#271

"Russian Regions in Expanding Europe: The Pskov Connection"

by Mikhail Alexseev and Vladimir Vaguine

This paper was presented at the Annual Meeting of the American Political Science Association, Washington, D.C., 31 August 1997. The authors are grateful to Douglas Blum, Stephen Hanson, Stephen Crowley, and Stefanie Harter for their extensive and thoughtful comments and suggestions. Research for this paper was funded in part by grants from the Kennan Institute for Advanced Russian Studies.

The Kennan Institute for Advanced Russian Studies
The Woodrow Wilson International Center for Scholars

The Kennan Institute for Advanced Russian Studies is a division of the Woodrow Wilson International Center for Scholars. Through its programs of residential scholarships, meetings, and publications, the Institute encourages scholarship on Russia and the former Soviet Union, embracing a broad range of fields in the social sciences and humanities. The Kennan Institute is supported by contributions from foundations, corporations, individuals, and the United States Government.

Kennan Institute Occasional Papers

The Kennan Institute makes Occasional Papers available to all those interested in Russian studies. Occasional Papers are submitted by Kennan Institute scholars and visiting speakers. Copies of Occasional Papers and a list of papers currently available can be obtained free of charge by contacting:

Occasional Papers
Kennan Institute
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue, NW
Washington, D.C. 20523
(202) 691-4100

This Occasional Paper has been produced with support provided by the Russian, Eurasian, and East European Research and Training Program of the U.S. Department of State (funded by the Soviet and East European Research and Training Act of 1983, or Title VIII). We are most grateful to this sponsor.

edited by Kate Moore

RUSSIAN REGIONS IN EXPANDING EUROPE: THE PSKOV CONNECTION

In the six years since the collapse of the Soviet Union, policy makers in the eighty-nine constituent regions of the Russian Federation have been increasingly self-assertive, splintering the whole concept of "Russia's foreign policy." Diamond-rich Sakha-Yakutia— an autonomous republic in the Far East the size of India—negotiated trade deals with De Beers and even attempted to coin its own currency featuring the governor's profile instead of Russia's official two-headed eagle. St. Petersburg's government issued its own foreign policy declaration. Tatarstan opened a foreign ministry and placed its own representatives in key Russian embassies abroad. Oil-rich Tyumen exchanged "embassies" with Ukraine. Moscow joined the U.S. by opening a foreign ministry office—a de facto consulate—in Sverdlovsk region. A coalition of Russia's Siberian regions this spring took over policing of the Mongolian border, by agreeing to maintain thirty-six guard posts along the 2,175 mile long border with Mongolia, as well as to build twenty-four new guard posts and three command centers at their own expense.[1]

These striking examples hardly suggest that Russia will splinter just like the Soviet Union. After all, the Russian Federation has survived military defeat in Chechnya—thus contradicting those Kremlin doomsayers who unleashed the war under the slogan of preserving Russia's integrity. Acute constitutional crises in Tatarstan and Bashkortostan have also abated. At the same time, all these recent developments show that Russia is hardly a monolith, or what political scientists call a "unitary actor." The more pertinent, and interesting, question is what kind of Russia—capable of implementing what kind of policies in its relations with the outside world—is going to evolve out of the present conditions. Meanwhile, in dealing with Russia, the world will increasingly have to deal with the diversity of Russia's regions and also take into account the complexity of center-periphery relations.

In this paper, we first examine political and legal foundations for center-periphery relations in Russia, and post-Soviet economic realities that define the scope of the regions' independent role in Russia's foreign relations. We then focus on a paradoxical case of Moscow-regions divergence in Russia, namely, Pskov oblast', where independent regional policies favoring Russia's economic integration with Europe have emerged despite the fact that local political elites have been dominated by the nationalists (the Liberal Democratic Party or LDPR) and the communists (KPRF) advocating tighter political and economic centralization under Moscow. In this sense, Pskov oblast' is a fairer test of Russia's prospects for integration with the European and global economies than more advanced regions such as Novgorod or Samara. If the current nationalist and communist elites in Pskov give priority to integration with Western economies, most of Russia's other regions will follow.

Moscow and the Regions: The Political Balancing Act

Nearly half of Russia's regions now base their relations with

Moscow on power-sharing agreements unthinkable in the Soviet era—all consistent with Russia's Constitution. Many ethnically non-Russian regions, such as the republics of Bashkortostan and Tatarstan, require their leaders (both elected and titled "president") to speak the local language and have extended the local residency record. Of the fifty incumbents—appointed earlier by Yeltsin—who ran for governor between September 1996 and January 1997, half were voted out of office. Yeltsin's allies expected to lose no more than ten incumbents. Sixteen of the twenty-five newly elected governors ran on the ticket of the communist alliance, the National Patriotic Union of Russia. Most winners of gubernatorial races—be it communists or "strong managers"—openly aspired to become "local Luzhkovs"—in reference to the highly successful mayor of Moscow who has frequently challenged the Kremlin on nationwide policy issues, notably on privatization and handing the Crimean port of Sevastopol over to Ukraine.[2]

Deposing elected governors is also a hazard—as in the case of Yevgeny Nazdratenko in the Far East's Primorsky *krai*, where Moscow backed off, fearing the follow-up elections would return a communist to the local gubernatorial office. Besides, Moscow must now be mindful of opinion polls saying that Russians trust governors and mayors about three times more than they trust the federal government.[3] Even the Russian State Duma—where the Great Russia nationalists have a working majority—has passed a law, on the first reading—and with the unusual majority of 318–10—legalizing many of Russian regions' activities in building economic ties outside of Russia.[4]

The diverse body of regional political leaders also has a collective power base in Moscow. They are members of the Federation Council—the upper chamber of the Russian parliament. When regional administrators owed their appointments to Yeltsin, the Kremlin could count on the Federation Council's compliance. The gubernatorial elections have broken this circular flow of power. Now the democratically elected governors wield many significant powers. Without the Council's approval Yeltsin cannot declare war, deploy Russian troops outside Russia, introduce martial law, set the federal budget and taxes, change borders between Russia's regions, or nominate Constitutional Court and Supreme Court justices. The Council may ratify or denounce Russia's international treaties and is granted a key role in the president's impeachment procedure.[5] In November 1997—consistent with its regionalist orientation—the Federation Council rejected legislation that would have required center-region power-sharing agreements, including existing ones, to be ratified by the upper house. In this case, the Council's position was closer to that of Russia's two strongest regional rights champions, Tatarstan and Bashkortostan. The Council also turned down a bill to limit the regions' power to conduct their own foreign policy.[6]

The erosion of Moscow's political influence is combined with the erosion of economic leverage. Moscow has been unable to deliver timely payments to federal workers in the regions—even to those manning intercontinental missile sites and nuclear power plants—putting regional officials on the spot in dealing with various protesters and lobbies. In remote regions of the Far East, Moscow's economic clout has also been weakened. For example, it was reported in October 1997 that 70 percent of Kamchatka's revenues came from trade and joint economic activities with the countries of the Asian Pacific and the United States West Coast, rather than with the rest of Russia.[7] In addition, with widespread corruption and local sensitivities about joblessness, the regional elites have also been skeptical about having Russia's new commercial banks—most of which made their fortunes in Moscow—buy assets and expand operations in their territories. Between 1995 and 1997 the regions passed at least 44,000 laws contradicting the constitution and federal legislation and dealing mainly with financial, hard currency, credit, licensing, and customs issues. Meanwhile, Russia's anti-monopoly committee filed nearly 500 cases against regional administrations for giving unfair breaks to friendly firms.[8]

With its economic leverage weakened by the nonpayment of wages, Moscow de facto ceded political control to the regions over most issues that the Russian constitution puts under "dual jurisdiction" between the central government and the subjects of the Russian Federation. Chief executives in the regions have consolidated their control of appointments in key post-Soviet federal agencies at the regional level, such as heads of regional anti-monopoly and state property committees, and regional tax inspectorates. Federal agencies that have continued since the Soviet era—such as the ministry for internal affairs, the federal security service (domestic branch of the former KGB), and state procuracy—have maintained the initiative in cadre nominations for regional positions, but have largely deferred the choices to regional chief executives. The regional hold on key personnel appointments is also strengthened by the collapse of the Soviet system of "horizontal shifting of cadre," in which a successful executive from Kazan could get a promotion to Sverdlovsk and then to Leningrad or Moscow. The rise of Boris Nemtsov from Nizhni Novgorod to the Kremlin is not replicated at the lower levels of government. As a result of these changes, most federal officials in the regions owe their political careers to their regional bosses, rather than to Moscow.[9]

In the crucible of this new power game, the regions are beginning to articulate and implement more coherent local policy agendas—often including foreign affairs. These agendas emerge out of the tension between the interests of diverse players within local administrations and diverse players in Moscow and outside Russia. Regional policies are also emblematic of the tension—now also affecting the Kremlin's foreign relations—between the geopolitical interests of Russia as a unitary state, and the manifold economic and political interests of the regions.

The Pskov Puzzle

The case of Pskov oblast' is especially instructive. Covering an area larger than Denmark immediately to the east of Estonia, Latvia, and Belarus, Pskov region finds itself at the interface of Russia and the West. Accounting for nearly 500 miles of post-Soviet Russia's external boundaries, Pskov has all of Latvia's and most of Estonia's borders with Russia. The city of Pskov is equidistant from Riga, Tallinn, and St. Petersburg. By default, Pskov found itself at one of Russia's critical junctures with post-Soviet Europe. The Soviet collapse left regional politicians geopolitically shocked. They now increasingly have to grapple with foreign policy and foreign trade issues for which they had little understanding, while defining Pskov's strategic role in Europe-Russia relations. This role—largely determined by Pskov's location—has been traditionally twofold.

On the one hand, Pskov has become firmly associated in the Russian mind with uncompromising resistance to the West's push eastward. Pskov is the site of Lake Peipus, where Russian Prince Alexander Nevsky—later sanctified by Russia's Orthodox Church—in 1242 defeated the army of Teutonic knights expanding eastward. Most of Russia at the time was devastated by the Mongol hordes. Since the collapse of the USSR, Pskov has primarily been used by Moscow as a stage for rhetorical saber rattling—evoking Pskov's historical role. The analogy with the expanding NATO at the time of Russia's decline has been too tempting. The spirit of Alexander Nevsky's most famous utterance—"he who will come to Russia with a sword, will perish by the sword"—is still alive in Moscow's view of Pskov's post-Soviet role in European affairs. These geopolitical pressures came out loud and clear in the 1996 gubernatorial campaign, when a moderate Yeltsin protégé and then incumbent, Vladislav Tumanov (running on the *Nash Dom Rossia* ticket), in the final weeks before the election made a major issue out of the threat of NATO expansion. Portraying himself as a tough bargainer with Moscow for Pskov's greater military muscle and citing "NATO's push to the borders of Pskov region," Tumanov publicized a letter he had sent to Prime Minister Chernomyrdin and Defense Minister Rodionov protesting the General Staff's decision to disband the 237th paratrooper regiment stationed in Pskov oblast'.[10]

On the other hand, Pskov has been Russia's major trade link to Europe, and, at one point, Russia's foothold in the prospering Hanseatic League. After the Soviet collapse, political players in Pskov have had many opportunities to see that the West—even with the expansion of NATO—is not coming to the region with a sword, but with trade carts. If Pskov looks up only to its legacy as a geopolitical barrier against the West, it risks ending up as a backwater province with fewer trade carts to and from Europe passing through it. With severe shortfalls in federal financing, these economic opportunities have been the sole hope for economic survival precisely in those districts (*raiony*) within Pskov oblast' that were directly threatened by the territorial claims of the Baltic states. And so, Pskov's growing cross-border trade with the Balts coincided with electing as governor a member of Zhirinovsky's nationalist (and grossly misnamed) Liberal Democratic Party, Yevgeny

Mikhailov. In late 1996, Pskov became the only oblast' in Russia where an LDPR member won a gubernatorial race.

Yet this victory was not so much due to the Zhirinovskyites beating the Yeltsinites at geopolitical rhetoric, but to Mikhailov offering a better mix of geopolitical assurances and regionally sustainable economic development. Whereas at the national level, Zhirinovsky ran parliamentary election campaigns in 1993 and 1995 pledging to recapture Alaska and Finland—as well as build a huge fan to spread radioactive dust over the Baltic states—Mikhailov's election platform in Pskov stressed regional economic grievances, especially, "the absence of a regional financial resource base, and *the futility of counting on help from the federal government* [emphasis added]." As a solution to this problem, Mikhailov pushed "the Moscow oblast' model," implying greater regional economic sustainability and lower taxes. Mikhailov's main campaign slogan—"Clean hands, clear goals"—has little, if any, semantics of geopolitical posturing.[11]

Not surprisingly, the distribution of votes for the LDPR in Pskov oblast' ran contrary to the general pattern of LDPR vote distribution in Russia. Whereas throughout Russia, the LDPR mainly won in regions adjacent to external borders or in areas of interethnic conflict, in Pskov oblast', the LDPR candidate won more votes in the *raiony* located farther away from the Baltic borders than in the *raiony* where the Baltic states claimed Russian territory.[12] In other words, Mikhailov carried Pskov oblast' while suggesting an economic development program that implied enhancing Pskov's benefits from Baltic trade— irrespective of geopolitical sloganeering by the LDPR at the national level.

It is the acuteness of this tension between geopolitical and geoeconomic pressures at the regional level that makes Pskov unique and that underlies the oblast's policy choices in crafting post-Soviet relations with Moscow and with its Western neighbors. The essence of the conflict between Moscow and the oblast' is that the Kremlin has the luxury of emphasizing either the "barrier" or the "juncture" role for Pskov, while Pskov elites have to balance these two roles in a way that would enable them to hold onto power and engender a sustainable regional economy.

The Hand of Moscow

In Pskov, the Soviet collapse initially evoked a strong Alexander Nevsky and Fortress Russia Syndrome. Pskov leaders had to do something about a largely unmarked 500-mile long external border, as Estonia and Latvia claimed territory in three districts of Pskov oblast'. In addition to the 76th airborne division, thousands of newly stationed Russian troops, still smarting from being pulled out of Eastern Europe, had to be housed, fed, and regain the sense of mission amidst economic and administrative mess. When explaining his strong anti-NATO rhetoric during the 1996 election, then-governor, Vladislav Tumanov, stated: "I am mindful that one in ten residents of the [Pskov] oblast' is in uniform."[13] At the same time, the Balts cast off Soviet-era constraints on trade with the West, thereby opening the floodgates to lucrative trade in oil products, metals, food, manufactured goods, drugs, and weapons. A few small, makeshift cabins along the border and occasional border patrols did little to stop largely unregulated and often illicit export-import operations. Pskov region lacked the resources to provide the regulatory infrastructure—trained personnel, roads, customs offices, and checkpoints—for this bustling foreign trade.

Economic hardship also encouraged pork barrel Kremlin hustling and, hence, Pskov elites' dependence on Moscow. The fall of the Iron Curtain exposed the glaring inadequacy of largely obsolete local machine-building, electromechanical and electronic industries, and agriculture. The pressures of global economic competition squeezed the region hard and fast, with the Pskov mix of manufacturing industries being one of the least competitive internationally among Russia's regions. Locally made goods rapidly lost markets in the region, in Russia, and in the Soviet successor states without gaining a market share in the West. By 1996 only one-fifth of Pskov's large and medium-sized factories had stable work orders and were able to increase production. Nearly half of the industrial enterprises were virtually bankrupt. With its manufacturing tax base depleted, Pskov's budget expenses in late 1996 exceeded revenue—counting federal funds already disbursed—by 30 percent. The economic pressures were aggravated by the disruption of Soviet-era migration from Pskov to the Baltics. With opportunities to escape economic hardship restricted and many family ties disrupted, the Pskov public became particularly sensitive about the rights of the Russian diaspora in the Baltic states.[14]

In 1992, Yeltsin appointed a protégé, Vladislav Tumanov, as head of the Pskov region administration—a de facto governor. Tumanov's major economic policy successes were associated with his leverage in Moscow. Pskov leaders successfully lobbied Moscow to build the customs infrastructure and checkpoints on the Pskov-Baltic border to European standards. Amidst many decaying buildings without window frames strewn around Pskov, the customs building at the border with Estonia—with its spotless beige walls and solid blue tile roof that could place it as hot real estate anywhere from Prague to San Francisco—stands out as a symbol of economic promise. With better border protection and customs services, illegal smuggling and violent crime plummeted. The customs office in the city of Pskov alone now generates five million U.S. dollars a year—more than any industrial manufacturer in the region. The regional leaders have also extracted economic development funds from the Kremlin, twice exceeding Pskov's entire tax revenue.[15]

Another factor that enforces Moscow's hand in Pskov is that most top regional officials—under both pro-Yeltsin Tumanov and his pro-Zhirinovsky successor, Mikhailov—focus on the old game of squeezing payments out of Moscow, ignoring many broader issues of emerging economic competition in Russia's northwest. In addition, while Mikhailov defeated the incumbent Tumanov in the late-1996 elections, an estimated 90 percent of Pskov's government officials stayed on, with only a handful resigning out of unwillingness to serve under a Zhirinovsky party member.[16]

Another piece of evidence suggesting that the hand of Moscow is still strong in Pskov is the region's recent strategy of westward trade expansion through Belarus. Local observers regard integration with Belarus as much less promising than integration with the Baltic states, on both political and economic grounds. Nevertheless, beholden to Moscow's budget subsidies, regional elites have been wary of pushing the Baltic integration option hard, at least publicly. And so, during his last official business trip to Minsk, in 1996, Pskov's former governor, Tumanov, advanced the project of rebuilding the abandoned railroad link between the district centers of Polotsk in Belarus and Gdov in Pskov region. This railroad could divert much of the Europe-bound container traffic around the Baltic States to Kaliningrad region. As of this writing, Tumanov's successor (and Zhirinovsky party member), Yevgeny Mikhailov, has also actively pursued the Belarus leg of Pskov's external trade strategy. Tapping Pskov's anti-Western sensitivities, this strategy fit right into the geopolitics of the 1996 and 1997 Russia-Belarus union agreements—arguably constituting the Kremlin's major controversial response to the eastwardly enlarging NATO.

Europe's Pull

Playing up to Moscow's geopolitical priorities carries serious risks for Pskov leaders, however. For one thing, Pskov administration is painfully aware that it is often easier to get the Kremlin to formally pledge federal funding, than to get paid. The problem of nonpayment in Russia became so deeply entrenched that the Russian State Committee for Statistics keeps two sets of data—one for moneys allotted and one for moneys actually paid.[17] Also, once Moscow invested in new border and customs facilities and had much of the illicit trade under control, the Pskov government realized that formerly unregulated cross-border trade with the Baltic states kept many local producers, traders, and their customers afloat and alive.

Moreover, as the nonpayment crisis became entrenched, Pskov leaders found cross-border trade with the Balts a safer, if not the only, tangible alternative to dwindling and sporadic federal subsidies. Now unsure when (and if) the rubles are going to hit their coffers, Pskov officials wistfully look back at the Soviet era: in 1990, for example, about 10 percent of Russian exports went West through Pskov. If this practice had continued in post-Soviet times, Pskov would have a perfect niche in the regional division of labor and a solid revenue source. At this time, however, the key actors in Pskov's economy realize that Moscow cares little about their priorities—most federally-controlled exports can be transported just as well via St. Petersburg, or Murmansk. Moreover, it has dawned on many among the Pskov elites that the more their region is subject to Moscow's leverage, the more they stand to lose economically. The Kremlin currently charges all goods coming from or through Estonia into Pskov twice the normal import tariff—in what many in Pskov see as an increasingly senseless geopolitical game.

The emergence of post-cold war "geoeconomics" of the Baltic-Nordic area is also beginning to pull Pskov away from Moscow. The Kremlin's loss of the Baltic ports after the Soviet Union collapsed gave Pskov a chance to position itself as a gateway to the newly emerging Baltic-Nordic free trade area—seen by the Balts as a kind of "Northern Hanseatic League of the twenty-first century."[18] Moscow's loss was Pskov's gain. However, for Moscow, enhancing Pskov's role as a major trade gateway to Europe means foregoing the capacity to apply economic pressure on the Balts. Moreover, Moscow deals with a bigger picture. The Kremlin sees the Baltic-Nordic zone as an arena of competition with Estonia, Latvia, and Lithuania over trade flows in the Baltic Sea. But for Pskov oblast', the Baltic trade has been increasingly a matter of economic survival, rather than a great power game.

Several factors make this "New Hanseatic League" integration attractive to Pskov. A free trade agreement with the European Union—which Russia lacks—gave the Baltic States an edge over Moscow in reaching out to West European ports—especially to Rotterdam, whose cargo turnover of 300 million tons a year is four times larger than Russia's entire cargo turnover, from the Baltic to the Pacific.[19] Estonia secured sizable international funding to enlarge the New Tallinn port at Muga and the deep water port of Paldiski—aspiring to create a "mini-Rotterdam" on the Baltic Sea. These ports will be refurbished to handle oil tankers, dry chemical shipments, and container carriers.[20] Plugging into this trade system is more advantageous for Pskov than waiting for Moscow, which entered the post-Soviet Baltic trade race with a handicap. After the Soviet collapse, Russia lost nearly half of its ports and merchant ships, including the Baltic ports and vessels, which in 1990 accounted for nearly a quarter of the 200 million tons of freight shipments going through Soviet ports.

Pskov also has to be increasingly watchful over other Russian northwest regions—what they do may affect Pskov more than whatever goes on in the Kremlin. Leningrad oblast' governor, Vladimir Gustov, played very well on Moscow's geopolitical sensitivity and the interests of Russia's commercial banks and oil companies by developing the Timan-Pechora basin—prospectively, Russia's largest basin. Pointing out that Russia's merchant fleet transported only 10 percent of Russian freight shipments, Gustov pushed through an ambitious "Project of the Century" designed to give Russia the maritime edge in the Baltic area. In June 1997, Yeltsin put his signature to this project, according to which Russia is planning to build three new ports: a dry cargo and container port at Ust-Luga; an oil-transfer port at Batareinaya Bay in the south of the Gulf of Finland; and a port of Primorsk, in the north of the Gulf, to ship crude oil, oil products, and liquefied gas. The Golden Gates port at St. Petersburg is also being upgraded. With a combined capacity of more than 100 million tons, this project will more than double the port capacity that Russia lost with the collapse of the Soviet Union.[21]

After the signing ceremony, Yeltsin's spokesman said that Russia will have less need for ports in the Baltic States and that "the Baltic countries should think hard about their policy toward Russia."[22] From the Pskov perspective, this "Project of the Century" is a Trojan horse. If, indeed, Moscow diverts most of Russia's trade flows around the Baltic ports, Pskov will no longer be at a key trade juncture, but on the periphery of the new Baltic-Nordic trade area.

Pskov also needs to watch out for—and learn how to cooperate with—Kaliningrad oblast'. This oblast' is an "exclave"—stuck between Lithuania and Poland, it has no overland border with Russia. Articulated a few years ago by Yeltsin with great bombast, Russia's "grand design" in this area was to build a superhighway to Kaliningrad primarily through Belarus, bypassing the Baltic states and cutting through the Lithuanian-Polish corridor. This grand vision, however, has dwindled into oblivion. Meanwhile, work has been underway on a quite different initiative, vigorously pursued by the governor of Kaliningrad, Leonid Gorbenko. The port of Kaliningrad is being linked with the rest of Russia via the shortest possible route—going mainly through Lithuania and giving Latvia, Estonia, and also Pskov the opportunity to benefit more from post-Soviet geoeconomics. In fact, the implementation of the Kaliningrad governor's plan will boost Pskov—which in 1997 accounted for the transit of 60 percent of all Russian freight shipments to the Baltic area.[23]

The elected governor of Pskov will be increasingly under pressure from a sizable and active constituency to develop the oblast' as a major Russia-Baltic trade corridor—whatever Moscow says or does, short of brutal coercion. This point is driven home on a daily basis in Pskov's borderline *raiony* comprising approximately a quarter of the oblast's territory and population. Heads of these *raiony* have frequently acknowledged that if it were not for the cross-border trade with the Balts, the economy of their districts would collapse. Those regional administrators who have traveled to Western Europe would now like to emulate the prospering cross-border clusters—such as Lorraine or Alps-Alsace—that once were the epicenters of bitter geopolitical contests. To become a "boom region" in the same fashion, they feel, Pskov will have to focus on developing transit cargo services, customs business, transportation networks and services, as well as conference and recreation facilities. This is what the region's "new Russians" and government officials in borderline districts increasingly advise—advice upon which any regional government wanting to be elected will eventually have to act. Speaking loudly for this strategy will be revenue and jobs generated by cross-border trade and joint ventures in the entire Pskov oblast'—80 percent of which are Russian-Estonian and Russian-Latvian. In pursuing this agenda, Pskov leaders will have to be more proactive and self-assertive with Moscow.

Pskov leaders also had a taste of Moscow's fundamental ignorance of the region's outlook on economic integration with Europe when Yeltsin was campaigning for reelection in 1996. First, Yeltsin signaled—when

Russian bureaucratic doublespeak is translated into plain language—that prospects for turning Pskov into a free-trade zone were remote. Yeltsin talked only vaguely about "a possibility, in principle" to set up a free trade area in the Russian northwest, to be called "Pleskov"—or Pleskau, as Pskov is known in Germany. Moreover, the only reason Yeltsin cited for setting up "Pleskov" was development of tourism (rather than the easing of taxes and tariffs on businesses engaged in cross-border trade).[24] The Russian president bypassed the simple truth that making Pskov a tourism Mecca would require massive investments in the construction of hotels and in global marketing—resources both Pskov and Moscow clearly lack and in which few outside of Russia would bother to invest.

Much of Europe's pull is increasingly coming from the Baltic capitals themselves. While NATO enlargement is to take place in Poland, the Czech Republic and Hungary are yet to be debated in the U.S. Senate—to say nothing of the "second wave" when the Baltic states may be considered. Pskov oblast' has already enjoyed some tangible benefits of Eastern Europe's race to the West. Once it was made clear to Tallinn by Washington that territorial claims to Russia (most of them in Pskov oblast') will have to be dropped in order for the Baltics to join NATO, Estonian parties adopted a "pacification with the East" strategy. Former Estonian foreign minister and the chief architect of this new strategy, Sijm Kallas, was supported both by the Coalition and the Centrist party—as well as by the fiercely oppositionist Russian Party. Estonia's president, Lennart Meri—though deeply convinced that the Kremlin suffers from incurable expansionist malaise—proposed at the 1996 Lisbon OSCE summit to sign border agreements ending Estonia's claims on Russia. In a similar manner, Latvia dropped its territorial claims to Russia in the south of Pskov oblast'. Estonia and Latvia also offered Russia an agreement on visa-free crossings for people living in borderline districts on both sides. Moscow asked for time to think, but Estonia and Latvia unilaterally lifted many trade tariffs and allowed visa-free border crossings.

While Moscow pondered, the Balts realized that their leverage in the West—and hence their admission to European institutions such as NATO and the EU—depended on their leverage in the East. Besides, the Baltic leaders have been increasingly plugged economically into the neighboring Russian regions—even while remaining at loggerheads with Moscow. Estonia's GNP growth— unique among the Soviet successor states in the first few years after the collapse of communism—depended critically on Russian freight shipments. One in four jobs in Latvia has been linked to trade flows to and from Russia. Sensing that Russia may undercut these economic benefits by diverting trade to the newly constructed ports at Ust-Luga, Primorsk, and Batareinaia Bay, the Balts started to compete among themselves for better trade relations with Russia and, especially, the Russian regions next door.[25] In this sense, while presenting a conundrum for the Kremlin strategists, the Baltic movement toward Europe immediately improved prospects for trade and family contacts across the Pskov-Baltic border—and economic prospects of the region's nearly one million people.

Local governments making up the Baltic states—also spurred by Europe—have been actively seeking partners in Russian regions. Thus, in 1996, the Pskov administration was contacted by officials in Palanga—a Lithuanian port—offering cooperation to set up a Baltic-Russian Northwest free trade zone. One of the key incentives for Palanga district to reach out to Pskov was getting development money from European institutions— which now often encourage projects featuring partners in Russia's regional governments.[26]

The diversity stemming from this interplay of agendas pursued by Russia's regions, Moscow, the Baltic states, and district governments within Lithuania, Latvia, and Estonia is further enhanced by the agendas of private businesses—especially transnational corporations. Thus, the Russian-owned LUKoil and Yukos oil companies have been reconstructing the oil terminal at the Lithuanian port of Klaipeda, positioning themselves to purchase majority shares. Yukos plans to export two to three million tons of oil and LUKoil wants to ship about half a million tons of diesel fuel through the port of Klaipeda annually. LUKoil also owns the oil flowing through the pipeline in Pskov to its large processing plant in Novopolotsk, Belarus. Russia's state-controlled giant Gazprom also transfers gas through Pskov to Estonia.[27] So far, the main objective in Pskov of both Gazprom and LUKoil has been to keep the pipeline issue quiet.

Yet, the increasing competition with new business entrants, such as Yukos, and the port reconstruction race along the Baltic coast, will by default raise the pipeline control issues to prominence. The dynamics of private business differs greatly from state-spawned economic geopoliticking. With no single actor having a monopoly on oil and gas flows and transit points, the multinationals are seeking to diversify supply routes and increase opportunities for port access. Thus, unsure when the new Ust-Luga port in Leningrad oblast' may be built, LUKoil invested in expanding the loading-unloading capacity of the port at Tallinn.

Pskov's location will also give the regional elites more economic leverage due to the competition for building export routes for the Timan-Pechora oil between Transneft and the "Northern Gateway" consortium. Transneft, a state-owned pipeline operator that relies on just one outlet, the old *Druzhba* pipeline running across Belarus and Ukraine into Central Europe, has come under pressure from oil producers to diversify the network of export outlets. Whereas some economists estimate that Russia's oil producers could earn an additional $12 billion annually if they could find new export routes, the *Druzhba* network is quickly corroding and cannot manage separately the flow of oil from different fields. Outlets to the Baltic states have been thin and often clogged. The "Northern Gateway" consortium, which includes Conoco and Amoco, has been poised to make the *Druzhba* network irrelevant by building either its own terminals on the Barents Sea or a pipeline to the Baltic (most likely to the Latvian port of Ventspils). The route from Russia to Latvia can make Pskov a player, if the region offers attractive economic options to the "Northern Gateway." Not only does the entire Russian-Latvian border run through Pskov oblast', but an outlet through Pskov will also be attractive by offering passage to the oil refineries in Novopolotsk. This coming diversification of oil export networks westward from Timan-Pechora fields—bankrolled by private money from Russia and the West—is also expected to weaken the leverage of the Russian Foreign Ministry that has been keen on using oil toward geopolitical ends. Other federal agencies, centered in Moscow, will have less of a monopoly on oil and gas as a source of political patronage, whereby export quotas and priority export rights have been assigned under the "state needs" scheme, to entities such as the army and the Orthodox Church.[28] With market forces inexorably gaining ground, Pskov leaders will have more incentives and leeway to raise the region's stakes in northwest oil transfer politics.

This increasing competition will inevitably induce Pskov politicians to point out to Moscow that neighboring Estonia charges millions of dollars for Russian oil going through its territory—while Russia's own Pskov oblast' receives not a cent for providing the same transit services. In 1994 Tallinn collected some six dollars per ton of Russia's oil products transported by rail through Estonia— about half of which went through Pskov region—and an additional five to seven dollars a ton for loading and unloading the same products at Estonia's ports. Gazprom and LUKoil will not be able to keep the pipeline issue off the region's political agenda for long. In Pskov, this issue is attractive to both the proponents of the nascent "Baltoplex zone" and to the traditionalist "Kremlin hagglers"— constantly angling for more federal subsidies from the Kremlin.[29]

Regions Matter: Recognizing the New Europe-Russia Dynamic

The time is ripe to recognize the paradoxes and opportunities of Russia's regional diversification, as well as its tangible impact on Europe-Russia integration. Even if Moscow decides to clamp down on regional governments who push for European integration, it will have to offer people in the regions alternative strategies for economic development—and Moscow has been chronically impotent on that score in recent years. While the Kremlin is mired in geopolitical anguish over balancing NATO and EU enlargement with a tighter Belarus-Russia union, the panoply of regional and local activism is increasingly linking Russia's northwest with the budding Baltic-Central European trade area.

The new and more diverse regional power game in Russia's northwest after the cold war calls for a number of recommendations for the U.S. and Europe's policies on integrating Russia into a broader Europe. First, Western leaders—despite whatever the Kremlin tells them—need to be mindful that the regions matter. As one U.S. Congressman, Lee Hamilton, argued recently in *The Washington Post*, the U.S. should "pay more attention to the 'Federation' part of Russian Federation."[30] A number of small scale, workable adjustments may include opening up branches of U.S. embassies or state-private sector trade missions in Russia's regions; inviting Russian governors to policy relevant meetings with U.S. and European agencies; identifying and supporting—in word and development funds—enterprising local leaders showing progress in implementing political and economic reforms; setting up internationally sponsored training programs for regional government officials and business leaders; and funding studies of Russia's regional issues and center-periphery relationships.

Western leaders will do well by these actions to indicate to the Kremlin the fundamental point the Kremlin often forgets—i.e., that the Russian state will be stronger if regions integrate from the ground up—as America's states did under a seemingly "scary" constitutional principle of dual sovereignty—rather than if Yeltsin tries to hold them in check by force. Unlike in the crumbling USSR, only one Russian region—Chechnya—wants secession, pure and simple. Even after the Chechens forced the Russian army to withdraw and proclaimed their sovereignty under international law, none of the remaining eighty-eight Russian regions jumped on the independence bandwagon. A larger stake in foreign policy—including integration with Europe—that is sought by Russian regions is not to secede, but to promote local interests and values. Particularly now that Russia's eighty-nine governors are democratically elected, these local interests will be more actively pursued. This will make the Russian state more diverse regionally, but no less Russian.

To Russia's leaders—who often forget lessons from Russian history—one may also point out that Russia's finest hour so far on the European stage came during the rise of the Kievan Rus about a thousand years ago. As Francois Mitterrand once reminded Gorbachev, Kyiv was "a veritable center of the common European home" at the time.[31] The Kievan Rus was a rather loose association of strong, self-assertive princedoms, diversely integrated into Baltic and Black Sea trade areas.

Finally, European institutions, especially the EU agencies, need to consider regional priorities in Russia when designing programs that will affect Russia-Europe integration. For example, on a key issue of rail and road connections that may one day unite Europe from the Atlantic to the Urals, the European Commission would do well to revise its recently designed blueprint for what is known in Eurospeak as "a complementary network of transport corridors in Eastern Europe." According to this blueprint, all three "corridors" going into Russia from the West converge in Moscow (from Minsk, Kyiv, and St. Petersburg). There are no corridors linking the natural trading partners—the Baltics and Russia's northwest regions. The northeast bound roads from Europe are all cut off abruptly in Tallinn.[32]

In the end, Russia's integration with Europe will depend on the success of regional integration at key junctions, such as Pskov. As the largest country on earth, Russia can only join Europe incrementally. As Catalonia boosts Spain's economy by bridging it with the vibrant South France-Northern Italy economic zone in Western Europe, and as Shenzhen galvanizes China's economy by linking Southern provinces with Hong Kong, oblasts like Pskov, Leningrad, or Kaliningrad hold the key to the incremental and regionally-driven integration of Russia into a broader Europe. Diversity has always been a strong suit of democratic societies—and the West must diversify its policies across Russia to encourage the conversion of old geopolitical battlegrounds into prosperous trade zones.

1. Foreign Broadcast Information Service (FBIS), Collection: Soviet Union, FBIS-1992-067 (June 26, 1992); FBIS-1992-047 (July 28, 1992); FBIS-1992-025 (March 27, 1992). Institute for East-West Studies (IEWS), "Foreign Ministry Opens Office in Sverdlovsk Oblast'," *Russian Regional Report,* Vol. 2, no. 17 (May 15, 1997). IEWS, "Siberian Governments Begin Policing Mongolian Border," *Russian Regional Report,* Vol. 2, no. 14 (April 24, 1997).

2. Laura Belin, "Russia's 1996 Gubernatorial Elections and the Implications for Yeltsin," *Demokratizatsiia* 5 (Spring 1997): 167–74. By November 6, 1997, Moscow had thirty-eight power-sharing agreements with regions. The thirty-eighth agreement encompassed three constituents of the Russian Federation: Krasnoiarsk Krai, Taimyr Autonomous Okrug, and Evenk Autonomous Okrug. IEWS, "Yeltsin, Nemtsov Sign Power-Sharing Treaty with Krasnoyarsk, Taimyr, Evenkia," *Russian Regional Report,* Vol. 2, no. 38 (November 6, 1997).

3. IEWS, "Mayor's Most Trusted Elected Officials," *Russian Regional Report,* Vol. 2, no. 24 (July 3, 1997).

4. IEWS, "Duma Drafts Law on Regions' Foreign Policy," *Russian Regional Report,* Vol. 2, no. 13 (April 17, 1997).

5. Ibid., p. 179.

6. IEWS, "Regional Leaders Reject Ratification of Power-Sharing Agreements, Foreign Policies," *Russian Regional Report,* Vol. 2, no. 43 (December 11, 1997), Internet Edition.

7. *Finansovye izvestiia* (October 14, 1997).

8. IEWS, "Regional Law Contradicts Federal Legislation," *Russian Regional Report,* Vol. 2, no. 38 (November 6, 1997).

9. Vladimir Vaguine, "Evoliutsiia konfliktov i protivorechi federal'nykh vlastei i vlasti sub"ekta Federatsii v sfere administrativnogo upravlenia" [The Evolution of Conflicts and Tensions between the Federal and Regional Governments in Public Administration], unpublished paper, July 1997, pp.12–13. One small exception to this pattern is pro-Yeltsin candidates who lost 1996 gubernatorial elections. Many of them have been given federal jobs—including the ex-governor of Pskov region. Ibid., p. 14.

10. Anatoli Veslo, "Opasaias' NATO, Pskovski gubernator trebuet podkrepleni" [Fearing NATO, Pskov governor asks for reinforcements]. *Segodnia,* (October 20, 1996).

11. See Mikhailov's election program, "Nash real'nii shans," *Russkii zapad,* 15 (October 28, 1996).

12. A. G. Manakov, "Razgadki 'pskovskogo fenomena'" [Solutions to the Pskov puzzle], *Vash vybor* 2 (1996): 17–19.

13. See note 7.

14. Ye. Ye. Skatershchikova and L. V. Smirniagin, "Zhisnennye migratsii rossiian kak faktor territorial'noi splochennosti Rossii," [Migrations of

Russians as a factor in territorial cohesiveness of Russia] *Rossiia regionov* 1 (1994): 10–11. Official Pskov data, reported by Vladimir Vaguine.

15. Vaguine.

16. Ibid.

17. Daniel Rosenblum, "They Pretend to Pay Us... The Wage Arrears Crises in the Post-Soviet States," *Demokratizatsiia* 5 (Spring 1997): 300.

18. M. Bronshtein, "Estonia: ekonomika i geopolitika," [Estonia: Economics and Geopolitics] *Voprosy ekonomiki* 2 (1995): 114–122.

19. Ibid., p. 118.

20. Ibid., p. 120; Vaguine.

21. Ibid., p. 121.

22. RFE/RL, "Russia to Build New Cargo Terminals on the Gulf of Finland," *Newsline*, Vol. 1, no. 48, Part I (June 9, 1997).

23. Ibid.

24. Vaguine.

25. Marina Kalashnikova, "Baltiiski uzelok v 'besshovnoi' Evrope" [The Baltic Knot within "Seamless" Europe], *Itogi* (December 17, 1996).

26. This seems to be part of an emergent tendency for city-to-city treaties to restore economic relations between the Baltic and Russian cities that were severed after the collapse of the Soviet Union. For example, in October 1997, the Latvian port of Liepaya and the Russian city of Tver signed a treaty on friendly relations (the most direct trade route between Tver and Liepaya lies through Pskov region, which Tver borders in the northwest). On November 28–29, 1997, thirty Liepaen business people came to Tver to discuss restoring economic ties with some leading local businesses such as Tsentrosvar, Volzhski Pekar, Tverskaia Manufaktura, Intersphere Shareholding, Trado Bank, and the Association of Commercial Organizations. IEWS, *Russian Regional Report*, Vol. 2, no. 43 (December 11, 1997), Internet Edition.

27. *Itogi*.

28. "Connections Needed," *The Economist*, (March 15, 1997): 69–70.

29. Vaguine.

30. Lee H. Hamilton, "Inside Russia, A Regional Takeoff," *The Washington Post*, July 9, 1997, p. A23.

31. *Pravda*, December 7, 1989, p. 2 (In response to Mikhail Alekseev's question on Kyiv's role in Europe). Marrying into the Kievan royal family became an honor in European capitals from Sweden to France, and one Kievan princess even became Queen of France when her husband died.

32. Charles Batchelor, "Corridors Promise Efficient Transport," *Financial Times* (July 4, 1997): 4.