the danger to the United States of a Russian reaction.

Kim and Putin put the "Iron Silk Road" up front. "The two leaders also saw eye to eye on the need to add an impetus to their economic and trade relationships covering energy, science, and technology," the communiqué said. Seoul and Moscow have agreed "to press ahead with a tripartite economic endeavor involving the two Koreas and Russia, to establish a transportation cooperation committee to promote freight traffic in Northeast Asia, and to actively seek trilateral economic cooperation among South and North Korea and Russia regarding the joining of Trans-Korean Peninsula Railroad and Trans-Siberian Railroad."

If connected by rail, "Russia, South Korea, and North Korea would be in the center of the 'Iron Silk Road' linking the European and Asian continents," President Kim said, at a press conference with Putin. "It is my dream to have an 'Iron Silk Road' linking Korea with Europe." Putin added that North Korean leader Kim Jong-il had expressed interest in this during their talks in Pyongyang. "The project would make the policies of countries in this region more predictable because they will be inter-linked," Putin said. He also stressed that it would increase freight from East Asia to Europe from the present 25,000 containers a year to up to 600,000 containers within five years. Such large multinational projects, he said, make "all in the region winners."

Putin, whose country's economy has been decimated by the IMF, showed such strong support that he offered several hundred million dollars to improve North Korea's rail system.

Also discussed was the Irkutsk gas pipeline, which would extend hundreds of miles from Russia's Mongolian border and run the length of North Korea into the South; related Siberian energy projects; and a joint industrial development zone in Nakhodka, Siberia. These would bring both Koreas, and Japan, a new energy independence from the Western oil cartel, and jumpstart Russia's economy.

None of it can be done under today's IMF system.

Koreans Decide Their Own Fate

With the North-South Summit last June, Korea's two leaders have put themselves on the stage of world history. Korea is now positioned to decide its own fate, It is this collaboration, and its potential as part of the ASEAN-Plus-3 alliance, which is causing the Bush league to attack China and North Korea, while the IMF tries to bring down Kim Dae-jung. Pyongyang's missiles are irrelevant.

As Princeton Prof. Kent Calder wrote in the New York Council on Foreign Relations (CFR) magazine *Foreign Affairs* in January, "For the first time since World War II, Seoul and Pyongyang—rather than Washington, Moscow, or Beijing—are driving events. The two Koreas sense they were on center stage. . . . Washington was left behind, after dominating Korean diplomacy for decades."

Worse for the CFR, "A glance at the map, suggests the power of the forces being unleashed. . . . Peninsular cooperation could transform North Korea from a barrier into a bridge—to Russia, China, and the world beyond. A lack of domestic energy resources, coupled with rapidly rising demand for energy, gives North and South Korea a shared economic motive to develop common railways and pipelines northward to exploit Siberian gas and trans-Siberian shipment opportunities."

In the March *Foreign Affairs,* the CFR is more desperate. "The problem now is that East Asia, for the first time in history, is creating an economic bloc," C. Fred Bergsten wrote, and nations in the region are "clearly headed toward creating their own monetary arrangement."

CFR types are so panicked, that Selig Harrison, the U.S. Establishment's lead Korea analyst, urged in the same *Foreign Affairs* issue, that Washington dump the Armitage policy and offer to start armed withdrawal from Korea—anything to put the United States back in the game. "Kim Dae-jung and Kim Jong-il are trapped in a cycle . . . facing domestic opposition," he wrote. "Only the United States can break the cycle." Harrison's offer "is nonsense," an Asian expert told *EIR*. "There is no chance of Washington adopting any of the policies he recommends, and he knows it. He only wants to get the Americans back in control."

Shock Waves on Foreign Debt, Energy Rock Moscow

by Rachel Douglas

If the mid-February financial earthquake in Turkey could pull the Russian stock market down by 10% in one day, as investors liquidated assets in their Russian portfolios to cover losses in Turkey, what will happen in the heavily dollarized Russian economy when the United States makes its hard landing and the dollar collapses? In the words of one well-placed economist, that will unleash the proverbial "ninth wave," the one the sinks the ship, onto Russia.

The Russian government and Parliament are already in an uproar over debt and revenues. On Feb. 13, a few days before the tremors at the Turkish epicenter of the world financial crisis touched off vivid recollections of Russia's default in 1998, the Russian government had announced the end of expectations of reaching agreement on rescheduling its Soviet-era "Paris Club" debt to Western governments, during this year. Therefore, Minister for Economic Development and Trade German Gref said that day in Berlin, Russia will service its foreign debt in full during 2001, paying *$7 billion in Paris Club debt service alone, out of total budget spending that is equivalent to $40 billion.* (The Soviet-era London Club and Paris Club foreign debts of Russia total to $105 billion, out of a total official foreign debt of $149 billion.)

Gref was in Germany, according to *Kommersant-daily,* to hand German negotiators a list of seven projects in which German investors could participate, in exchange for writing off Paris Club debts (of which Germany holds 40%). The next week, Prime Minister Mikhail Kasyanov sought similar arrangements in Italy. These negotiations are far from complete. In the meantime, talks with the International Monetary Fund, which has, once again, dangled a $1.7 billion so-called "precautionary" credit for Russia—a loan that Russia would not have the right to draw upon, unless a financial emergency occurred, but for which it would have to meet conditionalities—ended inconclusively on March 1.

It emerged, in a *Wall Street Journal* article of Feb. 16, that the Russian government's will-pay announcement came two days after U.S. Treasury Secretary Paul O'Neill sent a nasty letter to Finance Minister Aleksei Kudrin, in which he said that Russia "clearly has the resources" to make payments due this year, "in full and on time." O'Neill added, "Nations of the good-faith club do what they said they would do. . . . For us, this is a financial and economic issue, not a political issue."

In Moscow, however, it is a very hot political issue, in the setting of a high level of hostility toward the United States. State Duma (lower house) Budget Committee Chairman Aleksandr Zhukov said Feb. 14, that Russia could end up in technical default (for the first time, on *foreign* debt payments; the 1998 default was on ruble-denominated government bonds), if the Duma refused to adjust the 2001 budget to cover the payments. The original budget assumed the Paris Club debt would be restructured. Without Duma approval, Zhukov said, "the government will have no legal right to pay the Paris Club."

On Feb. 13, Prime Minister Kasyanov formally sent budget amendments to the Duma, defining the sources for extra revenues, to be used for debt service. He warned that otherwise, "inflation may go out of control, bank lending rates spiral upwards, industry will have no chance to receive credit, and wage increases will have no impact."

In talks with Kudrin on Feb. 15, only the Yedinstvo (Unity) bloc in the Duma was ready to back the allocation of surplus budget revenues, for purposes of debt service. The National Patriotic Union, of which the Communist Party is a member, declared on Feb. 13 that it would be "immoral and unacceptable" to pay, while Vladimir Lukin of the Yabloko party said that there was still political leverage with which to achieve restructuring. On Feb. 22, the Duma approved the intended allocation of new revenues to debt service, but deep-sixed Kasyanov's main proposed means of obtaining those revenues—privatization of more state-owned companies—thus leaving the whole proposition in limbo.

Serious Mistakes

In an interview with *Nezavisimaya Gazeta,* dated Feb. 13, former Prime Minister Yevgeni Primakov suggested that skipping the January Paris Club payment had been "a serious mistake," especially "in light of the shock of August 1998, when confidence in our country was destroyed. We have barely recovered from that shock, and we are having a hard time restoring trust, step by step." Primakov went on to list "food procurement" and "the energy sector" as problems just as severe as the foreign debt crunch, if not more so. He endorsed President Putin's recent acknowledgment that, as the interviewer put it, "the life-support crisis, provoked by the cold throughout half of Russia's regions, gave us a warning of a systemic crisis." Primakov drew attention to a pressing debt crisis of a different sort, namely, the failure to "upgrade our fixed assets" (plant and equipment, and infrastructure) during the past decade.

After the Duma vote on Feb. 22, Primakov welcomed the exclusion of new privatization auctions from the revenue-raising plan. "Common sense has prevailed," he said, as the troubled energy sector will remain in government hands.

Brutal Winter weather in Siberia and the Far East, with which the country's under-maintained infrastructure could not cope, has already occasioned serious government shake-ups in Russia. It is evident that the firing of V. Nazdratenko as Governor of the Maritime Territory, Russia's Far East, did not, in and of itself, mark a watershed in economic policy, but was an urgent move to discipline at least somebody, for the freezing Winter the residents of Vladivostok have endured.

Nazdratenko, summoned to Moscow, conferred with President Putin in mid-February, and then was named Minister of Fisheries. Just before meeting Putin, he gave a polemical interview to *Kommersant-daily,* published on Feb. 15. The ex-governor laid the blame for the Far East's horrible fuel shortages, squarely on the International Monetary Fund. "The problem is not in the personalities of today," he said, "but in the serious economic management mistakes during the period of 'democratic romanticism.' There were legends about us: that we steal coal, we have no emergency coal reserves, we have plenty of coal but don't send it to the power plants, etc. . . ." Yes, coal is mined in the Far East, Nazdratenko explained, but "it is destined for export." So, "organized crime lives well, because all forces are mobilized to combat Nazdratenko, who says: 'Don't close the coal mines on orders from the IMF!' "

Nazdratenko said that he was the one who had warned, seven years ago, that if Russia stopped fishing the Sea of Okhotsk, it would be invaded by foreign fisheries, and it was. "Now this sea is empty as a drum."

On Feb. 16, President Putin did fire more energy and financial officials: Andrei Zadernyuk from the post of director of the Federal Energy Commission (FEK), and Georgi Tal, head of the State Committee for Financial Bankruptcy Proceedings. The new head of FEK, Georgi Kutovoy, is a deputy of Nuclear Energy Minister Yevgeni Adamov, and a strong opponent of the plan to break up the national electricity grid, UES, promoted by its CEO Anatoli Chubais.

In his Feb. 13 interview, Primakov praised Putin for having backed off from Chubais's British Commonwealth-modelled plan for the sale of chunks of UES, calling the plan "counterproductive." According to Primakov, "The power grid must cover the entire country; splitting it into several parts would be fatal. As for its condition, its fixed assets are obsolete."

Presidential adviser Andrei Illarionov said on Feb. 14 that a three-day meeting of the working group on reform of the Russian power industry had just received nine different blueprints for this critical policy matter. The group is chaired by Tomsk Province Governor Viktor Kress. On Feb. 16-17, Putin took the train to the freezing cities of Tomsk and Omsk, in West and Central Siberia, visiting apartment buildings without heat, gas, or water.

Back in Moscow, rumors sweep the press and Parliament every other day, that the next head to roll, will be Kasyanov's. The liberal paper *Segodnya* published a scenario, under which ex-Prime Minister Gen. Sergei Stepashin would resume that role.

A Policy Shake-Up?

The more interesting question, is whether there will be a shake-up of *economic policy* in Russia, not merely personnel. Several leading analysts seized the occasion of the Paris Club debt debate in the Duma, to publish bold proposals for a global shift.

Dr. Leonid Fituni, writing in *Nezavisimaya Gazeta* on Feb. 22, argued that "Russia has nothing to lose," by defaulting on Soviet debts. Fituni, now director of the Center for Strategic and Global Studies of the Russian Academy of Sciences, titled his commentary "Default as a National Idea." He proposed to consider the $1,100, which each Russian man, woman, and child would have to pay on the foreign debt, as illegitimate. That debt ballooned from $48 billion in 1988 to $68 billion in 1991, then $122 billion by 1994, but those credits were not issued for economic development. They were tied to dismantling the Soviet military machine, privatizing industry, and splitting up the former U.S.S.R. Since the Russian Orthodox and Islamic faithful, who constitute the main segments of the Russian population, are morally opposed to usury, the legitimacy of the debts should be open to question in the minds of a majority of the population.

People who argue that Russia should pay the debt, warn that a default would scare away investors, Fituni pointed out, but there are no significant foreign investors to scare away. Therefore, he concluded, Russia should prioritize its debts to the Russian population—which take the form of unpaid salaries and pensions, stolen bank deposits, and unfulfilled state obligations for free education and medical care.

Nikolai Baibakov, Chairman of the Soviet State Planning Commission (Gosplan) from 1965 to 1985, marked the 80th anniversary of that agency with an interview in *Nezavisimaya Gazeta,* in which he emphasized the failure of "the market" to shape the Russian economy in any productive direction. Noting that a group of regional governors has recently appealed to President Putin to study the successes of Gosplan, Baibakov reviewed the agency's productive allocation of funds and physical resources, which made it possible to build up Soviet industry, create a vast cadre of engineers and technicians, and prevail during World War II. A new state agency, he proposed, could combine the workable elements of Gosplan's experience, with successful approaches tested in the economic reform process in China, which has combined state planning with the development of markets, and has realized an average real growth of 8% per annum for the last 20 years.

Economics Minister Gref has just made a visit to China, to study that experience of reform.

Academician Aleksandr Nekipelov, Director of the Institute of International Economic and Political Research at the Russian Academy of Sciences, published in the Feb. 23 *Izvestia,* his analysis of the "mutant and ugly" economic relations, resulting from "the illusion that Russia's progress toward democracy and a market economy would bring about idyllic relations with the West." The Western officials who promoted reforms, he charged, actually launched the corruption and money-laundering, for which they subsequently tried to ostracize Russia.

Nekipelov wrote that Russia should "derive appropriate lessons from this experience . . . [and] get rid of the specific inferiority complex, which is expressed in the assessment of any economic decision, not approved by the West, as *a priori* erroneous. Russia has too often faced recommendations from Western authorities which brought nothing but damage."

Specifically on the banking system, Nekipelov echoed arguments of the Ishayev Report (excerpted in *EIR* of March 2, 2001), of which he was one of the co-authors: "An idea is being promoted now that Russia's banking system is good for nothing, and therefore, we should leave the doors for foreign banks wide open. There is no doubt that capitalization of Chase Manhattan alone is larger than that of all our banks together. But is it true that Russian banks have no resources for financing economy? On the contrary, specialists are aware of the fact that they can't efficiently invest their assets, and keep part of them on the accounts of the Central Bank." The Ishayev Report elaborates, how such resources can be harnessed for purposes of investment in the real sector.