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Analysis: Russia plays checkbook diplomacy

Analysis: Russia plays checkbook diplomacy in own backyard - but finds money won't buy friends

CATRINA STEWART

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Russia is using its energy wealth to shore up influence abroad, pouring billions of dollars in loans and grants into former Soviet states and long-standing allies — even as it faces its own severe economic downturn.

Faced with its own economic crisis, the Kremlin could have downplayed its drive to reclaim its former status as a "great power" and fight fires at home.

Instead, armed with cash hoarded during years of high oil prices, Russia has gone on a cash offensive — pledging loans and aid to Belarus, Kyrgyzstan, Moldova and Armenia. It has tied in its neighbors to crucial energy deals, and has talked about lending billions of dollars to Ukraine and Serbia.

Russia has sought to hold protective sway over what it calls its "near abroad," a region that includes most of Moscow's former imperial possessions. It has railed against its neighbors' efforts to move closer to Europe, and resisted Western influence on what it regards as its home turf.

But Russia will have to step up its game if it is to build sustainable influence in the former Soviet Union. Presented with choices, its neighbors are starting to resist Russia's dominant position, playing Moscow off against other powers to secure their own long-term interests.

Turkmenistan, the reclusive Central Asian state with enormous gas reserves, was until recently in Moscow's thrall. The Russians swept in last year, buying up Turkmen gas in lucrative long-term

contracts. With that gas bound for Europe, Russia's Gazprom stood to lock in profits and strengthen its hold over European gas supply.

But the global crisis has hit demand for gas, and Gazprom attempted to renege on its contracts — much to Ashgabat's irritation. Turkmenistan accused Gazprom of blowing up the gas pipeline between the two countries — a charge that Gazprom denied — prompting an outage in exports and a deepening rift in relations.

With Russia's relationship with Turkmenistan looking fragile, neighboring China swooped in last month with a \$4 billion credit, and agreed to purchase production expected from a new gas field. With Russian President Dmitry Medvedev invited to visit Turkmenistan in September, the Turkmens seem ready to talk. But as China and the West actively court the gas-rich country, Russia may find it is already too late.

"Russia is increasingly facing up to China in the areas it regards as its near abroad," said Chris Weafer, chief strategist at Uralsib. "Russia has been accused of falling short on promises, while China is very diligent in its delivery."

"Russia needs to step up its response."

Belarus, too, has attempted to play Russia off other powers — in this case Europe. Talks with Minsk to extend the final \$500 million tranche of a \$2 billion loan collapsed in acrimony recently.

Belarus' authoritarian leader, Alexander Lukashenko, accused Moscow publicly of insisting on dubious political preconditions — namely recognizing the independence claims of Georgia's breakaway regions, South Ossetia and Abkhazia. Only Russia and Nicaragua recognize those claims.

In response to Lukashenko's charge, Russia's normally cool Finance Minister Alexei Kudrin accused Belarus of having a "parasitic" attitude toward Moscow. Lukashenko shot back that he would not "bow down, whine and cry" to Russia.

Lukashenko may feel he has little choice but to mend relations with an annoyed Kremlin. Belarus, despite recently joining the European Union's six-nation Eastern Partnership, still has limited ties with the West. Instead, it remains heavily dependent on Russia for cheap loans, inexpensive energy and vital trade ties.

Nevertheless, the Kremlin has good reason to whip out its checkbook elsewhere.

The government of Uzbekistan, normally highly critical of U.S. policy, surprised observers by praising U.S. President Barack Obama's recent address to the Islamic world in Cairo. A Foreign Ministry statement described Obama's approach to key issues as "sober and realistic."

Kyrgyzstan recently backpedaled on a decision to kick the Americans out entirely from a vital military base, a staging post for sending supplies to Afghanistan. The move drew anger in

Moscow, which had loaned the impoverished country some \$2 billion — seemingly on the condition that it give the Americans notice.

"Russia always makes the same mistake," said Alexander Konovalov, president of the Institute of Strategic Assessment. "It presents its neighbors with a choice: you're either with the West or with us."

Some neighbors have achieved a balance. Kazakhstan has successfully played off Russia, China and the West — to little detriment to its relationships. And do may Kyrgyzstan. In the wake of Bishkek's overtures to the U.S. in June, Medvedev sought to assure the world that Russia had no objection.

"In this multipolar world, countries that are not great powers have choices," said Sam Greene, deputy director at the Carnegie Moscow Center. "They are going to diversify their relationships. I think Russia realizes that."

But the Kremlin's actions so far, he said, have been more "about maintaining some remnants of the past rather than building something for the future."

Analysts warn it is a short-sighted strategy that could yet backfire.

"Once you start building relationships based on financial aid, you have to keep that flow of aid coming," said Weafer. "If some day you can't afford to write the check, somebody else will."