Globalization Devastated Machine-Tool Industry in Russia

by Rachel Douglas

"The Russians just bought our entire assembly line at auction," an auto industry trade unionist told my associate over the phone. And which Russians would that be? It was easy to find out: Type "Sterling Heights, Michigan" in the Cyrillic alphabet, enter it into a Russian-language search engine, and—*voilà!*

> NIZHNY NOVGOROD, April 14—GAZ will spend $150 million to purchase equipment and licenses from Chrysler. The GAZ group plans to acquire equipment from DaimlerChrysler AG's Sterling Heights, Michigan assembly plant for around $150 million, GAZ group Deputy Director of Strategic Planning Erik Eberkhardson has announced. The price includes the cost of shipping the production facility and setting it up in Russia, as well as the cost of the machinery. GAZ plans to make the purchase with its own funds. . . . Eberkhardson said that the U.S. factory would begin to be dismantled in May. Within a year and a half, it will have been completely reinstalled at GAZ, where there will be a separate assembly unit. American specialists will be on hand to assist with set-up, quality control, launch, and the assembly process itself.

GAZ, Gorkovsky Avtomobilny Zavod—a name out of history. The Gorky Auto Works in the giant industrial city of Nizhny Novgorod, Russia's third largest, which was called Gorky during the Soviet period, is where the Reuther brothers, Victor and future UAW leader Walter, worked in 1933-35. As Victor wrote movingly about it later, they were at GAZ during the time when young Russian men, born into peasant families, were being trained as tool-and-die makers, becoming the most qualified people in the Soviet labor force.

And now GAZ, owned by a Russian aluminum magnate, is buying an entire assembly plant from Chrysler in Michigan. What is this? This is globalization. The average wage of a full-time worker in Russia's auto industry rose from the equivalent of $72 in 1999 to the equivalent of $250 in 2004, according to a Russian Academy of Sciences study. That's *per month.* About $11.50 a day.

The story about Gorky and Sterling Heights brought into focus for me the source of the queasy feeling I'd had over recent weeks, as one report after another came in on Western car manufacturers setting up assembly operations in Russia. The rush did not start yesterday. Already in 2002, for example, the Ford Motor Company opened one of the first foreign-owned assembly plants, near St. Petersburg, to turn out Ford Focus cars. Renault, KIA, BMW, and Hyundai have assembly operations in Russia. In 2005 a total of 156,920 foreign-model cars were assembled in the country. This Spring has seen an explosion of such activity: General Motors in a deal to put up a Chevrolet assembly plant near St. Petersburg, Volkswagen choosing the city of Kaluga in central Russia for its semi-knocked-down (SKD) assembly facility for up to 115,000 cars annually. Nissan and Toyota have made known their intentions to start turning out cars in Russia.

The coincidence of the surge in new assembly operations in Russia (and the Czech Republic, and Mexico, and Mississippi, and many other cheap-labor venues) with the breakneck demolition of the auto industry in the U.S.A., as well as the U.K. and some other places, was not missed by Russian commentators. Under the headline "General Motors Hides From Bankruptcy in Shushary" (the St. Petersburg industrial area announced for the GM assembly plant), Rosbalt news agency on June 1 said, "Market analysts and experts are unanimous in their opinion, that GM is not really going to build a new factory in St. Petersburg, but will simply be shifting facilities here from European countries, where the company has been cutting back production and laying off workers." Rosbalt noted that GM plans to close 12 factories around the world, eliminating 30,000 jobs. The St. Petersburg government granted GM substantial tax breaks—total exemption from the property tax and a reduction of the tax on profit—in order to attract the plant. Other cities competing for the assembly operations have done likewise, also taking advantage of Russian Federation Government Resolution #166, which authorized the lifting of tariffs on car components imported for assembly in Russia.

In that respect, the GAZ-DaimlerChrysler deal is an exception, since the proprietor of the transplanted assembly facility in Nizhny Novgorod will be a Russian company. Prof. Stanislav Menshikov, the noted Russian economist, reports in his book *The Anatomy of Russian Capitalism,* that the privatization auction of GAZ in 1993 was a scandalous affair, during which GAZ management was accused of using government funds to buy up shares in their own factory. Nonethe-

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Lyndon LaRouche (left) with Anatoli Panov, director of the Ordzhonikidze Moscow Machine-Tool Factory, in 1994. The plant had been the flagship of Soviet-era civilian-sector machine-building. It was privatized shortly after LaRouche's visit; Panov was ousted; and the floor space was converted to rental offices. Today, part of the site is being turned into a shopping mall.

less, GAZ executives owned the auto works until 2000, when the Kremlin-favored aluminum tycoon Oleg Deripaska made his move to take over GAZ through his Ruspromavto group. With 51 "dollar billionaires," most of their fortunes based on oil and metals exports from giant companies they acquired during privatization in the 1990s, Russia has become an integrated element of major global financial flows.

Most of the new assembly operations even aim to market the cars in Russia, to the upper crust that can afford new cars, which is a relatively tiny layer, but not negligible in a country with a population of 143 million. Where they are going to drive the cars is a separate question, since the condition of Russia's roads has not been addressed in a decisive way in recent years and Moscow gridlock is a phenomenon that has to be experienced, to be believed.

I asked a Russian friend of mine, who watches the country's economy closely, his opinion of the latest auto deals with GM and Volkswagen. "In some other day I would be against it," he replied. "But now this Third World-type SKD production is at least bringing jobs to some Russian regions where a great number of enterprises just dropped dead after the hurricane of 'reforms.' "

Ordzhonikidze Moscow Machine-Tool Factory

The fallacy of "cheap labor" is a fallacy everywhere it is applied, in the industrialized countries and the Third World alike. The interrelated cases of America and Russia, the world's superpowers in the second half of the 20th Century, dramatize how the loss of the machine-tool sector destroys the national security, damaging the ability of a national economy to recover on its own.

Given the size and degree of development of the Soviet industrial economy, Russia should not be importing auto assembly plants. But Russia's ability to build up its own auto industry was crippled in the mid-1990s, when the Ordzhonikidze Moscow Machine-Tool Factory (ZiO), the U.S.S.R.'s only manufacturer of integrated auto assembly lines, was privatized. The interests that took over ZiO stripped out the machine tools and turned the floor space into offices for rent. It looked like what is happening in Michigan and Ohio today.

I was there in April 1994, accompanying Lyndon LaRouche as guests of ZiO General Director Anatoli Panov. A scientist and a production man to his core, one of Russia's leading experts on machine-tool technology, Panov was then recovering from a physical assault in which he was nearly killed, as the fight for control of ZiO had begun to heat up the previous year.

He showed us the shops, and briefed us on the plant's history as the flagship of Soviet civilian-sector machine-building. "The factory's role in meeting major national economic objectives grew markedly in the period of postwar reconstruction and thereafter," Panov told me in an interview later that year (*EIR,* July 29, 1994). "ZiO began to produce automated transfer lines, transfer machines, and custom machine tools. . . . In 1959, the factory produced the U.S.S.R.'s first numerically controlled (NC) semiautomatic lathe. . . . In the 1960s, the factory increased the output of automated lines to the level of 42 per year. In the 1970s, it produced most of the equipment for the Volga and Kama Auto Factories (VAZ and KamAZ), and equipped other important plants: the Minsk Motor Factory (in Belarus), the Lenin Komsomol Light Automobile Factory in Moscow (AZLK), the factory in Taganrog that produces 'Kolos' and 'Niva' grain-harvesting combines, and others."

I asked Panov, what would happen if he lost control of ZiO. He warned, "I think (although I am doing everything in my power to prevent this) there is a high probability that, under the pretext of creating an industrial-finance company, our factory will end up as the property of individuals from the finance companies and commercial banks. In that case, I believe that ZiO will cease to exist as a machine-tool company, not because—I emphasize again—it produces unneeded goods, but because its new owners are not going to invest their funds in complex and expensive production processes. They will prefer to free up the shop floors for the now extraordinarily profitable business of warehousing imported goods, as well as for rental as office space to various firms. In light of what I have said about the unique nature of ZiO, I am absolutely convinced that this is wrong from the standpoint of the national interest.”

One month later (*EIR,* Sept. 2, 1994), I reported under the headline, “Machine-Tool Plant Seized by Bank Clique,” on Panov’s ouster from ZiO. The perpetrators were from two banks, Keibank and Orgbank, which had maneuvered into ownership of a controlling stake in the company.

Vladimir Lisichkin is a top expert on Russian industry (translated excerpts of his report on the first stage of privatization in Russia, “bandit” privatization, appeared in *EIR,* Nov. 3, 1995). As a State Duma deputy for three terms, he made efforts to save ZiO, paralleling those of Panov. In an interview with *Trud* newspaper, April 3, 2003, Lisichkin recalled, “For five years I fought for the Ordzhonikidze Machine-Tool Factory, whose shares had been bought up by three banks through cut-outs. This was the only enterprise in the country that made NC machine-tools for the auto industry. The new owners, who didn’t give two hoots about manufacturing anything, immediately sold off the machine tools, or just scrapped them. And then they rented out the shop floor—in central Moscow!—as office space. The fight I waged did not succeed.”

Arkadi Volsky, head of the Russian Union of Industrialists and Entrepreneurs, told *Trud* in November 2003, “The Ordzhonikidze Factory is just standing there, and we’re buying machine tools [abroad], which are no better than the ones we used to make.” In March 2006, an entire wing of ZiO burned in a huge conflagration. The plant’s 22-acre territory in central Moscow is prime real estate. Last year Mayor Yuri Luzhkov announced that the French retail chain Auchan would develop part of the site as a shopping mall.

“What are you so distraught about the machine tools for?” asked another Russian friend. “Think of the *people,* their skills! The time will come when something has to be fixed, and they’ll be gone.”

ZiO employed 4,000 workers. While its products were shipped to customers throughout the Soviet Union, the Moscow plant also served as a training center for workers and managers from all over the country. Panov told me about that in 1994: “From the ranks of the first generation of ZiO workers, the 1930s generation, came management, engineering, and scientific cadre not only for this factory, but for the entire machine-tool sector, as well as scientific research institutes. . . . From the 1950s through the 1970s, ZiO transferred a number of its production areas to other plants in the U.S.S.R. Production of turret lathes was shifted to a factory in Alapayevsk. Production of two models of semiautomatic hydroduplicating lathes moved to a factory in Yeisk. Production of five models of centering-milling machines went to a plant in Kostroma. ZiO personnel helped set up the new production on site in each of these cities. . . . From the early 1960s on, ZiO helped to train managers, engineers, and skilled workers for new machine-tool plants. . . .

“The situation of the Russian machine-tool industry, including our plant, has been deteriorating since the moment the market reforms began, and even somewhat earlier. Skilled machinists have been and are being let go. . . . Many former workers from this factory, in their search for a wage on which it would be possible to support a family, quit the machine-tool sector altogether. . . . If we go much farther, the last skilled workers and specialists in machine-tool construction will join the ranks of the unemployed. . . .”

Between 1990 and 1994, economist Sergei Glazyev documented in his book *Genocide,* that the output of Russian machine-building dropped by 60%. The number of people employed in industry fell from 22.8 million in 1990, to 14.7 million in 2001—the relatively less ravaged oil and other extractive industries included. The average age of a tool-and-die maker in the United States today is 55-57 years. In Russia, that is approximately the age range of life expectancy for the male population.