

THE YEAR 1998: THE END OF AN ILLUSION?

Report of the Center for Eastern Studies, Warsaw, Poland

by

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The year 1998 was a breakthrough year in the recent history of many countries in the territory of the former USSR and the Balkans, the area of interest to the Center for Eastern Studies (OSW). The developments of that year acutely revealed processes that will determine the political and economic situation of vast areas of Europe and Asia in the next years, and will also have an impact on the situation in Poland. Therefore, the OSW analysts have decided to write this report, first to present several important and general conclusions arising from the events of 1998, and second, to point out some resulting problems that Poland will have to face in its integration process with the structures of the Western world. We are convinced that after 1998 a lot of assumptions and illusions, present from the beginning of the 1990s in theory and practice connected with the changes in the territories of the former Soviet empire, should be abandoned.

Today it is important to ask once again:

- 1) What is going on beyond our eastern border and in Southern Europe, and how will the events in these regions develop?
- 2) What are the consequences of these processes for Poland and that part of Europe that is currently integrating now and in the future? Aware that we are able to provide only a partial explanation of these phenomena, we hope that the report will become a starting point for a discussion on the two questions posed above. It is such a discussion that Poland's security and future international position will largely depend on.

Events of the year 1998 in the areas of interest to the Center for Eastern Studies:

1. RUSSIA

A. The events of 1998 revealed that Russia would not become a stable market democracy in the near future. The reforms carried out in Russia since 1991, notwithstanding the intentions declared by the president and successive governments, were not aimed at laying the foundations for a democratic state. On the contrary, they led to the dramatic weakening of state structures and the creation of an oligarchy-cum-clan-political and economic system hidden behind a facade of democracy.

The characteristics of the system of post-communist Russia are as follows:

- * a discrepancy between official legal norms and the actual unwritten rules of the political and economic life;
- * control over the election process by administration and business circles linked with it;
- * an unclear ownership structure: state property is controlled by narrow oligarchic groups, while private property is linked with and depends on political power on the one hand, and on criminal structures, on the other;
- * corruption, as a constituent element of the system, rather than a "side-effect".

In such a system politics is reduced to a struggle between oligarchic groups focused solely on defending their own interests. The severe erosion of state structures was accompanied by the deep weakening of political dependency and economic ties between Moscow and the regions. Presidents of republics and governors of oblasts have become actors in their own right on the political scene. With the help of local "parties in power" they control political and economic life, and especially the election process, in the subordinate regions. They even go so far as to subordinate military units and security structures distributed in their regions. This forced decentralization of the Russian Federation has been reinforced by emancipation tendencies in the regions, which have been present for quite a long time now.

The functioning mechanisms of the system as well as its repercussions were acutely revealed after the August financial crisis. A vacuum created in the very center of the country's political life as a result of the government crisis completely paralyzed the state as an institution. The most evident symptom of this phenomenon was a drastic drop of tax revenues and a collapse of the system providing supplies to the territories of the Far North, which had been traditionally organized by the state administration. Because of the climatic conditions, this area is cut off from any sources of supplies for six months, transport by air being the only way of delivering the most urgently needed products. In numerous areas of the Russian Federation local authorities suspended tax payments to the federal budget and restricted exports of goods (especially food). Regional banks linked with local authorities started to oust Moscow banks from the local financial market. As a result of the crisis power is gradually shifting from Boris Yeltsin to Premier Yevgeni Primakov, a process not reflected by any formal changes in the constitution. The crisis also revealed to what extent the process of political decision-making was dependent on Boris Berezovski, one of the so-called oligarchs, and his unofficial connections and contacts with

Yeltsin's family and close collaborators. Moreover, it became clear that the Federal Security Service was involved in conflicts between different oligarchic coteries. The extent of corruption and "privatization" of state institutions can be illustrated by the fact that officials of the Central Bank of Russia, completely uncontrolled, transferred tens of billions dollars of the bank's reserves to an obscure company registered in the "tax haven" on the Channel Islands.

B. The Russian economy is in a state of collapse. It is based mainly on the export of gas, oil and metals. Last year's events clearly reduced possibilities of improving the economic situation in years to come. The result of these events is that the country has been cut off from foreign capital markets and the whole banking system has been weakened seriously. Even in the most optimistic scenario there is no return even to the state of the early 1990s for long years to come.

The Russian economy is based mainly on raw materials that are generally exported unprocessed. Despite the almost four-time depreciation of the ruble Russian exports have not increased. Russian products have not become more competitive in international markets because their quality does not meet foreign standards. An exception to the rule is military technology. However, it does not play such a great role in the economy as a whole as it is often ascribed to it. Meanwhile, prices of the raw materials exported by Russia remain at a very low level. Also, the process of decapitalization of mining and transport infrastructure is deepening.

Thus the fuel sector of the economy has a chance to expand primarily in the domestic market. However, it is hard to expect an increase of domestic demand when real incomes of households decreased in 1998 by 31%. Results of an opinion poll show that only one in five Russians receives his/her salary regularly, and large groups of citizens live in the system close to that of a barter economy, exchanging goods without the use of money. It is also hard to expect an increase of industrial production: in 1998 it fell by 5.2% and now stands at half its 1991 level. There is practically no banking system in the common sense of the word. After the August financial crisis the majority of Russian banks, formerly engaged in speculating in the government bonds market, technically became bankrupt. Thus there has not been and still will not be any chance for granting credit to the economy. It is so much more dangerous as the present dramatically low level of investment will bring disastrous effects in future. The unilateral moratorium on the servicing of part of the foreign debt together with some other incidents of the state's inability to fulfill its foreign financial obligations cost Russia credibility in international capital markets. The huge foreign debt will most probably remain a heavy burden for decades to come. In the short run, the state cannot count on any credits from private institutions. Neither are international organizations and other countries' governments prepared to financially support Russia any further. It means that Russia will have to find resources for financing budget expenditures at home. This will not be an easy task: so far an effective tax system has not been created. The state budget revenues of the country with the population of over 150 million are much lower than in Finland that has the population of 5 million people.

The budgetary law for 1999 is the best illustration of the dire condition in which Russia's public finance has found itself. The assumptions included in the law concerning basic macroeconomic indicators (inflation, exchange rate) are completely unrealistic and are treated as

such even by some members of the Russian government, who have publicly admitted it on several occasions.

C. For the West, the Russian Federation, on the verge of bankruptcy, is becoming a state that no longer commands the central place it once occupied. Russia is no longer perceived as a threat to global stability, at least not big enough to subsidize it at all cost.

Russia's opposition to the bombardment of Iraq and to Western intervention in Kosovo in the last several months was ignored by the West and that is a clear indication of Russia's weakening political position in the international arena. All attempts at building a partnership between Russia and the United States have failed, and the "partnership" of Russia and the European Union has resolved itself into mere verbiage. Even Russia's contacts with Germany, despite their outward cordiality, are more and more deprived of any real substance. Western countries and international finance organizations have cut off the money which has so far been flowing to Russia mainly for political rather than economic reasons. In July 1998 Russia could still count on a two-year credit line worth 22.6 billion USD from the IMF, the World Bank and Japan. After the August crisis this flow of funds was stopped altogether. It must have come as a shock to Russia, but also to the West itself that a nuclear superpower on the verge of bankruptcy was unable to react strongly to the fact that the Western countries' refusal to grant the credits it had applied for. Today it is quite obvious that Russia will not be able to service its foreign debt, estimated at about 140 billion dollars. There does not seem either to be any need for supporting political groups in Moscow because, even if it were possible, it is not quite clear whom to support. In this situation hardly anyone believes that it is possible to carry out a policy of real economic reform and that the funds will start flowing to Russia again.

PROGNOSES

The succession to the presidency after Yeltsin

After Yeltsin's loss of real power in Russia the question of the succession to the presidency is on the daily agenda. Russia has entered a period of pre-election struggle, in which two politicians stand a good chance of winning the race: Moscow Mayor Yurii Luzhkov and Premier Yevgienii Primakov. It is however highly probable that the issue of the succession will be decided already before the official date of the presidential elections (the summer of 2000) with a compromise between the two main candidates. If this is the case the presidential elections will be mere window-dressing. Such a scenario is suggested by the following:

- * pragmatism that is characteristic of both candidates' methods of political practice;
- * fears among the Russian political elite of the consequences that an uncontrolled election campaign could have for the Russian Federation's political stability and territorial integrity;
- * lack of any essential ideological differences between the two candidates: both of them reject

the Western market economy model in favor of an "Euro-Asian option", both are advocates of state control and the re-establishment of Russia's imperial role in the international arena.

Considering the weakness of both the Russian parliament and the political system, the results of this year's elections to the State Duma are of much less importance for the future fate of Russia than the outcome of the presidential elections and the way in which they will be carried out. The parliamentary elections cannot even be treated as a political barometer before the final round of the struggle for presidency, because one of the two main candidates, Prime Minister Primakov, most probably will not be represented during the elections by any political group. (On his part the premier has not yet confirmed his wish to run for presidency and even denies such a possibility.) Thus the elections can only reflect general ideological affinities of the Russian electorate. It can be expected that they will result in the defeat of the liberal-reformist forces, in maintaining the Communist Party's influence at current levels, the emergence of Yurii Luzhkov's strong group "Otietchestvo" in the center of the political life, and in the good position of the patriotic and populist groups. The question remains to what extent extreme-right groups of a fascist type, such as Russian National Unity, will profit from the present crisis. On the one hand, all opinion polls so far have indicated the strong resistance of the Russian electorate to rightist radicalism. On the other hand, due to the present crisis and total discreditation of the ruling political establishment, it cannot be ruled out that many voters will cast their votes for these parties.

The weakening of the state's integration capability and confederalization

Whatever the result of the upcoming elections it seems that in the short and medium run Russia will be facing further erosion of state structures. We can expect the further loosening of ties between the regions and the center as well as the Russian Federation's unofficial transformation into a de facto confederation. This process will be accompanied by further de-industrialization of the Russian economy, infrastructure decline, feudalization of social relations, and in whole areas and social groups leaving the economic system.

The state of Russian elites' political awareness

The decline of Moscow's international prestige has not been followed by any change in the thinking of the Russian political elites about either the international position of their country or the directions of the internal changes. It has triggered, however, a considerable increase of anti-Western and above all anti-American sentiments. As mentioned above, political circles advocating a market economy have been marginalized, while the Russian ruling elites, against facts and logic, keep up a public image of Russia as a superpower entitled to participate in the decisionmaking on the world's fate. An attempt at preserving the remains of Russia's imperial position and the restoration of it still remains a cardinal principle of the existing consensus. Hence the anti-Western tendencies in the Russian foreign policy should be expected to strengthen. In practice it may mean that Moscow will not only obstruct Western efforts to solve conflicts in unstable regions but that it will also "flirt" with radical anti-Western and anti-American regimes of the Third World. Pursuing an anti-Western policy, Russia will at the same time try to avoid an open confrontation with the West. Moreover, it will solicit financial aid from the Western countries and will make every effort to make them open their markets for Russian products. As long as the present generation of Russian politicians relate the position and capabilities of their country to those of the USSR, with no regard to the social costs that the

nations of Russia have had to pay for that past "glory of the state," no significant internal transformations in the Russian Federation should be expected.

2. THE POST-SOVIET TERRITORIES

A. The Russian political and economic crisis has sealed the fate of all reintegration initiatives on the post-Soviet territories, starting from the Commonwealth of Independent States, through the military alliances and the Custom Union, to finish with the Union of Belarus and Russia.

Several weeks ago Uzbekistan announced that it would withdraw from the Tashkent Collective Security Treaty, signed by nine post-Soviet states in May 1992 (Ukraine, Moldova and Turkmenia did not participate). This document, along with the agreements on the integrated anti-aircraft systems and common protection of borders, was meant to form a basis for a military alliance of the post-Soviet states. Uzbekistan's announcement was followed by the opening of its mission at NATO headquarters in Brussels two days later. In addition, Azerbaijan is distancing itself from the treaty and has announced plans to create a NATO military base on its territory. Finally, Georgia has been forming its own border guard troops using equipment provided by the United States. Taken together, these actions shatter Russian dreams of a common military pact of the former USSR countries. Another rather spectacular integration initiative of the Union of Belarus and Russia did not become a political reality in 1998, remaining limited to the sphere of propaganda slogans. A series of meetings of the Parliamentary Assembly of the Union has not brought any concrete decisions. At the last session delegates were not even able to agree upon a small budget of the Union (about 30 million dollars in 1999.)

B. In the second half of 1998 the economic crisis hit not only Russia but also all post-Soviet countries, disturbing the already fragile stabilization of the economic situation in this area and diminishing the chances of a sustainable economic growth. Russia's financial crisis was, however, not the only cause of this collapse. An equally important role (or even a greater one in such countries as Kazakhstan and Azerbaijan, where development is based on the export of raw materials) was played by developments in the world economy, and particularly a drop of world prices of oil and metals, as well as the various effects of the financial crisis in South-East Asia. In the global economic network Russia remains and will remain an important link for the majority of these countries.

The post-Soviet countries were not hit by the financial crisis in Russia as hard as expected because the majority of them had diversified their economic ties much earlier, reducing the share of Russia and other CIS countries in their trade in favor of the Western and Central European countries (the case of Ukraine and the Baltics), and in favor of Turkey, Iran and China (the case of the Caucasus and Central Asian states). Although the August events obviously have had wide repercussions in the post-Soviet countries, there was no sign of the domino effect. After the events of August 1998 no state of the former USSR experienced such a sudden and serious collapse of the domestic currency as it happened with the Russian ruble (depreciation of currencies of some of the CIS states in the period from August 1998 to March 1999 was as

follows: Russia - 268%, Ukraine - 82%, Georgia - 67%, Kyrgyzia - 57%, Kazakhstan - 12%, Azerbaijan - 1.5%.) A perfect illustration of the inclusion of the post-Soviet area in the global economic network is the suspending of big oil investments in the Caspian region, e.g. delaying the decision of the international oil consortium (AIOC) on routing the pipeline from Baku to Ceyhan, Turkey with a terminal at the Black Sea, and the stopping or postponing the Caspian Shelf projects due to a considerable oil price drop in world markets.

C. Ukraine, despite declaring its wish to strengthen its relations with the West is not able to carry out the necessary reform of the state that would help to improve these ties. On the other hand, however, it is unlikely that, irrespective of the presidential election results, Kiev will decide on real integration with Russia.

Up till now Ukraine has not taken any steps to launch real reforms (including the defense sector) that would bring it closer to European standards. The state is incapable of collecting taxes even from the state-owned enterprises, and the government is going to great lengths, e.g. keeping managers of enterprises for several days in conference rooms, or sending them to civil defence training, to make them pay payment arrears. Still even such radical moves have achieved no tangible results. In December 1998 tax arrears exceeded 2.6 billion dollars. As a result the state is unable to pay wages to public sector workers, including the military and the police. At the same time none of the important Ukrainian political groups has put forth a program of radical reforms. Indeed, it seems that none of them have any concept of such a program. In its relations with Russia and the West, this inability is also evident. On the one hand, Ukraine is cooperating with Western structures, military ones in particular (participation in the Partnership for Peace program, opening its ranges to NATO troops, formation of a joint battalion with Poland and Hungary); on the other hand, it keeps the Russian maritime base of Sevastopol on its territory, enables Russia to use some of other military installations and participates in the joint defense of the CIS air space. Ukrainian society has, generally speaking, a critical attitude towards the West. According to available data almost 50% of the population is of the opinion that Ukraine should aim at a transformation of the CIS into a uniform country, and a similar number of citizens thinks that the Western aid tends towards political and economic subordination of Ukraine. Nevertheless it is not at all clear that Ukraine has chosen the "eastern" option, or that it will do so in the nearest future. What is happening with Ukraine today can be described rather as a kind of drift, an inability to make an unequivocal choice.

PROGNOSES

Old and new ties on the territory of the former Russian empire are and will be capable of exerting certain influence on the countries of the former USSR over the next few years. This can be achieved mainly through energy interdependence and bilateral military cooperation - both inherited from the old Soviet era. In countries like Armenia and Tajikistan the latter factor plays a decisive role in the state's security and helps the local political elites remain in power. Recent supplies of Russian weapons to Armenia, which continues an arms race in the Caucasus, can lead to an outbreak of new struggles between the Armenians and Azeris in the Upper Karabah region.

On the other hand, Moscow is gradually losing its ability to exert a positive influence in this region, which is best illustrated by the Kremlin's inability to restore its control over the eastern part of the North Caucasus. Moreover, it does not look as though Russia's weakening influence in this part of the Federation is to remain limited to Chechnya and Dagestan. It is highly probable that in the near future this process will include neighboring regions of the Federation as well. The territory of the former USSR is no longer treated by the Western world as a sphere of Moscow's exclusive influence. Neighboring states and other international actors will pursue their own goals in this region. New and sometimes strong ties with the outside world are emerging in the post-Soviet area. Therefore, it is vital that in the future the processes going on in this region are looked upon from the point of view of the interests of Washington, Brussels, Beijing, Ankara, Teheran, Tokyo, Helsinki and other capitals to a much greater extent than they are now.

The economic situation in the region

To make any economic projections on the territory of the former USSR is at the moment an exceptionally difficult task. It is quite clear that all the countries in the region started the year 1999 in much worse economic conditions than a year ago. Russia can be expected to go further down in its economic collapse, a drop of GDP will certainly be huge (in December 1998 the IMF projected it at the level of 8.3%.) A considerable decrease in economic growth or a further drop of GDP is expected in all the states of the post-Soviet area. Many will have serious problems with foreign debt servicing. Apart from Russia this concerns mainly Ukraine, but also, although to a lesser extent, some countries of the Caucasus and Central Asia. IMF financial support is a necessary but certainly not a sufficient condition to avoid default. The outlook for the countries whose economies depend on the export of raw materials (Kazakhstan, Azerbaijan, Turkmenia) is closely linked to the price on world markets for raw materials, but even in the most favorable circumstances they cannot hope for major income from the sale of the resources within the next years. It seems that even in the most optimistic scenario for the next several years, the efforts of these countries will be devoted to making up for losses from the last decade. Finally, it is possible that this region will enter the new millennium suffering from an economic recession and this will have repercussions for both individual countries and citizens of the region and other states situated outside the discussed area, including Poland.

Presidential elections in Ukraine

The presidential elections in Ukraine are to take place on October 13. Their results, in contrast to the parliamentary election of 1998, will be of great importance to the future of the state. At present, apart from President Leonid Kuchma, only the leaders of the post-communist left stand a chance in the elections. These are: Oleksandr Morozov (the Socialist Party), Petro Simonenko (The Communist Party) and Natalia Vitrenko (progressive Socialist Party, the extreme left). The most pro-Western among the major candidates is President Kuchma himself. If, however, he is replaced by a candidate of the left, a major change in the political rhetoric of Kiev should be expected, particularly at the beginning of the term; also contacts with the West will weaken. Actual Ukrainian policy is, however, not expected to change too much. Irrespective of the presidential election results, Ukraine will probably keep balancing NATO and the European Union with Russia, remaining closer to the latter and avoiding making any definite choice between the East and the West. Such a state will persist even if the tightening of contacts with Russia within the CIS structure actually takes place, which seems very unlikely. The CIS is now no more than an amorphous structure, thus Ukrainian full membership would have mainly a

symbolic character. It is worth remembering that in 1994 Leonid Kuchma won the elections as an advocate of strong ties with Russia, but as a president he has conducted the same pro-independence policy as his predecessor, Leonid Kravchuk. It also seems probable that the new president of Ukraine will follow the same path because, while it is not possible to win the election without wooing the pro-Communist and pro-Russian electorate of East Ukraine, it is also impossible to rule the country against the elites whose will to keep Ukraine's independence is beyond any doubt, and whose economic interest is to remain independent of Russia, which requires political and economic contacts with the West. Even a communist president will be forced to compromise on this issue.

Lukashenka's Belarus

The most probable course of developments in Belarus over the next few years is that Aleksandr Lukashenka's regime will remain in power. The opposition against the president is weak. The presidential elections that, in accordance with the constitution of 1994, have been scheduled by the opposition for May this year, are hardly possible. The opposition views it as a symbolic act aimed at drawing international public opinion to the situation in Belarus. Moscow still remains the main player on the Belarussian political stage. Only Russians can lead to the change of the regime but at the moment the Russian political elite itself has too many problems to engage in conflicts in Belarus, in part because for different fractions of this elite Lukashenka is either useful or harmless. Pursuing his policy aimed at the participation in the political life of Russia, Lukashenka incapacitates his state, although paradoxically he is also the only guarantee of its partial independence, because it is Belarus' independence that makes Lukashenka an important figure in the Russian political arena. That is the reason why the president has not agreed to integration with Russia, which would be equivalent to the actual incorporation of Belarus into the Russian Federation. His political line is not expected to change in years to come.

3. THE BALKANS

A. The disintegration of Yugoslavia has become a crawling, expanding Balkan "thirty-year war" that has plunged the region into an endemic and long-term crisis. The steps taken by the West so far, however temporarily valuable in stopping the extermination of individual ethnic groups, are not sufficient to put an end to this process.

In 1998 the political conflict in Kosovo, where the Albanian community had demanded autonomy since the early 1990s, turned into a war. In response to guerrilla actions of the Kosovo Liberation Army (KLA) the counter-actions of big units of Yugoslavian army and police (the offensive of July 1998) were accompanied by the displacement of people and war crimes against civilians (e.g. Racak, December 1998). At the same time, the political weakness of the "protectorates" created by the West became apparent. Federal Bosnia and Herzegovina (consisting of the Croatian-Muslim Federation and the Serb Republic in Bosnia) was in the state of a recurring political crisis. Key controversial issues have been settled by "verdicts" of the international community representatives. The refugee problem has not been solved, and the budget of Bosnia is largely subsidized by the international community. The West has also helped stabilize both internal and border situations in Albania and Macedonia.

B. The considerable social costs connected with the tardy start of systemic reforms in Romania and Bulgaria increase the probability of a slowdown, or even a failure of the transformation process in these countries. They will certainly be hindered by the persistent economic ties of Sofia and Bucharest with Russia as well as by repercussions of the conflict in the Western Balkans, and particularly potential trade restrictions in the whole region.

In the second half of 1998 Bulgaria and Romania experienced a drop in support for the reformist governments that have recently come to power. The decisions taken by both cabinets to close loss-making enterprises triggered an increase in social discontent (at the end of 1998 the opposition in Romania tried to pass a vote of no-confidence for the government, and January 1999 witnessed several-thousand-strong demonstrations and fights of miners with police.) Romania's dollar reserves dropped at the end of 1998 to 1.8 billion dollars and foreign debt repayments in 1999 are at the level of 2.5 billion dollars. To avoid default, financial aid from the IMF and World Bank is necessary. These institutions, however, will grant support on the condition that state-owned enterprises be restructured. The example of the mining industry problems shows that in political terms it is going to be very difficult. Bulgaria, despite stopping inflation, reducing unemployment and enhancing growth, is experiencing heightened social pessimism. After August 17, 1998 it also became clear that both countries are to a large extent dependent on the economy of Russia, from where they import the majority of raw materials for energy and where they export products of several industrial branches.

PROGNOSES

Military conflicts in the Balkans

Struggles in Kosovo will most probably continue regardless of the steps taken by the international community. This is due to the determination of the Serbian and Albanian societies, which is manifested by the emergence of terrorism and urban guerrilla warfare as new forms of fighting at the turn of 1998, Yugoslavia's refusal to compromise, the KLA "horizontal structure of command", which makes it difficult for political powers to exert control over the military units, as well as anarchic Albania that remains "the base of the conflict". It cannot be ruled out that the fighting will expand to neighboring Macedonia, Montenegro, and Southern Serbia.

The Balkans as a "transit channel"

The major threat to Central and Western Europe in connection with the loss of control over Kosovo and the Northern parts of Albania is a prospect of further use of the Western Balkans region as Europe's biggest "transit channel" for organized crime groups, drugs and weapons. At the same time, due to the war and further deterioration of standards of living, successive surges of refugees are likely to flee into the countries of Central and Western Europe.

Changes on the geopolitical map

Further crumbling of the existing post-Yugoslav states, some of which are nothing more than "protectorates," is quite probable. Beliefs of the local communities that treat autonomy or independence as a panacea for the political and economic problems interact with the readiness of the West to separate the sides of the conflict with cordons (military, administrative, economic,

etc.) In this situation it seems possible that the "cantonization" of Kosovo initially formulated in 1998 can be implemented, or at least become a serious political demand. An inclination for such solutions can be seen in the separation of the enclave of the city of Brcko in federal Bosnia and Herzegovina. Any protectorates created in the future, however, will be less and less capable of independent existence and will be kept in subjection to the protector.

Consequences of the "disappointment with the West"

The role played by the West in solving the crisis in the Balkans as well as its threats to use military means can give part of the community there, and the Serbs in particular, a kind of "complex of the Weimar republic." This consists of an antipathy towards the "victors" and the political models proposed by them, a wish to revise the forced decisions and support for charismatic leaders appealing to nationalistic sentiments. The identification of citizens with their "protectorates" will weaken, resulting in the failure of these new administrative forms to become lawful political entities. At the same time people living in the "protectorates" will more and more often perceive the international community as aggressors/occupants. Disappointment with the West may be seen also among the communities of the Eastern Balkans (Bulgaria, Romania) as a counter-reaction to the surge of enthusiasm towards the concept of NATO and EU membership (1997/98), and to the failure of these plans (1998/99).

The Russian context

Russia will continue to play an important role in solving the Balkans crisis. Emphasizing Russia's separate stand on the issues connected with the future of Bosnia or Yugoslavia will aid Russian political elites in their efforts to win over public opinion at home. As a result, Moscow stands a chance to extend the number of its "clients" or allies in the international arena.

A. GENERAL CONCLUSIONS

1. The crisis of the state and its origins

What has happened in the majority of the countries covered by this report can be described as a crisis of the state. This crisis is apparent not only in Russia, Ukraine or Bulgaria but in some smaller countries as well (Georgia, Moldova, Tajikistan, etc.) In the latter group of countries the actual influence of the central government authorities is limited to capitals and some parts of the territories belonging to the states in question. The symptoms of the crisis most often are: the collapse of the tax system, the state's loss of a monopoly on the use of violence and control of the justice system (in favor of local or criminal structures), and inability to control all parts of the territory. These elements are closely linked with the corruption of government officials at all levels which results in inefficiency and disintegration of the state administration and inability of its structures to carry out the budget and provide elementary social welfare.

2. The most evident effects of the crisis of the state

The crisis of the state is also connected with the dislocation of economies. One of the major indications of the process is that money is superseded by barter. This phenomenon can be observed at the level of inter-state relations, e.g. in trade between Russia and Belarus, as well as within the state between economic subjects down to the lowest level, that is to salaries paid to

workers in goods they produce. It is worth noting that one of the "generators" of this phenomenon in the RF are natural resource monopolies, like Gazprom, to which the payment in kind is the most convenient. The weakness of the state brings about autarky in individual regions. This phenomenon is particularly noticeable in big countries like Russia. In order to survive regions are closing up, e.g. restricting trade with other regions. This tendency is strengthened by the disintegration of transport infrastructure, which will be discussed later.

On the level of the individual, the major task is an independent struggle to survive. The so-called homestead plots, very popular with citizens both in the countryside and in cities is the best illustration of the problem. It results in the regression of whole communities, and thus in decline of social mechanisms, which could be conducive to change.

The disintegration of the infrastructure inherited from communism still continues. State governments, due to lack of resources, cannot become "stimulants" of big infrastructure investments (e.g. roads, railways, heating plant networks.) Today, in most of the countries on the post-Soviet territories there are no resources for either the development of infrastructure or even the maintenance of the existing one. In the long run it will result in further migrations from areas where such infrastructure is an absolute must (e.g. the Russian Far North regions.) Another indication of the weakening of the state is the emergence and persistence of enclaves that are beyond control of any central authorities, and in which often all forms of statehood have disappeared. Sometimes quasi-states emerge within the territories of such enclaves, and although they possess attributes of regular statehood they are not recognized as such by the international community, thereby they have no obligations towards it. These small quasi-states ruled usually by a local military structure, are incapable of independent existence otherwise than by generating revenues from smuggling, weapons trading or any other form of organized crime. Organized crime, supplying ruling elites with weapons, is too often the only "pillar" of their power. Communities in these areas either earn their living from this kind of dealings or become "hostages" of the local power. In effect, this situation brings about a complete breakdown of normal economic and social mechanisms. In the long run these "black holes" can cause security problems going much beyond regional level (Badakhshan in Tajikistan, the northeast Caucasus in Russia, Abkhasia, Southern Albania, part of Kosovo.)

3. New division lines

All the factors listed above form the outline of a distressing picture of a new division emerging on our continent, much more persistent than the current system of political and military alliances. This new line divides Europe into the countries that have more or less managed to overcome the legacy of communism and thus preserved the state as a basis of social order, and those unable to do so for the last ten years. Their structures have been weakened or altogether damaged by the unfinished process of overcoming communism. Armed revolts and attempts at secession in the Western Balkans, and to a lesser degree in the entire area under discussion, intensify this process and create "black holes" on the map of Europe and in post-Soviet Asia. Among the consequences of this process the following are worth considering:

* spontaneous decentralization (the gradual weakening of the importance and influence of the political center of a given country);

* criminalization of state structures (which means either the taking over of state functions by criminal organizations or state authorities activities of a criminal character); and

* return to archaic forms of social relations (the return of whole social groups to barter, non-monetary system of dependence, e.g. on the work place or local power system).

4. This process requires posing the following questions:

* first, to what extent can the ongoing international policy be effective in the discussed area, considering the fact that this policy addresses mainly the state and its structures? Will the international community, in order to reach certain goals in a country where state functions are disappearing, be forced to work out completely new policy instruments that would address local interest groups in the first place, and not the state as such?

* second, can the crisis of 1998 and the conclusions arising from it bring significant changes in the policy of the West (the EU and NATO countries) towards the region in question, which will not be limited, as has been so far, to the reduction of financial aid? In other words, does the failure of liberal reforms in 1998 mark the end of Western politicians' ambitions to exert influence on transformations in those post-communist countries that have not been successful?

B. THE POLISH CONTEXT

The above conclusions clearly indicate that after 1998 the Polish eastern frontiers can become a border of a dramatically growing economic and civilization contrast. There is always the danger that our country, which is gradually becoming part of the Western world, will at the same time become "a front-line state," not as a result of a new aggressive policy of the East but because of the economic collapse of this region, with all its serious repercussions.

It seems indispensable, therefore, to address Poland's capabilities to avoid or minimize negative effects of the above processes. We should take into account the following as we search for policy options.

1. Poland, which has sustained economic growth and the positive results of reforms, does not possess an economic potential that would enable it to influence the situation in the neighboring countries in order to "narrow a civilization gap." Our capabilities, in relation to the problems those countries are facing, are extremely limited. We cannot offer what is most needed, that is, credits, direct investments, non-repayable aid programs, or at least business deals with deferred dates of payments.

2. At the same time, Poland will bear the brunt of a potential future economic and social destabilization in these countries (the "great neighbors" of this region, namely, Russia, Ukraine and Belarus). Trade with the East may remain limited, and the whole region may regress to a system of barter. Also, the illegal transit of refugees, smuggling, various forms of organized crime will remain a problem.

3. Poland's membership in NATO clearly does not constitute a remedy for these problems and is an insurance policy in the event that a situation in the East would threaten the security of Poland. At the same time an obvious result of our accession to the alliance will be the participation of the Polish Armed Forces in the pacification of ethnic conflicts in the former Yugoslavia which, as has been mentioned earlier, is a task for at least a decade.

4. The actual instruments of the long-term narrowing of the "civilization gap" along Polish borders are in the hands of the European Union that Poland will join no sooner than in 3-4 years. Before it actually happens the EU may work out its own policy towards the countries lying to the east of Poland that will not necessarily take our interests into consideration. So far, Brussels' only contribution to Poland's relations with its eastern neighbors lies within the framework of the so-called third pillar, and consists of insisting on tightening and strengthening control at the Polish borders and exerting pressure on our authorities to implement a more rigorous visa policy vis-a-vis citizens of the CIS countries. These necessary steps, which are helping Poland adjust to future membership in the EU, do not resolve the dilemma that our state is now facing: what should Poland do in order to avoid being reduced in the Union plans for the post-Soviet area countries to a "border watch-tower," the political and financial costs of which will be born in the future primarily by Poland itself.

The comments below are at least a partial answer to the questions above.

1. The pace of the negotiations concerning Poland's membership in the EU is a crucial factor that will determine our ability to take advantage of opportunities to reduce the dangerous contrast on the Polish border and counteract West European isolationism. The recent example of EU-subsidized food supplies for Russia that ousted Polish agriculture products from the Russian market, and the unsuccessful appeals of Polish authorities to stop such a policy, has shown that the relationship between Poland and the East is one of the most important issues to be worked out during the talks with the EU before our formal membership in this organization.

2. The issue of relations between the EU and its CIS partners, especially Russia and Ukraine, should take place in the context of the Polish-German dialogue along with such fundamental issues as the date of Poland's entry into the EU, the mobility of the labor force, and other important bilateral concerns. The Polish dialogue with Germany turns around issues like our success in reducing the number of illegal emigrants, the success of Polish reforms in boosting the German profits in Poland and, generally speaking, the "stability to the East of the Oder river" that has always attracted the attention of successive German governments.

3. Poland should focus on cooperation with countries with whom it has special and privileged relations, i.e. Lithuania and Ukraine.

* Without our close economic, political, and probably also future military cooperation with Lithuania the issue of Kaliningrad Oblast can become a challenge that Poland will be unable to rise to either on its own or with the help of NATO. Potential threats coming from the oblast are above all connected with the constant decline of all economic indicators and standards of life in this enclave of one million citizens. If Poland does not want Kaliningrad to become yet another "black hole" among numerous others on the map of the former USSR, it has to intensify its

economic and infrastructure cooperation with Lithuania in order to calm this threat. It is worth noting here that the recent activity of the Lithuanians in relation to the oblast (conferences, programs, reports, etc.) has outstripped what Poland has to offer to Western Europe in approaching the Kaliningrad issue.

* An essential part of our relations with Ukraine, whose vastness of both territory and problems very much reduces our ability to exert effective influence, should be the construction of successive "economic bridges" between Poland and Ukraine and obtaining resources to that end in an intensive dialogue with the EU, Germany and the United States. Most important are various activities in telecommunication infrastructure, transport and the power sector. Investments should first of all go to Western Ukraine where their political and economic significance can be much greater than in the central and eastern regions of the country. In the past, several publicists have observed that Polish-Ukrainian relations, while perfect between Warsaw and Kiev, were of a different and less intensive character where real problems existed, i.e. in Western Ukraine, close to our borders. Finally, it is worth emphasizing that even Ukraine, straddled between Russia and the Central European countries, neutralizes Russian domination over Belarus, and thereby makes Russian-Belarusian integration attempts devoid of real geostrategic importance.

4. The question of whether and to what extent it is possible to improve Polish-Russian relations, must take into consideration the current level of political awareness among Moscow's elites and the unfavorable climate for economic activities in Russia. As to economic contacts the greatest problem is the deepening economic crisis in Russia. In the political sphere there are fundamental contradictions between Poland and the Russian Federation stemming from a different attitude towards the following issues. The first one is the political orientation of the former Soviet republics. For the Russian elites, almost reconciled with the "loss" of the Central European states, the prospect of the Baltics' membership in NATO is unacceptable (not to mention Ukraine). For the Republic of Poland, however, the stopping of the second phase of NATO enlargement, or the omission of these countries in the process, practically means preserving the frontier of the former Soviet empire, which, for obvious reasons, is against Polish interests. Any sign of Polish activity in the East will be interpreted by Moscow as serving the expansion of the North Atlantic Treaty Organization and presented as essentially anti-Russian. Moreover, as a member of NATO and at the same time a country of no importance for Russia in terms of mobilizing further financial support, Poland is the perfect scapegoat. The ruling elites in Russia have great experience in launching this type of political campaign for internal use.

The second issue that separates the two countries is a different vision of the European security system. From the Polish point of view this system should be based primarily on NATO, while Russia gives preference to the OSCE. Moreover, Russia demands special privileges within such system, which is against Polish intentions. Certain hope for an improvement of the relations between the two states can be based on two facts:

* first, Russia is interested in earning money from the modernization of Russian equipment that constitutes the most of the armament of the Polish armed forces for the next several years;

* second, Russia is seeking cooperation and even a "strategic alliance" with the EU, and is deeply concerned with the potential threat of isolation that will follow the process of the expansion of the Union to the East.

It seems that both Moscow and Warsaw are interested in minimizing negative effects that Poland's adjustment to the EU standards may bring for the economic and mutual relations of the peoples of two countries. Both of the states are also keen to find a way to improve the economic situation of Kaliningrad Oblast, thereby to diminish the differences in the standards of living between the oblast and Poland and Lithuania.