

Russia: Contours of an Economic Policy To Save the Nation

by Rachel Douglas

“Before the end of the year, the major, present crisis will come to a head, this year. I’ll be 85 in September. I expect a great crisis for my birthday. . . . The present world system, the present parameters, cannot survive. The present system will never get better: It will get worse. There are no solutions within the framework of the present system. The party is over!”

—From an interview with Lyndon LaRouche in Moscow, May 15, 2007, published on the Russian website KM.ru.

When earthquakes struck the world monetary and financial system in early August, people in Russia remembered the collapse of the GKO bond pyramid, nine years before. On Aug. 17, 1998, Russia went into technical default on the equivalent of \$40 billion in GKO, short-term government bonds that had been a favorite destination of hot money from around the world during the preceding months. That marked the end of the Russian economy’s initial post-Soviet period, 1991-98—the time of breakneck privatization and deregulation that Russian economist Sergei Glazyev calls “the swindle of the century,” and Lyndon LaRouche names as “the greatest looting operation in history.”

Internationally, the GKO collapse precipitated the Long-Term Capital Management (LTCM) hedge fund debacle, and a systemic near-meltdown, in September 1998. In an anniversary commentary for KM.ru, Glazyev reminded readers that the financial disaster of 1998 resulted from “the deliberate construction of a debt pyramid,” with the inevitable outcome of all such Ponzi schemes. Yet, financial bubbles have proliferated worldwide, ever since then-U.S. Federal Reserve chairman Alan Greenspan constructed his “wall of money,” as George Soros called it, a few months after the GKO/LTCM crash.

Even Alexei Kudrin—Deputy Finance Minister in 1998, Finance Minister now—looked slightly seasick in a photo illustrating the web-posted version of his Aug. 8 interview with RTR-Vesti television, under the headline “Kudrin Says There Will Be No Defaults and No Crises Here.” He was reporting that Russia’s so-called Stabilization Fund had earned over \$3 billion during the first year after the government began to invest it in U.S. Treasuries and other foreign government bonds in 2006. Under the monetarist doctrine, still espoused by Kudrin’s Finance Ministry, a portion of the revenue from duties on exported oil must be “sterilized” in this Fund, lest its in-

vestment in the Russian economy fuel inflation. As of Jan. 1, 2008, the Stabilization Fund will be divided into a Reserve Fund and a National Welfare Fund, the latter to be used to fund pensions. In the meantime, on Aug. 22, the next Stabilization Fund news after Kudrin’s announcement was not so rosy. The Fund now stands at approximately \$120 billion, the Finance Ministry reported, but it grew 26.4% less than expected during the first half of the year, due to oil price fluctuations and the fall of the U.S. dollar against the ruble.

The investment of the Stabilization Fund in dollar-, euro-, and pound sterling-denominated securities is but one of many interfaces between the Russian economy and international finance. Others include the dominant role of oil and gas exports in Russian finances, the mushrooming of IPOs by Russian companies on the London Stock Exchange, Russian companies’ takeover attempts abroad, and ongoing quarrels over foreign multinationals’ penetration of the Russian raw materials sector.

On Aug. 23, Glazyev gave a press conference in Moscow on the systemic nature of the current world financial crisis. He warned that Russian financial officials were insufficiently attuned to the oncoming events, and were “taking no measures” to deal with them.

In reality, the surge in the global financial crisis is an opportunity for Russia, as for every nation, to shift toward economic policies that are in the national interest. In this article, we report on Russian leadership decisions, and other ideas under discussion, that represent steps—some of them bold, some of them tentative—towards an economic reconstruction and development policy to preserve Russia as a unified nation-state, and to begin to reverse the economic and demographic setbacks of the immediate post-Soviet years. They can serve, too, as the groundwork for a positive Russian response to any U.S. offer of cooperation on development projects for Earth’s next 50 years, and on the creation of a new international monetary system that would enable such endeavors to succeed. During and after his May 2007 visit to Russia, LaRouche proposed that the initiative for such a New Bretton Woods be taken by four great powers: the United States, Russia, China, and India.

A Turn to the ‘Real Sector’

In a two-part report published in the Russian weekly newspaper *Slovo* in June-July, Prof. Stanislav Menshikov



Presidential Press and Information Office

President Vladimir Putin (right) has placed First Deputy Prime Minister Sergei Ivanov (left) in charge of several sectors of Russia's civilian industries, in addition to the defense industry. Putin explained that he expects Ivanov to guide "the expansion of the positive accomplishments in the military-industrial complex, into the civilian sector," adding that Ivanov would be in charge of "making our economy more innovative."

proposed that the outstanding event so far in 2007, the last year of Vladimir Putin's second term as President of Russia, was Putin's proclamation of "the need for shifting to an *industrial policy*, i.e., to active, direct government intervention in the process of production." Under the headline, "Industry's Lag, and a Turn to State Capitalism," Menshikov wrote that, "this fact may be seen as an important victory for the idea of government regulation, in its prolonged struggle with the advocates of neoliberalism, for whom the supremacy of the market and the minimization of the government's role in managing the economy are the highest principles."

There must be, Menshikov mused, "realists within the ruling elite." It must be, "that some careful analysis of the 'internal processes' of the Russian economy, done somewhere within the President's staff, or borrowed from realistic people who don't think like bureaucrats, revealed that the economy has many things out of order, and needs, at the very least, some capital repairs."

In the Introduction to his *The Anatomy of Russian Capitalism*, brought out by EIR News Service in March of this year, Menshikov posed a big question that remains open. Would the emerging "Kremlin industrial financial group," which has taken the upper hand in several industries, become merely another looting mechanism, or would it move towards "the transformation of the state sector into the main engine of growth in the Russian economy, countering the stagnation brought on by the oligarchical form of organization"?

Putin himself launched the campaign for an industrial pol-

icy, with a series of speeches and actions in February. On Feb. 6, he addressed a meeting of the Russian Union of Industrialists and Entrepreneurs (RUIE), with a first outline of his intentions. "We must take qualitative steps," he told them, "to change from simply exploiting natural resources, to fully processing these resources and, in turn, this must serve as the basis for the development of an innovation economy. . . . Russian industry's accent on raw materials increases its dependence on foreign markets and on the fluctuations of world prices. And Russia has already seen more than once how destructive, and sometimes how devastating, for the national economy this dependence can be. . . . One of our important economic priorities is to diversify Russian industry."

The RUIE conference where Putin spoke took place just two days before the highly publicized event, "The Lessons of the New Deal for Today's Russia and the Whole World," held at the Moscow State Institute for Foreign Relations (MGIMO)

to mark the 125th anniversary of Franklin Delano Roosevelt's birth. Top Kremlin officials attended, including Deputy Chief of the Presidential Administration Vladislav Surkov, while officials from former Prime Minister Yevgeni Primakov to Siberian regional governors were quoted in the media on FDR's dirigist economics as a crucial precedent for a time of crisis.

On Feb. 15, Putin shifted Sergei Ivanov out of the post of Defense Minister, naming him First Deputy Prime Minister, in charge of several sectors of Russia's civilian industries, in addition to the defense industry. At a government economic policy meeting the next day, Putin explained that he expected Ivanov to guide "the expansion of the positive accomplishments in the military-industrial complex, into the civilian sector." The President then visited the Ministry of Defense, where he said that Ivanov would be in charge of "one of the main directions" of government efforts, namely, "making our economy more innovative." For this purpose, he added, "it would be very important to combine the capacities of the military-industrial complex and the civilian sector of the economy."

The 4th Krasnoyarsk Economic Forum opened in that Siberian city, also on Feb. 16, under the banner "The Industrial Basis for Russia's Development." *Expert* magazine wrote that a highlight of the Krasnoyarsk Forum was the report by Vladimir Dmitriyev, head of the government-owned foreign trade bank, Vnesheconombank, which serves as the core of the newly commissioned Development Bank. The latter was established—the State Duma gave preliminary approval on Feb. 14—with capital of 70 billion rubles. That funding is equiva-

lent to only \$2.7 billion, but Dmitriyev said that, in its first five years, the Development Bank's assets would rise from \$8.9 billion to \$41.8 billion, while its capital will rise to \$6 billion. By 2011, the bank will have invested around \$35 billion into "infrastructure, the power industry, housing, agriculture, and the military-industrial complex," Dmitriyev said.

Next, Putin and Ivanov together took the campaign for a new model of industrial production to Volgograd, where a special session of Russia's State Council was held on Feb. 19. Discussions around that meeting gave a first look at what Russia's revamped government leadership would emphasize in economic policy. "The experience of successful industrial countries shows that a fundamentally new model for organizing industrial production is crucial—a model designed to advance innovation and promote competition among developers, suppliers and dealers," Putin said. Putin said he was concerned about the decline in the share of high-value-added goods in Russia's exports. Diversifying the economy by boosting the manufacturing sector was one of the priorities of Russian economic policy, directly related to the development of high-technology industries. "As the major shareholder of a significant part of our industrial assets," he said, "the government should influence the creation of a new industrial environment more actively." Government holding companies should become "truly modern business structures," but "establishing holding companies never was, and cannot be, an end in itself. Integration is justified only when it helps enterprises increase the profit margins of their production and expand their market presence."

Six months and dozens of speeches and interventions by himself and Ivanov later, Putin presided over cabinet-level meetings during the first week of August, focussed on the country's economic development. The deliberations started with a July 30 government meeting on Russia's first-ever three-year budget plan, which Putin introduced as "*for the first time, so specifically and in some depth, setting forth objectives for the development of the real sector of our economy.*"

In budget spending, Putin reported, "We have started to pay more attention to the real sector of the economy. The budget line that has risen the most is support for the national economy: for innovation programs, infrastructure, the aircraft industry, shipbuilding, and electric power, including nuclear power. This budget line has increased by 44.4%, to the level of 718 billion rubles. . . . The fastest rising line is spending for the nuclear industry: from 14 billion this year, to 60 billion rubles." (At that point, \$1=26 rubles.)

Putin took reports from First Deputy Prime Minister Dmitri Medvedev on the National Programs (housing, agriculture, health, and science), and First Deputy Prime Minister Ivanov, on the following day's planned session of the Military-Industrial Commission. In addition to an agenda item on industrial applications of new materials developed in the military sector, Ivanov mentioned rail, saying that he would

visit the opening ceremony of Russian Railways' new Center for Innovative Development, at Moscow's Riga Station, the next day.

On Aug. 1, the Kremlin publicized a follow-up talk between Putin and Ivanov, where the First Deputy Premier delivered a more detailed report on the performance of individual industrial sectors: machine-building for transportation and power, construction, steel, chemicals, wood-processing, and electrical equipment, as well as shipbuilding and aircraft production. In most of these sectors, except for shipbuilding, Ivanov reported rises in real output during the first half of 2007 that significantly outstripped the overall economic growth rate of 7.8%. Most dramatic were a 91% jump in the production of construction cranes, a 35% rise in dump truck output, and 29% for bulldozers. He stressed that the nuclear plant construction effort is beginning to be a significant growth driver for other industries.

Basic Economic Infrastructure: Nuclear Power

More than the changes within any particular branch of manufacturing, the science of physical economy looks for a healthy economy to be directing approximately half of its real investment into *basic economic infrastructure*—power, transport, and water management systems; together with the "soft" infrastructure areas of education, health care, and scientific research—and to do this with an emphasis on new technologies. Especially from that latter standpoint, what LaRouche calls the science-driver principle, Russia is not there yet. But the *intention* expressed by the very scope of the country's plans, unveiled over the past year and half, in the two key infrastructure areas of nuclear energy and railroad construction, points to the potential to get there. Another, related direction is the recently announced intention of Ivanov to push for a revival of the Russian machine-tool industry. These programs make a pointed contrast with the United States, which has yet to enunciate any such national commitment to a turnaround in abandoned sectors of critical infrastructure.

In an unusual interview with editor-in-chief Alexander Prokhanov of the influential nationalist weekly *Zavtra*, Sergei Kiriyyenko, head of the Russian Federal Atomic Energy Agency (Rosatom), told how directing Rosatom at the moment of its revitalization has changed his thinking about the market economy, and about Russia's future. *Zavtra* published their dialogue July 18 under the headline "Russia: The Atomic Vector."

Kiriyyenko, then in his thirties, was Prime Minister during the catastrophic state debt default of 1998. "I always had liberal economic views," he told Prokhanov. "But here, thinking about the [nuclear power] sector, I caught myself coming to conclusions that were different from what I had believed before. . . . Getting to know the nuclear power sector was a revelation. This strictest of the Soviet Union's planned systems, the closed atomic energy sector, incorporated competition throughout. And I stopped thinking that the market and



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Over the past year and a half, Russia has expanded its commitment in two key infrastructure areas: nuclear energy and railroad construction. Here, President Putin (center) visits the Russian Research Center of the Kurchatov Institute in Moscow; with him (left to right): Ivanov; Institute president Yevgeni Velikhov; Science and Education Minister Andrei Fursenko; and Institute director Mikhail Kovalchuk.

planned management are incompatible. You can have a balance. It all depends on what your goal is.”

Kiriyenko provided an overview of the planned revival of Russia’s nuclear industry, which was launched with his appointment to Rosatom at the end of 2005. “We need to build two nuclear reactors per year, beginning in 2011 or 2012,” Kiriyenko said back then (*EIR*, Feb. 10, 2006); whereas Russia’s 31 nuclear reactors account for 16-17% of the country’s electricity generation, construction of 40 new reactors would bring that share up to 25% by 2030. An interim goal, according to an Aug. 28 speech by Nikolai Spassky, Kiriyenko’s deputy, is to commission ten new nuclear power units by 2015.

In his *Zavtra* interview, Kiriyenko reported that Rosatom has five units already, or about to be, under construction during 2007: the second unit at Volgodonsk, and the fourth at the Kalinin plant are being built. The foundation has been laid for a unit at Novovoronezh and work will begin at Leningrad-2 and the Beloyarsk breeder reactor this Autumn. The Novovoronezh ground-breaking was the first such event in 20 years, nuclear power plant construction having wound down after the 1986 Chernobyl nuclear plant accident and the breakup of the Soviet Union five years later.

The skilled labor of the Soviet nuclear energy boom is still pre-retirement age, just barely: “With their experience and energy, they are stitching up the gap that we had. . . . If we did not have this breakout, this renaissance, . . . within five years we would have been unable to do it. That generation is departing.” Kiriyenko said that Russia’s nuclear power export proj-

ects—two plants, each under construction in China and India, and one in Iran—had been critical to keeping the sector’s machine-building and human resources from decaying due to idleness. In addition, innovative thinking by the partners on those projects, especially in India, helped prevent stale thinking from setting in for the older engineers. Twelve other overseas reactor projects are currently in negotiation, while French, Czech, and Korean machine-builders are important back-up suppliers of key power-generation technology for Russia.

Nuclear power will be essential for Russia’s Far East and Far North. “There has never been a nuclear power plant in the Far East,” Kiriyenko said, “but the development of that region requires one.” There are plans for a power plant in the Russian Far East, in conjunction with an aluminum factory. As for floating nuclear plants, “Today we are beginning to have demand for small and medium power units, especially in the

North. There’s natural gas, there’s new manufacturing; we are going to be moving farther to the North.” At the same time, the export market for Russian floating nuclear plants is large in hot climates, where some smaller countries can use the floating plants for water desalination, among other purposes.

Basic Economic Infrastructure: Rail

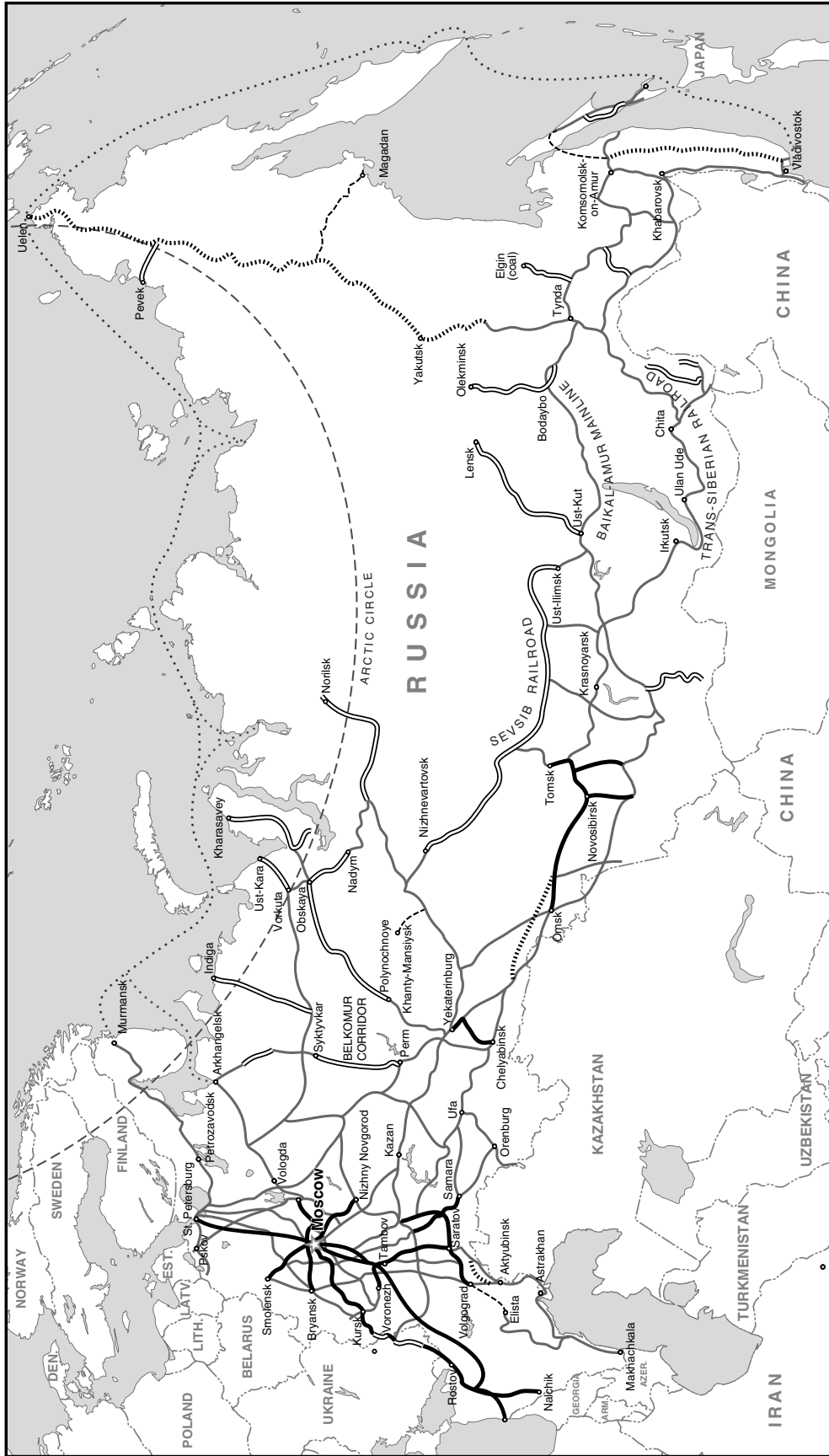
President Putin personally chaired the April 10 government meeting that adopted a national strategy for Russia’s railroad development up to the year 2030. Vladimir Yakunin, president of the state-owned company Russian Railways, presented the program at that meeting and has unveiled its details during a busy schedule of touring Russia’s far-flung regions.

Russian Railways employs 1.3 million people, or over 2% of the Russian labor force. From now to 2030, the company is planning to lay two-and-a-half times more track, than was laid in the entire 70-year Soviet period, the *Railway Review* reported in July. By 2010, some 14,000 kilometers will have been added to the Russian rail network. Planned investment in rail development for the 23-year period is up to 10.5 billion rubles, or \$404 billion at current exchange rates: \$17.5 billion annually.

The construction will proceed in phrases, involving several different types of rail line, as the overview map shows (**Figure 1**). In the 2008-15 period, the rail plan focusses on upgrading existing rail routes, including the construction of high-speed lines in the Western part of the country, with their hub in Moscow. Russia’s first high-speed

FIGURE 1

Planned Russian Railroad Development to 2030



- Existing railroads
- Planned high-speed rail corridors
- New freight railroads
- New railroads of strategic importance
- New railroads of social importance
- Northern sea route

Based on a map released by Russian Railways with the title "Prospective Topology of the Russian Federation's Rail Network Development until 2030," our map shows railroad upgrades and new construction, included in the government's plan for 2007-2030. The program was adopted in April 2007. Targetted high-speed rail corridors are centered on Moscow, Yekaterinburg, and in central Siberia. Among the "railroads of strategic importance," planned for construction between 2015 and 2030, is the 3,500 km line from the Lena River near Yakutsk to a Bering Strait crossing at Uelen. "Railroads of social importance" tie cities, which would otherwise be isolated, to the national rail network. Not all existing rail lines are shown. Many lines connect to railroads in adjacent countries, which are not shown here.

railroad, on the St. Petersburg-Moscow route, is to begin service in 2009, with completion of the project slated for 2012-14. Other high-speed lines from Moscow will reach to the industrial cities of Nizhny Novgorod and Samara on the Volga River, and to Sochi on the Black Sea, site of the 2014 Winter Olympics. Central Siberia is another target area for high-speed rail development, centered on the city of Novosibirsk, where the Trans-Siberian Railroad crosses the Ob River; Yekaterinburg in the Ural Mountains is another future high-speed terminus.

In 2016-30, construction will move on to projects defined as "strategic," including the 3,500-km Lena River-Uelen line to the Bering Strait and a potential tunnel connection with Alaska.

At a St. Petersburg conference on the rail program for 2030, Presidential Envoy for the Northwest Federal District Ilya Klebanov called the railways essential for "the defense of the country's national sovereignty and security, and preservation of a single socio-economic space." At that meeting, Yakunin presented details of the segments of a 1,200-km Perm-Syktvykar-Vendinga-Karpogory-Arkhangelsk railroad, known as the Belkomur Mainline. Providing a new outlet to the Arctic Coast from Siberia, the Urals, and the industrial cities in north-central European Russia, the Belkomur route is one of a number of Russian Railways construction projects that the company defines as "freight" lines.

At the 70th Session of the Executive Committee of the International Union of Railways (IUR), held in Moscow starting June 18, Yakunin stressed Eurasian transport corridors: "Today, the most urgent questions are those of developing interregional and transcontinental rail transport corridors, including Eurasian ones."

Foreign trade deals for railroad technology have already been contracted, showing the international cooperation potential that the Russian rail development program creates. On July 20, Germany's Siemens and Russian Railways held a ceremony in Krefeld, Germany, to celebrate the production launch for a new generation of trains called Velaro Rus. They are specially designed for the technological and natural conditions in Russia, including Russian wide-gauge track. Under the 576 million euro contract, signed in May 2006, Siemens is building eight trains entirely in Germany; Yakunin has voiced hope for additional locomotives to be built in Russia. The Velaro Rus trains will travel up to 330 km/h, will be 250 meters long, and can carry 600 passengers. They are intended, initially, for the St. Petersburg-Moscow route, as well as St. Petersburg-Helsinki.

Other deals were signed on the sidelines of the IUR conference. Russian Railways set up a joint venture with Germany, Poland, and Belarus to improve rail services and cargo traffic between Russia and Western Europe, announcing June 18 that it would "streamline the transportation process, improve the quality of services, and increase the volume of freight shipments along International Transport Corridor No.

2 linking Berlin, Warsaw, Minsk, Moscow, and Nizhny Novgorod." The venture is worth some \$65.3 million. It will coordinate different rail gauges, customs regulations, and other matters to cut travel time. The four partners are considering extending the route to Yekaterinburg, in the Urals, and eventually linking it to the Siberian rail network.

On June 21, Hartmut Mehdorn, the chairman of Deutsche Bahn, and Yakunin signed a logistics agreement, which the *Frankfurter Allgemeine Zeitung* described as a breakthrough, after lengthy negotiations. According to the report, both sides stressed that "German and Russian railways are not in competition, but are friends, who want to optimize traffic." In a remarkable statement, the two executives added, "The land-bridge between Europe and Asia is no longer a vision for the future, but it is reality." Mehdorn and Yakunin both expressed confidence, that China could be integrated into this joint project within the next year.

On June 18, Ukrainian E-news reported, Yakunin also signed a memorandum of understanding with Vladimir Kozak, head of Ukraine's Railway Administration, on extending wide-gauge track westward through Slovakia to Vienna, Austria. Ukraine is to provide technical expertise for the project, which may include a new logistics center.

Regional Megaprojects

The projected new freight lines of Russian Railways are chiefly northern routes: the Sevsib, or "North Siberian" line Nizhnevartovsk-Ust-Ilimsk; the Polunochnoye-Obkaya line, with spurs to Nadym and to the Arctic coast, which is part of the Industrial Urals-Arctic Urals project promoted by Presidential Representative in the Ural Federal District Pyotr Latyshev; and Belkomur. Being associated with existing, as well as not-yet-developed natural resources, these freight lines are the focus of considerable controversy.

The Presidium of the Russian Academy of Sciences held a session June 26 on implementation of the Industrial Urals-Arctic Urals scheme, a design for the industrial development of the northern Ural Mountains region, which extends above the Arctic Circle. Like the conference on a Bering Strait tunnel crossing, held April 24 (*EIR*, May 4 and 11, 2007), the meeting brought together top government officials with leading members of the Academy of Sciences. The Academy's joint commission with the Ministry of Economics, the Council for the Study of Productive Forces (SOPS), is active on both projects.

Latyshev addressed the meeting, as did Academy of Sciences President Yuri Osipov, the nuclear physicist Academician Yevgeni Velikhov, and Academician Alexander Granberg, the head of SOPS.

The Ural Federal District extends from the southern end of the Ural Mountains, northward to Russia's Arctic Ocean coastline. It includes two cities of over a million people—Yekaterinburg and Chelyabinsk—as well as much of the West Siberian oilfields, centered around Tyumen. Those industrial

and population concentrations are in the southern part of the district. The Ural Federal District produces 92% of Russia's natural gas, 67% of the oil, has 45% of the steel industry, 42% of non-ferrous metals production, and 34% of machine-building. The fact that only 10-12% of the northern reaches of the district have been subjected to thorough geological study, Latyshev said, indicates that substantial new resources can be found and developed.

According to regional media, Latyshev said that the Industrial Urals-Arctic Urals plan was first outlined 18 months ago, and has now taken shape as a project "to create a unique industry and infrastructure complex, based on developing the natural resources of the arctic and subarctic Ural region, together with key elements of new basic transport and energy infrastructure." The Academy of Sciences, Latyshev reported, has done a huge amount of work, especially to relaunch geological studies of the area, and plan the infrastructure side of the project.

"The core of the transport infrastructure under this project will be a rail line along the east slope of the Urals from Polnochnoye to Obskaya," Nakanune.ru quoted Latyshev as saying. "Together with the Obskaya-Bovanenkovo and Obskaya-Salekhard-Nadym lines, which are under construction, this will create a fundamentally new transport scheme for the North of the Russian Federation. Forming a transportation ring, it will provide the shortest route linking the Ural industries with the resource deposits of the arctic and subarctic Ural, and with prospective new oil and gas fields on the Yamal Peninsula, as well as providing an outlet to the Northern Sea Route." These rail lines have already been incorporated into the federal rail modernization program. In the plan, drawn up chiefly by the SOPS under Academician Granberg, 2.55 gigawatts of new power generation capacity will be built, along with setting up 60 new mining and ore-processing companies.

A map produced by the Industrial Urals-Arctic Urals company that is overseeing the Ural project shows the main new rail route lined by deposits of coal, iron ore, titanium and manganese ores, gold, platinum, quartz, copper, chromium, alumina, tantalum-niobium ore, bentonite, and precious gemstones. At the end of August, however, economists and geologists from the Ural Branch of the Russian Academy of Sciences went public with questions about the possible overstatement of those resources by the project's promoters. The publicity in regional media around their airing of doubts at a public event in Yekaterinburg on Aug. 29 was intense, and full of hints that the project, and its associated financial flows, had become a political football in the arena of this year's federal elections, as well as an issue in recurrent tensions between regional and federal authorities over the management of Russia's resource development.

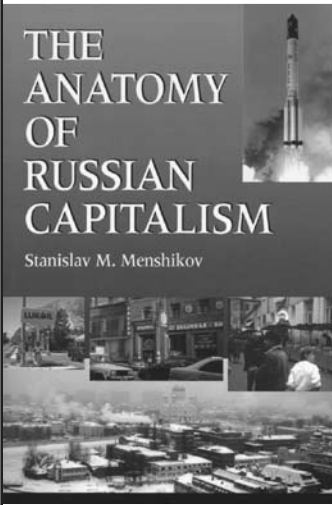
Have the rail routes been chosen from an optimal standpoint for the national interest, or on the basis of regional officials' political clout? Has the rate of confirming mineral re-

sources through geological evaluations recovered sufficiently from its post-Soviet slump, to justify a resource-extraction megaproject in the far North? Are there enough qualified geologists in Russia to do the prospecting now? Where will the rest of the project's labor force come from, as Russia faces a grave manpower shortage in the years ahead? Over and above political innuendo, those are among the real physical-economic questions, raised by the Ural scientists.

The Far East

All of those problems, and more, exist for the huge expanses of Eastern Siberia and the Russian Far East—the areas through which the Eastern Siberia-Pacific Ocean (ESPO) oil pipeline is being built, and where the future strategic rail line to the Bering Strait would run. The Siberian Federal District and the Far East Federal District, encompassing Russia's territory east of the Urals, had a combined population of about 26.8 million according to the 2002 Census, or 18% of the national population of 145.2 million at that time. Russia's population has continued to decline since then, approaching 142 million.

Russia's Far East has been losing population at a faster rate than other areas, due to the collapse of work, energy, and infrastructure there since the demise of the Soviet Union. As of 2002, only 6.7 million people lived in the Far East Federal



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Courtesy of Yuri Krupnov

Yuri Krupnov has spearheaded a campaign to locate a model infrastructure and manufacturing concentration in Russia's Far East. The campaign, called "Svobodny Cosmodrome," hinges on Russia's little-known third space launch facility, located in the Amur Region near the Chinese border. Here, a satellite launch from the Svobodny Cosmodrome.

District, or 14% fewer than at the close of the Soviet era a decade before. Putin has made the regeneration of the region a national priority, without which the territorial integrity of the Russian Federation will be in question. At a special Security Council meeting in December 2006, the President mandated the drafting of a strategy for the development of the Far East and Transbaikalia (areas east of Lake Baikal).

A cabinet meeting on Aug. 3 took up the development of these eastern territories from now until 2013, for which the Russian government has budgeted 566 billion rubles (\$22.3 billion). Prime Minister Mikhail Fradkov, who carries overall responsibility for this area, put Deputy Prime Minister Sergei Naryshkin in charge of the funds. The initial tranches will be disbursed as part of the three-year budget for 2008-10. The program includes \$5.8 billion to modernize Vladivostok, Russia's most important Pacific port, before the Asia Pacific Economic Cooperation (APEC) summit that Russia wants to host there in 2012. The plan also provides for rebuilding 22 airports and 13 seaports, while building a modern ferry terminal for traffic to Sakhalin Island, 6,500 kilometers of roads, and expanded power and gas lines.

High-Tech Development Corridors: The Case of Svobodny Cosmodrome

Whether or not the government's commitment of resources, supplemented by suggestions like Fradkov's plan to organize youth construction brigades for the region, is adequate to keep Russia together and allow the country to rise to its role as a the keystone of Eurasian development, is hotly debated inside Russia. For the most advanced Russian thinkers about economic development, this discussion is an opportunity to break through to a superior conception.

EIR of Feb. 9, 2007 published an interview with Prof. Yuri Gromyko, academician of the Russian Academy of Natural Sciences and director of the Institute for Advanced Studies, and Yuri Krupnov, who heads two new Russian institutions, the Development Party, and the Institute for Demography, Migration, and Regional Development, about the ideas contained in their pamphlet, *Advancing Civilization Through Transportation*. Central to their proposals is the concept of a high-technology, industrially integrated development corridor, which has been popularized in Russia by LaRouche and his movement since the presentation at the State Duma of LaRouche's "Memorandum: Prospects For Russian Economic Revival" in 1995 (see below).

Gromyko and Krupnov pointed out that the great majority of nuclear plants planned by Rosatom at present, are to use Soviet-era VVER-1000 water-cooled reactors, rather than new designs. As for rail infrastructure, Gromyko proposed that "Russian Railways could become the corporation to serve as a base for the creation of development corridors, which would go beyond the limitations of mere transportation corridors, and would tie together industrial innovation zones and new industrial manufacturing cluster zones. If this happens, the transportation corridors could become the basis for establishing a brand new, special institution: a vertically organized All-Russian Projects Authority, which would look after the development and implementation of new projects by various groups of entrepreneurs, interacting with the state, while the state would maintain primary control over the large-scale infrastructure projects and the relevant financial flows. These approaches would be a Russian counterpart of the Hamilton-List economic schemes, which proved so effective in the United States in their day."

In recent months, Yuri Krupnov has spearheaded a campaign to locate a model infrastructure and manufacturing concentration in Russia's Far East. It would exemplify what Krupnov's associate Serafim Melentyev, in a recent commentary on the KM.ru website, called the "serious, large-scale, breakthrough projects to develop entire areas, without which it will be impossible to hold [the Far East] and keep the population there."

The campaign is called "Svobodny Cosmodrome," because it hinges on Russia's little-known third space launch facility, located in the Amur Region near the Chinese border. The launch site was developed in the 1990s, as a back-up for

the main Soviet space launch site, Baikonur, which was no longer in Russia; Russia rents Baikonur from Kazakstan now. The country's second launch site, Plesetsk, is at a northern latitude that is unsuitable for many satellite launches.

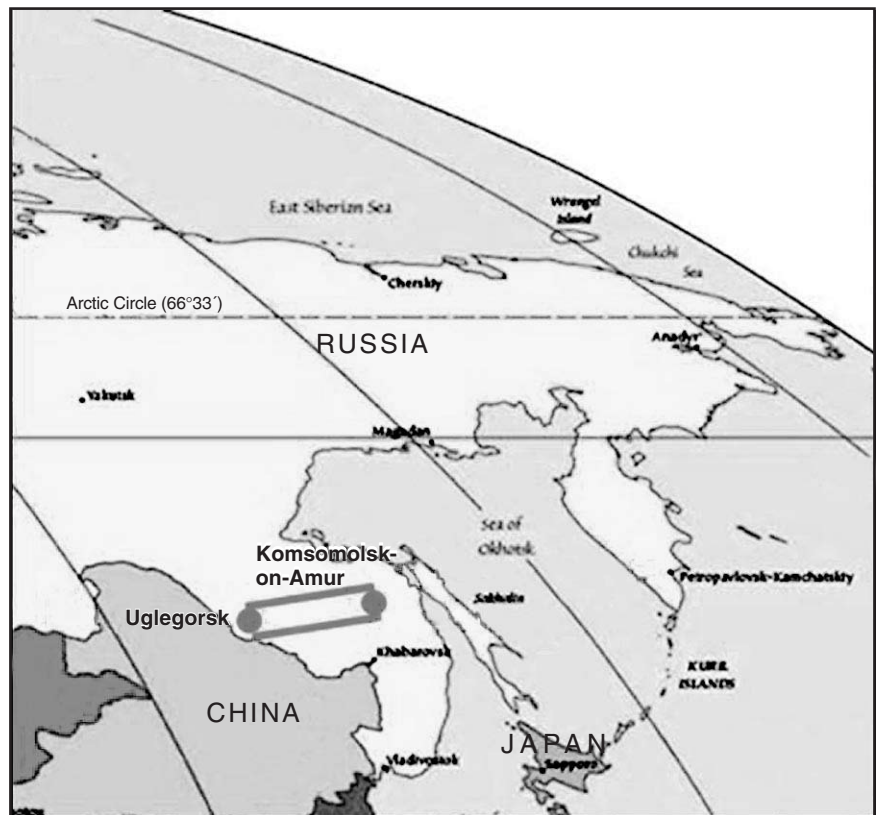
Svobodny only ever carried out a handful of launches, mostly of foreign satellites on a commercial basis. In late 2006, Putin signed off on a decree to mothball it as a Russian military site, and disband the force assigned to the cosmodrome. While some prominent military men opposed the shutdown on military-strategic grounds, Krupnov developed the campaign not merely to *save* the Svobodny Cosmodrome, but to transform it into a Far East Space Cluster of industrial development, with the adjacent settlement of Uglegorsk becoming one pole of an Uglegorsk-Komsomolsk-on-Amur development corridor (**Figure 2**).

Central to the conception would be to make the area a magnet for immigration from other areas of Russia, and abroad, as part of reversing the outflow of people from the Far East. With a population of 873,000, the Amur Region's population density is 2.4 people/km², which is less than 3% of the population density of 80/km² across the Amur in China's Heilongjiang Province. Krupnov's program proposes to raise the population of Amur Region to 1 million within five years, by attracting Russian émigrés to repatriate to this location, as well as people to move there from within the country.

Incoming governor of the Amur Region Nikolai Kolesov, who was transferred there from Tatarstan by Putin in June, envisions development of the regional economy based on the timber industry, soybean production, space technologies, machine-building, and transportation and energy infrastructure. In this framework, Krupnov's program proposes to retain the 2,000 skilled personnel of Svobodny, and their families, on site, preventing the loss of over 5,000 people from the region, and putting them to work in industries ancillary to a full-fledged space center.

Building up the Uglegorsk-Komsomolsk-on-Amur corridor, Krupnov proposes, could have a far-reaching impact on the entire Far East. It would become a catalyst for industrial development in Khabarovsk Territory and the revitalization of the Baikal-Amur Mainline (BAM), the "second Trans-Siberian," whose potential was never exploited in the late Soviet and post-Soviet period. **Figure 3** shows the main infrastructure elements of the corridor between the BAM railroad and the Trans-Siberian, running by Svobodny and Uglegorsk.

FIGURE 2
Proposed Uglegorsk-Komsomolsk-on-Amur Eastern Development Corridor



Courtesy of Yuri Krupnov

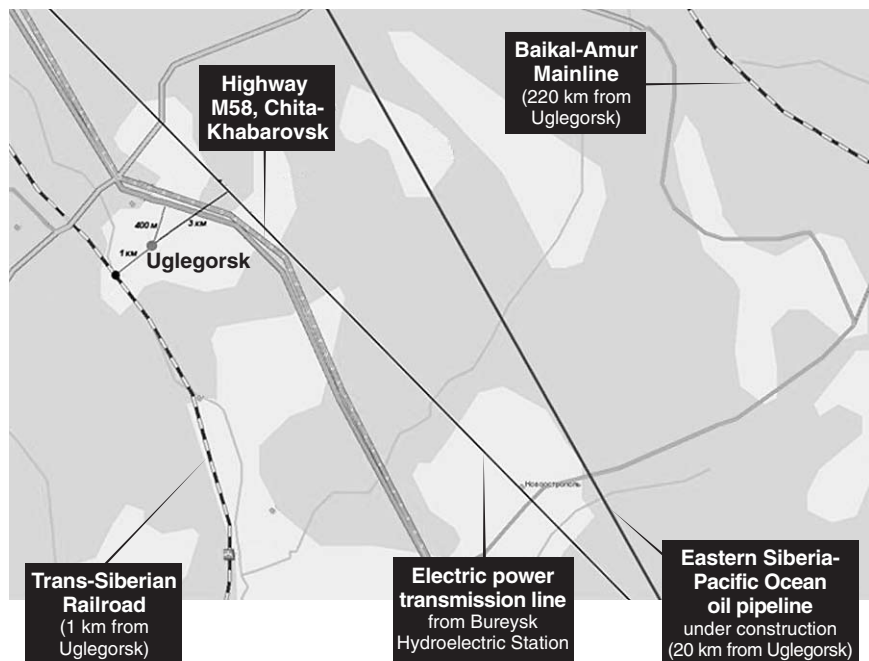
In addition, Krupnov emphasizes the potential for increased trade with China, Japan, and Korea, and not only the export of Russian raw materials.

On June 6, the just-installed Governor Kolesov hosted a visiting delegation from Moscow, tasked with making a decision on the fate of the Svobodny Cosmodrome and the Uglegorsk military settlement. Presidential Representative in the Far East Federal District Kamil Iskhakov told Interfax and AmurPolit.ru that Svobodny most definitely should be kept as a launch facility, though no longer a military one. Others in the delegation were Defense Minister Anatoli Serdyukov and Deputy Head of the Presidential Administration Victor Ivanov. Yuri Krupnov presented to the meeting an Institute for Demography, Migration and Regional Development project study, "Creation of the Svobodny Far East Space Cluster."

The Next 50 Years

A government decision on whether to locate a Far East space facility at Svobodny, or on the Pacific coast in the Maritime Territory, is awaited this Autumn. A choice of Svobodny, given how the discussion of economic ideas has developed around it, will point in the direction of technological and

FIGURE 3
Corridor Infrastructure



Major rail, road, and energy infrastructure already exists or is under construction in a corridor running through the southern Amur Region, where the Svobodny Cosmodrome and the associated town of Ulegorsk are located. Distances are not shown to scale; the Baikal-Amur Mainline is not immediately in this corridor, but is 220 km to the northeast.

social innovations that are far more promising for Russia, than mere fire-brigade actions to save what's left of the industry inherited from the Soviet military-industrial complex.

There are other hints of a move towards a genuine science-driver concept in Russia's new industrial policy. Russian Railways spokesman Sergei Slutskov, interviewed in July by *Moscow News*, said that his company was interested in technologies "even more advanced than high-speed rail, such as magnetic levitation monorail systems," as the paper reported. "We are looking at all possible technologies," said Slutskov.

Also noteworthy, was a flurry of activity in July around the need to revive the machine-tool sector. In a decade and a half, Russia has fallen from third place in the world to 22nd in the production of these machines for producing machines. On July 20, Deputy Minister of Industry and Energy Andrei Reus briefed the Government Commission on the Development of Industry, Transport and Technologies on the likelihood that several independent machine-tool producers will merge into a single holding company. A week later, Sergei Ivanov visited the Ivanovo Heavy Machine-tool Factory in the military-industrial city of Ivanovo, to chair a seminar on the future of the machine-tool industry. He said that private ownership was likely to remain within the industry—unlike auto and shipbuilding, which are now dominated by large,

state-owned holding companies—but that the government will step in to finance machine-tool R&D for specific projects. Ivanov announced the planned creation of an Engineering Center for machine-tool development, incorporating the staff and capacities of several design bureaus, as the R&D shops of the old Soviet military-industrial sector were called.

Even in the popular press: A quasi-satirical futurological scenario for the political fate of Russia over the next decades, published June 26 by the APN agency of Stanislav Belkovsky's National Strategy Institute, incorporated the Bering Strait rail crossing—with innovative technologies like "string transport"—as a development that is bound to happen. Looking at the first quarter of the 21st Century as if from later on, author Vadim Shtepa "recalled" how Russia leapt to prosperity as a "developed northern country," and that it happened "as something quite obvious, once the transcontinental string rail line was built across the expanses of Russia and over the Bering Strait. This is where the Stabilization Fund was invested, which the

previous regime had kept in American banks. . . . And along that railroad there arose a great number of new, modern, small cities, with all the global links they need. And the inhabitants of the expensive megalopolises began to flock there." APN included a link to www.unitsky.ru, Academician Anatoli Yunitsky's site on his "string transport" innovation, which *EIR* wrote about last year.

The current breakdown of the speculation-based post-1971 global financial arrangements is the perfect occasion for Russia to shift full-force into technology-driven development policies—not alone, but in cooperation with other nations that choose to be sane. As LaRouche said Aug. 27, in reply to Italian economist Giorgio Vitangeli, "Without U.S.A. cooperation with Russia, China, and India in creating a nucleus around which to bring in other nations, the needed organization of a revival of the physical economy would lack the indispensable 'political detonator' which the launching of such a general reform requires. If relevant forces in the U.S. present that proposal, to form a sponsoring body for the assembly of a broader range of nations (as a coalition within the UNO) to Russia, China, and India, it were reasonably certain that Russia would accept a serious such proposal, and, with Russia's participation, the conditions for the formation of a sponsoring group of the four will exist."