

Behind 'emerging market,' depression grips Russia

by Rachel Douglas

AvtoVAZ, the largest car manufacturer in Russia, could be forced into bankruptcy by mid-October, First Deputy Premier Boris Nemtsov warned on Oct. 1. The firm owes the equivalent of \$1.3 billion in back taxes and other debts to the state, and it reported losses of nearly half a billion dollars last year. AvtoVAZ stock, meanwhile, is one of the success stories of the young Russian stock market. During the past 12 months, the price of a share in AvtoVAZ rose ten times over, from \$1.60, to \$16.00.

In cameo, AvtoVAZ reveals the clash, in Russia as around the world, between the reality of a physical economic disaster, and the virtual reality of "emerging markets" dominated by pure speculation. The Moscow stock exchange rose 150% last year, and another 150% this year, but the International Monetary Fund (IMF) *World Economic Outlook*, issued on Sept. 17, reports that half of all the privatized, formerly state-owned firms in Russia are operating in the red, and says one out of four of them should be declared bankrupt.

Especially since last summer, when mega-speculator George Soros declared his excitement about Russia as an investment opportunity and sank nearly \$1 billion into the takeover of its communications network, Svyazinvest, financial press and wire services in the West have been full of lurid quotations from monetarist shysters, eager to hit the jackpot in Russia. A Broadgate survey, reported by RFE/RL Newline in August, concluded that "the vast majority of major American investors still believes Russia has the best market outlook of all former communist countries," rating as "the premier vehicle for post-communist investment." Russia is "the world's best performing emerging market," opines the *Financial Times* of London. "Russia is hot," says an Oct. 5 *New York Times* report on the "stock-buying fever" in Russia; but,

"most of the trading is between offshore hedge funds," with virtually no real investment into the firms.

Foreign investment in Russia during the first nine months of 1997 was triple the previous year's, and the best is yet to come, according to First Deputy Premier Anatoli Chubais, the Mont Pelerin Society-trained overlord of "free market reforms" in Russia. Chubais attended the Hongkong IMF-World Bank meeting in September, full of pride that he had just secured Russia's membership in the Paris Club of creditor nations, which would now become "Russia's agent," as he put it, in the collection of Soviet-era debts from Third World countries. Upon his return to Moscow, Chubais finalized a 25-year debt rescheduling deal with the London Club of commercial creditors, affecting \$32 billion of Russia's own ex-Soviet debt. "Leaders of the biggest banks in the world recognized the irreversibility of our reforms," Chubais boasted, "and the prestige of Russia in the international community," which will lead to an influx of funds. The anchorman on NTV's nightly news exclaimed that "probably for the first time in history, such a great number of billionaires has come to the Kremlin—the people who represent maybe most of the world's money."

Do the Russian monetarists see clouds on the horizon? Do they sense the growing revolt of Asian countries, against the speculators and the institutions of the doomed world monetary system? Or, is George Soros, now touring the former Soviet Union to mark the tenth anniversary of his activity in that part of the world, entirely on home territory?

In Hongkong, the man from "the world's best performing emerging market" appeared to be not totally unaware of the storm raging around the global financial system. Chubais told Russian journalists there, Interfax reported on Sept. 23, that

the surge of foreign money into Russia's markets could lead to "new phenomena on the Russian currency market," and that his government "will have to consider many things in a different light, to avoid the threat of a crisis."

Physical breakdown

In reality, the crisis is already at hand. An end-September conference of Russian and European demographers, in Moscow, updated the simplest yardstick of the economic disaster in post-Soviet Russia: The country's population is now shrinking by 1,300 persons per day.

State Duma (parliament) Committee on Intelligence Chairman Viktor Ilyukhin presented the same record, in a more politically charged way. He addressed President Boris Yeltsin in an Oct. 2 open letter, titled "Realize the Horror, and Repent!" He said, "Think about the fact that during the Civil War and foreign intervention (1918-20), the population of Russia fell by 2.8 million people. During the years of your so-called reforms, without any declaration of war, the loss of population has been almost 4 million Russians. Is that not too high a price, for pseudo-democratic reforms?"

The Red Cross said on Oct. 6 in Geneva, that an anticipated severe winter threatens 1 million of the poorest people in Russia, Ukraine, Belarus, and Moldova, with death from cold and starvation. Russia has its largest grain crop in years, in the field, but losses of up to one-half the grain will occur, due to the unavailability of equipment and fuel, and unrepaired infrastructure.

Cash wage arrears (but not benefits and expense reimbursements) were paid to military personnel by September, but remain months behind to other state-sector employees. In the third quarter, non-payment of wages by privatized companies also jumped, according to Russian trade union officials. Tax revenues being far short, the government is scrambling to sell assets. While in Hongkong, Chubais said that Russia would try to raise another \$2 billion from privatization auctions—as much again as was secured so far in 1997, including by the sale of 38% of Norilsk Nickel, the world's largest producer of nickel and platinum, and the first 25% of Svyazinvest—by the end of this year! The projection evidently presumes the sale of another 25% of Svyazinvest, and the Rosneft oil company.

Political showdowns

Economic policy is at the heart of the showdown between President Yeltsin and the State Duma, which reaches a high point during the first half of October. On Oct. 3, the anniversary of the bloodshed at Ostankino TV studio, the day before the burning of the previous parliament, the Supreme Soviet, on Oct. 4, 1993, Yeltsin used his weekly radio address to denounce the Duma. Citing the 1993 precedent explicitly, he raised the threat of dissolving this Duma. Yeltsin attacked the parliament for passing a Land Code, which forbids the sale of agricultural land; for rejecting the government's social (cuts)

bills; for failing to pass laws against corruption; and for interfering in foreign policy.

As the 1998 budget and the Tax Code come up for debate, Yeltsin said, "Judging by the mood of the Duma, we are in for yet another spiral of confrontation between the Duma and the executive branch. . . . Today is the anniversary of the October events of 1993. Then the confrontation of the deputies and the executive branch of power led to bloodshed. I had long hesitated—should I speak, on this day, precisely about the Duma? Ultimately, I decided—I should. . . . The President's and people's patience is not infinite. . . . It is too expensive a pleasure for the people to pay for your irresponsibility. It is high time the deputies understood this."

Opposition leader Gennadi Zyuganov denounced the speech as "blackmail." Yabloko party leader Grigori Yavlinsky called it an attempt at intimidation. Premier Viktor Chernomyrdin maintained that the government is open to collaborating with the Duma. Both of those parties, constituting large blocs in the Duma, moved toward support of a no-confidence vote in the government.

At issue is a 1998 budget draft that, for all Chubais's talk about 2% Gross Domestic Product growth and 3% industrial growth next year, strikes another blow at key institutions of Russia. Sergei Glazyev, the noted economist who quit Yeltsin's cabinet to protest his September-October 1993 abolition of the Constitution and assault on Parliament, pointed to its key elements, in a critique published on Oct. 8 in *Pravda*: "a near-doubling of utilities fees, without any anticipated increase in real incomes; a reduction of spending on education to 0.61% of GDP (as against the level of 10%, required by law); a reduction of spending on science to 2.87% of budget spending (as against the level of 4%, set by law); . . . assistance to only 80 firms, while almost half of our more than 20,000 major and medium-sized companies in the productive sector are loss-making."

Yeltsin has spoken recently about increasing the role of the state in regulation of the economy, Glazyev said, "but the government continues the line of refusing its obligations to society, respecting the state of the economy and the social sphere." The only sacrosanct budget line is debt service, which now accounts for over one-fourth of all federal spending. "In its essential functions, the Russian government is not an institution of a democratic country with a market economy. It is a colonial administration, chiefly concerned with extracting taxes and selling state property, in the interest of creditors, for whose enrichment, by means of exorbitant interest rates on state loans and the virtually free appropriation of state property, the entire machinery of the state is working."

What kind of resistance?

Under Russia's December 1993 Constitution, designed to keep future parliaments out of the executive branch's hair, the Duma's passage of two no-confidence votes against the government within any three months, allows President Yelt-

sin to dissolve . . . the Duma! Thus, there is some basis for Yeltsin's wave of the hand, when he says the Duma will not stand in the way of his government's actions. During 1997, the Chubais-Nemtsov economic team implemented a budget curtailment that the Duma had refused to pass.

Overlapping the Duma, however, is an array of protest and resistance movements in Russia, of varying and difficult-to-estimate strength at the moment, but capable of becoming a weighty factor, in the setting of international motion against the financial oligarchy or, in the alternative, during a worldwide plunge into chaos.

There is the new movement to defend the military, officially founded in September by Gen. Lev Rokhlin, chairman of the Duma's Committee on Defense. Most serving officers in the Russian Armed Forces have been careful not to associate themselves with Rokhlin, in the open, but close observers of the officer corps remark that this could change, on the say-so of a handful of top commanders. Rokhlin's movement has called for Yeltsin and the government to resign.

There are the trade unions, whose official leadership has toyed with various plans for a "hot autumn" of protests, yet to materialize. On Oct. 2, RIA-Novosti reported Independent Russian Trade Unions Federation official Andrei Isayev's report, that unions in 13 areas and sectors of industry "are insisting on an indefinite strike." The IRTUF would decide on a nationwide protest action by the end of October, he said.

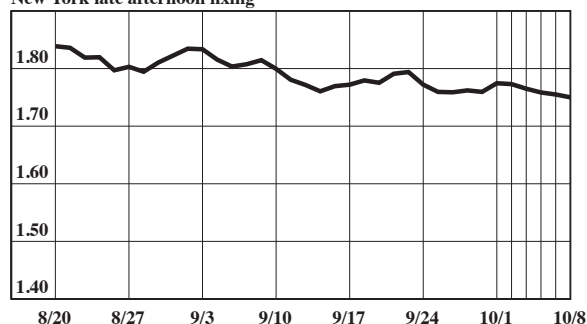
On Sept. 29, there was an effort to consolidate a bloc of 32 opposition political parties, most of which have acted disparately, or at cross-purposes, until now. Nikolai Ryzhkov (the former Soviet prime minister, now head of the People's Power group in the State Duma) chaired the conference, to plan protest actions for the weeks ahead. Present were Communist Party of the Russian Federation leader Zyuganov; Rokhlin, with his Movement in Support of the Army; Duma Deputy Speaker Sergei Baburin, who leads the Russian All-People's Union; and Viktor Anpilov of the communist Workers' Russia group. Russian TV and wires played up the presence of the latter, known as a radical communist, but failed to mention what *Kommersant-daily* did the next day, that the meeting also drew the Congress of Russian Communities (KRO) with its chairman Dmitri Rogozin, Derzhava (State Power) Movement (formerly Aleksandr Rutskoy's) with Viktor Kobelev, Spiritual Heritage with Aleksei Podberyozkin, a section of the Democratic Party of Russia with Sergei Glazyev, the Party of People's Self-Management with Svyatoslav Fyodorov, and Yuri Petrov's Alliance of Realists ("which previously supported Yeltsin," as *Kommersant* noted).

Lastly, there are many influentials in Russian scientific and foreign policy institutions, who will be closely attuned to the worldwide resistance against monetarism which reverberated at the Hongkong IMF-World Bank meeting, and who are capable of realizing that Anatoli Chubais's patrons in London and like quarters, have no clothes.

Currency Rates

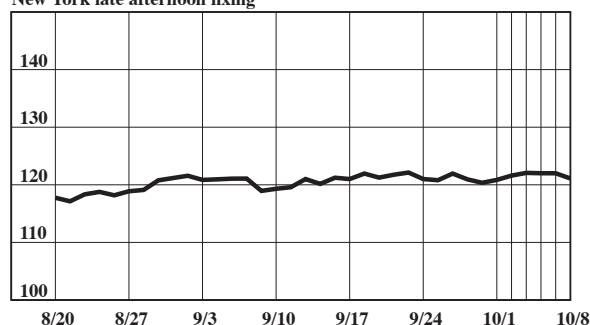
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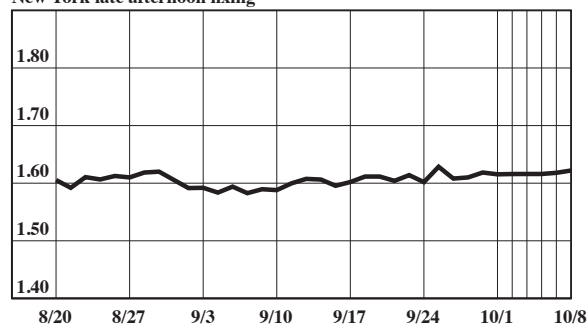
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The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

