

Russia's Eurasian Diplomacy Might Spark Real Economy

by Rachel Douglas

The idea that Russia's engagement in projects for infrastructure and other real economic development on the scale of Eurasia could provide leverage to shift economic policy as a whole toward real growth, at times brings a ray of hope to economists in and around the Russian Academy of Sciences, who are otherwise dismayed at the budget austerity and privatization schemes, promoted by Minister for Economic Development and Trade German Gref and other advisers to President Vladimir Putin. By the same token, failure to break the pattern of adherence to monetarist rules of the game, could wreck the prospects of fruitful cooperation with Russia's Eurasian partners, because of the dilapidation of infrastructure and the debilitation of skilled manpower in the country.

The renewed visibility of the world financial crisis may occasion a turn onto the former, happier of those two pathways. Some signs, pointing in such a Eurasian direction, were evident at the meeting of the Asia-Pacific Economic Cooperation Forum (APEC) in Brunei, on Nov. 15, attended by heads of state, as well as business leaders from around the region.

"Russian shares the concerns of Malaysia, and does not support the idea of increased liberalization of global trade and financial flows," pronounced Gref himself, in language unusual for him. President Putin met with Malaysian Prime Minister Mahathir bin Mohamad, who has defied the rules of the international financial organizations by the imposition of exchange controls and other protective measures. Putin invited Mahathir to make an official visit to Russia next year. A headline in the Moscow daily *Izvestia* proclaimed, "The Ideologues of Free Trade Are Defeated"—perhaps a premature assessment, but certainly exceptional for the public discussion of international economic matters in Russia, outside the Communist Party press.

The Russian President's speech to an APEC audience of

businessmen and heads of state, took up the theme from his article, published throughout the region on the eve of the meeting: "Russia is a Eurasian country." Insisting that the world financial crisis has brought out the dark side of so-called globalization, ravaging the productive capacities of nations and impoverishing populations, Putin called for worldwide efforts to overcome the North-South economic development gap. He emphasized the potential for Asian investment in infrastructure projects in Russia, especially Siberia and the Far East, and Russia's ability to export capital goods, not only raw materials. Russian science will promote Eurasian development, the Russian President said (see *Documentation*).

The Spirit of Novosibirsk

Returning from the APEC meeting, Putin flew to Novosibirsk, home of the famous Siberian Branch of the Russian Academy of Sciences and Akademgorodok, a unique science center, founded in the 1950s as headquarters for development of the Siberian frontier, through the pursuit of fundamental scientific research of universal importance. Putin's arrival there from Asia, and his agenda, brought to mind the historic speech of China's President Jiang Zemin, delivered at Akademgorodok in November 1998 (*EIR*, Dec. 4, 1998). As the guest of Russian Academicians, Jiang had proclaimed, "The progress of human civilization has more and more convincingly proved that science and technology constitute a primary productive force and an important driving force for economic development and social progress." Russia, with its "strong scientific and technological capabilities, . . . has a huge potential for development. The difficulties now encountered by the Russian scientific and technological community are temporary ones, which could very well be overcome by the Russian

people with endeavor.”

On Nov. 16 of this year, the scientists of Novosibirsk welcomed President Putin with detailed proposals for the rescue and promotion of Russian science, including tax credits for all investment in scientific progress. Putin addressed a meeting of governors of the regions belonging to the Siberian Federal District (in Putin’s new system of seven federal districts), whom he told that “the ‘Siberian factor’ is important not only for solving domestic problems, but in the context of international cooperation.” Many of Russia’s problems, said the President, “can and must be solved in interaction with Asian nations.”

Viktor Kress, Governor of Tomsk Province and Chairman of the Siberian Accord association, told RIA Novosti that a working group, headed by a Vice Premier, would be formed to elaborate a strategy for Siberia’s economic development. Such a strategy “must consider the capabilities of defense sector companies,” said Kress, which “must be used in Siberia, as well as in Russia as a whole, for producing civilian goods”—equipment for the petroleum, coal, and other industries, where domestic production will be cheaper than imported equipment.

Putin announced that the Russian government and the Security Council will draft a concept for Siberian economic development, by next year.

Energy and Investment Strategies

Much sooner, on Nov. 23, the Russian government is to deliberate on a 20-year “energy strategy.” In mid-December, it will take up the thorny question of reorganizing the national electricity utility, United Energy Systems (UES). Reform of the so-called “natural monopolies”—UES, the Railways Ministry, and Gazprom are the most important—is a decisive battleground for economic policy, because without concerted efforts to upgrade infrastructure nationwide, Russia will be unable to engage with its Eurasian partners.

As *EIR* reported in 1997, “young reformers” Anatoli Chubais and Boris Nemtsov, operating within Viktor Chernomyrdin’s government, had pushed to model Russian national-monopoly reform on the model of privatization and deregulation, piloted in the United Kingdom and the British Commonwealth. There, the privatization of infrastructure, in the name of profit-motivated increases in efficiency, has led to asset-stripping and rate-gouging in one case after another.

Chubais, now chief executive officer at UES, has floated the idea of selling chunks of the UES generating capacity and delivery grid, including to foreign shareholders. In the meantime, his by-the-rulebook collections policy of cutting off power to delinquent customers has cut electricity to whole towns and even military bases, given the long chain of indebtedness among Russian firms and state institutions.

In August, already, the government daily *Rossiyskaya Gazeta* reported “mass cutoffs” of electricity in many provinces. In the southern Kuban region, “everyone—both those

who pay and those who do not—is being cut off indiscriminately,” said the report. As Winter set in, the cut-offs for non-payment were particularly severe in the far north and in Primorsky Territory on the Pacific, where inadequate fuel supplies and intra-regional disputes compounded the austerity from UES. At the beginning of November, residents of Syktyvkar and Vorkuta, in the northern Republic of Komi, were without heat as nighttime temperatures fell to -13°C (9°F) in Syktyvkar and -20°C in Vorkuta. The municipal debt of Vorkuta to the local electricity company was triple the city’s annual budget.

At the end of October, Russian Human Rights Commissioner Oleg Mironov complained to UES, that it is violating the Russian Constitution and the most fundamental rights of the citizenry, by cutting off electricity to whole regions for non-payment. Krasnoyarsk Gov. Alexander Lebed, meeting with Chubais about electricity for the aluminum industry, repeated a current joke: “If you see a light on in the Kremlin at midnight, it means Putin is working. If you see no light on in the Kremlin at midnight, it means Chubais is working.”

Nonetheless, the strict Commonwealth asset-stripping model of national monopoly reform is no longer at the top of Russia’s agenda. That Chubais may have to alter his restructuring approach has to do with the changing political scene, where some of the most flamboyant of the gang termed “oligarchs,” the *nouveaux riches* beneficiaries of the past decade’s looting of Russia, are under heavy fire from the regime; Boris Berezovsky and Vladimir Gusinsky face arrest and indictment, and are effectively in exile abroad. Other business kingpins are under pressure to demonstrate policies that at least purport to be in the national interest.

The reorganization of the natural monopolies intersects the burning question of investment policy in Russia. Who will invest in Russian industry and infrastructure, and to what end? Foreigner speculators and mafiosi, in order to derive cash and take it abroad? Or, will there be a stream of investment, including from Europe and Asia, into the real sector for its development?

In an Oct. 27 *Moscow Tribune* article, economist Prof. Stanislav Menshikov examined the lag of real capital investment inside Russia. It is associated with the leakage of at least \$18-some billion annually, in capital flight. (Latest Ministry of Finance estimates put capital flight at \$25 billion for 2000.) Meanwhile, real growth of domestic capital investment is estimated at approximately \$9 billion, counting only “additional new investment in the real economy.”

“How much is this capital bleeding affecting current economic growth?” asked Professor Menshikov. “So far, not so much. . . . But the crucial test will come later when, due to lagging investment in the energy sector, overall economic growth will be suffocated by physical shortages and high prices of energy.”

Minister of Atomic Energy Yevgeni Adamov has thrown a new factor into the energy equation, declaring the reorgani-

zation of his ministry into Rosatomprom, which will account for 40% of the increase of Russian electricity generation in coming years. He wants to pool the investment resources of the nuclear power industry, establishing it as a competitor to UES in the delivery of electricity, as well as its generation.

On Nov. 8, Adamov's intentions to revive nuclear power plant construction inside Russia received a boost from President Putin, who visited the first unit of the Rostov Nuclear Plant, now coming on line. The Ministry of Atomic Energy plans to build new units at the Tver and Kursk nuclear power plants.

In October, upon his return from accompanying Putin to India, Adamov visited the industrial center of St. Petersburg, Russia's second largest city. At a press conference, Adamov said that four major St. Petersburg machine-building plants will participate in the construction of at least six power units for nuclear plants in China (Tieng Wang), Iran (Busher), and India (Kudan-Qulam), bringing \$1.4 billion in revenues over six years. Adamov made the point that this engagement in nuclear power development in Asia, will help Russia's core machine-building industries to survive.

Documentation

Putin on Bridging the North-South Divide

The following is the Nov. 15 speech of President of the Russian Federation Vladimir V. Putin, at the Asia-Pacific Economic Cooperation Forum (APEC) summit. It was entitled, "Business and Globalization." A subhead had been added.

Ideas about the global interconnection of events and phenomena are centuries old. The great Eastern philosopher Lao Tzu wrote, "The more a man does for others, the more he has for himself." One senses the philosophy of the interconnectiveness of everything in this world, especially deeply in the East, with its ancient traditions, where trade was developed on the basis of strict ethical principles. It was seen as the interaction of partners, who respect each other.

At the beginning of the 20th Century, our compatriot Vladimir Vernadsky created his teaching on the space that unites humanity—the noosphere. In it, the interests of nations and peoples are combined, as are nature and society, and scientific knowledge and state policy. Today, the concept of sustainable development [Russian: stable development] rests, in effect, on the foundation of precisely this teaching.

Contemporary progress in information systems and the heightened mobility of international financial resources, create good preconditions for stable and predictable processes in the global economy. On the other hand, there are no small

dangers here. . . . Everybody who is in business today, experiences the effects of the international conjuncture and currency rate fluctuations. World financial crises are a clear example. . . .

The question is, how to prevent tremors in the financial sphere from striking at the foundations of the social security of nations and of the individual; so that the productive forces not go into decline as a result of "the battles of the transnational giants" or the ill-considered actions of governments; so that the aims of business be combined with the interests of society. . . .

The level of development in the world, as is known, is divided into North and South; into the so-called "Golden Billion," and the rest of humanity. A similar dividing line runs through APEC. It would obviously be the right thing, for governments and international organizations to renew the "North-South" dialogue and find pathways to a reduction of the development gap. Otherwise, the risks inherent in globalization will prevail over its advantages. This is well understood, for instance, at the World Bank. Rephrasing the well-known expression, that a wealthy society consists of wealthy men, we can say that the guarantee of the welfare of the world community lies in the welfare of all nations, and each one individually.

Governments should take part in regulating the processes of globalization. . . .

Finally, globalization of the economy creates conditions for the proliferation of international economic crime. This means the illegal migration of capital, money-laundering, tax and customs manipulations, and illegal trafficking in narcotics and weapons, which nourishes terrorism. . . .

I should like to present Russia's interests within APEC, from the standpoint of business.

Export of Russian Science

Regarding exports, this means natural resources, first and foremost, including energy. But it also means Russian science, which is an important part of world science. It means machine-building, transportation main lines, and fishing, as well as tourism. Asia-oriented infrastructure is being created for energy exports, and here there are opportunities for investors from other countries. Several fossil fuels deposits in Siberia and the Far East have been put on a Production-Sharing Agreement regime, for foreign investors. But for us, energy means not only oil and gas, but also the means to transport it, and energy-intensive products.

Therefore, we propose to export electricity and the products of the chemicals and petrochemicals industries. The Trans-Siberian Railroad and the Trans-Caspian transportation corridor are open for transport along the Asia-Europe main route. This route is ten days faster than shipping through the Suez Canal.

Our markets have considerable potential to absorb imports. APEC members—the U.S., Canada, Japan, China, Ma-

aysia, Singapore, and several others — are already active in our markets. Russian companies can propose mutually beneficial contracts, for example, for the purchase of machinery and raw materials for non-ferrous metallurgy. Our country has always needed to import tropical agricultural products. Mass consumer goods, produced in Asia, do well on our markets. . . .

We take globalization . . . as an opportunity to give our economy fresh air. But, it goes without saying, we are concerned not only with the benefits to us. The fate of Russia is inseparable from the fate of the world. We understand the measure of our responsibility in building a new world order, including an economic order. This process will be complex and not easy. But such forums, meetings, and discussions as this one, will help us overcome the difficulties.

Russia Looks toward Pacific Nations

Excerpts from Vladimir Putin's article, published widely in Asia on the eve of the APEC summit.

There are more than just one justified uses of Russian transportation arteries by APEC member countries. . . . Shipping containers on the Trans-Siberian Railroad reduces the route to Europe [from Asia] by half [over shipping by sea]. I know that some are concerned about the condition of our Far East terminals, or bottlenecks in St. Petersburg. We are actively working to reconstruct them, . . . [and] we are prepared to carry out these projects with the participation of foreign investors.

Our Siberian rail route may make many people remember about our country's rich natural resources. . . . We invite our APEC neighbors to cooperate in developing them. And, Russian steel producers are already thinking about new markets, while our extractive industries want to improve efficiencies. . . .

Testimony to this is the development of grand plans, like the creation of an energy bridge from Russia to Japan through Sakhalin Island, or the natural gas pipelines from Tomsk Province to Western China and from Irkutsk Province to Eastern China, and on to North and South Korea.

I must note that already today, Russia is not only a raw materials supplier in the region, but also supplies modern technologies. . . .

It is important that, in February of this year, the Indonesian satellite Garuda-1 was launched on a Russian rocket. . . . These are just isolated examples of the effective use of Russia's accumulated technological experience by APEC members. We are prepared to provide space-launch services to the nations of the region, as well as Russian space mapping capabilities, which can help solve natural resource, meteorological, ecological, and other problems.

Russia's initiative for the joint development of new reactor technologies and a naturally secure nuclear fuel cycle, made at the Millennium Summit of the United Nations, fully applies to APEC member-nations.

The Middle East: Chaos and War, or Economic Development

by Dean Andromidas

After six weeks of clashes between Israelis and Palestinians, the specter of a repeat of the horrors of the Lebanon civil war hangs over the region. As in that 15-year-long conflict, neither side is willing to make the first gesture to bring the situation back to the negotiating table. An intervention by the President of the United States is required now, before it is too late.

In a comment on the decisive role President Bill Clinton must play in the search for peace in the Middle East, U.S. statesman Lyndon LaRouche, during an international web-cast on Nov. 14, said: "The United States can not act as an 'honest broker' in the Middle East. The United States, and the President of the United States, must never become an honest broker. The President must be President of the United States, and represent the fundamental interests of the United States in any negotiation in which he deals. Now, it happens that the fundamental interest of the United States in the Middle East, is peace. And the fundamental interest of the United States in peace in the Middle East, is development."

LaRouche said that Clinton must repudiate his mistakes at Camp David, where the issue of political sovereignty over the holy places of Jerusalem was put on the negotiating table, thus transforming a political-territorial conflict into a religious war. LaRouche emphasized that Clinton must bring the question of regional economic development, especially the development of water resources, to the center of the negotiations. (See full text of his remarks, in our *National* section.)

Policymakers in the region hope that Clinton will be strengthened by the current U.S. political crisis, and will begin to take the initiative required. One source close to the Israeli peace negotiations team warned *EIR*, that if Clinton does not act, the situation will "simply escalate in a linear way." This source agreed that Clinton has to repudiate the policies he embraced at Camp David. He also said that there is hope that Clinton made new, more constructive proposals during his post-election meetings with Palestinian Authority President Yasser Arafat and Israeli Prime Minister Ehud Barak. As yet, no details of these meetings have been released.

A Lebanon-Style Conflict

The current conflict is rapidly degenerating into a Lebanon-type civil war. With more than 200 Palestinians and 24