

The Missing Chapter – A Personal View of Russia–Twenty Years After

Every so often, one of my readers enquires as to why I do not write a book. The answer seems obvious enough: it has already been done. The libraries are groaning under the weight of millions of them – in our native France, everyone who can manage rudimentary verb conjugation feels compelled to bequeath his opus to an expectant world. With that many writers, who has the time to read? And besides, it has all been said already – and better – by Proust, by Borges, by Kafka, by the Great Russian classic authors of the 19th Century. What could I hope to add?

Yet when invited to contribute a chapter to a book being put together by one local financial institution, collectively authored by 20 (ah... make that 19...) of that first generation of expats involved in the creation of Russia's first approximations to a capital market, and who were then mad enough to stick around as it all unravelled, crashed and burned (but to reincarnate in something rather less surrealistic), it seemed a very worthy undertaking.

I did caution them that my chapter was likely to be rather spicy; one of the wonderful things about Russia is that total absence of political correctness which we enjoy.

The story recaps some of the highlights of my 15 years before the mast – amidst the madness that was early post-Soviet Moscow, or at least what I can remember of it (no one who fully participated in the *Great Party at the Edge of the Apocalypse* made it out without sacrificing a few brain cells along the way...).

While I had imagined that I could jot it all down in an afternoon, I ultimately spent days, weeks, writing and re-writing what was meant to be an intensely personal account... an ego trip if you will, but that is what was requested of me. All in vain! My foray into the literary world was to fall victim to the very cowardice and group-think I have long decried in the Western media.

To make a long story short – while the initial drafts were received with great enthusiasm by the Moscow sponsor, when they forwarded the finalized version to London, the response from the publisher neatly summarized everything that is corrupt, cowardly, bent and cloyingly hypocritical about British Media and their coverage of Russia.

According to the UK publisher, to refer to convicted criminals – as “criminals”; to bent ministers – as “bent”; to purported journalists engaged in nothing more than propaganda-for-pay – as “propagandists” (thus avoiding a more colourful term) *detracted from the credibility of my story*.

In short, he demanded that my baby be gutted like an eel! Excerpts from his reptilian letter (*highlighting is my own*):

*“... I am now attaching an edited version of the chapter by Eric Kraus. As discussed, as well as a more general edit, I have toned down the accusations and removed names where I think there might be problems. I believe the substantive points being made by the author are still there. **More importantly I believe that the points being made are clearer and stronger for having been made less personal and more impartial.***

*... Being sued for libel is perhaps unlikely... What is much more likely is **not being taken seriously** – and that would be a pity because this chapter has the potential to make a valuable contribution with its first-hand/inside knowledge. Why might it not be taken seriously? Because personal accusations, **whether true or not, will diminish the authority of the work (and of the book as a whole)**. There is no need to name names in quite the way that is proposed here. The same substantial points can be better made without this...”*

Needless to say, T&B cleans such folk out from between his toes. I certainly do not intend to be censored by some pitiable denizen of a dying civilization that still imagines itself to rule the (air)waves. He – and his ilk – are fated to drown while clinging desperately to the *status quo*, as it disappears beneath the waves of history.

But – dear reader – let it be you who draws their own conclusions as to what adds – and what detracts – from the story! I have restored the London redactions, highlighted **in blue**. Do please tell whether you think it better with or without!

In fact, I would recommend that you buy the book, print my chapter, and just paste it in. I would be deeply gratified to find my little literary cripple in the company of the stories of my peers from those best – and worst – of times.

Given the effort which went into this Quixotic undertaking – I would strongly encourage all to forward the following pages around to anyone who might be interested/amused/outraged – or best, some combination of all three.

Through Western Eyes – Russia Misconstrued

In Russia, even the past is unpredictable

Rene De Obaldia

As I queued in Paris clutching a one-way ticket to Moscow, Russia circa 1997 seemed to offer infinite promise – adventure, exoticism, even some sex... cash too – and especially, an escape from the stultifying boredom and bureaucracy of old Europe into the wildest frontier of global finance. Only the blind or hopelessly retrograde could fail to see that this young country was throwing off the shackles of Communism, striding boldly into a brave new world. On the emerging markets debt desk in Paris, while extending bounteous repo credit to the “best” Russian banks, and brokering Soviet and Russian bonds to our more adventurous clients, we had made sport of our obstructive but dim-witted compliance officers, filling our personal accounts with Russian bonds and equities. But the real action was on the ground in Moscow – and what did I have to lose?

Two weeks later, flagging down a gypsy cab on the Sadovoe Koltso for a ride to the investment conference at the Mezhdunarodnaya, a Soviet-era hearse pulled up, offering me a ride for a modest 30 roubles. While the omen was initially lost upon me, that afternoon I was dragged out of yet another stultifying Gazprom presentation by my friend Adam, calling from London with the news that the Hong Kong market was melting down. “Adam”, I replied, “sorry to hear that – but why am I supposed to care? I’m at a Russia conference...” *By the end of that afternoon, I had realized why I should care...*

Great bubbles live in mortal terror of little termites – catalysts that ultimately trigger their demise. The Asian crisis was the pebble that triggered a Russian avalanche – a classical debt crisis terminating with refinance rates spiralling out of control; Russian financial markets went into a tailspin, ultimately crashing by more than 90%, as rates on government debt went ballistic, repeatedly cresting at well over 100% per annum. It seemed that I had bought myself a ring-side seat for the end of the world – but alas, that seat was well inside the ring!

Shock Therapy

The decline of the Soviet system mirrored the failure of other great historical empires – from Persia and Rome to the Hapsburgs and the Ottomans: all were characterized by the inability of an all-powerful centre to micro-manage an increasingly complex and diversified periphery while containing the inevitable centrifugal forces. Gorbachev’s misguided attempt at stepwise reform of the socialist system – gradually loosening political control while maintaining tight command over the economy – was an objective lesson in how not to reform. Unlike China, which allowed the gradual development of a parallel private economy under the ridged political oversight of the Communist Party, the collapse of the Soviet Union and the dismantling of its command structure amounted to simply ripping out the control unit, allowing the decerebrated body to reorganize itself as best it could in what was to become a grotesque parody of Adam Smith liberalism.

The economic systems of our developed countries function not in some stellar vacuum based on the abstract, mechanical workings of free-market dynamics, but rather within a framework developed over decades if not centuries: an extensive body of legislation,

business practices, regulatory bodies, and most vitally, a complex system of checks and balances against the depredations of unconstrained capital – a robust civil society, political parties representing competing economic interests, labour unions, a relatively independent judiciary and in the best of cases, a diverse (if not precisely “free”) press.

Russia, of course, had none of these. Soviet legislation was grotesquely unsuited for the workings of a liberal economy. The press was openly controlled by a handful of oligarchs, with journalists bought and sold like cattle. Government regulators were ineffective in the best of cases, available for rental in the remainder. Political parties served the economic interests of their owners. By the middle of the decade, a small group of men had – by means fair or foul – succeeded in gaining control of the only truly value-accretive sectors of the Soviet economy, the natural resources exporters, while creating a banking system which lived by parasitizing the State. In the absence of any substantial countervailing powers, the oligarchs could buy, bribe, or upon occasion, shoot away any attempts at constraint – only after the inevitable crisis, with the rise of Vladimir Putin, was there to be a counterforce powerful enough to break the political stranglehold of the oligarchy.

Cheering from the Cheap Seats

With the wisdom of hindsight, the system was bound to fail – yet all men live in hope, and the late 1990s was a heady time. Supporting our naively bullish views, the Western press could hardly have been more enthusiastic. Anglo-Saxon audiences love tales of virtue triumphant – preferably with a simple storyline. They are imbued with a profound conviction that their own specific socioeconomic model is the only one conceivable; indeed, that the success of any political transformation can be measured by how closely it approximated the Chicago model¹.

Thus, the *FT* and *The Economist* competed in their praise for the bold steps taken by Yeltsin and his Young Reformers. Yes, there were lurid tales of oligarchic excess, and some passing reference to the inconveniences endured by the old and the sick, by disenfranchised factory workers and unpaid teachers – but surely, these short-term inconveniences were a price well worth paying for Russia’s emergence as a fully-fledged member of the modern world.

Perhaps not coincidentally, these were happy times in Brussels and Washington – so much so that, in one (unintentionally) comical footnote to the era, Francis Fukuyama echoed Hegel’s elevation of Prussia to the pinnacle of history with his “*The End of History*” thesis, only designating the American model as the true “*final synthesis*.” While history has not been kind to his predictions, they fit well with the triumphalist mood of the time (the secular rise of China was then still a couple of decades in the future).

Seen from the Russian perspective, matters looked rather different. The Soviet Union had not been defeated in war, nor had the Communist regime been overthrown by violent revolution. The Soviet Union had voted itself out of existence with barely a struggle, and the successor state – Russia – saw itself not as a defeated power but, at worst, as a repentant one. Poor trusting bears, first Gorbachev, then Yeltsin, accepted assurances of lasting friendship from their erstwhile rivals of the West at face value. While their naïveté now seems remarkable, in the context of the times, it was perhaps understandable: given that the Soviet Communism which they had battled was clearly an evil, they could only

¹ *Simply ignoring all inconvenient evidence – e.g. the overwhelming success of first the “Asian Dragons,” then of China, employing political models that were anything but liberal democratic.*

assume that the opposing force, Western Democracy, must by nature be equitable, beneficent and disinterested.

They were to be bitterly disappointed – like every successful political system, Western democracies are structures designed for the exercise of power in the furtherance of the interests of their stakeholders. The temptation to take advantage of the weakness of an old rival to gain permanent ascendancy proved to be irresistible, and despite Clinton's assurances that NATO would not extend eastward to fill the vacuum left by the departing Soviet forces, within a few months Yeltsin found himself staring across the border at former satellites now occupied by a potentially hostile military alliance. There was precious little he could do.

In public, Russia was welcomed as a full partner – even offered a chair at the G-7; her interests were treated with respect, provided only that they coincided with those of the Atlantic Alliance. When NATO began bombing Serbia absent a UN mandate, Russian protests were met with ill-disguised scorn. The public narrative was one of reconciliation – the subtext was a tale of victory and neutralization. History is written by the victors – with the pen wielded by their tame, compliant press.

Something Rotten in the Kingdom of Muscovy

Back in Moscow, the reality seemed somewhat less cheerful than I had been led to expect. Alongside the bitter cold and the impossible language, something else was seriously amiss: Moscow was poverty-stricken, yet prices were higher than Tokyo or London; the stores were well-stocked, but there was literally nothing Russian-made on the shelves – even the water came from Finland. While the foreigners had dollar signs in their eyes, the Russians were almost uniformly pessimistic – either their tragic historical experience had blinded them to the wonderful things that were now happening, or they knew something we didn't. Born and raised in Latin America, I thought I recognized a pattern, and regretfully opted for the latter option. My prediction that "*this would all end in tears*" was disdainfully dismissed by my more experienced peers – I sincerely hoped that they were right.

My first domicile – Chistye Prudy – was a good quarter by Moscow standards, the housing stock partly comprised the old *kommunalkas* – squalid, communal pre-revolutionary apartments occupied by a half-dozen families sharing a common kitchen and bathroom – in part by recently privatized flats remodelled by the tiny emergent middle class. Yet, one sought in vain for the "green shoots" of economic revival: coffee shops, popular restaurants, the sort of small-scale activity that was by then endemic in Prague or Warsaw. There was a single coffeehouse, a couple of oligarchic clubs, and a handful of Soviet-era food stores – well stocked with shockingly overpriced Western goods, but nary a barber shop nor a fast food joint in sight.

Most disturbingly, on my morning walk to the office I never encountered fewer than four or five old ladies trudging through the snow, wrapped in rags, picking through trash containers in search of glass bottles to recycle for a few kopeks apiece. These were not the bag ladies familiar to denizens of Paris or Los Angeles – they were neither marginal nor were they obviously mad. They were decent folk who had believed in their Soviet system precisely as their Western counterparts believed in their own – who had gone to work each morning in the belief that, in return for their loyalty, their modest needs would always be met: a small pension, a room in a communal apartment, cheap utilities, transport, and medical care. In the event, they had been left destitute – humiliated by one

of history's occasional accidents, reduced to picking through trashcans to ensure physical survival.

The failure of the oft-predicted economic rebound six years after the end of the USSR, indeed the very visible deterioration in Russia's social and economic indicators, was met with a stubborn desire to believe in the miracle. Press coverage was a singular admixture of starry-eyed optimism – fulsome praise for that “disorderly but dynamic surge for freedom” of this new country – and human interest, yellow in tooth and claw. Alongside the enthusiastic praise for Russia's free-market experiment, there were lurid stories of murderous oligarchs and street-corner killings.

Today, it is easy to forget the refreshing transparency of the period – everyone knew who was growing fabulously rich appropriating State assets, who was on the take in mega-size, who was most likely to use “extraordinary means” to silence their opponents. The phrase “murderous oligarchs” was familiar enough to the readers – lurid tales of sex and guns sell papers, and while libel law and considerations of physical safety precluded the naming of names, the picture was clear enough. Given the total impunity of the most powerful of the tycoons, they made little effort to cover their tracks; indeed, the climate of fear surrounding several some of them proved quite convenient – it is both easier and far more cost-effective to neutralize one's opponents by fear than by contract killings. Among the most feared and brutal of the oligarchs was Mikhail Khodorkovsky and his Menatep Group – to be resurrected some years later in the Western press as a most implausible poster-child for “Russian reform”.

Andrei Makine noted that “*whilst French has 26 different verb tenses, Russian has only three – a nostalgic past, an uncertain present, and a very hypothetical future*”. In 1997, Moscow had a maniacal focus on the present – the past was dead, discredited, and odious; the future was a train wreck of unknown proportions; everyone jostled for position before that great feeding trough of the present, and with that complete absence of hypocrisy or political correctness which renders Russia so fatally attractive to renegade Westerners fleeing their exsanguinated countries.

The party never stopped – as brokers, we divided up our clients between the more adventurous – who followed us into the notorious Hungry Duck, a nightclub blending equal parts of Mad Max, Walt Disney and the Marquise de Sade, while those craving the certainty of physical delivery were instead dropped at the Night Flight,² where at least we could be reasonably sure that they would not awaken 16 hours later with a splitting headache, barefoot and wallet-less, someplace in the outer suburbs of Moscow.

Investing in Russia was fun – exciting – and, especially, conferred a sense of belonging to a small, exclusive club of those in the know. As the bubble grew ever greater during the summer of 1997, the early sceptics were (briefly) proved wrong by ever-rising prices; as many capitulated and bought *in extremis*, prices reached another peak and the sky seemed the only limit. How unfortunate that the Russians had not been invited to their own party...

What is unsustainable will ultimately not be sustained, and despite a widespread refusal to believe that it could all go horribly wrong – Russia seemed too big, too important, too

² Future financial historians will note this as the sole instance in recorded history where billions, perhaps tens of billions, of investment capital flowed into a market via a single downtown brothel...

nuclear to fail, the laws of gravity ultimately proved compelling, and by spring 1998, the outcome was becoming obvious.

The annual conference of our parent company, entitled “The Coming Russian Boom” was scheduled for early May. With a touch of that graveyard humour then quite fashionable in Moscow financial circles, I sent around an internal e-mail remarking that “*Loud noises in Russia are not necessarily good news*”. Management was not amused – indeed, my speaking slot was allocated to the chief strategist of a competing broker, who gave a brilliant, poetic, deeply moving speech, asserting that Russia would pay down her debts, reform her fiscal policies, striding into her shining, liberal future. Hard though my colleagues and I tried to believe him, to imagine that some Higher Force could still save us, we failed, dejectedly awaiting the final paroxysm.

Through the Looking Glass

By late August, it was all over. Russia had taken the nearly-unprecedented step of simultaneously devaluing and defaulting. On Tverskaya, it felt like the end of the world. The rouble was collapsing, banks had closed, costing millions their modest savings; the shops were emptying out as people converted their rapidly-shrinking roubles into tangible goods (German shampoo was a particular favourite.) Those few Russians who had recently begun to climb into the ranks of the middle-class suddenly found themselves jobless and impoverished. Colleagues were calling from abroad, waxing lyrical about the great opportunities to be found in London, in Silicon Valley (where the NASDAQ was inexorably surging from strength to strength), even in Argentina, urging me to bail out of Russia which was finished, done-for, discredited for the next twenty years at least – “Russian finance” would henceforth be the equivalent of “military intelligence” or “Australian high-culture” – simply a contradiction in terms.

I am nothing if not stubborn, and the doomsayers only hardened my resolve – I had just arrived, and would not leave before I was damned well ready! Fortunately, in late spring, sensing the approaching storm, I had managed to land a job as Moscow Head of Fixed Income for a major German bank – a safe-haven from which to observe the oncoming carnage, and hopefully, a decent springboard for re-entering the forthcoming Russo-Russian phase. Let the others bail out – I had stumbled into Moscow almost by accident, but inexorably, I was going local.

My first week on the desk, I was invited to lunch by **Ed Lucas** – the Moscow Correspondent for *The Economist*, a very senior and well-respected journalist who had been on-site for ages. Surely, amidst all the sound and fury, he would be able to put events into perspective, reassuring me about the fate of my adopted land.

It proved not quite the reassurance I had hoped for. **Ed** authoritatively explained that the Russian rouble would collapse to 10,000/\$, the economy would contract by at least 25%, the Communist hordes would sweep through Moscow taking the Kremlin, as the Russian Federation – held together with string and sticky-tape – broke up into four nuclear-armed, mutually antagonistic sovereign mini-states. My attempts at argument or mitigation were rebuked with utter scorn; this was not a matter of opinion, it was a matter of fact – and facts brook no argument. **The Economist was uniquely well connected within the military and had extensive contacts in the government and regions; as we spoke, the Russian Federation was in its death throes.**

I left the luncheon shaken, yet convinced that **Ed** was wrong - or at least, badly overstating his case. Not to say that I was not afraid. In retrospect, those of us who lived through the

crisis like to recollect that we always knew things would work out just fine. Of course, we knew nothing of the sort... we hoped! Like all true crises, the 1998 meltdown was unprecedented, a discontinuity – there were no guidelines – no historical references.

Ten Days that Shook the Author

The great Communist demonstration aimed at clawing the Fatherland back from the speculators – Western capitalists and their Russian puppets – was scheduled for the next Friday, a splendid, crisp, sunny autumn day. To avoid the danger of being lynched by the Communist mob, we dressed down, then headed to the Kremlin for the next instalment of John Reed's great chronicle of the Russian Revolution *Ten Days that Shook the World*.

Moscow – a city of some 19 million – had just been hit by the Mother of all Economic Collapses, yet despite the glorious weather, the demonstrators were outnumbered at least two-to-one by newly-unemployed foreign bankers, journalists and assorted adventure-tourists – all hoping to see history in the making.³

Were there 5,000 demonstrators? Perhaps. Mostly old and crotchety, these were the true losers in "Russia's Historic Transformation": pensioners who, after a lifetime toiling in a system they had been brought up to believe in – as the good burghers of Paris believed in theirs – were suddenly and inexplicably left destitute, with their six-dollar pensions inadequate to purchase food, medicine, or warm clothes – disoriented in an alien, hostile new world; coal miners unpaid for 18 months; teachers and doctors who had watched their safe, orderly worlds crumble. They marched around in angry circles for an hour or so, listening to rabid speeches by old apparatchiks – full of resentful passion, but oddly devoid of any real hope – men trying desperately to convince themselves of what they were saying. After an hour or so we repaired to the Balchug to drink overpriced coffee and enjoy the last of the autumn sunshine, wondering how we would survive the coming months – who had coffee, who had tea, who had detergent... and could we organize a swap?

Best Enjoyed Cold (Revenge!)

A few years later and it was all history; with the Eurobonds trading well above par, Russia boasted the world's best performing financial markets, both debt and equity – and best of all, this time it seemed sustainable, supported by substantial growth in the real economy. Thanks to a now-cheap currency, import substitution worked its wonders – old Soviet plant was reactivated with real things once again being produced. The popular stores were stocked with Russian-made consumer goods, while the rouble had stabilized as the budget swung further into surplus. The gradual rise in oil prices had, of course, been a godsend – but vitally, unlike in the late 90s when the proceeds simply accrued to oligarchs' foreign bank accounts, at least some of the money was now remaining in Russia. The monthly pension of Nastya's grandmother was a princely \$85, but up from just \$6 in 1997. Russia's rebellious regions and rampaging oligarchs had been reigned in by Vladimir Putin, the primacy of the State had been reasserted, while foreign policy had ceased to be totally

³ This has a parallel today. Since 2000, at least once a week we have encountered warnings by Russia's army of political pundits that everything is just about to fall apart: The People are ready to rise up and overthrow the Putin/Medvedev government, the regions will declare independence, the army is restive, a black crow was spotted feeding a newborn babe – the naïve reader should bear in mind that the implosion of Russia has been predicted nearly as often as Christ's Second Coming or the return of the Hidden Imam – both of whom remain conspicuous for their absence.

subservient to the interests of the West; even the local mood was improving – Russians have never been known for their starry-eyed optimism, but at least the sense of national embarrassment was gone. One could like Putin or not, but clearly he commanded respect.

I was at a journalist's cocktail party in Moscow when I heard a loud voice proclaiming something scornful about "*the Ra-Ra-Russia crowd*". It was Ed Lucas and of course he was referring to me! Sensing an easy kill, I whirled about and snarled back "Ed, *the last time we met, you told me that Russia was dead in the water*" – before reeling off his list of imagined catastrophes. To Lucas' credit, he denied not one word of it, instead acknowledging that he had said it all – and had been proved wrong ... "but now," Ed intoned, "*you are going to see the real disaster*," reeling off yet another doom-and-gloom scenario, even blacker than his previous one...and of course, no less self-assured!

And this was a moment almost of enlightenment: most people believe what they wish to believe, and ideology, like the sorceress Circe, can turn men into swine. There is little use in arguing with someone who has seen The Truth, be it religious or ideological; fortunately – in finance, we have another option – to trade against misinformation, bias, and bigotry. Those who have done so over the past decade in Russia have made out like bandits!

Babushki of the World, Unite!

(You've nothing to lose but your Eurobonds!)

The invitation to a bankers' luncheon organized by Finance Minister Mikhail Kasyanov to explain why GKO holders were about to be hung out in the wind was most welcome. Just days before, Mr. Kasyanov had leaned on Banker's Trust to fire my good friend Adam Elstein for having he told the *FT* that, were investors in the GKO notes to be reamed as Kasyanov proposed, "*foreign investors would rather eat nuclear waste than invest in Russia again!*" At the time, it seemed almost a statement of the obvious.

Widely referred to as "Misha 2%" for his rumoured propensity to participate in sovereign financial transactions for his personal benefit, Kasyanov launched into a speech explaining that Russia could not afford to repay the GKO's without causing an catastrophic inflationary spiral (indeed, it could not), but that they intended to honour their dollar-denominated Eurobonds come hell or high water. Best of all, there was a humanitarian motive behind this choice – quoth the finance minister (who appeared stone sober): "*Russia has a fiduciary duty to the European babushki and dedushki (grandmas and grandpas) who own Russian Eurobonds!*"

All around me was the sound of jaws dropping – the bankers looked at each other blankly, as if to ask "*is he mad... or on drugs?*" – and then, suddenly, a little light bulb came on, and as if I was reading the subtitles, the message was clear as day: "*Gentlemen*," he was saying, "*I have finished buying up all the bonds I could for my own account – but don't worry, there are plenty left for you, and still ridiculously cheap – you can now safely bid up the prices...after all, you don't seriously imagine that I am going to default on my own Eurobonds, do you?*"

Uncharacteristically, I skipped the dessert – rushing back to the office, my papers flying, babbling excitedly about how we could make back every penny we'd lost in the crisis by just buying the same bonds that Misha was... it really was that easy! All I needed was some credit line – say \$25m for starts. My boss looked at me pityingly (had it been mathematically possible for Frankfurt to cut our dealing line below zero, they would have

done so already), so I rang our London dealing desk, excitedly imparting my newfound knowledge – and was left on hold...

Months later, on a marketing trip to Switzerland, a couple of old friends on the buy-side were good enough to take a few Rf28s, just to keep me in a job..."hell," they figured, "at 25 cents, how much could they lose?" In fact, those who held them for a further five years made some 1500% on the trade, disproving the old maxim that "no good deed goes unpunished" (many of the others were busy buying up those new-fangled triple-A "super-safe" American subprime CDOs... guess which ones still have jobs!)

Short Memories – When even the Past is Unpredictable

How do wars start? Wars start when politicians lie to journalists, then believe what they read in the press

Karl Kraus, 1932

Nefteyugansk Mayor Vladimir Petukhov, was losing the battle to save his city, the centre of Yukos' oil production; the oil major was paying 100 times less tax than what was paid to the City of Surgut by rival oil major Surgutneftegas. With only a single source of revenue, Petukhov's office was literally starved of cash, unable to pay salaries. Yukos executives had taken to flying in from Moscow with sacks of rouble notes, directly paying whichever municipal workers they happened to like, in effect privatizing the city. Desperate, Petukhov went on a hunger strike, appealing to Moscow for assistance. In his own words:

I, the head of the city of Nefteyugansk, Petukhov V.A., protest against the cynical actions and murderous policies carried out by the oligarchs from OAO 'RospromYUKOS' and bank 'Menatep' in the Nefteyugansk region.

In protest against the inaction of the government of the RF and the policies of suffocation of opposition to the team of Khodorkovsky M.B., which in my opinion leave no other path, I announce an indefinite hunger strike and make the following demands:

- 1. To initiate a criminal case based on the fact of large-scale under-payment of taxes by Rosprom-YUKOS in the years 1996 – 1998;*
- 2. To remove from his post the head of the GNI [State Tax Inspectorate] in the city of Nefteyugansk Naumov L.E., and the head of the GNI of the Khanty-Mansiisk Autonomous Region Efimov A.V., and to unite the tax organs of the city of Nefteyugansk and the Nefteyugansk region;*
- 3. To activate an investigation of criminal activity surrounding the fact of the swindling of the sum of 450 billion roubles in old prices by the firms 'Rondo-S' and ANK 'YUKOS', and also the swindling by use of false promissory notes of the firm 'Eltem' in the sum of 100 billion roubles, which were issued by Rosprom-YUKOS;*
- 4. To pay off the accumulated tax arrears, interest, and penalties of Rosprom-YUKOS in the amount of 1.2 trillion un-denominated roubles to the city of Nefteyugansk, using financial resources, crude oil, and oil products;*
- 5. To put an end to the interference by the oligarchs from Rosprom YUKOS Menatep in the activities of the organs of local self-governance;*
- 6. To conduct the process by which will be annulled the unlawful auction in the purchase of ANK 'YUKOS' by Rosprom-YUKOS, and the transfer of the government's share holding in OAO 'Yuganskneftegaz' in exchange for debts to the city of Nefteyugansk, the city of Pyt'-Ykhu, the Nefteyugasnk region, and the Khantii-Mansiisk Autonomous Region;*
- 7. To restore the economic independence of OAO – production association 'Yuganskneftegaz'.*

With hope!

Head of the city of Nefteyugansk,

Kandidat Texnicheskii Nauk [PhD]

V.A. Petukhov

15.06.98

Eleven days later, on Mikhail Khodorkovsky's birthday, Mr. Petukhov was shot dead in broad daylight on his way to his office. – Yukos encountered no further opposition. Years later, interviewed by the *FTs'* Chrystia Freeland, Khodorkovsky claims to have been shocked when he learned the news, and to have promptly cancelled his birthday celebrations... more interesting, of course, is what he did not claim – to have immediately picked up the phone to find out who had committed this foul crime, demanding their heads upon a platter. Presumably, he already knew...

A few months later it was the turn of Yevgeny Rybin, who was suing his former Yukos associate in Stockholm arbitration court for stealing Eastern Oil. Back in Moscow, leaving an informal social gathering hosted by his Yukos ex-partners, someone stepped out of the bushes and unloaded a Markov automatic pistol in Rybin's general direction – but missed. Rybin understandably declined further social invitations, however a few weeks later his car was blown up, then sprayed with bullets, killing his driver and bodyguard and wounding a militia officer – Rybin, the intended target, had just stepped out to bring flowers to his sister; some people are just born lucky! In a striking example of the sense of impunity with which the perpetrators acted, bullets recovered from the scene had been fired by the same weapon that had killed Petukhov⁴ – once again, there was very little sense of mystery in Moscow as to who the perpetrators might have been.

Menatep briefly held a 10% stake in *The Moscow Times*. Though they had entered as a purportedly financial investor, soon afterwards, they began to exert pressure for more favourable coverage – when the MT resisted, Nevzlin, Khodorkovsky's enforcer (now, convicted of murder *in absentia* and a refugee in Israel) stopped by for a quick visit. One person present at the meeting told this author that when Nevzlin left, although no specific threats had been issued, there was no doubt in anyone's mind that they could find themselves in physical danger were they to ignore his warnings – oddly enough, no one felt inclined to put it to the test.

In early July I dropped by a dinner party at the Moscow flat of a British journalist. In attendance were reporters from most of the major Western media (including the *FT*, the *NY Times*, the *LA Times*, the *Moscow Times*, and the wires) along with the usual mix of equity sales people, bank strategists, and assorted hangers-on. When the kitchen conversation turned to the murder in Nefteyugansk there was a sense that poor Petukhov had been insanely brave to challenge Yukos, but no one thought to express the slightest doubt as to who had been responsible – indeed, anyone affirming that Petukhov's untimely death had been a mere coincidence would have been laughed at.

Needless to say, the fact that something was “common knowledge” in Moscow does not constitute evidence in a court of law – the point here is not one of innocence or guilt – the point is the veritable epidemic of very selective amnesia that struck the journalistic community when the political winds suddenly changed and Washington's favourite oligarch came to grief.

Perhaps newcomers can be forgiven for not realizing that pre-Putin Moscow was never the liberal paradise nostalgically portrayed, nor were the oligarchs the benevolent capitalists some would now have us believe – what is truly appalling is that several of the Moscow veterans who are now parroting Yukos' attorney Robert Amsterdam's nauseous attempt to equate the murderous Khodorkovsky with the saintly Sakharov were present at that dinner party; having been there myself, I can affirm that the representatives of the same British

⁴ See Richard Sakwa, *The Quality of Freedom*.

press which now lionized the oligarch were no less bitingly critical of Khodorkovsky than were their peers.

We of the West are inordinately proud of our civil liberties, our periodic bouts of voting, our law-abiding, rule-based governments, and of course, our free and fair press. We are less likely to dwell upon the Patriot Act, the lack of real alternative political choices, nor of course on the complicity of that press in the egregious campaign of disinformation that opened the door to the illegal occupation of Iraq. Indeed, since the advent of mass media in the late 19th century, every war in every country – from the Opium Wars to the Spanish-American, from Vietnam to Kosovo, Iraq and So. Ossetia – has been characterized by the systematic manipulation and misinformation of public opinion by a press largely subservient to whatever government is in place. This is unlikely to change.

Indeed, there was something refreshingly straightforward about press manipulation in the USSR. The newspapers were told what to write – and they wrote it; everyone over the age of 14 realized this, reading Pravda with a jaundiced eye. The situation in the West is rather more complex. Much of the mass media is owned by financial conglomerates with their own political and economic agendas. Publishers sit down to dinner with senior politicians, and are briefly made to feel important – part of the inner circle. There is a thick network of think tanks – some strongly ideological, others available to the highest bidder – feeding journalists pre-packaged spin. There is huge peer pressure to conform – imagine the fate of a junior reporter who failed to remind the reader that (like George Bush Sr.) Putin had once headed the security services, or noted that he remained overwhelmingly popular with the denizens of Russia's provinces. Their readership remains absurdly credulous – given how often they have been spun, misinformed or simply lied to.

Or, as one of my Russian friends put it: *“there's only one difference between we Russians and you Westerners: we don't actually believe our own propaganda!”*

Bandits!

We are all famous for 15 minutes

Andy Warhol

In my second week on the desk as M.D./Head of Research, the call came from Yukos. For whatever reason, their investor relations people insisted on meeting me. **My initial response – that I lacked radiation protection garb – was met with the sharp rejoinder that “we are potentially Russia's largest oil company – and while nothing obliges you to believe us, you have to at least listen to our story!”** – fair enough, I thought, swallowing hard.

Trudging through the snow to the Yukos headquarters, I was met by their Head of IR – who **refreshingly made neither any attempt to charm or to bribe me, nor especially, to deny any of their past misdeeds, however egregious.** Instead, he laid out a list of promises: appointing independent directors, settling with minority investors and creditors of both Yukos and Menatep, publishing IAS accounts, paying dividends, etc. “Don't write anything now,” he admonished, “just watch to see if we keep our promises...if we do, then you should write about it!”

Six weeks later they were doing all of the right things. On the principle that if one does not believe that things ever change, one should simply not live in Russia, I drew a deep breath then issued the first official “buy” recommendation on Yukos (then trading, if at all, at about

50 cents, still suspended from its RTS listing due to conduct considered egregious even by the dire standards of the day.) Soon enough it was to prove a singularly felicitous call; as the company strategy shifted from outright theft of cash flows to pushing up its stock market valuation, the shares surged to a high of \$16.00 – a spectacular 3000% run.

Not only did the initial transformation of Yukos from oil-drenched duckling to unlikely swan provide some excellent ammunition to one struggling to sell the Russia story to foreign clients, but it proved contagious! Vladimir Putin had told the oligarchs that their past misdeeds would be conditionally forgiven, provided that they paid their taxes, refrained from further pillage of the State, and especially, stayed out of politics. Carnivores are rational beasts, and increasingly, they were shifting their focus from plundering the State to consolidating their newly-acquired fortunes by building up stock market valuations.

While the history of oil giant Sibneft was not much prettier than Yukos, perhaps a wave of Damascene conversions had been visited upon us, and with Yukos' share price bumping up against the \$6 level, I issued a report on Sibneft, referring to them as "*former bandits*" but who had seen the light. While the b-word raised some hackles within my institution, I could argue that there is no joy in heaven like for a sinner repentant. A few months later it got better still: the company announced that it had bought 29% of its stock into treasury; rather than the accustomed dilutions, the fortunate investors in Sibneft were actually seeing a substantial "concentration" of their equity holdings...would wonders never cease?

The Russian climate seems cruel almost by design – after a long, gruelling winter there bursts an early spring – the birds singing in the branches, pale ghosts emerging from overheated apartments into the wan sunshine, a promise of summer in the air, for perhaps 48 hours when suddenly, the icy hand of winter sweeps it all away: the poor stupid birds frozen to their branches, the babushki breaking femurs on the treacherous sheet ice. Likewise, the Russian investment case rarely – if ever – advances in a straight line; within months, the Sibneft released audited accounts revealing that the same 29% stake had been sold again – information about to whom, at what price, and where the generous dividend just declared had accrued was "not publicly available!"

The market reaction was brutal – a hastily-organized Sibneft teleconference proved an exercise in the Theatre of the Absurd: the hapless IR people were "not at liberty" to reveal to whom the shares had been so sold, nor for that matter the price; ditto as regards the fate of the dividends – in fact, they could tell us nothing other than what was already in the published accounts. The call ended with the admission that "*this was not the greatest day in the history of their company*" but promising to "*do better in the future.*"

As I headed for the door for a weekend of ballet in St. Petersburg, I had just time enough to whip out a desk note acknowledging my former naiveté, stating that, whilst in a previous report I had controversially referred to Sibneft as "*former bandits*," I would now have to withdraw the term "*former*"! On the way to the airport, I got a call from a journalist at *The Moscow Times*, enquiring as to whether she could quote from my report – "sure," I replied, not quite thinking through the implications, "if I wrote it, I stand by it". Then I switched off my phone.

The next day, as an ethereal Giselle was saving her lover from the Shades, *The Moscow Times* quoted me in a two-page feature on the Sibneft scandal under a banner headline: Bandits! – Sibneft slammed for sell-off". My life was suddenly to become very interesting...

By Sunday, when I turned my phone back on, there were 57 missed calls, some unprintable SMS messages, and an order to return to Moscow forthwith. My employer had

already issued an unconditional apology, surprisingly stating that my “*irresponsible remarks*” had “*compromised their reputation for objective, unbiased research*” – most entertainingly, the secretary who had forwarded the press release had omitted to white-out the original letterhead – it was sent out on Sibneft paper, with a Sibneft return address. The journalists, of course, loved it!

Shortly thereafter, as I was making my graceful exit into a very uncertain future, I could not resist the temptation of showing up to at our annual Christmas party. Among the entertainment was an animal trainer leading a muzzled bear on a leash. My boss, a hapless Irishman fresh off the plane from New York, remarked upon the striking resemblance between me and the bear. “Yes, Cormac” I retorted, “but unlike him, my muzzle comes off next week!”

The Dark Ages

The Yukos debacle unarguably marked a fundamental shift in foreign perceptions regarding Russia⁵. Absent the spin, the story is simple enough. There can be no reasonable doubt that Khodorkovsky was guilty as charged: theft of state assets, corruption on an industrial scale – in particular, the outright ownership of a large stable of Duma deputies – as well as enthusiastic participation in the wide-scale tax evasion by the mineral extraction complex that ultimately bankrupted the Russian State. At least until 1998, Khodorkovsky egregiously abused foreign investors, stripping assets and cashflows, and accumulating enormous wealth in offshore jurisdictions via shell trading vehicles.

The only conceivable defence is that “*everyone else was doing it too*”. True as far as it goes, but also somewhat irrelevant – the fact that others also ran Ponzi schemes was not deemed exculpatory for Bernard Madoff (now serving a barbaric 150-year prison sentence for crimes far less egregious) nor was Al Capone the only gangster of his day. It is also somewhat misleading – while Russia was indeed a very tough place in the 1990s, the majority of the oligarchs stopped well short of murdering their opponents.

The Yukos story is eminently “political”, though not in the sense that it has been portrayed. Khodorkovsky’s politics was not a matter of sending a cheque to the party of his choice – rather, it involved outright ownership of a block of Duma deputies large enough so that, by allying themselves with the Communists and other splinter parties, they could block any legislation not to Khodorkovsky’s liking – in particular the oil export tax and the outlawing of offshore trading vehicles. When, having engaged Vladimir Putin in single combat, Khodorkovsky tried to castle out of check by appealing to the American power elite, seeking to raise support in Houston and Washington while negotiating the sale of Yukos to Exxon – Putin chose the nuclear option. The only truly innocent victims were the foreign fund managers who suffered painful losses on Yukos shares bought in good faith. While for several years, the theme song in Moscow was “who’s next?” in fact, no one was next – Khodorkovsky’s severed head impaled upon a stake at the Kremlin wall proved sufficiently dissuasive to any oligarch⁶ seeking to resurrect the Yeltsin-era model.

⁵ It could be an interesting intellectual exercise to speculate upon how the Russian investment story, and more generally, her relations with the West, would have evolved had not Mikhail Khodorkovsky, like the Archangel Lucifer before him, rebelled, seeking to supplant the only force standing above him... but history is not a series of “what ifs”.

⁶ The constantly repeated assertion that only Kremlin-friendly oligarchs could survive, is of course nonsense – multibillionaires Misha Friedman and Alexander Lebedev have repeatedly proved thorns in the government’s side; the former forcing the resignation of Leonid Reiman and defeating Sechin’s BP-Rosneft merger, the latter biting Putin in the media. What is true is that no oligarch since Khodorkovsky has attempted a wholesale recapture the political process.

Perhaps most fascinating about the Yukos story is its human dimension – how a man endowed with a powerful intellect, maniacal focus and legendary powers of concentration stumbled into a fight he obviously could not win. From Napoleon to Hitler, foreigners have repeatedly made the mistake of imagining that one could inflict enough pain on the Russians to make them capitulate; they have been systematically proved wrong – there is simply not enough pain in the universe for that; but Khodorkovsky was Russian, and he certainly should have known. Perhaps, having grown up in a grimy communal apartment and now worth untold billions – feted as Russia's real President in Washington and Houston – he thought he had heard The Call, that he was the Anointed One, forgetting the rules of the game which he himself had so masterfully played.

He was, of course, not the only loser. With the enormous financial resources at its disposal, Menatep has been able to corrupt political, social and journalistic institutions throughout the Western world, damaging the image of Russia, and perhaps creating a permanent rift with the Atlantic elites. Journalists who knew or should have known exactly what Yukos had been and had done continued to praise Khodorkovsky as a hero for Russian liberalism and transparency; the Carnegie Endowment enthusiastically embroidered upon Menatep press releases - without bothering to reveal that they themselves had been funded by Yukos. Given that the arrest of Khodorkovsky had revealed the limits of US influence in Russia, as well as depriving Exxon of the opportunity to grab Russia's top oil company, a succession of US congressmen have hailed Khodorkovsky as hero and martyr. The results of their lobbying have not been quite those they had expected.

The Dogs Bark – the Caravan Passes

There is a widespread bias among fixed income jockeys that bond markets are “smarter” than equity markets – Russian debt now trades well “inside” (i.e. safer than) that of numerous European countries, American states, or international corporates. Early in the last decade, the author would provocatively inform his hedge fund and long-only clients that their subscriptions to the *Financial Times* and *The Economist* were costing them millions of dollars a year, i.e. the cost of their having shied away from Russian financial assets at a time when they were absurdly cheap relative to the actual risk. Fixed income investors soon enough came to realize that believing the disinformation retailed by the Western press was an unaffordable luxury.

The equity market – still relatively cheap, but suffering from some very uneven corporate governance – has been a bit slower to wake up and smell the coffee, though perhaps the greatest gap between perception and reality has been as regards FDI (foreign direct investment) which, despite some high-profile accidents, has generally proved wildly profitable – far more so than Western investments into the other BRIC countries. The major German, French and Italian companies are now increasingly focused on the Russian market.

As regards the politics, matters have been a bit less felicitous. The rigid, triumphalist rhetoric of the American Neocons admits no compromise, nor is it amenable to any ecumenical vision of competing socioeconomic models. Profoundly ideological, a series of foreign policy disasters has done little to instill a sense of the limitations of American power. By 2008, stung by the defeat of their Georgian clients, the Bush administration was upping the ante with the threat of a new Cold War – the onset of the US financial crisis proved a fortunate distraction. While under Obama there has been a welcome normalization of

relations, the best that can be hoped for is a cold peace; with limited trade between the US and Russia, neither country is the primary focus of the other.

On the other hand, given that politics ultimately conforms to the economic reality, relations with Europe, Germany in particular, are growing stronger. The German model of mixed state-private capitalism fits well with the Russian system, and although there were fears that the election of Merkel would derail the warm relationship built up by Schröder, quickly enough (and like Sarkozy) she was confronted with the vital importance of Russia, both as a trading partner and as a neighbour.

Snatching Defeat from the Jaws of Victory

Future historians will doubtlessly wonder at the spectacular incompetence of Western diplomacy towards Russia at a time when her future orientation was very much in play; a tactical alliance between Russia and China should have been their worst nightmare. Extreme resource-dependency is the Achilles Heel of the Chinese economy; although China is rapidly building up mineral and agricultural sources across the globe, the distances are daunting and maritime transportation represents a significant strategic vulnerability. Russia, on the other hand, can supply virtually everything China needs - grain, energy, minerals, timber and metals, even water – to her doorstep.

The narrative in the West has been breathtakingly self-serving – early in the last decade, one highly-placed American academic asserted to this author that “*the Russians are so afraid of China they will be forced to beg a place under the American umbrella – whatever the price that Washington demands!*” It is an illustration of the profoundly amateurish diplomacy of the Obama administration that the man in question has now attained great prominence in US Russian policy-making.

From the **deeply corrupt** coverage of the Khodorkovsky affair, to the tendentious and dishonest misreporting of the Georgian shelling of South Ossetian civilians and **from the lionization of the deeply corrupt Timoshenko to the** failure to express any scepticism as regards Litvinenko’s deeply moving death-bed letter accusing Putin of his poisoning (purportedly drafted in flawless, flowing English by a desperately ill man who spoke barely enough English to order a cup of tea) the foreign press has done much to discredit Western institutions in Russia, creating a rift which will most likely never be fully bridged. Ironically, they have advanced the interests not just of the most anti-Western Russian factions, but also of the sole great power able to seriously threaten the socioeconomic dominance of the Atlantic Alliance – China.

It is perhaps insufficiently appreciated that since the 18th Century – despite occasional periods of hyperactivity – Russia has been a profoundly conservative power. Even the Cold-War occupation of Eastern Europe and the imposition of Soviet rule following the catastrophe of WWII was essentially a defensive reaction to Russia’s utter devastation by European armies, three times in a little more than a century. In any event, by the late 1960s, any expansionist impulse there may have been had been irretrievably lost; Russia has not posed any credible threat to the West for the past fifty years.

Russia is not a “dissatisfied power” but rather, one seeking to enhance her influence within the framework of the existing global power structure.⁷ On the other hand, a rapidly

⁷ While some may argue that Russia seeks to punch above its weight, they are certainly not alone in this. The examples of France and the UK illustrate how formerly great powers can continue to maintain the illusion of geopolitical relevance, long after they have ceased to be of any true relevance.

ascendant China – still recovering from the humiliations of the 19th Century and the catastrophes of the 20th, and which now accounts for some 25% of mankind as well as the lion's share of global GDP growth – is seeking to carve out what it sees as its proportionate share of power and wealth, largely at the expense of the sunset powers of America and Europe. Aiming for a profound reordering of the global power structure – economic, military, and political – China increasingly poses a clear and significant threat to North Atlantic hegemony. Whether Chinese demands can be peacefully accommodated will be one of the key questions for our century.

Dragons and Bears

Russia and China have a long history of fraught relations and mutual distrust, beginning with the annexation of large swaths of Chinese Siberian territory across the Amur river (one of the hated 19th century “Unequal Treaties” with the Western Powers) and culminating in several instances of military conflict late in the Mao/Khrushchev period. That said, the Chinese are nothing if not pragmatic and it is significant that of these imposed treaties, only the Russian treaty was subsequently sanctioned by Beijing – tacitly any questions of “sacred national territory,” all outstanding border disputes were quickly laid to rest early in the last decade.

The Russian side remains wary of China, fearful for the great expanses of empty Siberian tundra (it seems unlikely that the Chinese are going to try to farm the perma-frost, and in any event, in a world of nuclear armaments, 19th century wars of territorial aggrandizement seem quaintly obsolete) and is still exercised about the “yellow-peril”. Vladimir Putin's reply to my question at the recent VTB conference confirmed that, perhaps due to a historical sense of inferiority to the West, the Russian leadership continues to look to Europe for its model, and has yet to become fully cognizant of the profound shift in the global centre of gravity. Ultimately, economic reality should prevail – the West is the past, Asia is the future. Russia would be well advised to keep one foot in each camp.

I am sometimes asked whether Russia can compete with China – the answer should be obvious: if the most advanced Western countries cannot, how can a still-restructuring Russia? Fortunately, it is also irrelevant – Russia has no need to compete; the two economies are largely complementary (reminiscent of the relationship between China and mineral-rich Australia) and given the absence of any significant Russian production of consumer durables (ex- the tightly-protected automotive sector) in the local market, Chinese imports compete not against domestic Russian manufacturers but against other European or Asian exporters.

Despite continued disagreement on gas pricing, the first phase of the Eastern oil export pipeline to China is now up and running; trade between the two giants is surging – less than \$20bn in 2003, it reached \$55bn in 2010, a 40% increase over the previous year. Exports are increasingly settled in Yuan/Roubles, bypassing the US dollar.

While the stagnating G7 economies are threatened with stagnation at best due to spiralling sovereign debt loads, American pundits have recently taken to dismissing a fast-growing China as a paper dragon; they may soon enough feel its hot breath. Lasting political alignments are ultimately determined not by sentiment but by economic realities – for Russia, the West has proved not just a meddling and unreliable partner, but one which systematically overplays its hand. Despite the ongoing competition for influence in the “Stans”, Russo-Chinese diplomatic alignment in the Shanghai Cooperation Organization

and the UN Security Council have been a vital counterweight against the domination of the Western powers. China's pragmatic policy of non-interference plays well in Moscow – far better than the hectoring and often-hypocritical tone of the Western powers.

Epilogue – The Curse of Normality

The Yeltsin years were a magnificent time for us foreigners – perhaps rather less so for the locals – at least, the overwhelming majority. Though the memory of the *Great Party at the Edge of the Apocalypse* shall accompany me for as long as I draw breath, times have changed; we Westerners have become bit players; our passports and jeans no longer evoke much envy, not even instant admission to the top clubs. This is as it should be.

Beware of what you want. Our greatest hope – we, that first, ideologically-motivated generation of expats – was that Russia was to evolve into a “normal country”; this is now becoming a reality. People have mortgages, start families, acquire middle-class habits and aspirations. The future seems more tangible – the time horizon has extended from weeks to decades. After a turbulent adolescence, our adopted country is progressing into early middle-age: a middle-income, middle-European country increasingly embracing the European Social-Democratic model. Neither the world's best performing – nor, by far, its worst.

Indeed – and tacit the mindless din in the press – the challenge for Russia may be not the lack of democracy, but rather, its excess. In the 1990s, no Russian asked anything more of the State than to be left alone; this has changed, as a newly empowered middle-class takes root, and the fearful turbulence of decades past fades from memories, the government has become mindful of its popularity ratings and exquisitely sensitive to the popular mood. A welfare state is rapidly taking shape, and though Russia is famously unpredictable, a European destiny seems most likely; at a time when the European social model seems threatened with imminent implosion, this may seem a counter-intuitive choice.

All of this is still for the future, and as of this writing, Moscow is the only European city in which one can still feel free. Thus, in closing, a word to my many Russian friends who constantly threaten to decamp to that Europe which I fled in despair – at the bureaucracy and immobility, suicidal political correctness and crushing fiscal inquisition – 15 years ago: *the West has a great future – behind it. Go ahead, give it your best shot and good luck to you – but here's betting that you'll be coming back a lot sooner than you had imagined...*

Eric Kraus is an independent asset manager, based in Moscow since 1997.

His writings can be found on www.truthandbeauty.ru

Readers are invited to forward this note to any interested parties.

Permission granted for posting (in full and unedited) on websites/blogs.

Please notify us of any postings.

Copyright – Eric Kraus

krausmoscow@yahoo.com

For a break from it all, sail away with El Aleph – see www.elaleph.ru