

Eurasian Integration as a Chance for Survival in the Global Economic Crisis

Natalia Vitrenko, doctor of economics, leader of the Progressive Socialist Party and the Eurasian People's Alliance of Ukraine, spoke on the panel, "The Future of Eurasian Cooperation."

Dear conference participants:

We, people of different faiths and different political views, representatives of various countries and continents, are united by our concern for the fate of humanity. We can see before our very eyes, the destruction of the foundation of human existence, namely, the world economy.

In order for the world economy to function successfully, certain postulates must be observed.

First, money in the world should correspond to the exchange of goods, and should service the movement of value as a realization of the relations between countries.

Second, the world financial system should, on the basis of how the world's money functions, service various types of relations among countries, such as capital flows, investment, loans and subsidies, foreign trade in goods and services, and so forth. These relations should promote, above all, the modernization of existing, and the creation of new, productive capacities.

Third, the world banking system should promote the effective use of credit resources, and the development of production in each country.

Fourth, world trade should promote an efficient world division of labor, and the mutually beneficial exchange of goods among countries.

The catastrophic deepening of the world crisis is linked with the distortion of these fundamental functions in all categories.

First of all, since 1944, the U.S. dollar began to serve as the world currency. After 1971, it lost its backing by real products or gold, and ceased to be a real measure of the value of goods and services. The print-



Daniel-Enrico Grasack-Tente

Dr. Natalia Vitrenko posed the stark choice facing Ukraine: continue down the ruinous path of globalization by joining the European Union; or ally with the new Eurasian Union with Russia, Belarus, and Kazakhstan, with the prospect of reviving the nation's leadership in science and industry.

ing of dollars is fully in the hands of the Federal Reserve System, a private organization, and the world community has no control over it. As a result, a dollar pyramid has arisen that inevitably will collapse, pulling the world economy down with it.

Second, rather than providing incentives for the real sector of the economy, the current world financial system led to a huge market in fictitious capacities. Multi-billion-dollar flows determine the rise and fall of prices on the markets, and this can destroy not only individual companies and sectors of industry, but even entire countries. Financial warfare is applied against countries and governments that don't go along. Off-shore zones have been created, where trillions of dollars of capital from different countries has fled for tax-

evasion purposes, depriving the national economies of sources of growth. Lending by the IMF is done with strict conditionalities and simply puts nations deeper in debt.

Third, the world banking system has turned into a criminal corporation, which drains the blood out of the real sector of the economy, paralyzing the functioning of governments, and robbing the populations of countries for the sake of superprofits accruing to those who own bank capital. The application of commercial rules to banking has become a bastion of the defense of such activities. The regular payment of astronomical bonuses has become the accepted norm, while the international community and national governments cannot exercise oversight over banking activity. Quadrillions of dollars in derivatives are like a boa constrictor on the world economy, inevitably leading it to collapse.

Fourth and finally, the existing system of world trade, which is called “free trade” or liberalization, serves only to open up the markets of countries in the Second and Third Worlds to be grabbed by trans-national corporations. The raw materials of countries on the periphery are seized by the leading countries. This causes the bankruptcy of national economies, and the growth of social problems.

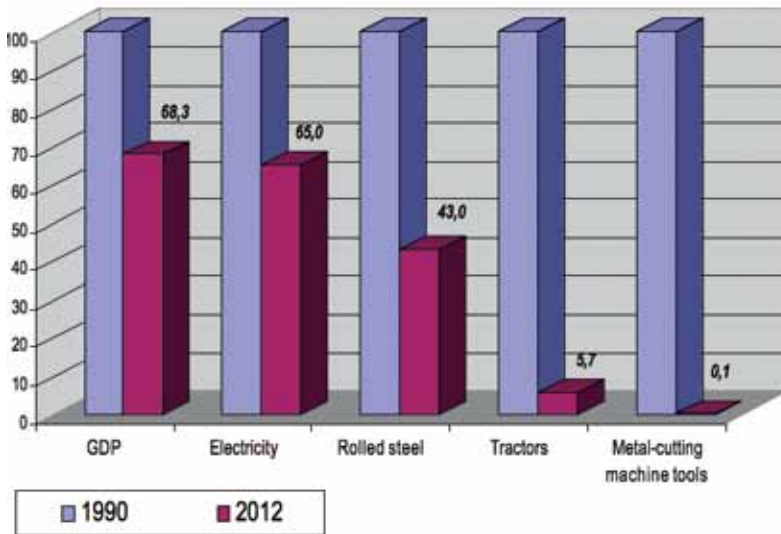
The destruction of the foundations of the world economy inevitably produces a crisis, with chaos and instability, wars, epidemics, catastrophes, mass deaths, and the liquidation of national economies and national sovereignty. The annihilation of national economies is an inevitable part of the process of globalization, whose aim is to establish a new global world order. The mechanisms of globalization are the IMF, the WTO, the World Bank, and the EBRD [European Bank for Reconstruction and Development].

Ukraine Submits to Globalization

A dramatic example is Ukraine. I’m going to show you this catastrophe in figures: everything that has happened in the past 20 years.

Six months after the proclamation of independence, Ukraine, on June 3, 1992, joined the IMF, and began to borrow, accepting the conditionalities. In 1995, Lyndon LaRouche came to Ukraine on our invitation, as did Helga Zepp-LaRouche and other representatives of the

FIGURE 1
Ukraine: Decline of GDP and Real Economy Output
(2012 as % of 1990 level)



Schiller Institute. LaRouche met with Speaker of the Ukrainian Parliament Oleksandr Moroz; he met with members of the Parliament from the Socialist Party; he met with scientists, economists. And he told them what should be done and what should be avoided, as well as what reforms were needed to bring about a recovery and renaissance of the economy.

LaRouche exudes love for humanity, but the IMF came in with dollars and bought off politicians, officials, and members of Parliament. And therefore, instead of listening to LaRouche, Ukraine started doing everything the IMF said to do: deregulation, privatization, and macroeconomic stabilization. What did deregulation mean? It meant a floating currency exchange rate, while all the state-owned and commercial banks were cut loose to fend for themselves.

Then came privatization, in which essentially, the whole economy was put on the auction block for peanuts: the collective farms, industry, and so forth. In macroeconomic terms, Ukraine shifted to a cheap-labor model, with the reduction of social benefits and elimination of subsidies for housing and utilities.

In 2008, Ukraine joined the WTO and the results were similar, starting with the destruction of physical production in Ukraine.

We can see in **Figure 1**, how GDP and physical output in basic areas of industry fell during the two decades from 1991 to 2012. Look at the second column, which is electricity production: It dropped by 35%. Pro-

duction of rolled steel fell by more than half. In 2012, tractor production was only 5% of what it had in 1990. And this is in a country that has 20% of the world's black-earth soils, and one-third of the population lives in rural areas. The machine-tool industry practically ceased to exist. Whereas Ukraine used to have 16 major machine-tool plants, which produced 37,000 machine tools in 1990, now there are only three left, which are barely on their feet; they produce just 40 machine tools a year.

Out of 50,000 companies privatized, 49% ceased to exist. They shut down. As for 1990, machine-building had been the core of the Ukrainian economy, with 360 factories organized in 20 specialized industrial sectors. Ukraine had an advanced military-industrial sector, machine-building for heavy industry and the power industry, rocket-building, an aircraft industry, shipbuilding, and auto, locomotive, tractor, and machine-tool industries. Machine-building accounted for 31% of GDP, making Ukraine one of the top ten countries in the world.

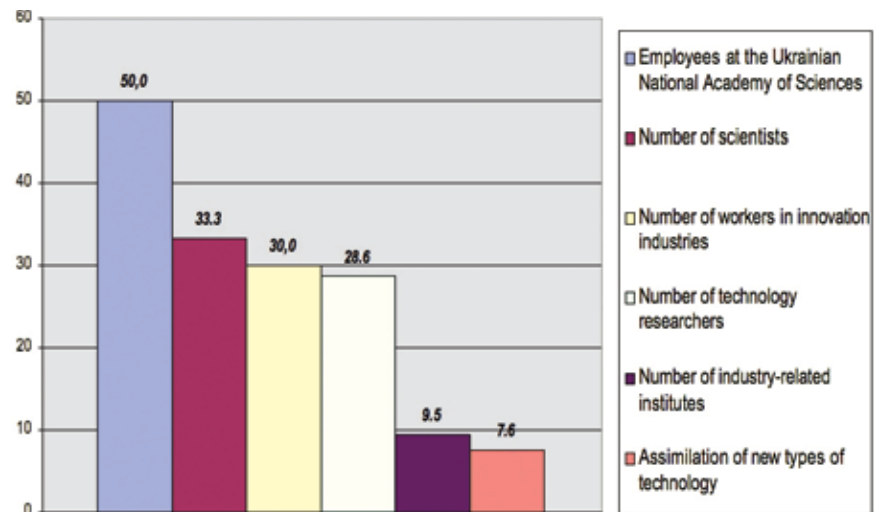
Ukraine accounted for 2% of world GDP, and we were 11% higher than the world average for per-capita GDP. By 2012, Ukraine was producing only 0.2% of world GDP. Per capita, we are 40% below the world average; we're lower than Namibia.

Destruction of Science

The basis for growth in the Ukrainian economy is science. We were always proud of Soviet science, and Ukrainian science in particular. We were seventh in the world in the power of our scientific complex, but what we see in **Figure 2** is the destruction of Ukrainian science. This is what happened to Ukrainian science over the last 20 years:

Formerly, we had 500,000 people working in science. The most talented of them left the country—10,000 people. Hundreds of thousands of scientists were thrown out on the street to engage in primitive forms of retail trade, selling items at flea markets, working their kitchen gardens, or they retired. Hundreds of thousands of young people who should have become scientists, did not. You can see the reduction by 50% of the people

FIGURE 2
Ukraine: The Destruction of Science
(2012 as % of 1990 levels)



working in the National Academy of Sciences system. The second bar is the total number of scientists. It's just over a third of what it was. The number of people employed in innovative industries is at about 30% of the previous level. Research in the technological sciences is 28% of what it was. And the number of industry-related research institutes is only 9.5% of what it was previously. The assimilation and implementation of new technologies is occurring at only 7.6% of the 1990 rate.

We should note that this kind of destruction of science means that the portion of companies engaging in innovative research is only 28% of what it was. The portion of GDP growth attributable to new technologies is only 0.7% in Ukraine, as against 60-90% in advanced countries.

This is a scandal, a shame, for Ukraine!

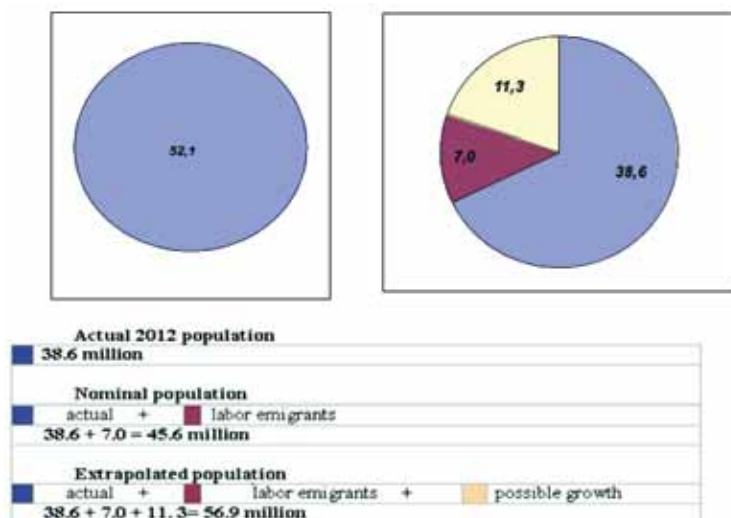
During the years of its "independence," Ukraine has lost 12 million jobs. The ILO [International Labor Organization] says that our unemployment is around 10%, but this doesn't show the whole picture. This is just the tip of the iceberg; it's actually much higher.

What Ukraine did obtain during these years is foreign debt. We now have a direct state foreign debt of \$24.5 billion, or double the gold and currency reserves of the country, and our gross foreign debt is approaching 80% of GDP.

The worst thing is that this collapse of the economy has impoverished the population. The minimum wage in Ukraine is EU118 per month. The minimum pension

FIGURE 3

Ukraine: Population (millions)



is EU86 per month. But we don't live in Africa. We have a fairly cold climate: You have to heat your house, you have to wear some clothes, and these are absolutely intolerable [wage] levels for Central Europe. These levels are only one-third of what is required for subsistence. The low levels set for the minimum wage lead directly to the deaths of the population, and the degradation of our natural resources. The share of wages in value-creation averages only 6.3% in Ukraine, as against 40% in the EU; 80% of the population lives below the poverty line.

We have increased drug addiction rates, increased alcohol consumption, super-exploitation of workers, psychological effects, crimes, and deterioration of the environment. These are the main factors in the reduced quality of life for the majority of the Ukrainian population. Our average life expectancy has dropped from 71 to 68.8 years, and is 15 years behind the averages for Europe. Men live to be only 62, and yet Ukraine followed IMF demands for pension reform, raising the pension age for women from 55 to 60, and for men, as high as 62 for some categories.

Deliberate Genocide

Figure 3 shows changes in the population. This is what Lyndon LaRouche was talking about, with regard to deliberate genocide.

In 1990, we had 52.1 million people in Ukraine. Now, nominally, we have 45.6 million as of 2012. But another 7 million left and are living abroad for eco-

nomnic reasons, so they're not in Ukraine. They went to Russia to get work; they couldn't get work in Ukraine. (This is why Ukraine today leads the world in juvenile drug addiction and alcoholism.)

So we had 52 million people. Nominally, we now have 45.6; in reality, we have 39 million people. During the Great Patriotic War, World War II, Ukraine lost 5.5 million people killed, and 2 million taken to forced labor in Germany. We lost 7.5 million people during the war. During these 20 years of reform, we have lost 6.5 million dead and 7 million departed, almost 14 million people, thus nearly twice the number of losses during the war.

The white segment (Figure 3) shows an extrapolation of what the population of Ukraine would have been, without this massive destruction. If we had continued the slow growth we had in 1970-90, with full employment and free education and free health care, our population would by now be 56.5 million, almost 57 million. Thus our country has lost one-third of its population! This is a crime. This indeed is the policy of genocide.

As a result, Ukraine, like other countries, has approached the dangerous boundary of a total collapse of the economy, a social explosion, permanent political coups, loss of sovereignty, chaos, and the threat of civil war.

Regional Integration vs. the Group of Zero

Joseph Stiglitz, the Nobel Prize winner, said in February of this year, that one can talk about the Group of 7, or the Group of 8, and the Group of 20, but really, it's all a Group of *Zero*, a big nothing. I agree with that. The leading countries of the world have shown themselves totally incapable of proposing prescriptions to save humanity. And we see the shuttering of the world economy, the misanthropic nature of the British economic model, and the inability of leading countries to protect humanity from the death of billions.

So, what must humanity do? Mankind cannot rely on the humanism and altruism of the leading capitalist countries, but must seek local alliances and regional integration. This attempt is being driven by the monstrous debt crisis of the leading economies, the EU and U.S.A.

There is no alternative to an integration approach for the world economy, today. Only economic clusters with populations of 250-300 million can survive under

current conditions. Regional alliances can have incentives for their domestic markets, increase their own production, carry out modernization, shift to new technologies, ensure stable growth of employment, and improve quality of life and life-expectancy.

Dr. Galloni [the Italian economist, see below] gave us a very excellent perspective for regional integration in Europe. There were participants from Argentina who had a similar idea; this matches the idea of countries uniting their efforts, as LaRouche has proposed. The more regional integration we have, the more we can protect countries against the flaws of the basic economic system today.

Thus, we need global reforms to put the four categories I mentioned at the outset into a more normal alignment.

1. We need regional currencies, backed up by real production and gold. We need sovereignty in currency policy and a restoration of currency controls. Money should be printed only when it advances real economic growth.

2. We need a regional financial system, which will take cooperation among countries to a new qualitative level of partnership and mutual assistance. We need our own sources of money supply and so-called “long” money for our economies. The current markets are absolutely unacceptable as an investment institution. The Dow Jones, Nasdaq, and other such indexes should be eliminated in favor of our own rating agencies, to make a real evaluation of credit risk. We need to get rid of hedge funds and offshore zones. Taxation policies of the integrated economies should promote job creation in the real sector, and so forth.

3. The banking system must be reformed in order to achieve banking separation on the Glass-Steagall model, write off the speculative capital, and create powerful credit resources for long-term investment in capital-intensive infrastructure projects. We need to get rid of banking secrecy and have full transparency of the activity of the national bank of each country. And we need countries to unite their efforts to exercise oversight over the central banks of regional alliances. Another requirement is the creation of regional development banks for financing large-scale cooperative projects.

4. We must remember what Alexander Hamilton said: protectionism is a necessity. Hamilton said that a national banking system and protectionism in trade are the ways to protect the domestic market. We should permit the deregulation of inter-regional trade only if it

promotes the development of each country’s industry and infrastructure. And thus we must have a new quality of international economic cooperation, based on the principles of productive partnership and technological cooperation, as alternatives to free trade. There must be a level playing field for the economic development of sovereign nation-states.

National sovereignty can be achieved if we strengthen the role of the state in the economy. We had a discussion yesterday about weak governments. Weak governments of individual countries is the dream of the Queen of England and her lackey Barack Obama. But if we are to carry out these reforms for the modernization of production and introduction of new technologies, this requires strong government action. Mr. [Daisuke] Kotegawa called this a war, and you have to win wars [see last week’s *EIR* for his speech]. Can you imagine some sniveling no-good, like, say, Gorbachov: Could he have won World War II? Only the strong Soviet government ensured the turning point in World War II, and saved humanity from fascism. This is what is meant by a strong leadership and a strong government.

This is how I see the general approach to radical changes in the world economy through regional integration.

Ukraine’s Prospects in the Eurasian Union

Lastly, I’d like to talk about Ukraine’s prospects in the Eurasian Union. For us it will be a unique chance to save the country, if we join the Customs Union with Russia, Belarus, and Kazakstan, and the new Eurasian Union. It was an objective necessity for the leaders of those three countries to form that common market and unite their productive capacities. If this were not done, then the global struggle for grabbing resources would shift from the Near East to the Far East, and affect all of Eurasia. This is an area where we are united by a common culture.

Integration with Russia is the way out for Ukraine, Belarus, and Kazakstan. Belarus acted in this direction, organically, while Ukraine, for all these years of its so-called independence, has been run by Washington and Brussels, and this prevents the Ukrainian government and politicians from deciding in favor of integration, the only policy that makes any sense, either from an economic or a civilizational standpoint: to join the Customs Union and the single economic space of Russia, Belarus, and Kazakstan.

The Ukrainian authorities, however, have announced

a policy of euro-integration, entering a free-trade zone with the EU, and joining NATO. For Ukraine—for our economy, science, culture, and political stability—this is a dead-end and ruinous pathway. Research done by the Institute of National Forecasting of the Ukrainian Academy of Sciences has shown that a free-trade zone with the EU will cause Ukraine to lose GDP, as our domestic production is driven out of the market.

Our energy cost per unit of GDP is quadruple the EU average, so our companies will simply go bankrupt under these conditions. Ukraine would experience more problems from being in the EU, than Cyprus, Greece, Spain, Italy, or Portugal have. If Ukraine joins the Eurasian Customs Union, however, its GDP will increase by an amount in the range of 1.5 to 6%; that's what [Russian] President Putin told [Ukrainian] President Yanukovich last month. The Russian Academy's Institute for National Economic Forecasting has projected that if Ukraine joins the Custom Union, the Ukrainian economy will gain \$7 billion annually, and its exports will increase by 60%, or \$9 billion annually.

We could analyze sector by sector, if there were time, the advantages that will accrue to Ukraine from joining the Eurasian Customs Union. Input-output cal-

culations done by the Committee on Questions of Economic Cooperation between Ukraine and Russia, with 2008 as a base year, looked at both the direct and indirect potential impact of such cooperation. Under all scenarios, industrial output would increase, GDP would increase.

Above all, what would increase is machine-building, which has always been the core of Ukraine's GDP. Earlier, 31% of our GDP was generated by industrial machine-building. If we integrate with Russia and the others, it means we will have a resumption of orders for our industry.

In 2011, there was a conference on prospects for the Eurasian integration of Ukraine, at which Sergei Glazyev, then Secretary of the Customs Union, spoke. He said that Ukraine's aspiration to join the EU will cause serious losses in GDP growth and a deterioration of the structure of the economy, while turning Ukraine into a cheap-labor pool, and stripping away its economic sovereignty. On the other hand, said Glazyev, if Ukraine joins the Eurasian economic space, this will be macroeconomically beneficial, adding \$200 billion to GDP over the next 10 years, and making the Ukrainian economy more competitive. Glazyev said that "joining the Customs Union does not injure the sovereignty of any of its members one iota."

I would like to emphasize that, if Ukraine joins the Customs Union and subsequently the Eurasian Union, it will give it access to *enormous* investment resources for creating large infrastructure projects. There's no other pathway available to us. Integrating Ukraine into the Eurasian Union created by Russia and the other post-Soviet countries is the only possibility for Ukraine to preserve its statehood, to have an upsurge of the national economy to a new qualitative level, to preserve the civilizational choice of our people, and to protect the country from destabilization, a Nazi coup, and civil war.

Yesterday in the discussion period, we were talking about love: how to understand love—love for your family, love for your country, and love for the planet. Aggression is evil, hunger is evil; dollar pyramids, financial speculation, and the dictatorship of the British Empire are evil! And we have to use love to defend against this evil. Therefore, I wish all of us success in this noble task of defending love, and I wish to Lyndon LaRouche and Helga many more years of working with love for humanity for these solutions.


Translated from Russian by Rachel Douglas.

GENOCIDE

RUSSIA AND THE NEW WORLD ORDER

Russia in the 1990s: "The rate of annual population loss has been more than double the rate of loss during the period of Stalinist repression and mass famine in the first half of the 1930s . . . There has been nothing like this in the thousand-year history of Russia."
—Sergei Glazyev

Paperback, with a preface by Lyndon H. LaRouche, Jr.



Economist Dr. Sergei Glazyev was Minister of Foreign Economic Relations in Boris Yeltsin's first cabinet, and was the only member of the government to resign in protest of the abolition of Parliament in 1993.

Now available in PDF format from the
LaRouche Publications [Store](http://www.larouchepub.com). \$20

Order by phone: **800-278-3135**
Online: www.larouchepub.com

