

# Soviets begin break from Anglo-Americans

by Konstantin George

One week before "Desert Storm" began, an unnoticed event of cardinal importance had occurred in Moscow. President Mikhail Gorbachov appointed a new government, a "presidential cabinet," headed by a new prime minister, Valentin Pavlov, and under him, a first deputy prime minister, Lev Voronin, and an array of vice-premiers representing a Who's Who of the U.S.S.R.'s military-industrial leadership. The formation of such a government, in the aftermath of the purge of the more "cosmopolitan" wing of the Soviet foreign affairs and economic affairs apparatus—the demise of Eduard Shevardnadze, Aleksandr Yakovlev, the radical market economist Shatalin, to name but a few—began a consolidation of the Soviet shift in foreign orientation away from the U.S. and U.K., to foreign ties centered on the globe's leading industrial-technological giants, above all with Germany.

The shock effect of this faction's strong emergence in foreign policy, should have dawned on Washington and London back then, before they began "Desert Storm."

The "shock," however, first struck on Feb. 13, when Prime Minister Pavlov, in his first major interview since assuming office with the Soviet trade union daily *Trud*, denounced a conspiracy by Western banks, calling the conspirators "the shadow dealers of the Western economy . . . the dregs of their entrepreneurs," to destroy the Soviet economy. The plot, he charged, involved flooding the country with paper rubles, causing hyperinflation, with the aim of overthrowing the Gorbachov government. He revealed that to stop this conspiracy, he and Gorbachov had taken the draconian measure of recalling from circulation all 50 and 100 ruble banknotes, adding that some 40 billion rubles, out of a total of 48 billion outstanding in these banknotes, had been retaken by the state.

"It is well known that for some time a huge inflow of money into our country was being prepared. Several measures were planned including the buying up of 50 and 100 ruble banknotes. Banking institutions in our country and a number of private banks in Austria, Switzerland, and Canada joined in the operation. I will not name the banks, although I know their addresses." The plan was to cause "artificially created hyperinflation . . . the aim was to overthrow undesir-

able political figures. President Gorbachov was getting in somebody's way now." The post-Gorbachov aim of the plot was to bring to power a government of radical free-market-teers: "Advocates of swift privatization might have come to power. They would have carried it out in conditions of rising inflation, in such a way that our country would have been sold off very cheaply. I will say it even more sharply; the loss of economic independence threatened us, a kind of annexation, creeping and bloodless."

## Crash program for heavy industry

The second part of the Pavlov interview was even more important. Pavlov first reviewed the catastrophic depths to which plunging industrial production has taken the U.S.S.R.: "Last month we lost more than 4% of our annual production. If we do not deal effectively with this by March we will have such a slump in production that society will find itself on the verge of collapse. This is not a political trick. It is an economic forecast.

"Our radicals are calling us back to the market of the late 19th century. They want to drag society through shocks and traumas. We are categorically against that. We have had enough traumas. The market is a means to reaching an end, not an end in itself," said the prime minister: "Apart from the market the country needs a program of *forced modernization of industry*" (emphasis added).

Pavlov praised the development, over generations, of the U.S.S.R. into an industrial and military giant: "We should take off our hats to our fathers and grandfathers for this sacred accomplishment. It is inadmissible to destroy what has been created by them. The government does not reject [some] privatization, but we cannot even contemplate selling off the means of production, fixed capital created by generations, to shadow dealers and monied fat cats."

The Soviet break with the "West" announced by Pavlov is a break with Anglo-American financiers, who, through the International Monetary Fund, have spearheaded the drive to try to impose the radical free-market nightmare, called the "Polish model," on the Soviet economy. It would not, however, be a break with any OECD country willing to contribute to the highest priority outlined by Pavlov, namely the "forced modernization of industry."

Indeed, the publication of the Pavlov interview was timed to coincide the same day with Pavlov's signing in Moscow an agreement with German Economics Minister Jürgen Moellemann for DM 9 billion in industrial exports to the U.S.S.R. from the states of eastern Germany. Under the agreement, the exports are all backed by credit guarantees issued by the German state. Also on Feb. 13, the French government offered Moscow 3.3 billion francs in credits to finance Soviet purchases of industrial equipment and food.

The DM 9 billion in exports that will now start flowing to the Soviet Union will be a tremendous boost in modernizing vital industrial and infrastructural sectors of the Soviet

economy. The eastern states of Germany will export agricultural machinery, cranes, and other heavy equipment to modernize the construction industry and the U.S.S.R.'s ports, ships, and perhaps most important of all, modern rolling stock for the U.S.S.R.'s woefully inefficient railway system.

The benefits of this agreement, and others that surely will follow in the course of this year, are not a one-way street confined to the Soviet side. The agreement has come in the nick of time to help Germany at least partially contain a major social-economic crisis, highlighted by mass unemployment and short-work in its new eastern states, a crisis that is becoming ever more explosive (see Report from Bonn, p. 55). For the short term, the only way of maintaining industrial employment stability in eastern Germany is the maintenance and development of the traditional Soviet market for the industrial products of the region, which is only too well known in both Bonn and Moscow. Both desperately need the other to solve the highest priority economic problems in their respective countries.

### **The Baltic question**

The open question is how this mutual dependency will affect Germany's ability and desire to exercise influence on Moscow in its dealing with the Baltic republics. This question will soon become paramount, for the following reasons. The main Soviet crackdown in the Baltic has yet to come. In the second half of February, Moscow will have, from its imperial standpoint, the most favorable "window of opportunity" to heavily escalate its campaign of repression against non-Russian republics. Russia will have the full distraction "benefit" of the Gulf war having moved into the ground war phase.

Coupled with that, the U.S.S.R. Supreme Soviet session that begins Feb. 18 will open what the Soviet media, in a well-constructed psy-ops campaign, are terming a "heated debate" on ratifying the "two plus four" agreement on German unification, and all the bilateral agreements reached on economic cooperation, Soviet troops in Germany, etc., between the U.S.S.R. and Germany.

Russia will try to convince Germany that this "heated debate" is "real," with the "fate of the treaties hanging in the balance," to influence German attitudes toward the coming internal crackdown. Germany must realize that the upcoming "debate" is not real. It is theater, which will run its "dramatic" course, with the end result, whenever, being a "yes" to ratification. German policy, in contrast to the IMF policy of the United States and Britain, is aimed at modernizing the economy of Soviet republics, not destroying them, and is thus a policy in accord with the highest priority of Soviet state interests as enunciated by Pavlov. This gives Germany an enormous potential for positively influencing the domestic course of events in the East, for the mutual benefit of Germany, Russia, the Baltic peoples, and other republics. One hopes Bonn will begin to wisely exercise this potential.

## **Iceland to establish ties with Lithuania**

by Poul Rasmussen

Iceland will most likely become the first country in the world to fully recognize the sovereign Republic of Lithuania. On Feb. 8, the Icelandic Parliament's Foreign Policy Committee unanimously decided to propose to the Alting (Iceland's parliament), that Iceland take concrete steps to establish full diplomatic relations with Lithuania, including an exchange of ambassadors. In addition, the Foreign Policy Committee issued a call to all other members of the NATO alliance to follow the example of Iceland. On Feb. 11, meeting in full session, the Alting's six parties endorsed the government's initiatives and directed the government to start talks with the government of Lithuania, with the purpose of establishing diplomatic relations as soon as possible.

The government of Lithuania sees this courageous move by Iceland as very important in its fight to regain independence from Moscow. Since the declaration of independence in March 1990, Lithuanian President Vytautas Landsbergis has repeatedly called upon the nations of the West to officially recognize the sovereignty of Lithuania by establishing diplomatic relations. So far, neither Washington nor any of the European capitals has answered the call from Vilnius. Unfortunately, most Western governments still view their good relations with Moscow as more important than the freedom of Lithuania and the other two small Baltic nations of Latvia and Estonia.

### **Trade war and KGB harassment**

Although Iceland is a small country, the initiative by the Icelandic government can by no means be dismissed as insignificant. Iceland is a member of the NATO alliance, and any such move by any member country will have a profound effect on broader East-West relations. That is why Moscow reacted very strongly to the early signs from the Icelandic government that such a diplomatic move might be on its way. When Minister for Foreign Affairs Jon Baldvin Hanibalsson visited the Baltic countries at the end of January, Moscow reacted with fury. Referring specifically to Iceland, Moscow issued a warning to the West against any interference into the Baltic situation. But not only that; when Hanibalsson passed through Tallinn, Estonia, on his way to Lithuania, agents from the KGB broke into his hotel room, and stole a briefcase containing official government papers.