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THE END PRODUCT

A CRISIS IN LATVIAN-RUSSIAN

RELATIONS

(March - August 1998)

Introduction

The main topic of research in this End Product is the crisis which arose in Latvian-Russian relations in March 1998, when an unsanctioned protest meeting was held at the Rīga City Council. The meeting was attended mostly by Russian pensioners, and it was broken up by the authorities. This crisis was not overcome at the end of August, when this research project was completed. A more detailed analysis of the crisis allows us to gain a deeper understanding about the following issues:

- 1) The essence of Russia's Baltic policy in general and Russia's attitude toward Latvia specifically, as well as the resources which are at hand for implementation of this policy; the main actors in Russia's relationship with Latvia;
- 2) The position taken by the Latvian government, as well as the country's political parties and economic groupings during the crisis;
- 3) The influence which the crisis has had on Latvia's foreign and domestic policies.

The main sources which I have accessed are the same which I used when writing the Final Product: the Russian and Latvian mass media, as well as the output of academic institutions. These sources, however, are not fully adequate if one wants to research the Russian-Latvian relationship. Among the players who were «on stage» during the crisis have been pro-Russian political forces in Latvia (political parties and groups), and a precise understanding of their goals cannot be found by studying the press alone. The Russian embassy in Rīga has been very active during the crisis, but I do not have access to sufficient information about its role and place in the development of the crisis.

During the crisis several terrorist acts took place in Rīga (an explosion at the Rīga Synagogue and a small explosion near the Russian embassy), and the guilty parties in both cases have not yet been identified. The explosions led to new guesses in the Latvian press about supposed activities by Russia's special services, but no confirmation of these guesses was ever found. I feel that the sources which I am using, however, allow me to offer a sufficiently adequate evaluation of the causes of the crisis, the way in which it developed, the main participants in it and the possible consequences that will arise.

1.1. The emergence, development and causes of the crisis

On March 3, 1998, an unauthorized protest meeting was held in Rīga by pensioners (mostly Russians). They were objecting to the increased cost of living in Latvia. Participants blocked Rīga's second-busiest street, hampering traffic and ignoring requests by the police for

the meeting to disband. Eventually the police were forced to resort to force, and the street was cleared. No one was injured and no one sought medical assistance after the event. The occurrence seemed trivial. Russia's official reaction on March 3 and 4 was quite calm, but on March 4, according to Russian authors, a meeting was held in the office of President Yeltsin's director of administration, V. Jumashev, to discuss the organization of an anti-Latvian campaign.¹ On the same day, television stations owned by Russian oligarchs Boris Berezovsky and Vladimir Gusinsky, as well as other mass media outlets, began to fire up an anti-Latvian mood. On March 5 the tone of Russia's official institutions changed radically, and there seemed to be a competition to see which institution could be sharpest in its denunciation of Latvia for «oppression» of Russian speakers in the country. The campaign grew to unprecedented proportions. Among those to participate in it were leaders from Russia's regions, particularly the mayor of Moscow, Jurij Luzhkov, who is well known for his populist and nationalist stands. Political contacts with Latvia were suspended, and unofficial economic sanctions were put in place. The Russian-Latvian relationship sunk to its worst level since 1991 (i.e., during the entire existence of the relationship).

The main reason for Russia's extensive campaign against Latvia was the fact that dislike of Latvia had been simmering in Moscow for quite some time. The picket on March 3 was just an excuse. The causes, however, included the following:

a) Russia's long-standing dissatisfaction with the pro-Western course of the Baltic states and the refusal of the three Baltic governments even to talk about the security guarantees which Russia offered in the fall of 1997. The US-Baltic Partnership Charter (January 1998) was the latest in a series of events which affirmed the pro-Western orientation of the three Baltic countries. Even some representatives of Russia's academic circles (true, those who were closely connected to Russia's governing elite) said that the signing of the charter once again proved that Russia's security interests were being ignored.² By organizing a radical worsening of the Russian-Latvian relationship, moreover, Russia wanted to see the extent to which the United States would be ready to support the Baltic states. Latvia's selection as the object of Russian pressure was no accident. Latvia was not invited to participate in the first round of EU membership negotiations; the integration of Russian speakers in Latvia is proceeding more slowly than in the other two Baltic states; Latvia's political system is the most unstable among the three countries; and Latvia's prime minister, who represents the radical Fatherland and Freedom party, had become, in Russia's eyes, unbearably free and independent in terms of his position vis-à-vis Russia.

b) Even though the Russian Foreign Ministry became involved in the anti-Latvian campaign a bit later (on March 5), the incident with the protest demonstration in Rīga provided Foreign Minister Yevgenij Primakov with a long-awaited opportunity to affirm and to implement his consistent and unchanging view of Latvia as an area of special interests and special rights for Russia. In the spring of this year Primakov once again affirmed his faith in Russia's protectionist intentions vis-à-vis the CIS countries and the Baltic states, as well as his opposition to any increase in American influence in the area. Russia's imperialist ambitions were couched in pseudo-academic language – praise for imperial Russia's 19th-century foreign minister Gorchakov. The Russian press, for its part, stressed the need to «overcome the illusions of the Kozyrev era...»³

c) The crisis in relations with Latvia was created by Moscow at a time when the Russian economy was entering a new period of crisis, one affected by the collapse of oil prices on the world market, by Russia's inability to collect taxes in the country, and by a dramatic increase in Russia's internal and foreign debt. The 1998 budget was based on the assumption that Russia would earn USD 18-20 per barrel of oil, while the real price fell as low as USD 8. Russia ended up in a true emergency situation. If in 1990 heating fuel and other energy resources represented 55% of Russian exports, at the beginning of 1998 the figure had risen to a full 83%. The industrial sectors engaged in the provision of heating fuel and energy resources, moreover, was itself in a state of extreme crisis, as was noted by Sergei Kirijenko, and this represented «a national security problem...»⁴ It was precisely during this period that Russia's oil and gas magnates suffered a defeat in the privatization of Latvia's oil transit and gas companies. The desire of Lukoil and Berezovsky's companies to participate in the privatization of Latvia's Ventspils Nafta was not greeted with a response that was satisfactory to the Russian oligarchs (Lukoil had enormous demands, indeed; in Lithuania, for example, Lukoil was demanding control over 51% of the shares in an oil transport terminal that is being built, but Lithuania refused to give Lukoil majority control over the enterprise).⁵ The privatization of 16.2% of shares in Latvijas Gāze, meanwhile, did not satisfy Gazprom.⁶ Accordingly, in March 1998, all of the press outlets controlled or owned by Russia's oligarchs were mobilized for a campaign to denounce Latvia.⁷

d) The campaign against Latvia coincided with a time when Russia was entering a new period of political and social instability and when a spirited defense of «Russian speakers» outside of Russia could be used to deflect attention from the growing domestic tensions in Russia itself. It was precisely while the Russian government was waging its anti-Latvian campaign that Russian police brutally broke up a sanctioned student protest meeting

in Jekaterinburg (April 14). Fourteen of the students required medical assistance.⁸ Russia analysts emphasized that in the run-up to parliamentary elections (in 1999) and a presidential election (2000) in Russia, Russian politicians would try to burnish their popularity by proclaiming a need to «defend our nationals». If this slogan were to obtain even a semblance of seriousness, there had to be practical pressure against Latvia.⁹

e) One of Russia's important goals was to discredit Latvia internationally, painting it as a country where not only are minorities «oppressed», but where «fascists» are becoming more active and former SS officers are honored (this last claim was based on a march by veterans of the Latvian unit that served in Nazi Germany's army in Rīga on March 16). Russia's chief aim was to ensure that the European Union would not decide to invite Latvia to begin formal membership negotiations at the end of 1998 and that the political situation of Western politicians who favor Baltic membership in NATO would be made as difficult as possible.¹⁰

In analyzing the crisis in Russian-Latvian relations, we find a number of questions which are significant in the context of the way in which this crisis emerged and was escalated, but because of an absence of concrete information, in many cases it is impossible to find precise answers to these questions. First of all there is the issue of how extensively Moscow itself was involved in the organization of the March 3 protest. A call to participate in the protest was published in the most pro-Russian and anti-Latvian newspaper in Latvia, *Panorama Latvii*. The newspaper has never been reticent in proclaiming its support for former Latvian Communist Party leader Alfrēds Rubiks, who was freed from imprisonment at the end of 1997. In early 1998 Rubiks paid a lengthy visit to Moscow, where he met with Jurij Luzhkov and Gennady Zyuganov. Luzhkov was the one Russian politician who organized the most brutal anti-Latvian campaign after March 3. He personally ordered shops in Moscow to boycott Latvian goods, and he compared Latvia to Pol Pot's Cambodia.

Secondly, there is the issue of affiliates of Russia's chauvinistic organizations in Latvia. In the spring of 1998 a branch of Russia's «Barkashovists» suddenly made itself visible in Latvia. We do not know at this time the extent to which the Russian chauvinistic and so-called national-Bolshevik groups in Latvia are financed from Russia, nor do we know whether they were involved in anti-Semitic incidents that occurred in Latvia just at the time when the Russian-Latvian relationship was being exacerbated (Russian chauvinistic organizations are openly anti-Semitic). Neither do we know how extensively these groups are associated with the activities of Russia's special services in Latvia.

1.2. Latvia's position during the crisis

In provoking a crisis, Russia took full advantage of several weaknesses in the way in which Latvia functions as a state. Latvia provided several excuses for Russia's attacks, and Moscow made full use of them. Russia could also take advantage of the short-sightedness of Latvia's economic circles. As I have written previously, the crisis had a very important economic background – the interests of Russia's oil and gas barons in Latvia. Their cooperation partners in Latvia are mostly the owners of oil and gas companies – first-generation capitalists who are led more by greed than by any modern approach to economic policy. The owners of Ventspils Nafta based their position vis-à-vis Russia on the strict conviction that there is no alternative to Ventspils as a transit port, that Russia would not be able to build ports on the Bay of Finland, that Russia would even install another pipeline to Ventspils (from Polock), and that Russian foreign policy is fully dictated by the oil and gas monopolies that are not interested in any conflict with Latvia. On the basis of these considerations, the owners of Ventspils not only barred the Russians from participating in the privatization of Ventspils Nafta, but they also did something clearly unprofessional: At a time when the world price for oil was plummeting, Ventspils Nafta increased its tariff for the transportation of one ton of oil to USD 5.5, and at one point even to USD 5.7. Only when the crisis with Russia was in full bloom were the tariffs reduced to near USD 5.0. In August Lukoil was invited to participate in the privatization of Ventspils Nafta, but at that point the managers of Lukoil, facing the crisis in oil prices, were not particularly responsive and made it clear that Ventspils Nafta would have to wait.

Ventspils Nafta is more than just an economic entity; it has enormous political significance, too. Ventspils Nafta is one of the chief donors to two Latvian political parties – Latvia's Way and the Latvian Farmers Union. It has also given support to the radical Fatherland and Freedom party. All of these parties, especially the latter one, continued to believe until the beginning of 1998 (when the crisis with Russia emerged) that Latvia could count on increased Russian transit (without giving Russia any concessions, moreover) while refusing to change Latvia's citizenship law. The crisis served to prove that the wise country avoids excessive hopes.

The crisis also laid bare several weaknesses in the analytic work of Latvia's government. Literally a few days before the March 3 incident, on February 27, Foreign Minister Valdis Birkavs announced that there was positive movement in Latvia's relationship with Russia, going so far as to say that there had been a «spurt» (rīvok) in the relationship that could at long last lead to the signing of a border agreement between Latvia and Russia, as

well as to a long-awaited official visit to Moscow by President Guntis Ulmanis.¹¹ Birkavs also seriously exaggerated the abilities of the US-Baltic Charter to promote an improvement in the relationship with Russia. The foreign minister was ignoring the fact that at the beginning of 1998 Russia's dissatisfaction with Latvia had already reached a new crescendo for the aforementioned reasons. Birkavs also ignored the extremely pointed refusal of Prime Minister Viktor Chernomyrdin to meet with Latvian Prime Minister Guntars Krasts during the meeting of the Council of Baltic Sea States in Rīga in January. Birkavs' February 27 statements were a vivid example of the way in which he and his party (Latvia's Way) often tend to attribute much greater accomplishments to Latvian foreign policy, partly for domestic political reasons, than is warranted, ignoring risks, difficulties and problems. Only once the crisis had erupted did the Latvian government begin a feverish process of changing the Latvian citizenship law, even though long before the crisis it was plainly evident that the existing law was not working: Naturalization was theoretically available to 148,000 non-citizens, but the opportunity was taken up only by 7,000 people. Continuing his inadequate assessments of the Russian-Latvian relationship, Birkavs announced at the end of April that Russia had no demands in the area of non-citizens in Latvia other than those which had been promulgated by the OSCE. This announcement came literally on the same day as news which affirmed that «Russia's demands far exceed the recommendations of the OSCE, demanding not only a change in the citizenship law, but also a radical speeding up of the naturalization process, implementation of the principle of bilingualism in regions where there is a large share of Russian residents, authorization for non-citizens to vote in local government elections, etc.»¹² The series of inadequate assessments continued on July 2, when Birkavs announced that Latvia wishes to establish contacts with Russia's regions, bypassing the center (Moscow) and breaking up the unified position that Russia was taking against Latvia.¹³ This pronouncement ignored the fact that Moscow, in its relationship with Latvia, was succeeding in accomplishing something that may have seemed impossible – getting all of Russia's various power centers and institutions to develop a more or less unified and coordinated approach. In this, the Kremlin held considerable sway over the regions. As could be expected, Birkavs' visit to St. Petersburg on July 7 was unsuccessful – the regional governor refused to meet with him.

One of the latest examples of an inadequate assessment of the realistic situation was an announcement by President Ulmanis in August, after he had met privately with Viktor Chernomyrdin in the Crimea, that virtually all of the complications in the relationship with Russia «were in the past» and that only one serious problem remained. Ulmanis added that he

could not specify which problem that might be.¹⁴ Without exaggeration, one can say that such announcements bordered on the scandalous. We must also note several statements by Prime Minister Krasts which poured oil on the fire. In January he said that Latvia should orient itself toward gas supplies from Norway, not on cooperation with Gazprom. After the events of March 3 in Rīga, the prime minister said that they were a provocation by Russia's special services, but he could offer no facts to underpin this claim (on March 6 Chernomyrdin responded with a blistering attack on Krasts).

Sergei Karaganov, in evaluating the development of the Russian-Latvian crisis, noted that Russia's ability to place pressure on Latvia was being facilitated by a series of circumstances that were most favorable to Russia, especially the generally clumsy and contradictory actions of the Latvian government and the Latvian nation with respect to the march which veterans of the so-called Latvian volunteer SS legion held in Rīga on March 16.¹⁵ The positions that were taken vis-à-vis the Latvian Legion reflected very clearly something that had not been discussed or fully understood in Latvian society – the occupation of Latvia by the Nazis during World War II and the collaboration with the Nazis which this involved in some instances. Latvia's senior officials (most of whom, with a very few exceptions, used to be members of the Soviet Communist Party or even its nomenclature) had treated the legionnaires and their gatherings very favorably in previous years. This reflected admiration rather than any deep conviction, and it also showed the ease with which one ideology (communism) was replaced by another – «nationalism». In March 1998, Latvia's government institutions did not offer a more or less unified view of the way in which Latvian military units in the German armed forces should be evaluated, nor were they in any way ready to offer convincing information to the world's mass media about the way in which the Latvian Legion was established. Even more, Latvia's government simply did not understand that the world has very specific ideas and stereotypes about the Waffen SS – a process which the distinguished British historian Norman Davies has called «the selectivity of stereotypes.»¹⁶ These stereotypes ignore many historical truths, mainly the fact that in 1945 there were no fewer than 39 Waffen SS divisions, including two that were made up of Russians, and that Latvians by no means were unique with their two divisions, which were in no sense voluntary and which did not at all mean that Latvian soldiers had any contacts with the SS. The forthcoming march by the veterans immediately became an object of domestic political battles in Latvia. On March 12, Foreign Minister Birkavs said that it would not be advisable for government members to participate in the events of March 16, but his announcement was relatively weak, and the recommendation was not followed by the

commander of the Latvian armed forces, to say nothing of parliamentary deputies from Fatherland and Freedom who were most demonstrative in their attendance at the gathering. The international scandal which arose damaged Latvia's image very seriously, but even more, it led to new consequences in Latvia's domestic policy, allowing Fatherland and Freedom to achieve a situation where March 16 in the future will be a national holiday honoring Latvian soldiers. This will lead to new international scandals. It is significant that the Estonians, by comparison, made the proper conclusions and affirmed the idea that Estonia is very much a pro-EU country which does not want to besmirch its reputation in any way. The commemoration held in July 1998 by Estonian veterans from the German army took place quietly and without any participation by government officials. Even the Russian press was forced to admit that the Estonians had grown up politically and that they had determined not to allow anything to stand in their way toward the European Union.¹⁷

1.3. The results of the crisis: What did Russia accomplish?

Russia never had a single and logical idea about what it hoped to get Latvia to do. Various political and economic forces may have had different opinions on this topic, but they were all united in the desire to «punish» Latvia for its pro-Western course, for its refusal to satisfy the interests of Russia's oligarchs to a sufficient degree, and for its intransigence on the issue of Russian speakers in the country. Latvia must be «strangled», announced a representative of Vladimir Zhirinovskiy's party in the Russian Duma, M. Vakulenko, and in this he expressed the governing mood in Russia.¹⁸ The near-term goal was to engender the fall of the Krasts government, and although the Russian Foreign Ministry never said this publicly, Moscow Mayor Luzhkov did, and very clearly. The ascendance of «pragmatic politicians» in Latvia, he said, was an absolute pre-requisite for normalization of relations.¹⁹ Even the leader of the moderate «Our Home-Russia» faction in Parliament, A. Shohin, said in August, when the sharpest period of the crisis had passed, that relations with Russia could begin to thaw if Latvia changed its government to include representatives of the small but pro-Russian People's Harmony Party.²⁰ These announcements clearly indicated Russia's desire to interfere in Latvia's internal affairs, but there were no practical results. In April 1998 the Saimnieks party launched an abortive attempt to cause the collapse of the Krasts government. Saimnieks, which represents the interests of economic circles that are oriented toward Russia, engendered a government crisis. The main sponsors of the party – entities which represent Gazprom's interests in Latvia – became very active, managing to organize a political statement by the leaders of 70 companies whose leading market is Russia, calling for more

Russian-oriented policies.²¹ The Krasts government did not fall, however. On the contrary, the party of the prime minister, Fatherland and Freedom, began to obtain greater support in society, becoming one of the most popular parties in Latvia.

Although Russia also implemented *de facto* economic sanctions against Latvia (they were never announced officially, but the sanctions were implemented via private communications involving agreements among Primakov, Luzhkov, the oligarchs and the regional leaders; as an analyst for the Baltic news service BNS, George Shabad, noted, Primakov used all of his old and new contacts to implement sanctions against Latvia, operating more in the traditions of the KGB than in the spirit of public policy²²), the effect of the sanctions on Latvia had not, in the fall of 1998, led to the economic or political results which Russia had intended. Even though economic pressure on Latvia was the most coordinated and best organized action which Russia had ever launched in its Baltic policy, even it proved that Russia, engulfed in a financial and economic crisis, simply cannot implement its most effective weapon – a radical reduction in the volume of oil exports through Latvia. Threats that the exports would be reduced by as much as one-third²³ were not carried out. Russia's greatest achievement, perhaps, was the fact that elsewhere in the world, including in organizations toward which Latvia is moving (the EU and NATO), concern about the Russian-Latvian relationship, as well as the situation of Russian speakers in Latvia, was maintained, if not increased. Even though the Latvian parliament adopted amendments to the citizenship law, that happened only under the influence of the European Union, the United States and the crisis in relations with Russia. This encouraged the view that Latvia is not able to take decisions independently which are in its own interest.

1.4. The results of the crisis: What did Latvia lose?

Latvia's direct losses, which are difficult to calculate at this time, were caused by Russia's economic sanctions. Latvian Transportation Ministers Vilis Krištopans forecast at the beginning of August that the sanctions might reduce Latvia's GDP growth rate this year by 2-3%.²⁴ The greatest losses were experienced by the Latvian railroad (Russia repealed tariff discounts on transport through Latvia) and Latvian food processors with large volumes of export to Russia (in the first half of 1998, however, Russia was still the leader country in terms of Latvian exports – 15.9% of all exports). In the long-term future, the Latvian economy will be affected not only by the sanctions, but also by Russia's economic crisis and the overall deterioration of the situation in Russia. The worsening relationship with Russia, as well as the economic chaos in that country, had a definite effect on the Rīga Stock Exchange

(The Dow Jones Index fell throughout 1998). International credit rating agencies did not downgrade Latvia's rating, but they didn't upgrade it either, pointing to the relationship with Russia as a risk factor in the Latvian economy. One of three factors that was observed as one which is hampering more active investment in Latvia is the tension in relations with Russia (the other two deal with internal problems in Latvia – excessive bureaucratization in the country, which places unnecessary obstacles in the path of investors, and incomplete and inadequate legislation in the area of investments and taxes). On the other hand, Russia is economically insignificant on the global scale, and its economic crisis has not had very destructive effect on the global economy. Still, given the existing financial crises in Asia and South America, Russia's problems did exacerbate prevailing unfavorable trends in the world.

Latvia itself is still relatively closely bound to Russia economically, but it is no longer as deeply dependent on economic contacts with it as was the case just a few years ago. Even Latvia's 17 commercial banks, which at the beginning of 1998, according to the Latvian press, had invested approximately Ls 250 million (USD 420 million) in Russian and CIS securities, managed to divest themselves of part of these obligations by the end of August.²⁵ Even in August, however, Latvian banks had Ls 170 million invested in Russian securities – a figure approximately 14 times larger than the investment of Lithuanian banks. One Latvian commercial bank was forced into bankruptcy, just as was the case with several banks in Russia.

I think, however, that Latvia suffered notable losses, not so much in terms of the economy, but rather in the area of internal harmony in society. The Russian-provoked crisis was used by the Fatherland and Freedom party in order to increase its influence and to achieve a suspension of the changes in the citizenship law. In August, the party gathered an unexpected large number of signatures (17% of the electorate) on petitions mandating a referendum in which voters will be asked to approve or reject the amendments to the citizenship law.

1.5. Conclusions, predictions

Even though at the end of the summer Russia's campaign against Latvia had begun to run out of steam (Russia's domestic problems overcame everything else), there is still sufficient potential for a new exacerbation of relations. Russia is facing its deepest crisis since the collapse of the Soviet Union in 1991. Parliamentary and presidential elections are approaching. The Yeltsin regime is becoming increasingly odious and unpredictable. When Chernomyrdin was fired in March, the weak Kirijenko government was faced largely with the

task of protecting the interest of Yeltsin's family clan.²⁶ On August 23 Kirijenko, too, was sacked, and Chernomyrdin was appointed in his place. Even though the relationship with the Baltic states in general, and with Latvia specifically, will not, of course, be in the center of Russia's attentions during the crisis, the pre-election period, when the Yeltsin regime is losing the very last remnants of public support, will cause great temptation to use Latvia as a whipping horse to divert attention from domestic chaos. It is doubtful, however, whether such efforts would gain broad support in society.

Forecasts with respect to the development of Russia's economy do not hold much promise about normalization of the Latvian-Russian relationship. On August 5, the Russian government said that the construction of new ports on the Bay of Finland would be a priority for the next two or three years. There is no reason to believe, however, that Russia will be able to build the ports that quickly. After the country's *de facto* bankruptcy, foreign investors have fled Russia, and without major investment, ports cannot be built. Even if the ports are put into operation, they will not be able to compete in full capacity with Ventspils. This means that Latvia must continue to count on Russian blackmail and pressure as Moscow seeks to subject to its full control all oil transit routes through Latvia. Rīga must also remember that protectionist tendencies will increase in Russia (something which was in firm evidence during Russian negotiations with the World Trade Organization in May 1998, when Russia spoke in favor of increased tariffs on agricultural import²⁷). Many analysts are predicting that Russia will return to state planning in the economic sector, or at least stressing that the era of more or less pro-liberal economic reforms has passed.²⁸ If state control over the Russian economic increases, Moscow may have an easier time in implementing economic pressure against Latvia. Reduced imports, moreover, will have a deleterious effect on Latvian exports.

Russia's approach to European security issues means that Latvia must count on permanent opposition in Moscow to increased contacts between Latvia and NATO, as well as the United States. Even though the 1999 NATO summit most likely will not invite the Baltic states to join the alliance, Russia will maintain its negative opinion of Latvia's efforts to draw closer to NATO and the USA. Writing about the first meeting of the US-Baltic Partnership Commission in Rīga on 8 July, a commentator in *Izvestija*, K. Egert (he is often used by the Russian Foreign Ministry to express the ministry's views unofficially), wrote that Moscow is viewing the development of Baltic-US contacts «with dislike». The Baltic region, he stressed, is an area in which Russia wants to implement its self-believed superpower policies.²⁹

Russian-American relations will also have an effect on Latvian-Russian relations. Even though Russia is becoming more and more dependent on international financial aid on a daily basis, and even though the awarding of such aid is largely dependent on the United States, Moscow continues to promote the idea that it should have a superpower foreign policy and that it should even compete with the United States, at least in the territory of the former USSR. Sergei Karaganov's Foreign and Defense Council recently published an analysis of Russia's strategy in the next century, noting that in the relationship with the United States, a lack of understanding and an increase in suspicions can be seen on both sides.³⁰ The cause for this is first of all the fact that Russia, although it is, in the words of the Russian analyst Pavel Baev, a «revisionist no-power», is trying to implement a pushy superpower course, as well as protectionism in its «near abroad». In truth, Russia's resources and abilities have shrunk dramatically. Baev has been precise in terming this «a new inferiority complex»,³¹ adding that this is fertile ground for new burst of aggressiveness vis-à-vis Latvia. It is also entirely possible that if more or less pro-nationalist forces prevail in Latvia's parliamentary election on October 3, 1998, Moscow will use this fact to initiate a new period of tense relations, thus seeking to deter the European Union from inviting Latvia at the end of 1998 to join the first group of countries negotiating for full membership in the Union.

The Latvian-Russian relationship will also be unpredictable to the extent that Russia simply cannot countenance the desire of the Baltic states to implement independent and pro-Western policies. But Russia's abilities to engender new periods of tense relations will be dependent in part on domestic developments in Latvia. Latvia's ability to reduce Russian pressure will be dependent on several conditions. First of all, there is the issue of the extent to which Latvia is able to an even greater extent to reorient its economy toward contacts with the European Union, as well as other countries in Europe and the rest of the world. This does not mean an elimination of contacts with Russia, but Latvia must have a full understanding of the risks which such contacts entail. What's more, Latvia must refrain from basing its economy entirely on the transit sector. Estonia's accomplishments in reorienting its economy toward the West have been more significant. Beginning in 1993, when Russia implemented discriminatory tariffs against Estonian products, Estonia began an intensive process of reorientation toward other markets. In 1998 Russia was only Estonia's fourth largest trading partner – 65% of its foreign trade is with Western countries³² (and Estonia's banks have invested only 0.1% of their assets in Russian government securities).

Russia's role in Latvian foreign trade has also continued to decline. In the spring of 1998 53% of Latvia imports and 49% of exports involved EU countries. Russia continued to

be Latvia's leading trade partner in terms of exports and the second leading partner in imports (behind Germany) in real numbers. It should be noted, however, that Latvian exports to the EU were dominated by wood products, raw materials and goods with low added value, while exports to Russia and other CIS countries were dominated by processed goods and food products with a higher added value. This means that Latvia is not yet able to export modern industrial products to the EU. If Latvia manages to modernize its economy more rapidly and to orient itself even more toward Western market, Russia's abilities to engage in economic blackmail will recede, although they will not disappear entirely, given the large share of the Latvian economy represented by the transit sector.

Latvia's ability to withstand Russian pressure will also depend on the extent to which Latvia is ready to establish a more or less stable political system which can carry out a moderate and pragmatic policy vis-à-vis the so-called Russian speakers in the country, promoting their integration into a liberal Latvian society. The petition campaign to force a referendum on the citizenship law that took place in August proved that there is still sufficient support in Latvia for policies which will hamper the integration of Russian speakers. Latvia's abilities will also be dependent on the support which the United States and the EU give to Latvia. In the summer of 1998 both the US and the EU spoke up energetically in favor of Latvia, denouncing Russia's campaign of blackmail and threats. But the volume of this support will depend on domestic political developments in Latvia, and on Latvia's abilities to make support for it easier, not more difficult.

¹ Brunoļevskis, P. «Nafta: piketētāji Rīgā un TV magnāti Maskavā» (Oil: Picketers in Rīga and television magnates in Moscow), *Dien*, 16 May 1998.

² Danilov, D. «A Piece of the Partnership», *Transition*, April 1998, p. 61. Danilov is the director of military-political studies at the Institute of Europe, Russian Academy of Sciences, Moscow.

³ Gornostajev, D. «Primakov sledujet idejam Gorchakova» (Primakov follows the ideas of Gorchakov), *Nezavisimaja Gazeta*, 29 April 1998. See also Goble, P. «Primakov's 19th-century model», *The Baltic Times*, 6-12 August 1998. Also Mihejev, V. «Amerikansij kongress vvodit sankciji protiv Rossiji» (The American Congress implements sanctions against Russia), *Izvestij*, 26 May 1998.

⁴ *Moskovskije Novosti*, 22-29 March 1998, p. 4. See also Makarevic, L. «Devalvacija rubla udalosj lisj ostrocitj» (Devaluation of the ruble has only been postponed), *Finansovije Izvestija*, 16 April 1998. Also Makarevic, L. «Na finansovom rinke snova paniceskije nastrosjenije» (Financial market again overtaken by panic), *Finansovije Izvestija*, 30 June 1990, pp. 1 and 2.

⁵ *CM* [newspaper in Rīga], 17 August 1998.

⁶ *Diena*, 22 May 1998.

⁷ For precise information about the takeover of Russia's mass media by the oligarchs, see Vivat, A. «His Master's Voice», *Transition*, June 1998, pp. 42-47.

⁸ *Moskovskije Novosti*, 19-26 April 1998, p. 3.

⁹ «Politicheskoje polozhenije Rossiji v aprele» (Russia's political situation in April), analytic report by the Center for Evaluation of Political Risk, Moscow. Published in *Nezavisimaja Gazeta – Scenariji*, No. 5, 1998, p. 10.

¹⁰ Karaganov, S. «Latvija: ostorozhnostj posle uspeha» (Latvia: Must be careful after accomplishments), *Moskovskije Novosti*, 7-14 June 1998, p. 5.

¹¹ Birkavs spoke in an interview with the newspaper *CM*, 27 February 1998.

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- ¹² Birkavs' announcement was reported in *CM*, 30 April 1998; with respect to Russia's demands, see Tihonovs, J. «Krievijai lielākas prasības par EDSO» (Russia's demands are greater than those of the OSCE)*Diena*, 3 April 1998.
- ¹³ *Jaunā Avīze* (a newspaper in Rīga), 3 July 1998.
- ¹⁴ Ločmele, N. «Ulmanis: Jāslāpē negativisms pret Krieviju» (Ulmanis: Negativism toward Russia must be dampened), *Diena* 12 August 1998.
- ¹⁵ See Note 9.
- ¹⁶ Davies, N. «The Misunderstood Victory in Europe», *The New York Review of Books*, 25 May 1995, p. 8.
- ¹⁷ Jusin, M. «Estonci izvēleli urok iz ošibok latishei» (The Estonians have learned from the mistakes of the Latvians), *Izvestija*, 14 July 1998..
- ¹⁸ *CM*, 22 April 1998.
- ¹⁹ Elkin, A. «A. Luzhkov Latviji ne verit» (Bet Luzhkov does not believe Latvia), *CM*, 22 April 1998.
- ²⁰ *CM*, 22 August 1998.
- ²¹ *CM*, 22 April 1998.
- ²² Shabad, G. «Krievijai iepatikušās sankcijas» (Russia has become fond of sanctions),*Diena*, 29 June 1998.
- ²³ *CM*, 31 March 1998.
- ²⁴ *Neatkarīgā Rīta Avīze*, 7 August 1998.
- ²⁵ *Diena*, 9 July 1998. When on August 25 the Russian government announced the «restructuring» of its government obligations (meaning, in point of fact, a declaration of insolvency by the Russian state), there was contradictory information from Latvian banks with respect to the volume of investment in Russian securities. Various statements suggested that these investments represented between 3% and 8% of Latvian banking assets.
- ²⁶ Shevcova, L. «Lovushka dlja prezidenta» (A trap for the president), *Moskovskije Novosti*, 29 March – 5 April 1998.
- ²⁷ *Finansovije Izvestija*, 19 May 1998, p. 1.
- ²⁸ Volkov, D. and M. Rogozhnikov. «A Country Without Ruble Left», *Transition*, August 1998, pp. 50-51. See also Nikonov, V. «Vsjo povtorajestja» (Everything is happening again), *Izvestija*, 25 August 1998.
- ²⁹ Egert, K. «Moralnaja podderzka SSA dorogo stojit» (American moral support is expensive), *Izvestija*, 7 July 1998.
- ³⁰ «Strategija Rossiji v 21 veke [Strategija 3]» (Russia's strategy for the 21st century [Strategy 3]),*Nezavisimaja Gazeta*, 19 June 1998.
- ³¹ Baev, P. «Russia's Departure from Empire: Self Assertiveness and a New Retreat», in Tunander, O., Baev, P. and V.I. Einagel. *Geopolitics in Post-Wall Europe: Security, Territory and Identit* . London: Sage Publications (1997), pp. 182 and 186.
- ³² *Diena*, 15 April and 4 July 1998. Also *CM*, 29 August 1998.