cases, such as the Nizhnii Novgorod mayoral elections (*Russkii Telegraf*, 19 May).

In his role as the new governor, Prokhorov said that he believes that he does not have any "special obligations" to the Communist Party. Instead, he said that "I will lean for support on the Kremlin in order to improve the oblast's economy." (*Kommersant Daily*, 19 May) The outgoing governor Glushenkov said that the Kremlin simply had "no regional policy" and hence his electoral defeat.

**MINERS STRIKE ACROSS THE COUNTRY...** Coal miners in a variety of regions across the country blocked railroad links demanding the resignation of President Yeltsin and a secure future for their troubled industry. They also are seeking the payment of their wages. Widespread media reports suggest that the situation is growing increasingly out of control. Coal

miners in Anzhero-Sudzhensk and Prokopyevsk (Kemerovo Oblast) are blocking the Trans-Siberian Railroad. They rejected the 7 million rubles (\$1.2 million) sent to them from Moscow as too little. More than 200 passenger and freight trains have been blocked (*Nezavisimaya gazeta*, 20 May). Kemerovo Governor Aman Tuleev said that the protests cost hundreds of thousands of rubles a day (*Segodnya*, 20 May). Miners in Inta (Komi Republic) were allowing only passenger trains to pass on the Vorkuta-Moscow train line. Miners in Rostov are blocking the North Caucasus railroad (*Izvestiya*, 16 May). In many cases, public sector employees joined in the protests.

**... BUT GOVERNMENT PROMISES INSUFFICIENT HELP.** During its meeting on 16 May, the Russian government promised to send 385 million rubles (\$64.2 million) to pay wage arrears and 47 million rubles (\$7.8 million) for children's benefits (*Nezavisimaya gazeta*, 19 May). These sums are clearly not enough and the government is likely to have to make other concessions to restore order in the coal mining regions. Kirienko listed three reasons for why the miners are not getting paid: the market for coal is flooded with at least 15 million tons of coal that have not found a customer, the cost of producing coal is higher than the selling prices, and consumers do not have money to pay for the coal that they buy (*Russkii Telegraf*, 19 May).

Owners of the unprofitable mines, which make up the vast majority of the industry, are usually close to the governors of the corresponding regions. The governors do not want to close the mines because such a move would create widespread unemployment. They prefer to shift the blame to Moscow (*Russkii Telegraf*, 19 May). In accordance with the World Bank-sponsored program, private companies must produce 45% of Russia's coal by the end of the year. By 2000, Russia is to stop subsidizing coal mining operations altogether. Up to 50,000 miners are to be laid off this year alone and little has been done to find them new jobs (*Moscow Times*, 19 May). Russia does not want to spoil its relations with the World Bank because it relies on funds from the bank to finance support for the coal industry as well as other projects.

**KIRIENKO CRACKS DOWN ON REGIONAL LOBBYING.** On 13 May Prime Minister Sergei Kirienko announced that he had annulled all government programs that were not given funds in the budget. He also said that he would not approve other expenditures unless a source of income was identified in the proposal. The measure is partly aimed at reducing such regional porkbarrel projects as creating the Osetiya economic development zone and providing state support for automobile assembly projects in Kaliningrad Oblast (*Izvestiya*, 15 May)

**ITOGI: GOVERNORS BENEFIT FROM GOVERNMENT CRISIS.** Although many had assumed that prominent regional executives like Novgorod's Mikhail Prusak, Saratov's Dmitrii Ayatskov, Samara's Konstantin Titov, and Mordoviya's Nikolai Merkushkin would join Prime Minister Sergei Kirienko's new cabinet, none did. Kirienko apparently offered these leaders and others jobs, but none were interested in serving in any position other than as prime minister, according to *Itogi*, 18 May. (See Center-Periphery Relations for an article about Tver's governor possibly serving in the cabinet.) Boris Nemtsov's transfer from Nizhnii

Novgorod governor to first deputy prime minister last year was considered a promotion, but governors now are no longer interested in giving up their positions.

According to correspondent Galina Kovalskaya, the government crisis has dramatically weakened Moscow's power over the regions. In the past, the governors had to take into account the presidential administration and the government because they had some independent standing when they were led by Anatolii Chubais and Viktor Chernomyrdin respectively. Currently, the presidential administration and government of technocrats have little influence in the regions. Both are entirely dependent on Yeltsin and he is often sick or not paying attention. As a result, the governors are the only real "party of power" in the country.

Kovalskaya argues that the regional elite have displayed amazing unity, much to the dismay of the Kremlin. The regional executives have generally avoided breaking into factions as they compete for scarce federal funds, are not divided into "red" and "white" camps, do not battle between rich and poor, and have avoided conflicts pitting the "industrial north" against the "agricultural south."

In 2000, the regional elite are planning to elect one of their own as president. Moscow Mayor Yurii Luzhkov, Kovalskaya argues, has strong support from key governors including Ayatskov, Titov, Merkushev, Prusak, Rostov's Vladimir Chub and Tatarstan's Minitimer Shaimiev.

**AYATSKOV, NAZDRATENKO FORM ALLIANCE.** Primorskii Krai Governor Yevgenii Nazdratenko and Saratov Oblast Dmitrii Ayatskov are likely to sign an extensive cooperation agreement in the near future for economic and cultural cooperation, but the main goal would be establishing a political alliance. In economic terms, Saratov will send grain to the Far East in exchange for sea food. Ayatskov sent an initial 40 train cars of grain to help feed miners in the city of Partizansk, although one of the cars disappeared en route. Given the fact that the two regions are nearly on opposite sides of the country, Ayatskov seems to be mainly interested in building up support for his recently-announced political party. However, Nazdratenko made clear that he has no intention of introducing laws in Primorskii Krai that would permit the buying and selling of land as Ayatskov has done (*Kommersant Daily*, 14 May). An additional contrast is that Ayatskov has relatively good ties with the administration while the Kremlin unsuccessfully tried to remove Nazdratenko from office last spring. Ayatskov also said that he was pleased with Lebed's victory.

**SKINHEADS A GROWING PROBLEM IN RUSSIA.** By 1997 there were approximately 10,000 skinheads in Russia, with major concentrations in Moscow, Krasnoyarsk, Tomsk, Irkutsk, and Vladivostok. (*Novaya gazeta*, 18 May)

## **ECONOMICS**

**NOVGOROD STARTS LAND SALES.** The Novgorod City Administration will begin selling plots of land on 20 June, according to a statement released by the city's press department. This auction will be the first sale of land to be organized in North-West Russia. Novgorod will sell seven vacant parcels of land ranging from 7,000 to 36,000 sq. meters. Most of them will be in industrial areas. City leaders cite the land sales as part of their continued commitment to a systematic program of land privatization as a mechanism for attracting private economic investment. Novgorod is well situated on the important transportation corridor between Moscow and St. Petersburg and provides convenient access to both markets. Novgorod's policy of waiving regional and local taxes for investors until they turn a profit made the region extremely attractive to western producers such as the UK's Cadbury-Schweppes and Denmark's Stimorol. The Urban Institute, a US AID contractor, advised the city on the preparation of the land sale. (Further details about the auction are available on the city's web server: <http://www.adm.nov.ru/web/tempnvg.nsf>)

**GOVERNORS PARTICIPATE IN G-8 CONFERENCE.** Saratov Governor Dmitrii Ayatskov, Arkhangelsk Governor Anatolii Yefremov, and Murmansk Governor Yurii Yevdokimov accompanied Boris Yeltsin to participate in the G-8 conference in Birmingham, England. During the conference, Yeltsin presented Ayatskov as the future president of Russia, but the governor said that he would not run until at least 2004 (*Nezavisimaya gazeta*, 20 May). (According to *Kommersant Daily*, Yeltsin said simply that Ayatskov "is running for president.") The governors sought to attract foreign investment, stressing their mineral resources, favorable geographic location, and developed industrial bases, RIA Novosti reported 16 May. Saratov's Ayatskov stressed that recently-adopted regional legislation allows foreigners to lease land for 99 years. The EBRD has also launched a program to extract and process oil in the region.

**SAMARA'S AVTOVAZ REMAINS LARGEST DEBTOR TO FEDERAL BUDGET.** Samara Oblast's giant carmaker AvtoVAZ owes the largest sum in taxes to the federal government of all Russian enterprises. It owes 9.5 billion rubles (\$1.6 billion) including fines and penalties. The factory has not missed a payment to settle these debts in twenty months according to State Tax Committee Department head Vladimir Yevdokimov. However, the firm has yet to provide collateral to guarantee the restructuring of its debts. The other firms in the top 10 are: Yuganskneftegaz (3.7 billion rubles), Uraltransgaz (3.4 billion), Noyabrskneftegaz (2.9 billion), Mezhhregiongaz (2.9 billion), Mostransgaz (2.6 billion), Kuzbass Railroad (2.9 billion), Volgogransgaz (2.3 billion), Urengoigazprom (2.3 billion), Nizhnevartovskgaz (2.1 billion). There are 4,681 enterprises with major arrears and the amount of debt increased 5.4 billion rubles (\$900 million) last month. (*Izvestiya*, 14 May)

**ST. PETERSBURG BANKS PLAN MERGER.** Two St. Petersburg banks, Animabank and Inkasbank, are planning a merger that will make a new entity second only to the local leader, Baltiiskii Bank. Both of the future partner banks were profitable last year. The Central Bank's local representative, Nadezhda Savinskaya thinks that the merger will make the banks more reliable and expand their range of activities. The banks believe the merger will reduce their

costs and allow them to finance larger projects. The combined bank will have 10 branches in St. Petersburg and 5 in other regions, including Irkutsk and Orenburg. (*Finansovye izvestiya*, 19 May)

**FLOODS AFFLICT SAKHA TOWN.** About 70% of the Sakha (Yakutiya) city of Lensk is under water. Floods have made more than 90% of the city's residences uninhabitable and it is unlikely that they can be restored. Two thousand of the city's 38,000 residents have been evacuated, with many of those remaining preferring to stay on the upper floors of their residences or the roof. Much of the city infrastructure, including heat and electricity supplies, five bridges, eight dams, and telephone links, has been destroyed. Eleven people have died and at least 60 are missing, according to the National News Service ([www.nns.ru](http://www.nns.ru)). The flooding is a result of ice flows blocking the Lena river. The Russian airforce has bombed some of the larger obstructions, but the ice then collects again a few kilometers downstream. The water temperature is 6-7 degrees so it is impossible to survive immersion of more than a few minutes (*Izvestiya*, 19 May). Emergency Situations Minister Sergei Shoigu has arrived to personally monitor the rescue and clean-up operations. It is not clear why the regional authorities were unprepared for such a predictable event.

## **BUSINESS BRIEFS**

-- The **KRASNYI OKTYABR** confectionery concern paid \$166 million for a 51% controlling stake in the **KOLOMENSKY** candy factory. Besides a **MOSCOW** plant, Kolomensky has 20 production facilities throughout the CIS. The deal increased Krasnyi Oktyabr's market share to 7% and shot its share price from \$7.20 to \$12 overnight. **CHASE MANHATTAN BANK** owns 10% of Krasnyi Oktyabr and approves of the deal (*Moscow Times*, 19 May). Krasnyi Oktyabr already has plants in Moscow, **RYAZAN**, **KOLOMNA**, **TULA**, and **TAMBOV**. Two weeks ago it purchased an additional factory in Yoshkar-Ole, [**MARII-EL**]. It is planning to increase the number of its regional outlets to 20 this year, building on the existing ten (*Russkii Telegraf*, 19 May)

-- The US firm **OBC** formed a joint venture with **CHEPETSKIY MECHANICAL PLANT (UDMURTIYA)**, taking advantage of a complex alloy technology which will be used in making batteries for electric car engines. The joint venture will employ 150 highly skilled workers and all its output will be exported to the US. (*Segodnya*, 19 May)

-- The Sakha-based **ALROSA** diamond producer signed a favorable agreement with the **US EXPORT-IMPORT BANK**, which will provide easy credit for Alrosa's small scale projects in addition to an earlier syndicated loan of \$72 million. The company can use the credits for both domestic projects and its ventures in Africa. (*Segodnya*, 19 May).

-- **TRANS WORLD GROUP (TWG)** decided to postpone shareholders meeting of the **BRATSK ALUMINUM PLANT (IRKUTSK)** for 1.5 months in order to prepare all the

needed paperwork to discuss the planned issue of the plant's American Depository Receipts. TWG controls over 50% of the company's stock. (*Russkii Telegraf*, 14 May)

-- **FORD MOTOR COMPANY** introduced a new compact car on the Russian market, Ford Ka, already widely sold in Europe and Brazil. The Russian model will be adopted to the country's unique weather and road conditions and it will be sold by all 16 Ford dealerships. (*Russkii Telegraf*, 15 May)

-- **DEUTSCHE BANK** has now opened a **MOSCOW** branch with \$50 million in starting capital and a 150-member staff. The new office will seek to help German companies doing business in Russia (*Moscow Times*, 15 May).

-- **DONALDSON, LUFKIN & JENRETTE** investment bank opened a Moscow office. The company plans to offer the usual set of investment services, including securities trading. (*Kommersant-Daily*, 15 May)

-- **GOLDMAN SACHS** investment bank will open its Moscow office on 18 June, staking out its own local presence in the face of competitors such as Merrill Lynch. The bank plans to provide investment services to large Russian companies in the oil and gas, electric power, and telecom sectors. Goldman Sachs also plans to manage **SAMARA**'s \$400 million Eurobond tranche this summer. (*Russkii Telegraf*, 15 May)

-- **VOLVO**'s board of directors will meet in Russia this week to discuss strategic partnerships with Russian companies. The company's top managers plan to meet with officials from the Economics Ministry, the Ministry of Transportation and the **MOSCOW** city administration. During Yeltsin's recent visit to Sweden Volvo agreed to cooperate with **OMSK OBLAST** in bus production. This time around the Swedes are scanning other regions for partners to build trucks. (*Russkii Telegraf*, 19 May)

-- Japan's **SUMITOMO** corporation opened its **ST. PETERSBURG** office last week, also signing an agreement with the city administration. According to the company's representatives, Sumitomo plans to invest in production of florescent lamps and, possibly in the future, **TOYOTA** cars. (*Russkii Telegraf*, 19 May)

-- Russia's **LUKOIL-PERM** and the US's **SOCO PERM RUSSIA, INC.** applied to the European Bank for Reconstruction and Development for a \$50 million loan to finance six new large oil extraction projects in **PERM OBLAST**. The projects' total cost will be close to \$200 million. (*Nezavisimaya Gazeta*, 15 May)

## **FRONT LINE REPORT**

### **REBELS SEIZE, RELINQUISH STATE BUILDINGS IN DAGESTAN**

by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA - Dagestan suffered a regional coup attempt on 21 May. The Republican Government and State Council have left the republican administration's building which was temporarily occupied by groups seeking the removal of the republic's current authorities.

Late at night on May 20 police in Makhachkala stopped a column of vehicles with Chechen licence plates headed by State Duma member Nadir Khachilaev, who is also the head of the Union of Muslims of Russia, and his brother Magomed, the chairman of the Coordinating Council of the Ethnic Movements of Dagestan. In the clash that followed, one policeman was killed and six were wounded. The men in the vehicles then sought refuge in Nadir Khachilaev's residence.

Police sealed off the residence and attempted to storm it at 9:00 on 21 May. As the fighting continued around 9:40, a group of approximately 250-300 men armed with machine-guns and bazookas entered the Central square of Makhachkala and attacked the building of the Republican administration. Several of the attackers and at least one policeman guarding the building were killed. Then the resistance faded and the attackers entered the building. Members of the administration managed to escape through the back exits. The shooting at Khachilaev's house stopped when the skirmish at the square began.

At 10:30 I visited the square. There were around 4,000 people there. Traders from the local marketplaces supported the attackers. Several days before the assault, they had been protesting against the city administration's plans to push them from the center of town into the suburbs.

Nadir Khachilaev addressed the crowd around 13:15 and denounced the republican government. Among his slogans were: "We don't need this State Council" "Down with State Council Chairman Magomedali Magomedov" and others. [Thousands of people on the square demanded the government's resignation and free presidential elections, according to the National News Service ([www.nns.ru](http://www.nns.ru)).

Later both Khachilaevs, Magomedov, and Prime Minister Hizri Shihsaidov conducted negotiations in the republican administration's vandalized building (the windows were broken, the computers and other electronic equipment was stolen, safes were smashed open, and a green Islamic banner replaced the republican flag on the roof of the building). Trying to prevent bloodshed, Magomedov declared that nobody would be punished for breaking into the building, but the ones guilty in the deaths of the two policemen would be prosecuted. He refused to consider the events as an attempted "coup d'etat." He had good reason to make concessions since 200 men with sniper guns, machine-guns and bazookas were occupying the best shooting positions in the building and controlling the area. Around 19:00 he managed to convince Nadir Khachilaev to leave the Square with his men. They all left unharmed and nobody dared to disarm them.

Now all the police and military in the republic are on heightened alert, according to television reports. But today all Dagestanis could see for themselves how ineffective the republican Interior Ministry troops are. In the course of 15 minutes, gunmen were able to take the building which it is their top priority to guard - the House of the State Council, Government and People's Assembly.

As of 22.00, supporters of Makhachkala Mayor Said Amirov occupied the square. He is the only person in the establishment who labeled the day's events a "coup d'etat" carried out by "bandits, nationalists and religious extremists." In an interview broadcast on local TV, he called for justice, demanding that the guilty stand trial. The rest of the people giving interviews - deputies of the People's Assembly, mufti, republican ministers - only asked the citizens to remain calm. Nobody gave an analysis of the events or expressed his attitude toward them. Some even said that the policemen's actions provoked the outrage and suggested that the republican administration apologize to the Khachilaevs.

In fact at the end of the day, State Council Chairman Magomedali Magomedov appeared on the TV and blamed the police for the conflict. He promised to punish the guilty parties and protect the innocent.

What will happen next? It's hard to imagine. If today's events were a dress rehearsal for a full-scale coup, it went very smoothly. Anyone who can manage 200-300 gunmen may be tempted to try. There is an excess of such people in the region.

## **PATTERNS OF REGIONAL DEVELOPMENT**

**LEBED WINS IN KRASNOYARSK.** Lt. Gen. (ret.) Aleksandr Lebed defeated incumbent Governor Valerii Zubov in the 17 May runoff Krasnoyarsk gubernatorial elections by a margin of 57.84% to 38.7% with 63.83% turnout (<http://www.krasnoyarsk.org/>). As in the first round, Lebed won the election because he had the support of the electorate outside of the krai's capital city. The city of Krasnoyarsk was the only region to favor the incumbent; there the general trailed Zubov 43.45% to 52.69%. The city of Norilsk, home to the giant Norilsk Nickel plant owned by Zubov-supporter Uneximbank, set a record giving Lebed 86.04% to Zubov's 10.6%. Although Lebed seemed to have the victory sewn up after the first round, overall his victory was surprising for many observers because Krasnoyarsk is generally considered a donor region that typically supports Yeltsin. The Yeltsin administration early on predicted that Zubov could not withstand the general's assault and offered him very little support.

Lebed, who has no experience as a popularly-elected executive, has yet to announce who will serve in his cabinet and what his main priorities will be. During the campaign Lebed made clear that he would support his rural electorate. He compared the cities of Moscow and Krasnoyarsk, pointing out that both are capitals, whether of the country or the krai, and therefore take money from the outlying region. He said that under his rule, this situation will

change (*Russkii Telegraf*, 19 May). Despite the governor's rhetoric, however, the poor agricultural parts of the krai are supported by the industries grouped in the city of Krasnoyarsk. (*Russkii Telegraf*, 20 May)

Lebed also consistently criticized the power-sharing agreement that Zubov signed with Moscow last fall as allowing Moscow to rob the region. He is planning to renegotiate the deal. He has also promised to move 60,000 unemployed workers from the harsh conditions of Norilsk to latitudes more suitable for human habitation no matter what the cost to the federal and regional budgets. He proposed paying for this operation by freeing the plant from having to pay federal taxes for two years and indicated that it would be easier to deal with Moscow's opposition than the social explosion that would result from doing nothing.

In an interview with *Kommersant Daily* (19 May), Lebed said that he supported the adoption of a regional law on recalling the governor so that the people could remove him if they wanted to. The new governor said that he did not know anyone in Kirienko's government, but was willing to work with the new prime minister and his cabinet.

## **WHAT UNITES LEBED AND LUKASHENKO?**

by Oleg Manaev, Director

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NEW YORK--Aleksandr Lebed's victory in the Krasnoyarsk gubernatorial race has caused much concern for the Kremlin establishment, the local *nomenklatura*, and the private sector alike. In contrast, Russian "democrats" have not made up their minds yet: some place on Lebed high hopes that have not been realized under Yeltsin, others are panicking, while the majority is still pondering. What is it about Lebed's triumph that causes such concern? Mostly, it is his personality, his rigid and crude manner, his primitive political program, his contradictory economic views, the motley crew of his allies (from former Yeltsin bodyguard Aleksandr Korzhakov to financial tycoon Boris Berezovsky), as well as his military background. Many politicians and analysts who are analyzing the reasons for Lebed's victory pay excessive attention to various "external factors," from Berezovsky's money to actor Alain Delon's charm. However, very few of them pay serious attention to those whose votes propelled the general to power in one of the largest and most resource-rich regions of Russia.

We know that Lebed's main base of support in the first round came from the rural areas and small towns of Krasnoyarsk Krai. First rounds are quite indicative of voters' real preferences, because in the second round they usually migrate to the remaining two candidates and, given their true candidate's loss, people often pick "the least of two remaining evils." In any case, who are the people who voted for Aleksandr Lebed? Because of the striking similarity between the Russian and the Byelarusan electorates, I can say that this group is dominated by pensioners, the poorly educated, and those who live significantly below the regional economic average. This demographic group is the one whose losses outweigh gains in the recent

transformations. For them the free market means predatory speculation and taking advantage of the common people, democracy means disorder and demagoguery, the West and NATO are still hostile forces, and human rights are subordinate to state-sponsored social protection. Their ideal is the USSR of the 1970s, when everybody could buy sausage for 2.20 rubles a kilo, the state took care of all social needs, and the rest of the world "respected" us as a superpower.

What kind of mandate have most of these people given Lebed with their votes? Did they authorize him to continue with reforms, strengthen democracy and civil society, further reduce government involvement in the economy, develop private initiative, and protect individual rights? No, they authorized him not to build a new democratic future, but to restore the Soviet past.

Some might say: It matters not how one gets to power, but rather what one does with that power. That was exactly the feeling in Belarus four years ago, when the old party boss and then prime minister Kebich, democratic leaders Shushkevich and Poznyak, and "Belarusan Robin Hood" Aleksandr Lukashenko clashed in a presidential campaign. At that time, the Belarusan electorate exhibited the same trends that could be detected in today's Krasnoyarsk: total mistrust in the existing regime and state structures and fear of radical reforms if "democrats" win. Additionally, Lukashenko was promising law and order, social stability and economic growth, free media and private initiative. His most popular campaign promise was to "do everything for the common people."

We all know what happened next. At first Lukashenko cracked down on political parties, independent labor unions, the media, private entrepreneurs, non-governmental organizations (NGOs) and think tanks. Then, he moved on to the parliament, the Constitutional Court, and the central electoral commission. In other words, he repressed everybody who expressed independent opinions, had democratic and free market aspirations, and was oriented toward Europe. Among the beneficiaries of his regime were those who dreamt of restoring the USSR and returning to the "golden era" of the 1970s, or anybody who openly supported the president. Consequently, Belarus split internally and faced international isolation. Lukashenko himself became a virtual hostage of his reactionary electorate and can only retain power by satisfying its aggressive conservative aspirations. Any possibility for a significant policy shift and reliance on a different segment of society is slipping away. It is no surprise that Belarus is often viewed as a source of instability and a detonator of revisionist tendencies in Russia, Ukraine and other CIS countries.

With virtually the same demographic group backing him, Aleksandr Lebed can easily become the Russian version of the Belarusan president. In addition to the electorate, the two men share many of the same views, at the basis of which is the aspiration to restore the great Russian or pan-Slavic state (*derzhava*), at the expense of liberal and democratic values. Many people remember General Lebed's successful peacemaking mission in Chechnya during his brief career as the Secretary of the Russian Security Council. But very few of them paid attention to another episode. When Lukashenko announced his intention to hold a constitutional referendum

in August 1996, he met with Aleksandr Lebed in Belovezhskaya Puscha, the site of the 1991 meeting of the Russian, Ukrainian and Belorussian presidents who signed an agreement dissolving the Soviet Union. Nobody knows what Lebed and Lukashenko discussed there. However, following the meeting Lebed publicly endorsed his new friend and even presented him with a Winchester rifle as a gift. In turn, the Belarusan president vocally supported Lebed and said in one of his subsequent interviews that "our peoples will never forgive those who ruined our great state at Belovezhskaya Puscha."

Unlike their Russian counterparts, Belorusan democrats have not forgotten that meeting. Which is why Lebed's victory in Krasnoyarsk causes us grave concern.

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**CHALLENGER WINS KARELIYA'S TOP POST.** Former Petrozavodsk mayor Sergei Katanandov defeated incumbent Viktor Stepanov in Kareliya's prime ministerial elections on 17 May by a margin of 49.48% to 43.16%. Speaking at an 18 May press-conference, Stepanov advised the new government to rely on professionalism and steer away from radical solutions. While he promised to congratulate the winner after he is sworn into the office, Stepanov did not believe that he would be invited to join the new government. He plans to take a vacation, which he has not had in four years. Stepanov alleged to have no concrete plans for the future.

At the same time, the republican Supreme Court will hear a petition filed against Katanandov alleging a variety of campaign violations. According to testimony from State Duma member Aleksandr Saliy, chairman of the commission on electoral integrity, Kareliya's electoral commission overlooked several violations, which were much more serious than the ones that caused the annulment of Nizhnii Novgorod's recent mayoral elections. Stepanov emphasized that the court appeal is not designed to call for another election, which would surely fail to produce a different result, but to insure procedural legitimacy. - Boris Matveev in Petrozavodsk

**COURT UPHOLDS NIZHNIY MAYORAL ELECTION ANNULMENT.** At a 15 May hearing, the Nizhnii Novgorod district court upheld the local electoral commission's decision to annul the election of Andrey Klimentiev as Nizhnii Novgorod mayor. One of the contenders in the previous election, Dmitry Bednyakov, an attorney and an oblast assembly member, told the press that he plans to run for mayor again if new elections are held. He is more than confident that elections will take place and the electoral commission's decision will be upheld by the oblast-level court as well. To keep his political options open in Nizhnii, Bednyakov has turned down several opportunities in Moscow. Should he run for mayor again, it will be Bednyakov's third attempt, and, in his opinion, this time he will succeed. - Yuriy Rodygin in Nizhnii Novgorod

## **CENTER-PERIPHERY RELATIONS**

**TVER GOVERNOR MAY JOIN KIRIENKO'S CABINET.** Tver Governor Vladimir Platov has been offered the post of Industry and Trade Minister in Prime Minister Sergei Kirienko's new government, *Veche Tveri* reported on 15 May. The newspaper quoted unidentified sources as providing the information. The post is currently held by Georgiy Gabuniya who is the acting minister. The governor is apparently considering the offer even though he recently announced that he had no intentions of moving to Moscow. Deputy Prime Minister Boris Nemtsov and the Unified Energy System (EES) Director Anatolii Chubais made the flattering proposal during meetings in Moscow on 12 and 13 May.

During his meeting with Nemtsov, the governor succeeded in transferring 42.5% of the Tver train factory's shares to its workers. The government had given this packet of shares to Roseltrans in 1994. Roseltrans then carried out a series of intrigues to gain control of the factory's assets. The government has now set up a commission with representatives from the Transportation Ministry, the Ministry of State Property, the Federal Security Service, and the Procurator General to liquidate Roseltrans. Deputy Governor Sergei Polschikov represents Tver Oblast on the committee.

Chubais's EES wants to create a regional energy company that will merge Tverenergo and Vologdaenergo. Hopefully the new firm will be able to provide industrial and residential customers with cheaper energy, potentially increasing industrial production in the region. - Boris Goubman in Tver

**FORMER GOVERNOR LAMENTS LACK OF POWER.** Former Volgograd Governor Ivan Shabunin recently visited Volgograd from Minsk where he is now the first deputy to CIS Executive Secretary Boris Berezovskii. Shabunin was a Yeltsin - appointee who lost to Communist Nikolai Maksyuta in the 22 December 1996 gubernatorial elections. In explaining some of the decisions he made as governor, Shabunin said that he wanted to build a bridge across the Volga both to revive several Volgograd enterprises by giving them construction orders and to receive money back from the federal road fund (according to Shabunin, Volgograd Oblast paid 250 billion rubles to that fund, and received only 70 billion in return). Now construction has been halted. "They [Maksyuta's administration] have to work with Moscow, otherwise [the federal authorities] will continue trying to avoid financing the bridge".

*Oblastnye Vesti* correspondent Irina Starodumova asked Shabunin if it is possible "to do anything" on the regional level without changes in federal policy. The former governor answered that only large investment projects can make the region "relatively independent" from Moscow politics. During Shabunin's tenure, Volgograd nearly signed a mining deal with some German firms that would have brought billions of deutsche marks in investment to the region. However, the Communist victory in the gubernatorial elections in 1996 dissuaded the Germans from signing the final contract, even though Shabunin tried to persuade the Germans that they would have nothing to fear from the new leadership. - Ivan Kurilla in Volgograd

**SPECIAL RESEARCH REPORT**

## CENTRALIZATION IN KOMI POLITICS

by James Alexander, Department of Political Science, Northeastern State University

Political struggles over the governance of regional entities have proven particularly competitive in post-Soviet Russia, both in terms of relations with central authorities and the construction of internal political institutions. While Chechnya and Tatarstan have stood out as the most extreme cases of conflict with federal authorities, numerous regions continue to challenge central leadership. One of the more persistent challengers has been the Komi Republic. (*IEWS Russian Regional Report*, 5 February)

Located in the northeastern corner of European Russia, Komi has great economic potential, with a large storehouse of natural resources (oil, gas, coal, timber, etc.) that would seem to indicate a rosy future. As for many Russian regions, however, an economic upsurge has yet to come. Nevertheless, the political struggle for control of Komi and its resources is instructive in trying to comprehend larger federal and regional political developments. Komi Chief Executive Yurii Spiridonov has gained political dominance through a carefully orchestrated political program that includes resistance to central directives and political maneuvering for local control. With the recent Russian Constitutional Court ruling invalidating Komi laws on local self-government, however, a new chapter in Komi political development is now being written.

Before October 1993, the Komi leadership was mildly resistant to central directives, but Yeltsin's violent clash with the national legislature sparked the Komi leadership to pursue a more consistent campaign in winning autonomy from Moscow. Then the preeminent of two regional political leaders, Spiridonov took advantage of his chairmanship of the Komi Supreme Soviet to construct his own political machine. For 15 months he resisted Yeltsin's October directive to dissolve the legislature. In this time, Spiridonov legislatively created a chief executive's position, in the process ignoring the failure of a similar referendum item added to the December 1993 ballot. Using a legal technicality requiring voter turnout to reach a 50% threshold (it had been less than 48%), Spiridonov exposed his clear willingness to adapt the law to his wishes. Unsurprisingly, he handily defeated his main challenger, former Chairman of the Council of Ministers Viacheslav Khudiaeov, in the May 1994 elections for the republic's highest office.

The process of creating a chief executive accompanied the larger development of the Komi Constitution in February 1994. Using his considerable legislative influence, Spiridonov created a political structure that would be amenable to his expected victory in executive elections. Under his leadership, the Supreme Soviet in the Fall of 1994 adopted the Komi Law on Executive Authority, creating a vertical authority structure with branches throughout the republic directly subordinate to the republican leader. Similar to Yeltsin's past practice of appointing governors, the law allowed the executive to appoint heads of administration to 20 Komi districts. Unaccountable to residents, the local executives report directly to Spiridonov.

With the political structure clearly defined, elections to the new State Council finally took place in January 1995.

The clientelistic system of executive appointments had a dramatic effect on the composition of the Council. With a significant advantage over their competitors in legislative elections, local heads garnered 13 of the 50 seats. Accompanying these "Spiridonov victories," was the election of 16 Komi industry "generals." While not under Spiridonov's direct authority, these business leaders have benefitted from a corporatist relationship with the Komi chief executive and have consistently voted for the executive's interests. Overall, "independent" deputies have claimed that more than 2/3 of the State Council is "in Spiridonov's pocket." When combined with the fact that the Council is a nonprofessional legislature - meeting but twice a month - there are few obstacles to executive rule.

When faced with challenges, Spiridonov has been a master of avoidance and delay. In 1996, for example, the federal authorities sought to enforce laws barring civil servants from serving in regional legislatures. To evade this directive, Spiridonov had Komi's legal definition of civil servant changed so as not to include the appointed heads of administration. (*Respublika*, April 1996) Ultimately, Spiridonov's dominance in Komi is best shown in his November 1997 reelection. While his impressive victory over his main challenger, State Duma Deputy Rita Chistakhodova, is a sign of his preeminence, the scheduling of the election itself is even more telling. Fearing the fallout from coming economic reforms – including the ruble re-denomination in January 1998 – Spiridonov sought to alter the regularly scheduled May 1998 elections, a move requiring a constitutional amendment. Needing the votes of 2/3 of the body to pass an amendment, 39 of 43 deputies present supported Spiridonov's request. (*Molodesh Severa*, August 1997) As this example illustrates, when unable to carry out his wishes legally, Spiridonov has been quite willing and able to use the legislature to change the laws.

Opposition to executive rule in Komi has been quite weak, although not entirely for lack of effort. While there are representatives of many national parties, opposition newspapers and some independent legislators, the policy influence of groups outside Spiridonov's circle has been negligible. This lack of influence has led a number of these groups to form alliances. One such alliance encompasses opposition groups writ large, ranging from the local branches of Yegor Gaidar's Russia's Democratic Choice to the Communists and Vladimir Zhirinovskiy's Liberal Democratic Party of Russia.

Since the release of the federal law on local self-government, a primary focus for local political groups has been the establishment of local self-government in Komi, something Spiridonov has consistently opposed. If implemented as the federal government and local opposition groups intend, local self-government would undermine regional executive authority through the popular election of the previously appointed heads of administration. In personal interviews, opposition leaders have come to the conclusion that this is the only way to break the executive monopoly.

Opposition success has been most apparent in the court system. Two particular rulings concerning local self-government are especially significant. First, in March 1997 the Komi Supreme Court ruled that Komi laws on local self-government clearly violated federal laws, and ordered elections by October of last year. This order was delayed, however, by a second, more wide-ranging, case brought before the Russian Constitutional Court. In its January 1998 ruling, the Constitutional Court argued definitively that the Komi Constitution and Komi Law on Executive Authority each violate the federal constitution and legislation. (*Respublika*, February 1998) Although Spiridonov was initially resistant, local self-government elections have been set for February 1999 to coincide with the scheduled State Council elections.

Despite the Constitutional Court's ruling, whether Spiridonov's executive stranglehold can be broken is still uncertain. It would seem that he is continuing the practice of legal delay and avoidance. Recent adjustments to Komi law allow Spiridonov's aging followers to continue working in government past age 60 (the heretofore mandatory retirement age in the Far North), while a recent amendment to the constitution permits members of the executive branch to hold positions in commercial and civic organizations (*IEWS Russian Regional Report*, 12 February). The amendment seemingly removes the legal separation between the state and private sectors, potentially providing even greater executive direction over Komi affairs. In both cases, Spiridonov appears to be further consolidating authority prior to the "challenge" of functioning local self-government. Thus, the struggle continues.

## **THE NEW GENERATION**

**TOP NIZHNI POLITICIANS CONSIDER OPTIONS.** This week's *Monitor* magazine published the April rating of the top 100 most influential people in Nizhnii Novgorod and the oblast. President of GAZ automobile manufacturer Nikolay Pugin tops the list, followed by Governor Ivan Sklyarov and beleaguered mayoral candidate Andrei Klimentiev. The latter went down from first place in the March rating. Even though he had run a successful populist campaign for the mayor's office, his victory caused his arrest, which explains the slide in the rating. Among the top ten politicians is president of NORSI-OIL company Dmitry Saveliev, who was elected to the regional assembly and whose predecessor in the company is Russia's current prime minister. Rumor has it that Kirienko will nominate Saveliev to head the state-owned Rosneft oil company. A Moscow job could be in store for losing mayoral candidate Dmitry Bednyakov (14th place) and losing gubernatorial candidate Yurii Lebedev (52nd place), as well as Kirienko's other Nizhnii cronies.

Should that happen, Nizhnii will be left with a handful of politicians making inroads on the local arena. For example, the acting mayor of Nizhnii, Aleksandr Meleshkin (13th place), and former Kirienko Komsomol colleague and now head of the administration's economics and planning department, Sergei Obozov (84th place), are both taking their first steps in public affairs. In contrast to these newcomers, the presidential representative in the region Aleksandr Kosarikov (33rd place) is a seasoned politician who prefers to stay in the shadows, much to the approval of the current governor. Another promising figure on Nizhnii's political horizon is

Sergei Voronov (63rd place), director of the Institute of Inter-regional Economic Cooperation, now in fierce opposition to the governor. He had beaten a formidable Gazprom puppet in an assembly race and became one of Kirienko's advisors but refused to move to Moscow with his boss. Yet to reach his 30th birthday, Voronov might become a viable opponent to Governor Sklyarov should Lebedev leave Nizhnii. Much more photogenic than the governor, Voronov also happens to get along better with the media.

If Klimentiev agrees to drop his court appeals and run in another mayoral election, which he is set to win comfortably, Nizhnii residents will vote by the end of the summer. They will also have to replace assembly members who chose to move to Moscow in legislative by-elections. Come autumn, presidential campaigns will be underway, with the accompanying party organizing, media campaigning, and realigning of forces, as new political actors appear on the scene. - Yuri Rodygin in Nizhnii Novgorod

## **REGIONAL FOREIGN POLICY**

### **DAGESTAN'S FOREIGN POLICY: CAUGHT BETWEEN ISLAM AND MOSCOW** by Nabi Abdullaev, *Novoe Delo*

MAKHACHKALA--Because Dagestan is a young republic with undeveloped state structures, it is premature to point out an established set of priorities in its foreign policy. However, one can already detect clear tendencies and make certain extrapolations about the future. Dagestan's foreign policy is conducted via several agencies: the regional office of the Russian Ministry of Foreign Affairs, Dagestan's official establishment, and public organizations and movements (so-called "people's diplomacy"). We should also mention the Islamic Spiritual Agency of Dagestan which maintains diplomatic relations with the government of Saudi Arabia. Dagestan has official representations in Azerbaijan, Ukraine and Chechnya.

The main priority in Dagestan's foreign policy is staying out of Moscow's way. Any foreign relations initiative, event, visit or effort can be quickly canceled at the first sign of the federal authorities' disapproval. Consider the refusal of official Dagestani circles and most public organizations to participate in the Congress of the Peoples of Chechnya and Dagestan in Grozny in April. While Dagestan had been the Congress's driving force from the beginning, and the republican Ministry of Nationalities and External Relations participated in the planning along with several large Dagestani national movements, the republic pulled out of the proceedings four days before the Congress opened. We must remember that the leaders of public movements and organizations belong to the official republican establishment, and therefore the "people's diplomacy" often coincides with the official foreign policy lines.

There are several concrete directions in which Dagestan's foreign policy is currently developing:

(1) The Islamic direction. Together with the regional office of the Russian Ministry of Foreign Affairs, the Islamic Spiritual Agency of Dagestan has been successfully lobbying the Saudi government to sponsor the annual hajj by Dagestani Muslims to Mecca. Thousands of Dagestani pilgrims visit Saudi Arabia each year with all their expenses paid by the royal family. At the same time, the Islamic Spiritual Agency of Dagestan remains one of the most vehement critics of the Saudi regime, chastising it for the support it gives to the Wahhabi Muslims, whose activities allegedly damage the republic's religious unity, "to the benefit of Zionists and certain Western circles." The Islamic Spiritual Agency also handles religious education for young Dagestani men in Muslim countries.

Also active in Dagestan's relations with the Muslim world is Nadyr Khachilaev, the head of the Union of Russian Muslims and one of the key political players in Dagestan. Using his status as a State Duma member, Khachilaev has met with such Muslim leaders as Lybia's Muammar Quaddafi and Iraqi president Saddam Hussein, as well as others. However, being a member of Our Home is Russia (NDR), he took care not to irritate official Moscow in his foreign ventures. He was among the Duma deputies who headed to Baghdad during the recent standoff with the US, but later returned to Moscow after the plane was forced to wait in Yerevan. When he was among the organizers of a trip by America's Nation of Islam leader Louis Farrakhan to Dagestan, Khachilaev tried to use his moral authority to press border guards to let Farrakhan pass, despite the lack of a proper visa in Farrakhan's documents. He ultimately had to back off, however.

(2) The American direction. This effort is run exclusively by Gadzhi Makhachaev, leader of Avar national movement and president of the Dagneft-Rosneft oil company. He became deputy prime minister in the republican government in March. His main goal is attracting foreign investments, which is why Makhachaev mostly interacts with the business community. Last year the US MG-Export-Import Intl. and INTEX invested in the construction of a plant to produce plastic pipes in Dagestan.

(3) The Turkish direction. Interested in a cultural and economic expansion into Dagestan, Turkey seems to be much more eager to develop relations with Dagestan than the other way around. Turkey is the only foreign country with airlinks twice a week to Makhachkala. The local market is saturated with Turkish consumer goods, while the Turkish government pays for several hundred Dagestani students to study in Turkish universities. A joint college has opened in Makhachkala, staffed with Turkish faculty. Prompted by Turkish business circles, one of the local TV stations tried several times to broadcast Turkish programs, but had to cease each time after the local office of the Federal Security Service (FSB) and the republican Security Council complained that such programming violated the security of Dagestan's informational and ideological space.

Among the countries of the "near abroad," Dagestan maintains working ties only with Azerbaijan. So far no progress has been made in opening talks with Georgia on customs procedures and joint control over the border, while these issues have long been resolved with

Azerbaijan. The Azeri border with Russia was demarcated last year by a tri-partite commission (Russia-Dagestan-Azerbaijan). One factor favoring good relations with this country is the key place it has in Russia's foreign economic policy. Another factor is Islam, a common religion that unites both communities. Of course, Dagestan does not partake in the division of the Caspian oil, which is handled directly by Moscow and Baku. However, it supplies Azerbaijan with meat, in exchange for Azeri consumer goods and agricultural foodstuffs. Cultural exchange is also thriving.

Chechnya is a special case in Dagestani relations. Despite legal ambiguities, Dagestan must treat it as a separate state, separated by a border and an enforced customs regime. Official Grozny does not regard Dagestan as an equal diplomatic partner, while Dagestan takes care not to over-develop its relations with the rebellious republic, falling in line with Moscow's official refusal to recognize Chechnya's independence. For example, when Dagestan pulled out of the above-mentioned Congress of the Peoples of Dagestan and Chechnya, Chechen prime minister and former field commander Shamil Basaev publicly called Dagestani leadership "Moscow's obedient dogs." Thus, no real diplomatic relations between Dagestan and Chechnya are possible. At the same time, "people's diplomacy" between the two is thriving, its main objective being the return of kidnapped Dagestani hostages held for ransom in Chechnya. So, the republican Security Council often uses informal channels of private and family connections in resolving hostage cases.

To conclude, Dagestan's foreign policy can take several routes in the future. Should Russia overcome its mounting economic crisis and pursue extraction of Caspian oil, Dagestan will become its key outpost in the region. Russia will likely intensify its political and, possibly, military presence in the republic, virtually negating any independent foreign policy for Dagestan. On the other hand, if the crisis is not averted, Dagestan's economic dependency on the center will grow. In the course of the last nine years Dagestan has turned from a donor region to one that relies on federal subsidies for 80% of its budget. Such economic dependency will stifle political and diplomatic independence as well.

Only a change in the Dagestani government can provide for greater sovereignty, but the current regime has already prepared groundwork for extending its lease on life for another four years. The republic's current leadership is likely to resist the growth of Dagestani sovereignty, which Moscow negatively interprets as "separatism."

## **SOCIAL ISSUES**

**ECONOMIC CRIME THRIVES IN SIBERIA, AS POLICE LOOK AWAY.** On 11 May Irkutsk Oblast Governor Boris Govorin met with regional law-enforcement officials to address the conflict between the prosecutor's office and the oblast police. During the April performance review, the prosecutor's deputy sharply criticized the work of the police's economic crime unit as inferior and too skewed toward small businesses, while the majority of economic crimes takes place at larger enterprises.

The economic crime unit's main line of work involves auditing small retailers and businessmen, while the largest economic crimes take place in big business, banking and state-owned enterprises. For example, 584 billion old rubles (\$97 million) has disappeared from the Northern Supply fund, and about 400 billion old rubles (\$67 million) from the road-infrastructure fund, yet no investigation into these matters has been launched. Public funds are channeled toward personal enrichment by officials in forms of illegal loans. In some cases, money is stolen outright. During the mayoral elections in the city of Bratsk, the Irkutsk police received materials implicating the previous city administration in a variety of crimes, but the documents were transferred to the Bratsk police office, controlled by the then mayor. Obviously, nothing was done about the case.

The few criminal cases that were opened dealt with fictitious companies, forged bankruptcies, non-payment of debt, and money-laundering. For example, in 1994 the East-Siberian Fund for Residential Construction was established with the oblast government's tacit support. About 200 people invested their money into the fund, but none of them have seen improvements in their living conditions. The prosecutors' office has investigated the matter, but a court ruling is a long way off. In another example, many valuable items from a German humanitarian aid shipment for local orphans were stolen as they went through customs. The district police found nothing.

Out of 800 economic criminal cases launched last year, only 114 made it to court. Governor Govorin warned the law-enforcement officials against hiding the real state of affairs behind statistics. The head of the oblast police complained about the high turnover of staff on his force, caused partially by irregular salary payments. He also faulted the previous oblast administration for hampering criminal investigations. The governor believes that the oblast must help the police in its efforts by stabilizing the budget, thus providing the police force with technical equipment, timely wages, and resources to retrain officers. Additionally, civil servants must be educated in civic culture in addition to efficiency and law enforcement, the governor said. - Galina Solonina (Teleinform) in Irkutsk

## **ECONOMIC ISSUES**

### **BRYANSK CUSTOMS HEAD RESTORED IN SCANDAL AFTERMATH**

by Alex Levinski

BRYANSK--Former head of Bryansk customs office Gen. Anatoly Lyulin has resumed his duties with the approval of the State Customs Committee. His return followed the oblast procurator office's decision to drop criminal charges against him and restore Lyulin to his job.

In December 1994, Bryansk's Interior Department (police) accused Lyulin, a former KGB officer turned customs official, of smuggling goods across the Russian border. As the investigation developed, the police opened another criminal case, this time accusing Lyulin of

abusing power, embezzlement, bribery and illegal possession of weapons. Lyulin was detained and jailed from December 1994 to September 1995, when he was freed after expert psychiatrists found him legally insane. His four alleged accomplices, also jailed, were never formally accused, and the court ordered an additional 10 not to leave the oblast.

Observers speculate that the entire criminal case resulted from a bureaucratic feud between the police and the customs office. Gen. Lyulin crossed the head of oblast police Gen. Aleksandr Rusakov, but their personal conflict reflected a larger inter-agency rivalry. Until 1992 customs collection was under the KGB's purview, but after its collapse into several separate agencies, the Russian customs office became an independent law-enforcement organization, empowered to conduct investigations. Thus, it encroached on the traditional turf of police, who used to handle many smuggling cases. On the other hand, the police was put in charge of controlling the border during the transition period and grew fond of being able to transport any kind of cargo across Russia's international boundary.

It is no coincidence that the conflict ensued on Bryansk soil. Communist candidate Yuriï Lodkin was elected oblast governor in 1993, beating "democratic" contender Vladimir Karpov. However, following Lodkin's vocal support of the October 1993 anti-Yeltsin insurrection in the parliament, the president dismissed the governor and appointed Karpov in his stead. Karpov brought a whole team of cronies with him as well as people close to one of his key backers, businessman Oleg Kibalchich. As a result, companies run by Kibalchich began to thrive, taking advantage of various benefits granted to them by the oblast, including the right to appraise automobiles imported through the Bryansk customs office.

In October 1994 Kibalchich had a confrontational conversation with Gen. Lyulin, soon after which the oblast police accused the latter of stealing a shipment of alcohol and other goods in transit from Holland to Ukraine. Over 3 billion old rubles (\$500,000) worth of goods disappeared after the shipment passed through Bryansk customs. Specifically, the police alleged that Lyulin changed the shipment's official destination from Ukraine to Bryansk and then helped it "disappear" in Moscow, making a 300% profit for those involved. However, a special investigation from Moscow found Lyulin's actions in accordance with regulations and no evidence of his involvement in the cargo's disappearance was ever presented.

Meanwhile, as a result of numerous political scandals and opposition from a united front that brought together such diverse forces as the Communists and Gaidar's Russia's Democratic Choice activists, Vladimir Karpov was removed from his post as oblast governor. At the same time, Kibalchich faced criminal accusations of threatening to murder the deputy governor and had to flee prosecution. Some claim he disappeared to Iowa, USA.

Four years after the start of the investigation into the "Lyulin affair," the Prosecutor General's Office decided to drop the smuggling case. The second criminal case about bribery and embezzlement was dropped due to lack of evidence, and the confiscated gas mace was returned to the beleaguered general. Meanwhile, the head of police Aleksandr Rusakov

managed to retire from his job and, thus, from responsibility. Most recently, court-appointed psychiatrists found Lyulin in perfect health.

## **FOREIGN TIES**

### **WESTERN INVESTORS HIGHLY IMPRESSED BY NOVOSIBIRSK**

**SECURITIES.** Representatives of several leading Western financial institutions such as Citibank and Credit Suisse visited Russia to explore the opportunities available in regional and local sovereign debt markets. Visiting experts studied government securities issued in Moscow, St. Petersburg, Novosibirsk, Yekaterinburg, and Kazan. They found Novosibirsk Oblast's debt most attractive, Ekho Moskvyy radio reported. Director of Credit Suisse Management Jana Benesova positively noted the high liquidity of Novosibirsk securities. Their weekly turnover averages around \$2 million, the highest among all Russian sovereign debts issues on the regional and local levels. Another important factor was their easy accessibility to small investors: 70% of their holders are individuals.

In Novosibirsk the European guests, led by Citibank's chief economist for Eastern Europe and the CIS Nicholas Sandstrom, met with Deputy Governor Vasily Kiselev as well as with the management of Siberian Interbank Currency Exchange and Sibekobank, which happens to be Citibank's agent in Siberia. The visitors were very impressed by Novosibirsk's securities, despite the reports of payment arrears on some of them in the first quarter of 1998. Sandstrom suggested that while the current visit was purely exploratory in nature, the delegation might return to Siberia in the summer to open concrete talks. - Konstantin Kanterov in Novosibirsk

**KOMI EXPANDS ECONOMIC COOPERATION WITH FRANCE.** As a part of a delegation led by Federation Council speaker Yegor Stroev, chief executive of Komi Republic Yurii Spiridonov visited France on 12 May. His main priority was to introduce French partners to Komi's economic potential. Currently, the scope of the republic's economic interaction with France is limited to importing foodstuffs, pharmaceuticals, machinery, construction materials and furniture. French imports account for only \$3 million out of Komi's \$159 million worth of total imports. However, bilateral ties grow stronger each year and to date there are five joint ventures with France registered in the republic. The largest one is the SeverTEK oil extracting company, established in 1997 together with Elf Aquitaine; it has \$20 million in charter capital. Last year Total won a license to develop the Kharyaginsk oil deposit where it plans to invest \$1 million. Total might joint Elf Aquitaine in exploring several potential deposits in Komi Republic and in Arkhangelsk Oblast and in building another oil pipeline between Kharyaga and Usinsk.

Several French banks will also become more actively involved in Komi. In October 1996 the republic signed an agreement with bank Credit Commerciale de France on financing exports, identifying investment projects attractive to foreign partners, and establishing a partnership between the bank and Komi's own Ukhtabank. In November 1997 Komi Republic signed a five-year \$35 million credit agreement with Bank Societe Generale Vostok,

*Respublika* reported (12 May). The money thus raised will be used to develop local infrastructure and finance local enterprises producing consumer goods and processing agricultural produce and timber. Competing for this money, many regional enterprises have already submitted business plans to the Economics Ministry for review. - Yurii Shabaev in Syktyvkar

## **REGIONAL PROFILE: REPUBLIC OF NORTH OSETIYA-ALANIYA**

### **President: Aleksandr Dzasokhov**

Aleksandr Dzasokhov defeated incumbent republican President Akhsarbek Galazov on 18 January 1998 by a margin of 77% to 10%. During the campaign, he had the support of young people, veterans, the local intelligentsia, and half the members of the republican legislature. Reportedly, over two thirds of the men serving in Russia's military, police, and border forces in the republic voted for him.

Dzasokhov was born in Vladikavkaz, the republican capital, in 1934 and is Osetin by ethnicity. In 1957, he graduated from the North Caucasus Institute for Mining and Metallurgy and started working as a full-time Komsomol functionary. From 1967 to 1986 he worked for the Soviet Committee for Solidarity with the Countries of Asia and Africa, eventually becoming its director. He served as Soviet ambassador to Syria for two years, after which he took over the leadership of his native republic as first secretary of the republican Communist Party committee. In July 1990, during the 28th Congress of the Communist Party of the Soviet Union, he was elected as a Politburo member and secretary of the Central Committee.

Dzasokhov was a member of the Soviet Congress of People's Deputies from 1989-1991 where he headed the committee on international affairs. In 1992, he was elected to the Russian Congress of People's Deputies and then to the State Duma in 1993 and 1995. In the current Duma, he was a member of Nikolai Ryzhkov's pro-Communist Popular Power faction.

Despite his ties to the opposition, he enjoys the support of the presidential administration. After his election, Yeltsin's spokesman Sergei Yastrzhembskii said that Dzasokhov's pro-Moscow orientation is more important than his reputation as a Communist.

### **Other Local Leaders**

Chairman of the Parliament -- Vyacheslav Parinov, elected 1995

### **Brief Overview**

The republic is located in the south-eastern part of the Northern Caucasus and borders Stavropol Krai, Kabardino-Balkariya, Ingushetiya, Chechnya, and Georgia. The largest portion

of its inhabitants are Osetins (53%), followed by Russians (about 30%), Ingushs (5.2%), Armenians (2.2%), Georgians (1.9%), Ukrainians (1.6%), and Kumyks (1.5%).

Almost half of the republican territory is mountainous with peaks approaching 4,600-4,700 meters; plains make up the northern part of the republic. North Osetiya is fairly rich in mineral resources, boasting deposits of zinc, lead, tin, silver, granite, marble, and mineral waters. Additionally there may be oil within the republic's territory.

Almost half of the republican GDP (42.2%) comes from industry, followed by agriculture (23.8%), transportation and communication (18.1%), and construction (7.3%). Regional industries include non-ferrous metallurgy, machine building, metal-processing, timber-working, chemicals, small-scale production, glass, and food processing. The agricultural sector focuses on vegetables, fruit, grain, and grapes for wine-making.

Almost all republican exports (90%) are raw materials. The region has economic contacts with over 30 foreign countries, among them Germany, Cyprus, Turkey, Bulgaria, China, Great Britain, Italy, Ukraine, Kazakhstan, and Lithuania.

According to estimates by *Ekspert* magazine, the republic's investment potential decreased by 20 points (the greatest drop in the country) since 1996, while investment risk rose 16 points (the 4th largest decline in the country).

### **Basic Facts**

Population (as of Jan. 1, 1997): 665,200 (0.45% of Russian total)

Urban population (1989 census): 69.5% (Russia overall: 73.0%)

Student population (1996): 300 per 10,000 (Russia overall: 171/10,000);

Pensioner population (1996): 26.99% (Russia overall: 25.78%)

Percent of population with higher education (1989 census): 13.3% (Russia overall: 11.3%)

Percent of population working in (1993): Industry: 28.8% (Russian average: 29.9%);

Agriculture: 12.2% (12.8%); Trade: 8.1% (9.1%); Culture: 16.7% (13.6%); Management: 3.0% (2.3%)

Average monthly personal income in 1996: 448,000 rubles (Russian average: 764,000 rubles)

Average monthly personal expenses in 1996: 365,000 rubles (Russian average: 753,000 rubles)

Average monthly subsistence requirement in 1996: 325,900 rubles (Russian average: 369,400 rubles)

Consumer price index (as of Dec. 1996): 105.75 (Russia overall = 100)

Industrial production as percentage of all Russian production (1996): 0.10%

Proportion of loss-making enterprises (1996): 51% (Russia overall: 56%)

Number of enterprises which have wage arrears (1996): 250 (2.05% of total number of regional enterprises)

Agricultural production as percentage of all Russian production (1996): 0.32%

Number of private farms (as of Jan. 1, 1997): 972 (0.35% of Russian total)

Capital investment (1996): 587,100 rubles (Russia overall: 370 trillion rubles)

Sources of investment (1996): federal budget: 33.5% (Russian average: 9.2%); regional budget: 15.3% (9.6%); enterprises: 25.3% (66.3%)

Number of joint ventures (as of Jan. 1, 1997): 7 (0.04% of Russian total)

Fixed capital investment in joint ventures and foreign companies (1995): 13,408 million rubles

Number of small businesses (as of Jan. 1, 1997): 1,267 (0.15% of Russian total)

Number of telephones per 100 families (1996): in cities: 46.9 (Russian average: 48.7); in villages: 34.6 (19.7)

According to a 1997 survey by *Ekspert* magazine, the republic is ranked 60th among Russia's 89 regions in terms of investment potential and 82nd in terms of investment risks. A 1995 survey by Bank Austria ranked the republic 84th in terms of investment climate.

## **Electoral History**

### **1996 Presidential Election**

Zyuganov: 62.33%/52.82% (first round/second round)

Yeltsin: 19.28%/43.00%

Lebed: 9.60%

Zhirinovskiy: 3.23%

Yavlinskii: 1.80%

Turnout: 68.95%/70.44% (Russia overall: 69.67%/68.79%)

### **1995 Parliamentary Election**

Communist Party of the Russian Federation: 51.67%

Liberal Democratic Party of Russia: 10.22%

Our Home Is Russia: 5.97%

Communists -- Workers' Russia: 4.64%

Congress of Russian Communities: 2.75%

Agrarian Party of Russia: 2.59%

Women of Russia: 2.17%

Derzhava: 2.02%

In a single-member district: 1 independent

Turnout: 62.97% (Russia overall: 64.37%)

### **1993 Constitutional Referendum**

"Yes" -- 51.00%      "No" -- 49.00%

### **1993 Parliamentary Elections**

Communist Party of the Russian Federation: 36.06%

Liberal Democratic Party of Russia: 17.47%

Russia's Choice: 7.81%

Democratic Party of Russia: 7.03%

Party of Russian Unity and Concord: 5.99%

Women of Russia: 5.94%  
Yabloko: 5.04%  
Agrarian Party of Russia: 3.94%  
In a single-mandate district: 1 independent  
Turnout: 59.81% (Russia overall: 54.34%)

### **1991 Presidential Elections**

Ryzhkov: 41.86%  
Yeltsin: 27.34%  
Zhirinovskiy: 11.16%  
Makashov: 7.69%  
Tuleev: 6.37%  
Bakatin: 2.24%  
Turnout: 84.01% (Russia overall: 76.66%)

Sources: *Rossiiskie regiony nakanune vyborov-95* [Russian regions on the eve of 1995 elections], Moscow: Yuridicheskaya Literatura, 1995; *Itogi vyborov 17 dekabrya 1995 goda po regionam* [Results of the 17 December 1995 elections, regional breakdown], Moscow: Panorama, 1996; *Vybory deputatov Gosudarstvennoi Dumy 1995* [State Duma elections 1995], Moscow: Central Electoral Commission, 1996; *Gubernatory Rossii* [Governors of Russia], Moscow: AO Solid, 1996; S.A. Nagaev and A. Woergoetter: *Regional Risk Rating in Russia*, Vienna: Bank Austria, 1995; *Ekspert*, 8 December 1997, *Roadmap to Russian Regions*, Salomon Brothers, 1997; Goskomstat, *Regioni Rossii*, Moscow, 1997; Central Electoral Commission, *Vybory glav ispolnitelnoi vlasti subektov Rossiiskoi Federatsii, 1995-1997*, Moscow: Ves mir, 1997.