

Russia Looks to Europe, Asia for Partnership

by Rachel Douglas

The main demand in Vladimir Putin's first Presidential Message to the Federal Assembly, delivered in July 2000, was to save Russia from disintegration, through the consolidation of a "strong and effective state." Less than a year later, on April 3, his second such annual report on the state of the Russian Federation (R.F.) centered on that unvarying commitment. "The strategic task of the past year, was to strengthen the state," he said. "Today, it can be said that the period of the disintegration of statehood is behind us. The disintegration of the state . . . has been halted." He was referring both to the insurgency in Chechnya, and to separatist tendencies in regional legislation and economic practice.

On the eve of presenting his Message, Putin made the first major personnel changes of his tenure, focussed on the military, security, and military industry. He brought his long-time associate, Sergei Ivanov, from the Security Council, to head the Defense Ministry, where he will oversee the long-disputed reform of the military.

In the setting of his unchanged commitment to a strong state, Putin presented a package of policies that are in flux, especially in the crucial domain of economic policy. For what *has* changed for Russia during the past nine months, is the world in which it lives. An accelerating process of global financial meltdown is now evident to all.

Inasmuch as Russian national culture's quality of possessing the sense of wielding power on a world scale—a quality unique to Russia, the United States, and the United Kingdom, among leading powers today—has been featured in the analytical writings of Lyndon LaRouche in recent issues of *EIR*, there is no better lens, through which to see the political thinking of President Putin, than the one offered by LaRouche in reply to a question from the late Prof. Taras Muranivsky last year. LaRouche urged looking not at Putin in and of himself, nor at individual utterances of his, but at the universe in which his "orbit" traverses, like the orbit of a planet moving in the Solar System. LaRouche said: "Russia is not an independent entity. It's living in an Anglo-American-dominated New World Order. . . . What is going to happen with Putin's options, on the day when what he believes will not happen, will happen? When this system disintegrates—the system to which he's adapted. . . . We would hope that the present government of Russia would reform itself, in conformity with the reality, which we know exists."

On April 3, Putin took note. The global crash was now a

strategic factor for Russia, as the President expressed "concern over the deterioration of a number of key economic indicators, especially on the backdrop of the unstable development of the world economy."

Russia and Europe

Where is the "Anglo-American" component in Russian foreign policy today? Putin's Message was striking for his omission of any mention of the United States. This silence was not merely a reaction to the puerile, often provocative postures of the Bush Administration toward China, the Middle East, and Russia itself. Russian foreign policy is less in a reactive mode, than an active search for economic and political partnerships that can yield palpable benefits.

The same goes for the Russian government's decision, announced on March 28 by Minister of Finance Aleksei Kudrin, not to sign a "Joint Declaration of the Russian Federation's Government and Central Bank on Cooperation with the International Monetary Fund" for 2001. Such annual agreements permitted line-by-line IMF inspection of Russian economic decisions throughout the 1990s. The quasi-official website Strana.ru headlined: "Sovereignty is more precious than friendship with the IMF," reading the shift as "the latest indicator of the fundamental changes in the situation around Russia, and within Russian state power." Kudrin said, "The government of the R.F. does not consider it necessary to be under mandatory IMF supervision. It is the will of the state, that we not have to be accountable for implementing every point of the coordinated program."

The IMF was offering Russia no credits, but only a stand-by commitment to extend a loan if adverse circumstances arose (like a collapse of oil prices, which would throw its debt-servicing capabilities into doubt). Yet, the Fund was demanding the same type of conditionalities and level of monitoring, as before, and even more oversight of Central Bank operations.

The IMF's trump card was that, without the IMF agreement, Russia would find no relief on its Paris Club debt—the state-to-state debt, inherited from the Soviet Union. But, Russia's major Paris Club creditors, Germany and Italy, are engaged in working out debt relief in exchange for investment opportunities. While proceeds from oil revenues make it possible for Russia to service its Paris Club and all other debts this year (albeit spending 60% of all budget revenues for February on debt service), Moscow may anticipate that a solution covering payments due in future years, can be worked out.

Shortly before the announcement of this change on collaboration with the IMF, Putin met with European Union leaders in Stockholm. At his joint press conference with Swedish Prime Minister Göran Persson, Putin stressed the debt-for-investment proposals, adding that Russia is prepared to increase supplies of natural gas and oil to Europe. Persson emphasized that this was the first time a Russian President had



Russian President Vladimir Putin (right) and IMF Managing Director Horst Köhler (inset). Putin is dealing with crucial issues—the integrity of the state, the justice system, science, getting economic growth going—like a sovereign head of state. And, that means less kowtowing to the IMF.

sat down with EU leaders at an EU summit. It was agreed that in 2003, the Union will participate in celebrations of the 300th anniversary of the founding of St. Petersburg, famous as Russia's "window to Europe," which is also Putin's home city. The EU also decided that the European Investment Bank, for the first time, will finance investments in Russia, starting with a 100 million euro wastewater purification project in St. Petersburg.

On March 27, Putin received Italian Premier Giuliano Amato for discussions, including on debt-for-investment, which had already been launched during Russian Prime Minister Mikhail Kasyanov's recent visit to Italy. On April 9-10, St. Petersburg will host a summit between Putin and German Chancellor Gerhard Schröder. Russian Deputy Minister of Trade and Economic Development Ivan Materov said on April 5, that a Russian-German investment agency is to be formed, while it was reported in *Vremya MN* that Bundesbank experts are preparing to advise Russia on switching some foreign trade transactions from dollars to euros.

In his Message, Putin summarized, "The importance of further efforts to develop relations with the EU is definitely increasing. The course of integration with Europe is becoming one of the key directions of our foreign policy." Putin promised to work on "integration processes" within the Community of Independent States, and to proceed further in the direction indicated by the signing of the Eurasian Economic Community Treaty, among Russia, Belarus, and three Central Asian Republics.

Internal Investment

The economic policy sections of Putin's Message contained elements that were missing last year, although the need for them was implicit in his July 2000 appeal to halt the economic disintegration and demographic extinction of Russia. The President echoed the language of Academician Dmitri Lvov, head of the economics section of the Russian Academy of Sciences, when he said that Russia was "still living in a rent-based economy, not a productive one," and regretted the overwhelming direction of investment into raw-materials extraction for export. The seemingly improved economic performance of Russia in 2000, he said, has a shallow basis. "Our raw-materials orientation is preserved, and even intensified, which means that our dependence on conjunctural factors [e.g., the price of oil] is also intensified."

Last year, Lvov and other experts from the Academy were essentially opposition figures, ignored during the adoption of significant economic policy decisions. But, the strengthening of the Russian state, desired by Putin, implies real economic requirements—even just as regards industrial production for the military—that are nowhere to be found in the textbook neo-liberal formulas, applied in Russia since 1992 (with the partial exception of Yevgeni Primakov's government in 1998-99). Since Putin's creation of a State Council last November and his constitution of a task force on economic policy under Khabarovsk Gov. Viktor Ishayev (see *EIR*, March 2, for the "Ishayev Report"), the Academy economists have been brought into policy deliberations.

On March 22, when Russian Minister of Trade and Economic Development German Gref presented his rewritten “Basic Long-Term Social and Economic Policy Directions for the Government of the Russian Federation”—the promised attempt at “harmonizing” his Summer 2000 neo-liberal draft with the dirigist recommendations of Ishayev’s team—the cabinet did not rubber-stamp it. Instead, the text was subjected to hours of debate, in which the chief invited critics were Academician Lvov and Corresponding Member of the Academy Sergei Glazyev, who also chairs the Economic Policy Committee in the State Duma (lower house of parliament), and co-authored the Ishayev report. The cabinet deferred a decision on a 2001-10 policy until April 5, when a pared-down 30-page document was to be submitted to Putin, while a medium-term policy for 2001-04 will be debated in May.

Lvov, Glazyev, and Ishayev all welcomed Putin’s commitment to strengthening the authority of the state. “I am sure that all members of the State Duma agree with the main idea of Putin,” Glazyev told Strana.ru, “to increase the effectiveness of the government. But, what is the goal and purpose of social and economic policy? The question of the content of the tasks which the state must solve, still remains open.” Glazyev convened hearings in the Duma, at which Lvov, Ishayev, and others elaborated these concerns, just hours after Putin spoke,

The attempts to “harmonize” Gref’s neo-liberalism with advice from industry- and technology-oriented Academy economists, were evident in Putin’s Message. Discussing social reforms, Putin gave the nod to Gref’s and Andrei Illarionov’s vision of shifting health care into the hands of private insurance companies, and of pension reforms, which are modelled on schemes that have been disastrous for the populations subjected to them in the West, Asia, and Ibero-America. While identifying the problem of capital flight, in excess of \$20 billion per annum, he suggested that further deregulation, the lifting of certain exchange controls, and guarantees for foreign investors would allegedly help to solve this problem by making Russia an equal player on the world scene. Prof. Stanislav Menshikov, in a March 30 *Moscow Tribune* column, noted one reason these constructs don’t hold water: More than 90% of the \$250 billion-some Russian flight capital, parked in banks and financial instruments abroad, originated with Russian firms.

Glazyev suggested on April 4, that the people writing the liberal program’s planks on social services reform, are at odds not only with the welfare of the Russian people and with Glazyev or Lvov, but with Putin himself. “It is amazing,” said Glazyev to Strana.ru, “how the authors of the social and economic strategy ignore the President’s many statements on the need to tax natural resources more heavily, while reducing other taxes. . . . They don’t want to pay attention to the President’s many instructions on increasing investments and structural reform on the basis of new technologies. They have totally forgotten, that the President said in his Message last year, that the main problem is for our nation to survive.”

U.S. Spy Plane Recalls Embassy Bombing in China

by Mary Burdman

Hopes among the leadership in China, that it might be possible to reach any lasting accommodation with the George W. Bush Administration in Washington, suffered a rude shock on April 1, when a U.S. EP-3 spy plane collided with a Chinese fighter off the coast of China and was forced to make an emergency landing on Hainan Island. Full details of the collision might not be known, but the event is one of many “incidents just waiting to happen” between the Bush-led United States and other nations — allies and “competitors” alike.

The “Hainan Incident” is occurring in the context of world financial collapse. East Asian nations are excessively dependent upon exports to the United States, and hold big reserves in U.S. dollars. Japan, China, and South Korea have all had to report severe collapses in their U.S.-bound exports since the beginning of 2001. In recent weeks, Japan, by many times the biggest economy in East Asia, has made repeated concessions to the demands of the Bush Administration, that it continue its hyperinflationary bailouts of the world financial bubble. There are also indications, as marked by the one-week visit of former U.S. Secretary of State Sir Henry Kissinger to Beijing on March 15-21, that arrangements were being discussed, between the United States and China.

In Beijing, Kissinger met all of China’s highest-level leaders, including senior diplomat Qian Qichen, who was about to depart for a one-week visit to the United States, where Qian was eventually received by George W. Bush. Indicative of the likely content of the discussion with Kissinger in Beijing, are statements made by President Jiang Zemin in an interview with the *Washington Post*, published March 23: “No matter who administers the government in the United States, . . . one thing is very certain: The United States has to look at U.S.-China cooperation from a strategic standpoint. . . . In terms of private friendships, I think I have more friends in the Republican Party. Nixon, my old friend, . . . Bush Senior, Scowcroft, [William] Perry, Kissinger; there were many times when we sat together. . . . We believe Bush Senior will definitely push Bush Junior to bring U.S.-China relations to a new level.”

However, it should also have been marked in Beijing, that this was the same Kissinger who, at the February Wehrkunde Meeting of defense policymakers in Munich, had warned world leaders that it is not the so-called “rogue states” which are the targets of the U.S. “missile defense” program, but the large nuclear powers, notably Russia, China, and India.