

# Russia Confronts 'Free Trade' Damage, Debates National Economic Strategy

by Rachel Douglas

At Russian State Duma (lower house of Parliament) hearings on how to ensure national economic development under conditions of a global financial crash, held last June, a central idea was the importance of breaking with the axioms of policy that led to that collapse. The bankruptcy of the "free trade," deregulation, and globalization doctrine, evidenced in the U.S. resort to protective tariffs on imported steel, provides a golden opportunity for every nation to shift to national economic development and "fair trade."

In Russia, as elsewhere, such a shift is demanded also by the national economy's approach toward physical boundaries: the depletion of the productive base, in the form of equipment and infrastructure exhaustion, as well as the attrition of skilled manpower. (See Jonathan Tennenbaum, "Russia's Economy 1999-2001: Strong Growth, But Exhausting Its Foundation," *EIR*, Feb. 1, 2002.) This state of affairs was on the agenda of several economic strategy meetings during March, in which Russian President Vladimir Putin took part. At none of these sessions, however, was there a clear-cut shift to principles of national, physical economy; in each instance, an impulse in that direction threatens to be stymied by adherence to the failed "rules of the game" of free trade and globalization.

The new round of Russian Presidential and government deliberations on science policy, national investment policy, the defense and auto industries, and national food security, coincided with a backlash in Russian business and government circles, against joining the World Trade Organization (WTO) on terms prejudicial to Russian industrial development. On the heels of the anti-WTO maneuvers in Russia, reported here last week, came a March 20 government meeting on measures to assist the Russian automobile industry. Prime Minister Mikhail Kasyanov told the cabinet, "I do not exclude that we will need to take temporary protectionist measures" for auto. Minister of Industry, Science, and Technology Ilya Klebanov presented a proposal for new tariffs on foreign car imports, which calls for a 25% tariff on foreign cars up to seven years old for three years, then a 35% tariff for the next five years, then reduction of the tariff by 5% per year. The meeting reviewed a plan to raise \$15 billion in investments in the sector over the next seven years.

Mikhail Delyagin, an economist who argues that Russia should either stay out of the WTO, or join it only if its preroga-

tives to protect Russian industry are preserved, was named an adviser to Prime Minister Kasyanov on March 10. Also in early March, the State Duma's Committee on Credit and Finance began to debate a proposal to restrict the financial activity of foreigners in Russia, designed to protect fledgling Russian financial markets in the event of WTO membership.

On March 20, Putin chaired a Defense Ministry meeting on the overall perspective for Russia's strategic posture and defense industry performance. On March 13, the government paper *Rossiyskaya Gazeta* reported on plans for a "food security doctrine," aiming to double agricultural output and achieve food self-sufficiency by 2010.

## A Science Driver?

A joint session of the Security Council, the Presidium of the State Council, and the recently commissioned Council on Science and Advanced Technologies, held March 20, took up the question of a national policy for science. The new Council presented a draft "Basic Principles of Scientific and Technological Policy," which Putin welcomed as shifting the discussion of this vital policy area to a higher level than the lip-service it has received in government decrees during the past decade. "The choice of a path for the development of our country's science is a choice of the prospects we have as a nation," he told the meeting.

This event reminded Dan Medovnikov, writing in the March 25 issue of *Ekspert* weekly, of slogans about making "science the country's main productive force," which "date back to the time of KEPS [the Commission for the Study of the National Productive Forces of Russia], founded in 1914 on the initiative of Vladimir Vernadsky." Below the surface, however, the meeting was the scene of an intense policy battle. The draft "Basic Principles" have encountered opposition, especially from Ministry of Finance officials who object to budget allocations for science at the level of 4% (the currently mandated level, but only a fraction of the funding is actually disbursed).

From another side, there is concern on the part of some people in the Russian Academy of Sciences, that the plan to concentrate on ten frontier areas of scientific research will involve rationalization, with the shutdown of significant research facilities. The priority areas include power generation, energy conservation, biotechnology, medicine, new materi-

als, chemicals, electronics, ecology, and “possibly transport and space.” According to *Ekspert*, the draft plan does call for the closing of “inefficient research institutes and laboratories,” with the freed-up funds to be used to promote small, innovative companies instead.

Putin lamented that “these days everybody advocates the pathway of innovation, but nothing has actually been done.” He noted that since 1991, Russia has lost half its scientific personnel, who either emigrated, or turned to other work in order to survive. The same day as the meeting, the daily *Izvestia* commented that this brain drain raises the question of even “saving science,” not to mention developing it. “The Finance Ministry promises [to really disburse 4% of budget spending] only by around 2010. By then, science will have died out for good,” one Academician told *Izvestia*. There is a question of who will be alive to pursue scientific work, since the average age of Russian scientists is already 56.

*Itoqi* magazine of March 28 cited government and State Duma sources, who said that the science plan features a new approach to “defense industry conversion,” beginning with “declassification of some items in state defense contracts.” Former first deputy prime minister and now chairman of the State Duma’s Committee for Industry, Construction, and Science-Intensive Technologies Yuri Maslyukov, one of the world’s experts on the relationship of science, the defense sector, and the economy at large, laid out how broader availability of knowledge about defense-sector projects could begin to transform Russia’s technology policy. He hopes to achieve spinoff effects in the civilian sector, as in the best cases of the U.S. defense/civilian sector R&D interface.

## What Kind of Investment?

On March 15, Maslyukov was invited with Dr. Sergei Glazyev, chairman of the State Duma’s Committee on Economic Policy, and Academicians Nikolai Petrakov and Dmitri Lvov to a discussion with President Putin, also attended by Communist Party leader Gennadi Zyuganov. Petrakov later told a Washington audience that the meeting was occasioned by Putin’s “frustration with the lack of new ideas” from his usual economic advisers.

According to a report in *Novyye Izvestiya*, their discussion focussed on a crucial question for Russia: the relationship between raw materials exports, and the survival of domestic manufacturing and infrastructure. Putin agreed with the economists that earnings from the exploitation of Russia’s natural resources should benefit the nation. This was the topic raised by Academician Lvov at the June 29, 2001 Duma hearings on the defense of the national economy during a worldwide crash (convened by Glazyev), after Lyndon LaRouche’s keynote testimony at those hearings. It was then taken up in depth in LaRouche’s essay, “What Is ‘Primitive Accumulation’?” (*EIR*, Aug. 17, 2001).

Putin commissioned new legislative initiatives from these economists. Glazyev presented the President with the left po-

litical bloc’s “alternative socio-economic program,” which includes a critique of the WTO. Glazyev termed the discussion “constructive,” adding that the proposals handed to Putin emphasize a state industrial investment policy, among other development priorities.

In any consideration of investment policy, the axioms of globalization and national economy collide:

**Natural monopolies policy:** The infamous liberal economist Anatoli Chubais advocates a surge of foreign investment into United Energy Systems (UES), the Russian national electricity company he now chairs. But his selling point is the pending segregation of the generating, delivery, and financial components of UES into separate companies, modelled on deregulation in British Commonwealth countries and the United States during recent decades, where “investment” regularly went hand in hand with price-gouging and asset-stripping. On March 18, Deputy Energy Minister Viktor Kudryavy—the government’s representative on the UES board—voted against the Chubais scheme as “premature,” legally unfounded, and dangerously hasty. Academician Petrakov reports that Putin, too, now doubts the advisability of carving up UES, the national rail system, and other so-called “natural monopolies.”

**Banking:** Even amid signs of a serious Russian turn against “free trade,” Putin named monetarist Deputy Finance Minister Sergei Ignatyev to succeed Viktor Gerashchenko as chairman of the Bank of Russia. The appointment of Ignatyev, previously associated with liberal reformer Yegor Gaidar, was assessed by many as a victory for liberal monetarist Finance Minister A. Kudrin. Ignatyev would allegedly open up the banking sector to more foreign involvement and guidance.

Pleased with some of Ignatyev’s first statements in office, the London *Financial Times* demanded in a March 19 editorial that he take aim at Russia’s state savings bank: “Mr. Ignatyev must reduce Sberbank’s dominance. This cannot be rushed, as it runs the only national financial network. But Sberbank’s 80% share of retail deposits stifles competition. The Kremlin should prepare for some form of break-up and the privatization of the Central Bank’s 63% stake.” By contrast, the State Council’s “Ishayev Report” on national economic development, prepared at Putin’s request two years ago, proposed that the Sberbank deposit base be used to generate credit for domestic investment.

**Great projects:** Several big infrastructure schemes, including some rail projects promoted by former Railways Minister N. Aksyonenko, have recently been scaled back out of budgetary considerations. The Siberian Branch of the Academy of Sciences, however, has produced a 20-year “Program for the Strategic Development of Siberia,” as requested from them by Putin in 2000. Now, Presidential Envoy to the Siberian Federal District Leonid Drachevsky accuses the Minister of Economic Development and Trade, German Gref, of blocking the program’s adoption, once again due to following the rules of fiscal austerity.