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Russian Roulette

Russia's Economy

In Putin's Era

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REPUBLIC OF MACEDONIA

C O N T E N T S

The Security Apparatus

Shabtai Kalmanovich vanished from London in late 1980's. He resurfaced in Israel to face trial for espionage. He was convicted and spent years in an Israeli jail before being repatriated to Russia. He was described by his captors as a mastermind, in charge of an African KGB station.

In the early 1970's he even served as advisor (on Russian immigration) to Israel's Iron Lady, Golda Meir. He then moved to do flourishing business in Africa, in Botswana and then in Sierra Leone, where his company, LIAT, owned the only bus operator in Freetown. He traded diamonds, globetrotted flamboyantly with an entourage of dozens of African chieftains and their mistresses, and fraternized with the corrupt elite, President Momoh included. In 1986-7 he even collaborated with IPE, a London based outfit, rumored to have been owned by former members of the Mossad and other paragons of the

Israeli defense establishment (including virtually all the Israelis implicated in the ill-fated Iran-Contras affair).

Being a KGB officer was always a lucrative and liberating proposition. Access to Western goods, travel to exotic destinations, making new (and influential) friends, mastering foreign languages, and doing some business on the side (often with one's official "enemies" and unsupervised slush funds) - were all standard perks even in the 1970's and 1980's. Thus, when communism was replaced by criminal anarchy, KGB personnel (as well as mobsters) were the best suited to act as entrepreneurs in the new environment.

They were well traveled, well connected, well capitalized, polyglot, possessed of management skills, disciplined, armed to the teeth, and ruthless. Far from being sidetracked, the security services rode the gravy train. But never more so than now.

January 2002. Putin's dour gaze pierces from every wall in every office. His obese ministers often discover a sudden sycophantic propensity for skiing (a favorite pastime of the athletic President). The praise heaped on him by the servile media (Putin made sure that no other kind of media survives) comes uncomfortably close to a Central Asian personality cult. Yet, Putin is not in control of the machinery that brought him to the pinnacle of power, under-qualified as he was. This penumbral apparatus revolves around two pivots: the increasingly fractured and warlord controlled military and, ever more importantly, the KGB's successors, mainly the FSB.

A. The Military

Two weeks ago, Russia announced yet another plan to reform its bloated, inefficient, impoverished, demoralized and corrupt military. Close to 200,000 troops are to go immediately and the same number in the next 3 years. The draft is to be abolished and the army professionalized. At its current size (officially, 1.2 million servicemen), the armed forces are severely under-funded. Cases of hunger are not uncommon. Ill (and late) paid soldiers sometimes beg for cigarettes, or food.

Conscripts, in what resembles slave labour, are "rented out" by their commanders to economic enterprises (especially in the provinces).

A host of such "trading" companies owned by bureaucrats in the Ministry of Defense was shut down last June by the incoming Minister of Defense (Sergei Ivanov), a close pal of Putin. But if restructuring is to proceed apace, the successful absorption of former soldiers in the economy (requiring pensions, housing, start up capital, employment) - if necessary with the help of foreign capital - is bound to become a priority sooner or later.

But this may be too late and too little - the much truncated and disorientated armed forces have been "privatized" and commandeered for personal gain by regional bosses in cahoots with the command structure and with organized crime. Ex-soldiers feature prominently in extortion, protection, and other anti-private sector rackets.

The war in Chechnya is another long standing pecuniary bonanza - and a vested interest of many generals. Senior Russian Interior Ministry field commanders trade (often in partnership with Chechen "rebels") in stolen petroleum products, food, and munitions.

Putin is trying to reverse these pernicious trends by enlisting the (rank and file) army (one of his natural constituencies) in his battles against secessionist Chechens, influential oligarchs, venal governors, and bureaucrats beyond redemption.

As well as the army, the defense industry - with its 2 million employees - is also being brutally disabused of its centralist-nationalistic ideals.

Orders placed with Russia's defense manufacturers by the destitute Russian armed forces are down to a trickle. Though the procurement budget was increased by 50% last year, to c. $2.2 billion (or 4% of the USA's) and further increased this year to 79 billion rubles ($2.7 billion) - whatever money is available goes towards R&D, arms modernization, and maintaining the inflated nuclear arsenal and the personal gear of front line soldiers in the interminable Chechen war. The Russian daily "Kommersant" quotes Former Armed Forces weapons chief, General Anatoly Sitnov, as claiming that $16 billion should be allocated for arms purchases if all the existing needs are to be satisfied.

Having lost their major domestic client (defense constituted 75% of Russian industrial production at one time) - exports of Russian arms have soared to more than $4.4 billion annually (not including "sensitive" materiel). Old markets in the likes of Iran, Iraq, Syria, Algeria, Eritrea, Ethiopia, China, India, and Libya have revived. Decision makers in Latin America and East Asia (including Malaysia and Vietnam) are being avidly courted. Bribes change hands, off-shore accounts are open and shut, export proceeds mysteriously evaporate. Many a Russian are wealthier due to this export cornucopia.

The reputation of Russia's weapons manufacturers is dismal (no spare parts, after sales service, maintenance, or quality control). But Russian weapons (often Cold War surplus) come cheap and the list of Russian firms and institutions blacklisted by the USA for selling weapons (from handguns to missile equipped destroyers) to "rogue states" grows by the day.

Less than one quarter of 2500 defense-related firms are subject to (the amorphous and inapt) Russian Federal supervision. Gradually, Russia's most advanced weaponry is being made available through these outfits.

Close to 4000 R&D programs and defense conversion projects (many financed by the West) have failed abysmally to transform Russia's "military-industrial complex". Following a much derided "privatization" (in which the state lost control over hundreds of defense firms to assorted autochthonous tycoons and foreign manufacturers) - the enterprises are still being abused and looted by politicians on all levels, including the regional and provincial ones. The Russian Federation, for instance, has controlling stakes in only 7 of c. 250 privatized air defense contractors. Manufacturing and R&D co-operation with Ukraine and other former Soviet republics is on the ascendant, often flying in the face of official policies and national security.

Despite the surge in exports, overproduction of unwanted goods leads to persistent accumulation of inventory. Even so, capacity utilization is said to be 25% in many factories. Lack of maintenance renders many plant facilities obsolete and non-competitive. The Russian government's new emphasis on R&D is wise - Russia must replenish its catalog with hi-tech gadgets if it wishes to continue to export to prime clients. Still, the Russian Duma's prescription of a return to state ownership, central planning, and subsidies, if implemented, is likely to prove to be the coup de grace rather than a graceful coup.

B. The FSB (the main successor to the KGB)

Note:

The KGB was succeeded by a host of agencies. The FSB inherited its internal security directorates. The SVR inherited the KGB's foreign intelligence directorates.

With the ascendance of the Vladimir Putin and his coterie (all former KGB or FSB officers), the security services revealed their hand - they are in control of Russia and always have been. They number now twice as many as the KGB at its apex. Only a few days ago, the FSB had indirectly made known its enduring objections to a long mooted (and government approved) railway reform (a purely economic matter). President Putin made December 20 (the day the murderous Checka, the KGB's ancestor, was established in 1917) a national holiday.

But the most significant tectonic shift has been the implosion of the unholy alliance between Russian organized crime and its security forces. The Russian mob served as the KGB's long arm until 1998. The KGB often recruited and trained criminals (a task it took over from the Interior Ministry, the MVD). "Former" (reserve) and active agents joined international or domestic racketeering gangs, sometimes as their leaders.

After 1986 (and more so after 1991), many KGB members were moved from its bloated First (SVR) and Third Directorates to its Economic Department. They were instructed to dabble in business and banking (sometimes in joint ventures with foreigners). Inevitably, they crossed paths - and then collaborated - with the Russian mafia which, like the FSB, owns shares in privatized firms, residential property, banks, and money laundering facilities.

The co-operation with crime lords against corrupt (read: unco-operative) bureaucrats became institutional and all-pervasive under Yeltsin. The KGB is alleged to have spun off a series of "ghost" departments to deal with global drug dealing, weapons smuggling and sales, white slavery, money counterfeiting, and nuclear material.

In a desperate effort at self-preservation, other KGB departments are said to have conducted the illicit sales of raw materials (including tons of precious metals) for hard currency, and the laundering of the proceeds through financial institutions in the West (in Cyprus, Israel, Greece, the USA, Switzerland, and Austria). Specially established corporate shells and "banks" were used to launder money, mainly on behalf of the party nomenklatura. All said, the emerging KGB-crime cartel has been estimated to own or control c. 40% of Russian GDP as early as 1994, having absconded with c. $100 billion of state assets.

Under the dual pretexts of "crime busting" and "fighting terrorism", the Interior Ministry and FSB used this period to construct massive, parallel, armies - better equipped and better trained than the official one.

Many genuinely retired KGB personnel found work as programmers, entrepreneurs, and computer engineers in the Russian private sector (and, later, in the West) - often financed by the KGB itself. The KGB thus came to spawn and dominate the nascent Information Technology and telecommunications industries in Russia. Add to this former (but on reserve duty) KGB personnel in banks, hi-tech corporations, security firms, consultancies, and media in the West as well as in joint ventures with foreign firms in Russia - and the security services' latter day role (and next big fount of revenue) becomes clear: industrial and economic espionage. Russian scholars are already ordered (as of last May) to submit written reports about all their encounters with foreign colleagues.

This is where the FSB began to part ways with crime, albeit hitherto only haltingly.

The FSB has established itself both within Russian power structures and in business. What it needs now more than money and clout - are respectability and the access it brings to Western capital markets, intellectual property (proprietary technology), and management. Having co-opted criminal organizations for its own purposes (and having acted criminally themselves) - the alphabet soup of security agencies now wish to consolidate their gains and transform themselves into legitimate, globe-spanning, business concerns.

The robbers' most fervent wish is to become barons. Their erstwhile, less exalted, criminal friends are on the way. Expect a bloodbath, a genuine mafia gangland war over territory and spoils. The result is by no means guaranteed.

The Energy Sector

The pension fund of the Russian oil giant, Lukoil, a minority shareholder in TV-6 (owned by a discredited and self-exiled Yeltsin-era oligarch, Boris Berezovsky), this week forced the closure of this television station on legal grounds. Gazprom (Russia's natural gas monopoly) has done the same to another television station, NTV, last year (and then proceeded to expropriate it from its owner, Vladimir Gusinsky).

Gazprom is forced to sell natural gas to Russian consumers at 10% the world price and to turn a blind eye to debts owed it by Kremlin favorites.

Both Lukoil and Gazprom are, therefore, used by the Kremlin as instruments of domestic policy.

But Russian energy companies are also used as instruments of foreign policy.

A few examples:

Russia has resumed oil drilling and exploration in war ravaged Chechnya. About 230 million rubles have been transferred to the federal Ministry of Energy. A new refinery is in the works.

Russia lately signed a production agreement to develop oilfields in central Sudan in return for Sudanese arms purchases.

Armenia owes Itera, a Florida based, Gazprom related, oil concern, $35 million. Itera has agreed to postpone its planned reduction in gas supplies to the struggling republic to February 11.

Last month, President Putin called for the establishment of a "Eurasian alliance of gas producers" - probably to counter growing American presence, both economic and military, in Central Asia and the much disputed oil rich Caspian basin. The countries of Central Asia have done their best to construct alternative oil pipelines (through China, Turkey, or Iran) in order to reduce their dependence on Russian oil transportation infrastructure. These efforts largely failed (a new $4 billion pipeline from Kazakhstan to the Black Sea through Russian territory has just been inaugurated) and Russia is now on a charm offensive.

Its PR efforts are characteristically coupled with extortion. Gazprom owns the pipelines. Russia exports 7 trillion cubic feet of gas a year - six times the combined output of all other regional producers put together. Gazprom actually competes with its own clients, the pipelines' users, in export markets. It is owed money by all these countries and is not above leveraging it to political or economic gain.

Lukoil is heavily invested in exploration for new oil fields in Iraq, Algeria, Sudan, and Libya.

Russian debts to the Czech Republic, worth $2.5 billion in face value, have just been bought by UES, the Russian electricity monopoly, for a fraction of their value and through an offshore intermediary.

UES then transferred the notes to the Russian government against the writing off of $1.35 billion in UES debts to the federal budget. The Russians claim that Paris Club rules have ruled out a direct transaction between Russia (a member of the Club) and the Czech Republic (not a member).

In the last decade, Russia has been transformed from an industrial and military power into a developing country with an overwhelming dependence on a single category of commodities: energy products. Russia's energy monopolies - whether state owned or private - serve as potent long arms of the Kremlin and the security services and implement their policies faithfully.

The Kremlin (and, indirectly, the security services) maintain a tight grip over the energy sector by selectively applying Russia's tangle of hopelessly arcane laws. In the last week alone, the Prosecutor General's office charged the president and vice president of Sibur (a Gazprom subsidiary) with embezzlement. They are currently being detained for "abuse of office".

Another oil giant, Yukos, was forced to disclose documents regarding its (real) ownership structure and activities to the State Property Fund in connection with an investigation regarding asset stripping through a series of offshore entities and a Siberian subsidiary.

Intermittently, questions are raised about the curious relationship between Gazprom's directors and Itera, upon which they shower contracts with Gazprom and what amounts to multi-million dollar gifts (in the from of ridiculously priced Gazprom assets) incessantly.

Gazprom is now run by a Putin political appointee, its former chairman, the oligarch Vyakhirev, ousted in a Kremlin-instigated boardroom coup.

Foreign (including portfolio) investors seem to be happy. Putin's pervasive micromanagement of the energy titans assures them of (relative) stability and predictability and of a reformist, businesslike, mindset. Following a phase of shameless robbery by their new owners, Russian oil firms now seem to be leading Russia - albeit haltingly - into a new age of good governance, respect for property rights, efficacious management, and access to Western capital markets.

The patently dubious UES foray into sovereign debt speculation, for instance, drew surprisingly little criticism from foreign shareholders and board members. "Capital Group", an international portfolio manager, is rumored to have invested close to $700 million in accumulating 10% of Lukoil, probably for some of its clients. Sibneft has successfully floated a $250 million Eurobond (redeemable in 2007 with a lenient coupon of 11.5%). The issue was oversubscribed.

The (probably temporary) warming of Russia's relationship with the USA and Russia's acceptance (however belated and reluctant) of its technological and financial dependence on the West - have transformed the Russian market into an attractive target. Commercial activity is more focused and often channeled through American diplomatic missions.

The U.S. Consul General in Vladivostok and the Senior Commercial Officer in Moscow have announced that they will "lead an oil and gas equipment and services and related construction sectors trade mission to Sakhalin, Russia from March 11-13, 2002." The oil and gas fields in Sakhalin attract 25% of all FDI in Russia and more than $35 billion in additional investments is expected. Other regions of interest are the Arctic and Eastern Siberia. Americans compete here with Japanese, Korean, Royal Dutch/Shell, French, and Canadian firms, among others. Even oil multinationals scorched in Russia's pre-Putin incarnation - like British Petroleum which lost $200 million in Sidanco in 11 months in 1997-8 - are back.

Takeovers of major Russian players (with their proven reserves) by foreign oil firms are in the pipeline. Russian firms are seriously undervalued - their shares being priced at one third to one tenth their Western counterparts'. Some Russian oil firms (like Yukos and Sibneft) have growth rates among the highest and production costs among the lowest in the industry. The boards of the likes of Lukoil are packed with American fund managers and British investment bankers.

The forthcoming liberalization of the natural gas market (the outcome of an oft-heralded and much needed Gazprom divestiture) is a major opportunity for new - possibly foreign - players.

This gold rush is the result of Russia's prominence as an oil producer, second only to Saudi Arabia. Russia dumps on the world markets c. 4.5 million barrels daily (about 10% of the global trade in oil). It is the world's largest exporter of natural gas (and has the largest known natural gas reserves). It is also the world's second largest energy consumer. In 1992, it produced 8 million bpd and consumed half as much. In 2001, it produced 7 million bpd and consumed 2 million bpd.

Russia has c. 50 billion oil barrels in proven reserves but decrepit exploration and extraction equipment, and a crumbling oil transport infrastructure is in need of total replacement. More than 5%

of oil produced in Russia is stolen by tapping the leaking pipelines. An unknown quantity is lost in oil spills and leakage. Transneft, the state's oil pipelines monopoly, is committed to an ambitious plan to construct new export pipelines to the Baltic and to China. The market potential for Western equipment manufacturers, building contractors, and oil firms is evidently there.

But this serendipity may be a curse in disguise. Russia is chronically suffering from an oil glut induced by over-production, excess refining capacity, and subsidized domestic prices (oil sold inside Russia costs one third to one half the world price). Russian oil companies are planning to increase production even further.

Rosneft, the eighth largest, plans to double its crude output. Yukos (Russia's second largest oil firm) intends to increase output by 20% this year. Surgut will raise its production by 14%.

Last week, Russia halved export duties on fuel oil. Export duties on lighter energy products, including gas, were cut in January. As opposed to previous years, no new export quotas were set. Clearly, Russia is worried about its surplus and wishes to amortize it through enhanced exports.

Russia also squandered its oil windfall and used it to postpone the much needed restructuring of other sectors in the economy - notably the wasteful industrial sector and the corrupt and archaic financial system. Even the much vaunted plans to break apart the venal and inefficient natural gas and electricity monopolies and to come up with a new production sharing regime have gone nowhere (though some pipeline capacity has been made available to Gazprom's competitors).

Both Russia's tax revenues and its export proceeds (and hence its foreign exchange reserves and its ability to service its monstrous and oft-rescheduled $158 billion in foreign debt) are heavily dependent on income from the sale of energy products in global markets. More than 40% of all its tax intake is energy-related (compared to double this figure in Saudi Arabia). Gazprom alone accounts for 25% of all federal tax revenues. Almost 40% of Russia's exports are energy products as are 13% of its GDP. Domestically refined oil is also smuggled and otherwise sold unofficially, "off the books".

But, as opposed to Saudi Arabia's or Venezuela's, Russia's budget is based on a far more realistic price range of $14-18 per barrel. Hence Russia's frequent clashes with OPEC (of which it is not a member) and its decision to cut oil production by only 150,000 bpd in the first quarter of 2002 (having increased it by more than 400,000 bpd in 2001). It cannot afford a larger cut and it can increase its production to compensate for almost any price drop.

Russia's energy minister told the Federation Council, Russia's upper house of parliament, that Russia "should switch from cutting oil output to boosting it considerably to dominate world markets and push out Arab competitors". The Prime Minister told the US-Russia Business Council that Russia should "increase oil production and its presence in the international marketplace."

It may even be that Russia is spoiling for a bloodbath which it hopes to survive as a near monopoly in the energy markets. Russia already supplies more than 25% of all natural gas consumed by Europe and is building or considering to construct pipelines to Turkey, China, and Ukraine. Russia also has sizable coal and electricity exports, mainly to CIS and NIS countries. Should it succeed in its quest to dramatically increase its market share, it will be in the position to tackle the USA and the EU as an equal, a major foreign policy priority of both Putin and all his predecessors alike.

Financial Services

An expatriate relocation Web site, settler-international.com, has this to say about Russian banks: "Do not open a bank account in a Russian bank : you might not see your deposit again." Russia's Central Bank, aware of the dismal lack of professionalism, the venality, and the criminal predilections of Russian "bankers" (and their Western accomplices) - is offering "complementary vocational training" in the framework of its Banking School. It is somewhat ironic that the institution suspected of abusing billions of US dollars in IMF funds by "parking" them in obscure off-shore havens - seeks to better the corrupt banking system in Russia.

I. The Banks

On paper, Russia has more than 1,300 banks. Yet, with the exception of the 20-odd (two new ones were added last year) state-owned (and, implicitly, state-guaranteed) outfits - e.g., the mammoth Sberbank (the savings bank, 61% owned by the Central Bank) - very few provide minimal services, such as corporate finance and retail banking. The surviving part of the private banking sector ("Alfa Bank", "MDM Bank") is composed of dwarfish entities with limited offerings. They are unable to compete with the statal behemoths in a market tilted in the latters' favor by both regulation and habit.

The Agency for the Reconstruction of Credit Organizations (ARCO) - established after the seismic shock of 1998 - did little to restructure the sector and did nothing to prevent asset stripping. More than one third of the banks are insolvent - but were never bankrupted. The presence of a few foreign banks and the emergence of non-bank financing (e.g., insurance) are rays of hope in an otherwise soporific scene.

Despite the fact that most medium and large corporations in Russia own licensed "banks" (really, outsourced treasury operations) - more than 90% of corporate finance in 2000-2001 was in the form of equity finance, corporate bonds, and (mainly) reinvested retained earnings. Some corporate bond issues are as large as $100 million (with 18-months maturity) and the corporate bond market may quintuple to $10 billion in a year or two, reports "The Economist", quoting Renaissance Capital, a Russian investment bank.

Still, that bank credits are not available to small and medium enterprises retards growth, as Stanley Fischer pointed out in his speech to the Higher School of Economics in Moscow, in June 2001, when he was still the First Deputy Managing Director of the IMF. Last week, the OECD warned Russia that its economic growth may suffer without reforms to the banking sector.

Russian banks are undercapitalized and poorly audited. Most of them are exposed to one or two major borrowers, sectors, or commodities. Margins have declined (though to a still high by Western standards 14%). Costs have increased. The vast majority of these fledglings have less than $1 million in capital. This is because shareholders (and, for that matter, depositors) - having been fleeced in the 1998 meltdown - are leery of throwing good money after very bad. The golden opportunity to consolidate and rationalize following the 1998 crisis was clearly missed.

The government's (frail) attempts to reform the sector by overhauling bank supervision and by passing laws which deal with anti-money laundering, deposit insurance, minimum capital and bankruptcy regulations, and mandatory risk evaluation models - did little to erase the memory of its collusion in the all-pervasive, massive, and suspiciously orchestrated defaults of 1998-1999. Russia is notoriously strong on legislation and short on its enforcement.

Moreover, the opaque, overly-bureaucratic, and oligarch-friendly Central Bank is at loggerheads with would be reformers and gets its way more often than not. It supports a minimum capital requirement of less than $5 million. Government sources have gone as high as $200 million. The government retaliates with thinly-veiled threats in the form of inane proposals to replace the Bank with newly-created "independent" institutions.

Viktor Gerashchenko - the current, old-school, Governor - is set to leave on September 2002. He will likely be replaced by someone more Kremlin-friendly. As long as the Kreml is the bastion of reform, these are good news. But a weak Central Bank will remove one of the last checks and balances in Russia. Moreover, a hasty process of consolidation coupled with draconian regulation may decimate private sector Russian banking for good. This, perhaps, is what the Kremlin wants. After all, he who controls the purse strings - rules Russia.

II. The Stock Exchange

The theory of financial markets calls for robust capital markets where banks are lacking and dysfunctional. Equity financing and corporate debt outstrip bank lending as sources of corporate finance even in the West.

But Russia's stock market - the worst performer among emerging markets in 1998, the best one in 2001 - is often cornered and manipulated, prey to insider trading and worse. It is less liquid that the Tel-Aviv Stock Exchange, though the market capitalization of RTS, Russia's main marketplace, is up 430% since 1998 (80% last year alone). Bonds climbed 500% in the same period and a flourishing corporate bonds markets has erupted on the scene. Many regard this surge as a speculative bubble inflated by the high level of oil prices.

Others (mostly Western brokerage houses) swear that the market is undervalued, having fallen by more than 90% in 1998. Russia is different - they say - it is better managed, sports budget and trade surpluses, is less indebted (and re-pays its debts on time, for a change), and the economy is expanding. The same pundits talked the RTS up 180% in 1997 only to see it shrivel in an egregious case of Asian contagion. The connection between Russia's macro and micro is less than straightforward.

Whatever the truth, investors are clearly more discriminating. Both the New York Times and The Economist cite the example of Yukos Oil (up 190%) versus Lukoil (up a mere 30%). The former is investor friendly and publishes internationally audited accounts. The latter has no investor relations to speak of and is disclosure-averse. Still, both firms - as do a few pioneering others - seek to access Western capital markets.

The intrepid investor can partake by purchasing mutual funds dedicated, wholly or partially, to Russia - or by trading ADR's of Russian firms on NYSE (10-20 times the US dollar volume of the RTS). ADR's of smaller firms are traded OTC and, according to the New York Times, one can short sell Russian securities through offshore vehicles. The latter are also used to speculate in the shares of defunct Russian firms ("shells") traded in the West.

III. Debt Markets

Perhaps the best judges of Russia's officially minuscule economy (smaller than the Netherlands' and less than three times Israel's) - are the Russians. When the author of this article suggested that Russia's 1998 chaos was serendipitous (in "Argumenti i Fakti" dated October 28, 1998), he was derided by Western analysts but supported by Russian ones. In hindsight, the Russians were right. They may be right today as well when they claim that Russia has never been better.

The ruble devaluation (which made Russian goods competitive) and rising oil prices yielded a trade surplus of more than $50 billion last year. For the first time in its modern and turbulent history, Russia was able to prepay both foreign (IMF) and domestic debts (it redeemed state bonds ahead of maturity). It is no longer the IMF's largest debtor. Its Central Bank boasts $40 billion in foreign exchange reserves. Exactly a year ago, Russia tried to extort a partial debt write-off from its creditors (as it has done numerous times in its post-Communist decade). But Russia's oft-abused creditors and investors seem to have surprisingly short memories and an unsurpassed capacity for masochistic self-delusion.

Stratfor.com reports ("Russia Buys Financial Maneuverability" dated January 31, 2002) that "Deutsche Bank Jan. 30 granted Vneshekonombank a $100 million loan, the largest private loan to a Russian bank since the 1998 ruble crisis. As Russia works to reintegrate into the global financial network, the cost of domestic borrowing should drop.

That should spur a fresh wave of domestically financed development, which is essential considering Russia's dearth of foreign investment."

The strategic forecasting firm also predicts the emergence of a thriving mortgage finance market (there is almost none now). One of the reasons is a belated November 2001 pension reform which allows the investment of retirement funds in debt instruments - such as mortgages. A similar virtuous cycle transpired in Kazakhstan. Last year the Central Bank allowed individuals to invest up to $75,000 outside Russia.

IV. The Bandits

In August 1999, a year and four days after Moscow's $40 billion default, the New York Times reported a $15 billion money laundering operation which involved, inter alia, the Bank of New York and Russia's first Representative to the IMF.

The Russian Central Bank invested billions of dollars (through an offshore entity) in the infamous Russian GKO (dollar-denominated bonds) market, thus helping to drive yields to a vertiginous 290%.

Staff members and collaborators of the now dismantled brainchild of Prof. Jeffrey Sachs, HIID (Harvard Institute of International Development) - the architect of Russian "privatization" - were caught in potentially criminal conflicts of interest.

Are we to believe that such gargantuan transgressions have been transformed into new-found market discipline and virtuous dealings?

Putin doesn't. Last year, riding the tidal wave of the fight against terror, he formed the Financial Monitoring Committee (KFM). Ostensibly, its role is to fight money laundering and other financial crimes, aided by brand new laws and a small army of trained and tenacious accountants under the aegis of the Ministry of Finance.

Really, it is intended to circumvent irredeemably compromised extant structures in the Ministry of Interior and the FSB and to stem capital flight (if possible, by reversing the annual hemorrhage of $15-20 billion). Non-cooperative banks may lose their licenses. Banks have been transferring 5 daily Mb of encoded reports regarding suspicious financial dealings (and all transactions above 600,000 rubles - equal to $20,000) since February 1 - when the KFM opened for business. So much for Russian bank secrecy ("Did we really have it?" - mused President Putin a few weeks ago).

Last month, Mikhail Fradkov, the Federal Tax Police Chief confirmed to Interfax the financial sector's continued involvement in bleeding Russia white: "...fly-by-night firms usually play a key role in illegal money transfers abroad. Fradkov recalled that 20 Moscow banks inspected by the tax police alone transferred about $5 billion abroad through such firms." ITAR-TASS, the Russian news agency, reports a drop of 60% in the cash flow of Russian banks since anti-money laundering measures took effect, a fortnight ago.

V. The Foreign Exchange Market

Russians, the skeptics that they are, still keep most of their savings (c. $40-50 billion) in foreign exchange (predominantly US dollars), stuffed in mattresses and other exotic places. Prices are often quoted in dollars and ATM's spew forth both dollars and rubles. This predilection for the greenback was aided greatly by the Central Bank's panicky advice (reported by Moscow Times) to ditch all European currencies prior to January 1, 2002. The result is a cautious and hitherto minor diversification to euros. Banks are reporting increased demand for the new currency - a multiple of the demand for all former European currencies combined. But this is still a drop in the dollar ocean.

The exchange rate is determined by the Central Bank - by far the decisive player in the thin and illiquid market. Lately, it has opted for a creeping devaluation of the ruble, in line with inflation. Foreign exchange is traded in eight exchanges across Russia but many exporters sell their export earnings directly to the Central Bank. Permits are required for all major foreign exchange transactions, including currency repatriation by foreign firms. Currency risk is absolute as a 1998 court ruling rendered ruble forwards contracts useless ("unenforceable bets").

VI. The International Financial Institutions (IFI's)

Of the World Bank's $12 billion allocated to 51 projects in Russia since 1992, only $0.6 billion went to the financial sector (compared to 8 times as much wasted on "Economic Planning").

Its private sector arm, the International Finance Corporation (IFC) refrained from lending to or investing in the financial sector from March 1999 to June 2001. It has approved (or is considering) six projects since then: a loan of $20 million to DeltaCredit, a smallish project and residential finance, USAID backed, fund; a Russian pre-export financing facility (with the German bank, WestLB); Two million US dollars each to the Russian-owned Baltiskii Leasing and Center Invest (a regional bank); $2.5 million to another regional bank (NBD) - and a partial guarantee for a $15 million bond issued by Russian Standard Bank. There is also $5 million loan to Probusiness Bank.

Another active player is the EBRD. Having suffered a humiliating deterioration in the quality of its Russian assets portfolio in 1998-2000, it is active there again. By midyear last year, it had invested c. $300 million and lent another $700 million to Russian banks, equity and mutual funds, insurance companies, and pension funds. This amounts to almost 30% of its total involvement in the Russian Federation. Judging by this commitment, the EBRD - a bank - seems to be regarding the Russian financial system as either an extremely attractive investment - or a menace to Russia's future stability.

VII. So, What's Next?

No modern country, however self-deluded and backward, can survive without a banking system. The Central Bank's pernicious and overwhelming presence virtually guarantees a repeat of 1998. Russia - like Japan - is living on time borrowed against its oil collateral.

Should oil prices wither - what remains of the banking system may collapse, Russian securities will be dumped, Russian debts "deferred". The Central Bank may emerge either more strengthened by the devastation - or weakened to the point of actual reform.

In the eventuality of a confluence between this financial Armageddon and Russia's entry to the WTO - the crisis is bound to become more ominous. Russia is on the verge of opening itself to real competition from the West - including (perhaps especially so) in the financial sector. It is revamping its law books - but does not have the administrative mechanism it takes to implement them. It has a rich tradition of obstructionism, venality, political interference, and patronage.

Foreign competition is the equivalent of an economic crisis in a country like Russia. Should this be coupled with domestic financial mayhem - Russia may be transformed to the worse. Expect interesting times ahead.

The Russian Devolution

The Regions

Russia's history is a chaotic battle between centrifugal and centripetal forces - between its 50 oblasts (regions), 2 cities (Moscow and St. Petersburg), 6 krais (territories), 21 republics, and 10 okrugs (departments) - and the often cash-strapped and graft-ridden paternalistic center. The vast land mass that is the Russian Federation (constituted officially in 1993) is a patchwork of fictitious homelands (the Jewish oblast), rebellious republics (Chechnya), and disaffected districts - all intermittently connected with decrepit lines of transport and communications.

The republics - national homelands to Russia's numerous minorities - have their own constitutions and elected presidents (since 1991). Oblasts and krais are run by elected governors (a novelty - governors have been appointed by Yeltsin until 1997). They are patchy fiefdoms composed of autonomous okrugs. "The Economist" observes that the okrugs (often populated with members of an ethnic minority) are either very rich (e.g., Yamal-Nenets in Tyumen, with 53% of Russia's oil reserves) - or very poor and, thus, dependent on Federal handouts.

In Russia it is often "Moscow proposes - but the governor disposes" - but decades of central planning and industrial policy encouraged capital accumulation is some regions while ignoring others, thus irreversibly eroding any sense of residual solidarity. In an IMF working paper ("Regional Disparities and Transfer Policies in Russia" by Dabla-Norris and Weber), the authors note that the ten wealthiest regions produce more than 40% of Russia's GDP (and contribute more than 50% of its tax revenues) - thus heavily subsidizing their poorer brethren. Output contracted by 90% in some regions - and only by 15% in others. Moscow receives more than 20% of all federal funds - with less than 7% of the population. In the Tuva republic - three quarters of the denizens are poor - compared to less than one fifth in Moscow. Moscow lavishes on each of its residents 30 times the amount per capita spent by the poorest region.

Nadezhda Bikalova of the IMF notes ("Intergovernmental Fiscal Relations in Russia") that when the USSR imploded, the ratio of budgetary income per person between the richest and the poorest region was 11.6. It has since climbed to 30. All the regions were put in charge of implementing social policies as early as 1994 - but only a few (the net "donors" to the federal budget, or food exporters to other regions) were granted taxing privileges.

As Kathryn Stoner-Weiss has observed in her book, "Local Heroes: The Political Economy of Russian Regional Governance", not all regions performed equally well (or equally dismally) during the transition from communism to (rabid) capitalism. Political figures in the (relatively) prosperous Nizhny-Novgorod and Tyumen regions emphasized stability and consensus (i.e., centralization and co-operation). Both the economic resources and the political levers in prosperous regions are in the hands of a few businessmen and "their" politicians. In some regions, the movers and shakers are oligarch-tycoons - but in others, businessmen formed enterprise associations, akin to special interest lobbying groups in the West.

Inevitably such incestuous relationships promotes corruption, imposes conformity, inhibits market mechanisms, and fosters detachment from the centre. But they also prevent internecine fighting and open, economically devastating, investor-deterring, conflicts. Economic policy in such parts of Russia tend to be coherent and efficiently implemented. Such business-political complexes reached their apex in 1992-1998 in Moscow (ranked #1 in creditworthiness), Samara, Tyumen, Sverdlovsk, Tatarstan, Perm, Nizhny-Novgorod, Irkutsk, Krasnoyarsk, and St. Petersburg (Putin's lair). As a result, by early 1997, Moscow attracted over 50% of all FDI and domestic investment and St. Petersburg - another 10%.

These growing economic disparities between the regions almost tore Russia asunder. A clunky and venal tax administration impoverished the Kremlin and reduced its influence (i.e., powers of patronage) commensurately. Regional authorities throughout the vast Federation attracted their own investors, passed their own laws (often in defiance of legislation by the centre), appointed their own officials, levied their own taxes (only a fraction of which reached Moscow), and provided or withheld their own public services (roads, security, housing, heating, healthcare, schools, and public transport).

Yeltsin's reliance on local political bosses for his 1996 re-election only exacerbated this trend. He lost his right to appoint governors in 1997 - and with it the last vestiges of ostensible central authority. In a humiliating - and well-publicized defeat - Yeltsin failed to sack the spectacularly sleazy and incompetent governor of Primorsky krai, Yevgeni Nazdratenko (later "persuaded" by Putin to resign his position and chair the State Fisheries Committee instead).

The regions took advantage of Yeltsin's frail condition to extract economic concessions: a bigger share of the tax pie, the right to purchase a portion of the raw materials mined in the region at "cost" (Sakha), the right to borrow independently (though the issuance of promissory notes was banned in 1997) and to spend "off-budget" - and even the right to issue Eurobonds (there were three such issues in 1997). Many regions cut red tape, introduced transparent bookkeeping, lured foreign investors with tax breaks, and liberalized land ownership.

Bikalova (IMF) identifies three major problems in the fiscal relationship between centre and regions in the Yeltsin era:

"(1) the absence of an objective normative basis for allocating budget revenues, (2) the lack of interest shown by local and regional governments in developing their own revenues and cutting their expenditures, and (3) the federal government's practice of making transfer payments to federation members without taking account of the other state subsidies and grants they receive."

Then came Russia's financial meltdown in August 1998, followed by Putin's disorientating ascendance. A redistribution of power in Moscow's favor seemed imminent. But it was not to be.

The recommendations of a committee, composed of representatives of the government, the Federation Council, and the Duma, were incorporated in a series of laws and in the 1999 budget, which re-defined the fiscal give and take between regions and centre.

Federal taxes include the enterprise profit tax, the value-added tax (VAT), excise, the personal income tax (all of it returned to the regions), the minerals extraction tax, customs and duties, and other "contributions" . This legislation was further augmented in April-May 2001 (by the "Federalism Development Program 2001-2005").

The regions are allowed to tax the property of organizations, sales, real estate, roads, transportation, and gambling enterprises, and regional license fees (all tax rates are set by the center, though). Municipal taxes include the land tax, individual property, inheritance, and gift taxes, advertising tax, and license fees.

The IMF notes that "more than 90 percent of sub-national revenues come from federal tax sharing. Revenues actually raised by regional and local governments account for less than 15 percent of their expenditures". The federal government has also signed more than 200 special economic "contracts" with the richer, donor and exporting, regions - this despite the constitutional objections of the Ministry of Justice. This discriminating practice is now being phased out. But it has not been replaced by any prioritized economic policies and preferences on the federal level, as the OECD has noted.

One of Putin's first acts was to submit a package of laws to the State Duma in May 2000. The crux of the proposed legislation was to endow the President with the power to sack regional elected officials at will. The alarmed governors forgot their petty squabbles and in a rare show of self-interested unity fenced the bill with restrictions. The President can fire a governor, said the final version, only if a court rules that the latter failed to incorporate federal legislation in regional laws, or if charged with serious criminal offenses. The wholesale dismissal of regional legislatures requires the approval of the State Duma. Some republics insist that even these truncated powers are excessive and Russia's Constitutional Court is currently weighing their arguments.

Putin then resorted to another stratagem. He established, two years ago, by decree, a bureaucratic layer between centre and regions: seven administrative mega-regions whose role is to make sure that federal laws are both adopted and enforced at the local level. The presidential envoys report back to the Kremlin but, otherwise, are fairly harmless - and useless. They did succeed, however, in forcing local elections upon the likes of Ingushetiya - and to organize all federal workers in regional federal collegiums, subordinated to the Kremlin.

The war in Chechnya was meant to be another unequivocal message that cessation is not an option, that there are limits to regional autonomy, and that the center - as authoritative as ever - is back. It, too, flopped painfully when Chechnya evolved into a second - internal - Afghani quagmire.

Having failed thrice, Putin is lately leaning in favor of restoring and even increasing the Federation Council's erstwhile powers at the expense of the (incensed) Duma. Governors have sensed the changing winds and have acted to trample over democratic institutions in their regions. Thus, the Governor of Orenburg has abolished the direct elections of mayors in his oblast. Russia's big business is moving in as well in an attempt to elect its own mayors (for instance, in Irkutsk).

Regional finances are in bad shape. Only 40 out 89 regions managed, by February, to pay their civil servants their December 2001 salaries (raised 89% - or 1.5% of GDP - by the benevolent president). Many regions had to go deeper into deficit to do so. Salaries make three quarters of regional budgets.

The East-West Institute reports that arrears have increased 10% in January alone - to 33 billion rubles (c. $1 billion). The Finance Ministry is considering to declare seven regions bankrupt. Yet another committee, headed by Deputy Head of the Presidential Administration, Dimitri Kozak, is on the verge of establishing an external administration for insolvent regions. The recent housing reform - which would force Russians to pay market prices for their apartments and would subsidize the poor directly (rather than through the regional and municipal authorities) - is likely to further weaken regional balance sheets.

Luckily for Russia, the regions are less cantankerous and restive now. The emphasis has shifted from narcissistic posturing to economic survival and prosperity. The Moscow region still attracts the bulk of Russian domestic and foreign investments, leaving the regions to make do with leftovers.

Sergei Kirienko, a former short lived Prime Minister, and, currently the president's envoy to the politically mighty Volga okrug, attributes this gap, in a comment to Radio Free Europe, to non-harmonized business legislation (between center and regions). Boris Nemtsov, a member of the Duma (and former Deputy Prime Minister) thinks that the problem is a "lack of democratic structures" - press freedom, civil society, and democratic government. Others attribute the deficient interest to a dearth of safety and safe institutions, propagated by entrenched interest groups.

Small business is back in fashion after years of investments in behemoths such as Gazprom and Lukoil. Politicians make small to medium enterprises a staple of their speeches. The EBRD has revived its moribund small business funds (and grants up to $125,000 loans to eligible enterprises). Bank lending is still absent (together with a banking system) - but foreign investment banks and retail banks are making hesitant inroads into the regional markets. Small businessmen are more assertive and often demonstrate against adverse tax laws, high prices, and poor governance.

Russia is at a crossroad. It must choose which of the many models of federalism to adopt. It can either strengthen the center at the expense of the regions, transforming the latter into mere tax collectors and law enforcement agents - or devolve more powers to tax and spend to the regions. The pendulum swings. Putin appears sometimes to be an avowed centralist - and at other times a liberal. Contrary to reports in the Western media, Putin failed to subdue the regions. The donors and exporters among them are as powerful as ever. But he did succeed to establish a modus vivendi and is working hard on a modus operandi. He also weeded out the zanier governors. Russia seems to be converging on an equilibrium of sorts - though, as usual, it is a precarious one.

Russian Agriculture

In Soviet times, Kremlinologists used to pore over grain harvest figures to divine the fortunes of political incumbents behind the Kremlin's inscrutable walls. Many a career have ended due to a meager yield. Judging by official press releases and interviews, things haven't changed that much. The beleaguered Vice-Premier and Minister of Agriculture of the Russian Federation admitted openly last October that what remains of Russia's agriculture is "in a critical situation" (though he has since hastily reversed himself). With debts of $9 billion, he may well be right. Russian decision makers recently celebrated the reversal of a decade-old trend: meat production went up 1% and milk production - by double that.

But the truth is, surprisingly, a lot rosier. Agricultural output has been growing for four years now (last year by more than 5%). Even much maligned sectors, such as food processing, show impressive results (up 9%). As the private sector takes over (government procurement ceased long ago, though not so regional procurement), agriculture throughout Russia (especially in its western parts) is being industrialized. Even state and collective farms are reviving, though haltingly so. In a recently announced deal, Interros will invest $100 million in cultivating a whopping million acres. Additionally, Russia is much less dependent on food imports than common myths have it - it imports only 20% of its total food consumption.

Despite this astounding turnaround - foreign investors are still shy. The complex tariff and customs regulations, the erratic tax administration, the poor storage and transport infrastructure, the vast distances to markets, the endemic lawlessness, the venal bureaucracy, and, above all, the questionable legal status of the ownership of agricultural land - all serve to keep them at bay.

Moreover, the agricultural sector is puny and disastrously inefficient. Having fallen by close to half since 1991 (as state subsidies dropped), it contributes only c. 8% to GDP and employs c. 11% of the active labour force (compared to 30% in industry and 59% in services). Agricultural exports (c. $3 billion annually) are one fourth Russia's agricultural imports - despite a fall of 40% in the latter after the 1998 meltdown. The average private farm is less than 50 hectares large. Though in control of 6% of farmland - private farms account for only 2% of agricultural output.

Much of the land (equal to c. 1.8 times the contiguous US) lacks in soil, or in climate, or in both. Thus, only 8% of the land is arable and less than 40,000 sq. km. are irrigated. Pastures make up another 4%. The soil is contaminated by what the CIA calls "improper application of agricultural chemicals". It is often eroded. Ground water is absolutely toxic.

The new law permitting private quasi-ownership of agricultural land may reduce the high rents which (together with a ruble over-valued until 1998) rendered Russian farmers non-competitive - but this is still a long way off. In the meantime, general demand for foodstuffs has declined together with disposable incomes and increasing unemployment.

The main problem nowadays is not lack of knowledge, management, or new capital - it is an unsustainable mountain of debts. Even with a lenient "Law on the Financial Recovery of Agricultural Enterprises" currently being passed through the Duma - only 30% of farms are expected to survive. The law calls for rescheduling current debt payments over ten years.

The sad irony is that Russian agriculture is now much more viable than it ever was. Well over half the active enterprises are profitable (compared to 12% in 1998). The grain harvest exceeded 90 million tons, far more than the 75 million tons predicted by the government (though Russia still imports $8 billion worth of grains a year). The average crop for 1993-7 was 80 million tones (with 88 million in 1997). But grain output was decimated in 1998 (48 million tons) and 1999 (55 million tons).

Luckily, grain is used mostly for livestock feed - Russians consume only c. 20 million tons annually. But by mid 1999, Russian grain reserves declined to a paltry 2 million tons, according to USDA figures. The problem is that the regions of Russia's grain belt restrict imports of this "agricultural gold" and hoard it. Corrupt officials turn a quick profit on the resulting shortage-induced price hikes.

The geographical location of an agricultural enterprise often determines its fate. In a study ("The Russian Food System's Transformation at Close Range") of two Russian regions (oblasts) conducted by Grigori Ioffe (of Radford University) and Tatyana Nefedova (Institute of Geography of the Russian Academy of Sciences) in August 2001, the authors found that:

"... farms in Moscow Province are more productive than farms in equivalent locations in Ryazan Provinces, while farms closer to the central city of either province do better than farms near the borders of that province."

It seems that well-located farms enjoy advantages in attracting both investments and skilled labour. They are also closer to their markets.

But the vicissitudes of Russia's agriculture are of geopolitical consequence. A hungry Russia is often an angry Russia. Hence the food aid provided by the USA in 1998-9 (worth more than $500 million and coupled with soft PL-480 trade credits). The EU also donated a comparable value in food. Russia asked for additional aid in the form of animal feed in the years 2000-2001 - and the USA complied.

Russia's imports are an important prop to the economies of its immediate and far neighbors. Russia is also a major importer of American agricultural products, such as poultry (it consumes up to 40% of all US exports of this commodity). It is a world class importer of meat products (especially from the EU), its livestock inventory having been halved by the transition. If it accedes to the WTO (negotiations have been dragging on since 1995), it may become even more appealing commercially.

It will have to reduce its import tariffs (the tariff on poultry is 30% and the average tariff on agricultural products is 20%). It is also likely to be forced to scale back - albeit gradually - the subsidies it doles out to its own producers (10% of GDP in the USSR, less than 3% of GDP now). Privileged trading by state entities will also be abolished as will be non-tariff obstructions to imports. Whether the re-emergent center will be able to impose its will on the recalcitrant agricultural regions, still remains to be seen.

A series of apocalyptic economic crises forced Russian agriculture to rationalize. Russia has no comparative advantage in livestock and meat processing. Small wonder its imports of meat products skyrocketed. It is questionable whether Russia possesses a comparative advantage in agriculture as a whole - given its natural endowments, or, rather, the lack thereof. Its insistence to produce its own food (especially the High Value Products) has failed with disastrous consequences. Perhaps it is time for Russia to concentrate on the things it does best. Agriculture, alas, is not one of them.

Russia as a Creditor

By: Dr. Sam Vaknin

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Russia is notorious for its casual attitude to the re-payment of its debts. It has defaulted and re-scheduled its obligations more times in the last decade than it has in the preceding century. Yet, Russia is also one of the world's largest creditor nations. It is owed more than $25 billion by Cuba alone and many dozens of additional billions by other failed states. Indeed, the dismal quality of its forlorn portfolio wouldn't shame a Japanese bank. In the 18 months to May 2001, it has received only $40 million in repayments.

It is still hoping to triple this trifle amount by joining the Paris Club - as a creditor nation. The 27 countries with Paris Club agreements owe roughly half of what Russia claims. Some of them - Algeria in cash, Vietnam in kind - have been paying back intermittently. Others have abstained.

Russia has spent the last two years negotiating generous package deals - rescheduling, write-offs, grace periods measured in years - with its most obtuse debtors. Even the likes of Yemen, Mozambique, and Madagascar - started coughing up - though not Syria which owes $12 billion for weapons purchases two decades ago. But the result of these Herculean efforts is meager. Russia expects to get back an extra $100 million a year. By comparison, in 1999 alone Russia received $800 million from India.

The sticking point is a communist-era fiction. When the USSR expired it was owed well over $100 billion in terms of a fictitious accounting currency, the "transferable ruble". At an arbitrary rate of 0.6 to the US dollar, protest many debtors, the debt is usuriously inflated. This is disingenuous. The debtors received inanely subsidized Russian goods and commodities for the transferable rubles they so joyously borrowed.

Russia could easily collect on some of its debts simply by turning off the natural gas tap or by emitting ominous sounds of discontent backed by the appropriate military exercises. That it chooses not to do so - is telling. Russia has discovered that it could profitably leverage its portfolio of defunct financial assets to geopolitical and commercial gain.

On March 25, Russia's prime minister and erstwhile lead debt negotiator, Kasyanov, has "agreed" with his Mongolian counterpart, Enkhbayar, to convert Mongolia's monstrous $11.5 billion debt to Russia - into stakes in privatized Mongolian enterprises.

Mongolia's GDP is minuscule (c. $1 billion). Should the Russian behemoth, Norilsk Nickel, purchase 49% of Erdenet, Mongolia's copper producer, it will have bagged 20% of Mongolia's GDP in a single debt conversion. A similar scheme has been concluded between Armenia and Russia. Five enterprises will change hands and thus eliminate Armenia's $94 million outstanding debt to Russia.

Identical deals have been struck with other countries such as Algeria which owes Russia c. $4 billion. The Algerians gave Gazprom access to Algeria's natural gas exports.

Russia's mountainous credit often influences its foreign policies to its detriment. It has noisily resisted every American move to fortify sanctions against Iraq and make them "smarter". Russia is owed $8 billion by that shredded country and would like to recoup at least a part of it by trading with the outcast or by gaining lucrative oil-related contracts. The sanctions regime is in its way - hence its apparent obstructionism. Its recent weapons deals with Syria are meant to compensate for its unpaid past debts to Russia - at the cost of destabilizing the Middle East and provoking American ire.

Russia uses the profusion of loans gone bad on its tattered books to gain entry to international financial fora and institutions. Its accession to the Paris Club of official bilateral creditors is conditioned on its support for the HIPC (Highly Indebted Poor Countries) initiative.

This is no trifling matter. Sub-Saharan debt to Russia amounted to c. $14 billion and North African debt to yet another $11 billion - in 1994. These awesome figures will have swelled by yet another 25% by 2001. The UNCTAD thinks that Russia intentionally under-reports these outstanding obligations and that Sub-Saharan Africa actually owed Russia $17 billion in 1994.

Russia would have to forgo at least 90% of the debt owed it by the likes of Angola, Ethiopia, Guinea, Mali, Mozambique, Somalia, Tanzania, and Zambia. Russian debts amount to between one third and two thirds of these countries' foreign debt. Moreover, its hopes to offset money owed it by countries within the framework of the Paris Club against its own debts to the Club were dashed last year. Hence its incentive to distort the data.

Other African countries have manipulated their debt to Russia to their financial gain. Nigeria is known to have re-purchased, at heavily discounted prices, large chunks of its $2.2 billion debt to Russia in the secondary market through British and American intermediaries. It claims to have received a penalty waiver "from some of its creditors".

Russia has settled the $1.7 billion owed it by Vietnam last year. The original debt - of $11 billion - was reduced by 85 percent and spread over 23 years. Details are scarce, but observers believe that Russia has extracted trade and extraction concessions as well as equity in Vietnamese enterprises.

But Russia is less lenient with its former satellites. Two years ago, Ukraine had to supply Russia with sophisticated fighter planes and hundreds of cruise missiles incorporating proprietary technology. This was in partial payment for its overdue $1.4 billion natural gas bill. Admittedly, Ukraine is also rumored to have "diverted" gas from the Russian pipeline which runs through it.

The Russians threatened to bypass Ukraine by constructing a new, Russian-owned, pipeline to the EU through Poland and Slovakia. Gazprom has been trying to coerce Ukraine for years now to turn over control of the major transit pipelines and giant underground storage tanks to Russian safe hands. Various joint ownership schemes were floated - the latest one, in 1999, was for a pipeline to Bulgaria and Turkey to be built at Ukrainian expense but co-owned by Gazprom.

After an initial period of acquiescence, Ukraine recoiled, citing concerns that the Russian stratagem may compromise its putative sovereignty. Already UES, Russia's heavily politicized electricity utility, has begun pursuing stakes in debtor Ukrainian power producers.

Surprisingly, Russia is much less aggressive in the "Near Abroad". It has rescheduled Kirghizstan's entire debt (c. $60 million) for a period of 15 years (including two years grace) with the sole - and dubious - collateral of the former's promissory notes.

Russia has no clear, overall, debt policy. It improvises - badly - as it goes along. Its predilections and readiness to compromise change with its geopolitical fortunes, interests, and emphases. As a result it is perceived by some as a bully - by others as a patsy. It would do well to get its act together.

The Space Industry in Eastern Europe

By: Dr. Sam Vaknin

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"Volga" is the name of a new liquid-fueled retrievable and reusable (up to 50 times) booster-rocket engine. It will be built by two Russian missile manufacturers for a consortium of French, German, and Swedish aerospace firms. ESA - the European Space Agency - intends to invest 1 billion euros over 10-15 years in this new toy. This is a negligible sum in an $80 billion a year market.

Russian rockets, such as the Soyuz U and Tsiklon, have been launching satellites to orbit for decades now and not only for the Russian defense ministry, their erstwhile exclusive client. Communications satellites, such as Gonets D1 ("Courier" or "Messenger"), and other commercial loads are gradually overtaking their military observation, navigation, and communications brethren. The Strategic Rocket Forces alone have earned more than $100 million from commercial launches between 1997-9, reports "Kommersant", the Russian business daily.

Still, many civilian satellites are not much more than stripped military bodices. Commercial operators and Rosaviakosmos (Russia's NASA) report to the newly re-established (June 2001) Russian Military Space Forces. Technology gained in collaborative efforts with the West is immediately transferred to the military.

Russia is worried by America's lead in space. The USA has 600 satellites to Russia's 100 (mostly obsolete) birds, according to space.com. The revival of US plans for an anti-missile shield and the imminent, unilateral, and inevitable American withdrawal from the Anti-Ballistic Missile Treaty add urgency to Russian scrambling to catch up.

Despite well-publicized setbacks - such as the ominous crash at Baikonur in Kazakhstan in July 1999 - Russian launchers are among the most reliable there are. Fifty-seven of 59 launch attempts were successful last year. By comparison, in 1963, only 55 out of 70 launch attempts met the same happy fate.

American aerospace multinationals closely collaborate with Rosaviakosmos. Boeing maintains a design office in Russia to monitor joint projects such as the commercial launch pad Sea Launch and the ISS. It employs hundreds of Russian professionals in and out of Russia.

There is also an emerging collaboration with the European Aeronautic Defense and Space (EADS) company as well as with Arianespace, the French group. A common launch pad is taking shape in Kourou and the Soyuz is now co-owned by Russians and Europeans through Starsem, a joint venture. Russia also intends to participate in the hitherto dormant European RLV (Reusable Launch Vehicle) project.

The EU's decision, in the recent Barcelona summit, to give "Galileo" the go ahead, would require close cooperation with Russia.

"Galileo" is a $3 billion European equivalent of the American GPS network of satellites. It will most likely incorporate Russian technology, use Russian launch facilities, and employ Russian engineers.

This collaboration may well revive Russia's impoverished and, therefore, moribund space program with an infusion of more than $2 billion over the next decade.

But America and Europe are not the only ones queuing at Russia's doorstep.

Stratfor, the Strategic Forecasting firm, reported about a deal concluded in May last year between the Australian Ministry of Industry, Science and Resources and the Russian Aviation and Space Agency. Australian companies were granted exclusive rights to use the Russian Aurora rocket outside Russia. In return, Russia will gain access to the ideally located launch site at Christmas Island in the Indian Ocean. This is a direct blow to competitors such as India, South Korea, Japan, China, and Brazil.

Russian launch technology is very advanced and inexpensive, being based, as it is, on existing military R&D. It has been licensed to other space-aspiring countries. India's troubled Geosynchronous Satellite Launch Vehicle (GSLV) is based on Russian technology, reports Stratfor. Many private satellite launching firms - Australian and others - find Russian offerings commercially irresistible. Russia - unlike the US - places no restrictions on the types of load launched to space with its rockets.

Still, launch technologies are simple matters. Until 1995, Russia launched more loads annually than the rest of the world combined - despite its depleted budget (less than Brazil's). But Russia's space shuttle program, the Energia-Buran, was its last big investment in R&D. It was put to rest in 1988. Perhaps as a result, Russia failed dismally to deliver on its end of the $660 million ISS bargain with NASA. This has cost NASA well over $3 billion in re-planning.

The living quarters of the International Space Station (ISS), codenamed "Zvezda", launched two years late, failed to meet the onerous quality criteria of the Americans. It is noisy and inadequately protected against meteorites, reported "The Economist". Russia continues to supply the astronauts and has just launched from Baikonur a Progress M1-8 cargo ship with 2.4 tons of food, fuel, water, and oxygen.

The dark side of Russia's space industry is its sales of missile technology to failed and rogue states throughout the world. Timothy McCarthy and Victor Mizin of the U.S. Center for Nonproliferation Studies wrote in the "International Herald Tribune in November 2001: "[U.S. policy to date] leaves unsolved the key structural problem that contributes to illegal sales: over-capacity in the Russian missile and space industry and the inability or unwillingness of Moscow to do anything about it ... There is simply too much industry [in Russia] chasing too few legitimate dollars, rubles or euros. [Downsizing] and restructuring must be a major part of any initiative that seeks to stop Russian missile firms from selling 'excess production' to those who should not have them."

The official space industry has little choice but to resort to missile proliferation for its survival. The Russian domestic market is inefficient, technologically backward, and lacks venture capital. It is thus unable to foster innovation and reward innovators in the space industry. Its biggest clients - government and budget-funded agencies - rarely pay or pay late. Prices for space-related services do not reflect market realities.

According to fas.org's comprehensive survey of the Russian space industry, investment in replacement of capital assets deteriorated from 9 percent in 1998 to 0.5 percent in 1994. In the same period, costs of materials shot up 382 times, cost of hardware services went up by 172 times, while labour costs increased 82-fold. The average salary in the space industry, once a multiple of the Russian average wage, has now fallen beneath it. The resulting brain drain was crippling. More than 35 percent of all workers left - and more than half of all the experts.

Private firms are doing somewhat better, though. A Russian company unveiled, two weeks ago, a reusable vehicle for space tourism. The ticket price - $100,000 for a 3-minutes trip. One hundred tickets were already sold. The mock-up was exposed to the public in a Russian air base.

As opposed to grandiosity-stricken Russia, Kazakhstan has few pretensions to being anything but a convenient launching pad. It reluctantly rents out Baikonur, its main site, to Russia for an $115 million a year. Russia pays late, reports accidents even later, and pollutes the area frequently. Baikonur is only one of a few civilian launch sites (Kapustin Yar, Plesetsk).

It is supposed to be abandoned by Russia in favor of Svobodny, a new (1997) site.

Kazakhstan expressed interest in a Russian-Kazakh-Ukrainian carrier rocket, the Sodruzhestvo. It is even budgeted for in the Russian-Kazakh space program budget 2000-2005. But both the Russians and the Ukrainians were unable to cough up the necessary funds and the project was put on indefinite hold.

Umirzak Sultangazin, the head of the Kazakh Institute for Space Research, complained bitterly in an interview he granted last year to the Russian-language "Karavan":

"Our own satellite is an dire need. So far, we are using data "received" from US and Russian satellites. Some information we use is free, but we have to pay for certain others ... We have high-class specialists but they are leaving the institute for commercial structures because they are offered several times bigger salaries. I have many times raised this question and said: Look, Russia pays us not a small amount to lease Baykonur [some 115m dollars a year], why should we not spend part of this money on space research? We could have developed the space sector and become a real space power."

Kazakhstan has its own earth profiling program administered by its own cosmonauts. It runs biological and physical experiments in orbit. The "tokhtar" is a potato developed in space and named after Kazakhstan's first astronaut, the eponymous Tokhtar Aubakirov.

Almost all the former satellites of the USSR have established their own space programs after they broke away, vowing never again to be dependent on foreign good will. Romania founded ROSA, the Romanian Space Agency in 1991. Hungary created the Hungarian Space Office.

The Baltic states - to the vocal dismay of many of their citizens - work closely with NATO on military applications of satellites within the framework of BALTNET (the Baltic air space control project). Poland (1994), Hungary (1991), Romania (1992) and the Czech Republic have been cooperating with ESA on a variety of space-related commercial and civil projects.

Ukraine hedges its bets. It signed with Brazil a space industry bilateral accord in January. A month later it signed five bilateral agreements regarding the space industry with Russia.

Many Western academic institutions, NGO's, and commercial interests created frameworks for collaboration with space scientists from Central Asia, Central and Eastern Europe, Russia, CIS, and NIS. The University of Maryland pioneered this trend with its East-West Space Science Center, formed in 1990.

The space industry - and particularly the emerging field of launch technologies - represents one of the few areas in which the former communist countries may retain a competitive edge and a relative advantage. The West would do well to encourage the commercialization of this knowledge.

The alternative is proliferation of missile technologies and military applications of technology transferred within collaborative efforts on civilian projects with Western partners. The West can save itself a lot of money and heartache by being generous early on.

Russia's Vodka Wars

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Vodka is a crucial component in Russian life. And in Russian death. Alcohol-related accidents and cardiac arrests have already decimated Russian life expectancy by well over a decade during the last decade alone.

Vodka is also big business. The brand "Stolichnaya" sells $2 billion a year worldwide. Hence the interminable and inordinately bitter battle between the Russian ministry of agriculture and SPI Spirits. The latter, still partly owned by the state, is the on and off owner of the haloed brand "Stolichnaya", James Bond's favorite.

SPI's PR firm, Burson-Marsteller, posits this commercial conflict as a classic case of the violation of the property rights of hapless foreign shareholders by the avaricious and ruthless functionaries of an unreformed evil empire. They question Russia's readiness to accede to the WTO and its respect for the law.

SPI's latest press release consists of the detailed history of this harrowing tale. The brand Stolichnaya, as well as 42 others, were privatized in 1992.

The firm quotes a document, bearing the official seal of the maligned ministry, which states unambiguously: "VAO Sojuzplodoimport has the right to export Russian vodka to the USA under the following trademarks: Stolichnaya, Stolichnaya Cristall, Pertsovka, Limonnnaya, Privet, Privet Orange

(Apelsinovaya), Russian and Okhotnichya."

The privatization was completed in 1997 when the old SPI was sold to the new SPI Spirits. The new SPI claims to have assumed $40 million in debt and invested another $20 million to rebuild the company into "one of the world's leading vodka producers". Yet, the Russian government, as heavy handed as ever, clearly is unhappy with SPI.

It says the privatization deal was dubious and that SPI paid only $300,000 (or maybe as little as $61,000 claim other sources) for the multi-billion dollar brands, including "Stolichnaya", "Moskovskaya", and "Russkaya". The government values the brands at a far more reasonable $400 million. Other appraisers came up with a figure of $1.4 billion.

The government, in a bout of new-found legal rectitude, also insists that the seller of the brands, the defunct (state-owned) SPI, was not their legal owner. It also questions the mysterious shareholders of the new SPI - including a holding company in tax-lenient Delaware. SPI's trademarks portfolio is represented by an Australian law firm, Mallesons Stephen Jaques.

Putin himself set up a committee for the repatriation of these and other consumer brands to the state. He craves the beneficial effects the alcohol sector's tax revenues could have on the federal budget - and on its powers of patronage. A central state-owned brand-holding and distribution company was set up less than two years ago. Ever since then, the alcohol sector has been subjected to relentless state interference. SPI is not the most egregious case either.

"The Observer" mentions that SPI currently runs most of its business from inscrutable Cyprus, a favorite destination for Russian money launderers, tycoon tax evaders, and mobsters. SPI's German distributor, Plodimex, is increasingly less active - as three new off shore distribution entities (in Cyprus, the Dutch Antilles, and Gibraltar) are increasingly more so.

The FSB ordered Kaliningrad customs to prohibit bulk exports of Stolichnaya. Cases of the drink are routinely confiscated. Criminal charges were brought against directors and managers in the firm. The Deputy Minister of Agriculture is discrediting SPI in meetings with its distributors and business partners abroad. He is also accused by the firm of obstructing the court-mandated registration of its trademarks.

The courts have lately been good to SPI, coming out with a spate of decisions against the government's conduct in this convoluted affair. But on February 1, the firm suffered a setback, when a Moscow court ruled against it and ordered 43 of its brands, the prized Stolichnaya included, returned to the government (i.e., re-nationalized).

SPI is doing its best to placate the authorities. It is rumored to have offered last month to use its ample funds to supplement the federal budget. It has indicated last September that it is on the prowl for additional acquisitions in Russia - a bizarre statement for a firm claiming to have been victimized. "The Moscow Times" reported that it is planning to sign a $500,000 sponsorship agreement with the Russian Olympic Committee.

Summit Communications, a country image specialist, placed this on its
Web site in November last year:

"One example of a savvy Russian company that has managed to do well in the West by finding the right partner is the Soyuzplodimport company (see also p. 14). Soyuzplodimport, or SPI, has the exclusive rights to export Stolichnaya, which vodka lovers in the U.S. fondly refer to as 'Stoli'. Some 50% of the company's export turnover comes from the United States, thanks mostly to its strategic alliance with Allied-Domecq for U.S. distribution.

'I'm not sure that all Americans know where Russia is on the map, but most of them know what Stolichnaya is,' muses Andrey Skurikhin, general director of SPI. 'I want the quality of Stolichnaya in America to create an image of Russia that is pure, strong and honest, just like the vodka. At SPI, we feel that we are like ambassadors and we will try to do everything to create a more objective and positive image of Russia in the U.S.' "

SPI's troubles may prove to be contagious. Allied Domecq, its British distributor in America and Mexico, now faces competition from Kryshtal International, a subsidiary of the troubled Kristal distillery, 51% owned by Rosspirtprom, a government agency. Kryshtal signed distribution contracts for "Stolichnaya" with distilleries backed by the Russian ministry of agriculture.

Allied and Miller Brewing have announced a $50 million investment in product launch and marketing campaigns only two years ago. "Stolichnaya" (nicknamed "Stoli" in the States) sells 1 million 12-bottle cases a year in the USA (compared to Absolut's 3 million cases).

The trouble started almost immediately with the first foreign investments in SPI. As early as 1991, Vneshposyltorg, a government foreign trade agency, tried to export Stolichnaya in Greece. This led to court action by the Greeks. Vodka wars also erupted between the newly-registered Russian firm "Smirnov" and Grand Metropolitan over the brand "Smirnoff".

The vodka wars are sad reminders of the long way ahead of Russia. Its legal system is rickety - different courts upheld government decisions and SPI's position almost simultaneously. Russia's bureaucrats - even when right - are abusive, venal, and obstructive. Russia's "entrepreneurs" are a penumbral lot, more enamored with off-shore tax havens than with proper management. The rule of law and private property rights are still fantasies. The WTO - and the respectability it lends - are as far as ever.

Let My People Go

The Jackson-Vanik Controversy

By: Dr. Sam Vaknin

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The State of Israel was in the grip of anti-Soviet jingoism in the early 1970's. "Let My People Go!" - screamed umpteen unfurled banners, stickers, and billboards. Russian dissidents were cast as the latest link in a chain of Jewish martyrdom. Russian immigrants were welcomed by sweating ministers on the sizzling tarmac of the decrepit Lod Airport. Russia imposed exorbitant "diploma taxes" (reimbursement of educational subsidies) on emigrating Jews, thus exacerbating the outcry.

The often disdainful newcomers were clearly much exercised by the minutia of the generous economic benefits showered on them by the grateful Jewish state. Yet, they were described by the Israeli media as zealous Zionists, returning to their motherland to re-establish in it a long-interrupted Jewish presence. Thus, is a marvelous fiat of spin-doctoring, economic immigrants became revenant sons.

Congress joined the chorus in 1974, with the Jackson-Vanik Amendment to the Trade Reform Act - now Title IV of the Trade Act. It was Sponsored by Senator Henry ("Scoop") Jackson of Washington and Rep. Charles Vanik of Ohio, both Democrats.

It forbids the government to extend the much coveted "Most Favored Nation (MFN)" status - now known as "Normal Trade Relations" - NTR - with its attendant trade privileges to "non-market economy" countries with a dismal record of human rights - chiefly the right to freely and inexpensively emigrate.

This prohibition also encompasses financial credits from the various organs of the American government - the Export-Import Bank, the Commodity Credit Corporation (CCC), and the Overseas Private Investment Corporation (OPIC).

Though applicable to many authoritarian countries - such as Vietnam, the subject of much heated debate with every presidential waiver - the thrust of the legislation is clearly anti-Russian. Henry Kissinger, the American Secretary of State at the time, was so alarmed, that he flew to Moscow and extracted from the Kremlin a promise that "the rate of emigration from the USSR would begin to rise promptly from the 1973 level."

The demise of the USSR was hastened by this forced openness and the increasing dissidence it fostered. Jackson-Vanik was a formidable instrument in the cold warrior's arsenal. More than 1.5 million Jews left Russia since 1975. At the time, Israelis regarded the Kremlin as their mortal enemy.

Thus, when the Amendment passed, official Israel was exuberant. The late Prime Minister Yitzhak Rabin wrote this to President Gerald Ford:

"The announcement that agreement has been obtained facilitating immigration of Soviet Jews to Israel is causing great joy to the people of Israel and to Jewish communities everywhere. This achievement in the field of human rights would not have been possible but for your personal sympathy for the cause involved, for your direct concern and deep interest."

And, to Senator Henry Jackson, one of the two sponsors of the bill:

"Dear Scoop,

The agreement which has been achieved concerning immigration of Soviet Jews to Israel has been published in this country -a few hours ago and is evoking waves of joy throughout Israel and no doubt throughout Jewish communities in every part of the globe. This great achievement could not have been possible but for your personal leadership which rallied such wide support in both Houses of Congress, for the endurance with which you pursued this struggle and for the broad human idealism which motivated your activities on behalf of this great humanitarian cause. At this time therefore I would like to send you my heartfelt appreciation and gratitude."

US trade policy is often subordinated to its foreign policy. It is frequently sacrificed to the satisfaction of domestic constituencies, pressure groups, and interest lobbies. It is used to reward foreign allies and punish enemies overseas.

The Jackson-Vanik Amendment represents the quintessence of this relationship. President Clinton tacitly admitted as much when he publicly decoupled trade policy from human rights in 1994.

The disintegration of the Evil Empire - and the privatization of Russian foreign trade - has rendered the law a relic of the Cold War. Russian Jews - including erstwhile "refuseniks", such as Natan (Anatoly) Sharansky - now openly demand to rescind it and to allow Russia to "graduate" into a Permanent Normal Trade Relations (PNTR) status by act of Congress.

American Jews - though sympathetic - would like guarantees from Russia, in view of a rising wave of anti-Semitism, that Jews in its territory will go unharmed. They also demand the right of unhindered and unsupervised self-organization for Jewish communities and a return of Jewish communal property confiscated by the Soviet regime.

Congress is even more suspicious of Russian intentions. Senator Gordon Smith, a Republican from Oregon, recently proposed an amendment that would deprive Russia of foreign aid if it passes legislation impinging on religious freedom. Together with Hillary Clinton, a Democrat from New York, he introduced a damning Jackson-Vanik resolution, saying:

"Any actions by the United States Government to "graduate" or terminate the application of the Jackson-Vanik Amendment to any individual country must take into account ... appropriate assurances regarding the continued commitment of that government to enforcing and upholding the fundamental human rights envisioned in the Amendment. The United States Government must demonstrate how, in graduating individual countries, the continued dedication of the United States to these fundamental rights will be assured."

The Senate still refuses to repeal the Jackson-Vanik Amendment despite its impact on six former Soviet republics and other countries and despite passionate pleas from the administration. On May 22 it passed a non-binding resolution calling for PNTR with Russia. Jackson-Vanik remained in place because of the row with Russia over imports of US poultry.

Senator Joseph Biden, Chairman of the Senate Foreign Relations Committee, who represents a major poultry producing state (Delaware) made these statesmanlike comments following the session:

"I can either be Russia's best friend or worst enemy. They keep fooling around like this, they're going to have me as their enemy."

Mikhail Margelov, Chairman of the Foreign Relations Committee of the Federation Council, understandably retorted, according to Radio Free Europe/Radio Liberty quoting from strana.ru:

"By citing the controversy over chicken legs, the Democrats have openly acknowledged that Jackson-Vanik does not protect Russian Jews, but American farmers."

According to ITAR-TASS, he presented to President Putin a report which blamed Russia's "unstable" trade relations with the USA on the latter's "discriminatory legislative norms."

The Amendment has been a dead letter since 1994, due to a well-entrenched ritual of annual Presidential waiver which precedes the granting of NTR status to Russia. The waiver is based on humiliating semi-annual reviews. The sole remaining function of Jackson-Vanik seems, therefore, to be derogatory.

This infuriates Russians of all stripes - pro-Western reformers included. "This demonstrates the double standards of the U.S." - Anatoly B. Chubais, the Chairman of UES, Russia's electricity monopoly, told BusinessWeek. "It undermines trust." Putin called the law "notorious".

In October last year, the Russian Foreign Ministry released this unusually strongly-worded statement:

"The Jackson-Vanik Amendment has blocked the granting to Russia of most favored nation status in trade with the USA on a permanent and unconditional basis over many years, inflicting harm upon the spirit of constructive and equal cooperation between our countries. It is rightly considered one of the last anachronisms of the era of confrontation and distrust."

Considering that China - with its awful record of egregious human rights violations - was granted PNTR last year, Russia rightly feels slighted. Its non-recognition as a "market economy" under the Jackson-Vanik Amendment led to the imposition of import restrictions on some of its products (e.g. steel). The Amendment also prevents Russia from joining the WTO.

Worst of all, the absence of PNTR also inhibits foreign investment and the conclusion of long term contracts. Boeing expressed to the Associated Press its relief at the decision to normalize trade relations with China thus:

``Stability is key in our business. We must look 18 to 24 months ahead in terms of building parts, planes and servicing them. It has been difficult for China to make such agreements when they don't know if they would have an export license the following year or whether the United States would allow the planes to be delivered.''

Fimaco Wouldn't Die

Russia's Missing Billions

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Russia's Audit Chamber - with the help of the Swiss authorities and their host of dedicated investigators - may be about to solve a long standing mystery. An announcement by the Prosecutor's General Office is said to be imminent. The highest echelons of the Yeltsin entourage - perhaps even Yeltsin himself - may be implicated - or exonerated. A Russian team has been spending the better part of the last two months poring over documents and interviewing witnesses in Switzerland, France, Italy, and other European countries.

About $4.8 billion of IMF funds are alleged to have gone amiss during the implosion of the Russian financial markets in August 1998. They were supposed to prop up the banking system (especially SBS-Agro) and the ailing and sharply devalued ruble. Instead, they ended up in the bank accounts of obscure corporations - and, then, incredibly, vanished into thin air.

The person in charge of the funds in 1998 was none other than Mikhail Kasyanov, Russia's current Prime Minister - at the time, Deputy Minister of Finance for External Debt. His signature on all foreign exchange transactions - even those handled by the central bank - was mandatory. In July 2000, he was flatly accused by the Italian daily, La Reppublica, of authorizing the diversion of the disputed funds.

Following public charges made by US Treasury Secretary Robert Rubin as early as March 1999, both Russian and American media delved deeply over the years into the affair. Communist Duma Deputy Viktor Ilyukhin jumped on the bandwagon citing an obscure "trustworthy foreign source" to substantiate his indictment of Kremlin cronies and oligarchs contained in an open letter to the Prosecutor General, Yuri Skuratov.

The money trail from the Federal Reserve Bank of New York to Swiss and German subsidiaries of the Russian central Bank was comprehensively reconstructed. Still, the former Chairman of the central bank, Sergei Dubinin, called Ilyukhin's allegations and the ensuing Swiss investigations - "a black PR campaign ... a lie."

Others pointed to an outlandish coincidence: the ruble collapsed twice in Russia's post-Communist annals. Once, in 1994, when Dubinin was Minister of Finance and was forced to resign. The second time was in 1998, when Dubinin was governor of the central bank and was, again, ousted.

Dubinin himself seems to be unable to make up his mind. In one interview he says that IMF funds were used to prop up the ruble - in others, that they went into "the national pot" (i.e., the Ministry of Finance, to cover a budgetary shortfall).

The Chairman of the Federation Council at the time, Yegor Stroev, appointed an investigative committee in 1999. Its report remains classified but Stroev confirmed that IMF funds were embezzled in the wake of the 1998 forced devaluation of the ruble.

This conclusion was weakly disowned by Eleonora Mitrofanova, an auditor within the Duma's Audit Chamber who said that they discovered nothing "strictly illegal" - though, incongruously, she accused the central bank of suppressing the Chamber's damning report. The Chairman of the Chamber of Accounts, Khachim Karmokov, quoted by PwC, said that "the audits performed by the Chamber revealed no serious procedural breaches in the bank's performance."

But Nikolai Gonchar, a Duma Deputy and member of its Budget Committee, came close to branding both as liars when he said that he read a copy of the Audit Chamber report and that it found that central bank funds were siphoned off to commercial accounts in foreign banks.

The Moscow Times cited a second Audit Chamber report which revealed that the central bank was simultaneously selling dollars for rubles and extending ruble loans to a few well-connected commercial banks, thus subsidizing their dollar purchases. The central bank went as far as printing rubles to fuel this lucrative arbitrage. The dollars came from IMF disbursements.

Radio Free Europe/Radio Liberty, based on its own sources and an article in the Russian weekly "Novaya Gazeta", claims that half the money was almost instantly diverted to shell companies in Sydney and London. The other half was mostly transferred to the Bank of New York and to Credit Suisse.

Why were additional IMF funds transferred to a chaotic Russia, despite warnings by many and a testimony by a Russian official that previous tranches were squandered? Moreover, why was the money sent to the Central Bank, then embroiled in a growing scandal over the manipulation of treasury bills, known as GKO's and other debt instruments, the OFZ's - and not to the Ministry of Finance, the beneficiary of all prior transfers? The central bank did act as MinFin's agent - but circumstances were unusual, to say the least.

There isn't enough to connect the IMF funds with the money laundering affair that engulfed the Bank of New York a year later to the day, in August 1999 - though several of the personalities straddled the divide between the bank and its clients. Swiss efforts to establish a firm linkage failed as did their attempt to implicate several banks in the Italian canton of Ticino. The Swiss - in collaboration with half a dozen national investigation bureaus, including the FBI - were more successful in Italy proper, where they were able to apprehend a few dozen suspects in an elaborate undercover operation.

FIMACO's name emerged rather early in the swirl of rumors and denials. At the IMF's behest, PricewaterhouseCoopers (PwC) was commissioned by Russia's central bank to investigate the relationship between the Russian central bank and its Channel Islands offshoot, Financial Management Company Limited, immediately when the accusations surfaced.

Skuratov unearthed $50 billion in transfers of the nation's hard currency reserves from the central bank to FIMACO, which was majority-owned by Eurobank, the central bank's Paris-based daughter company. According to PwC, Eurobank was 23 percent owned by "Russian companies and private individuals".

Dubinin and his successor, Gerashchenko, admit that FIMACO was used to conceal Russia's assets from its unrelenting creditors, notably the Geneva-based Mr. Nessim Gaon, whose companies sued Russia for $600 million. Gaon succeeded to freeze Russian accounts in Switzerland and Luxemburg in 1993. PwC alerted the IMF to this pernicious practice, but to no avail.

Moreover, FIMACO paid exorbitant management fees to self-liquidating entities, used funds to fuel the speculative GKO market, disbursed non-reported profits from its activities, through "trust companies", to Russian subjects, such as schools, hospitals, and charities - and, in general, transformed itself into a mammoth slush fund and source of patronage. Russia admitted to lying to the IMF in 1996. It misstated its reserves by $1 billion.

Some of the money probably financed the fantastic salaries of Dubinin and his senior functionaries. He earned $240,000 in 1997 - when the average annual salary in Russia was less than $2000 and when Alan Greenspan, Chairman of the Federal Reserve of the USA, earned barely half as much.

Former Minister of Finance, Boris Fedorov, asked the governor of the central bank and the prime minister in 1993 to disclose how were the country's foreign exchange reserves being invested. He was told to mind his own business. To Radio Free Europe/Radio Liberty he said, six years later, that various central bank schemes were set up to "allow friends to earn handsome profits ... They allowed friends to make profits because when companies are created without any risk, and billions of dollars are transferred, somebody takes a (quite big) commission ... a minimum of tens of millions of dollars. The question is: Who received these commissions? Was this money repatriated to the country in the form of dividends?"

Dubinin's vehement denials of FIMACO's involvement in the GKO market are disingenuous. Close to half of all foreign investment in the money-spinning market for Russian domestic bonds were placed through FIMACO's nominal parent company, Eurobank and, possibly, through its subsidiary, co-owned with FIMACO, Eurofinance Bank.

Nor is Dubinin more credible when he denies that profits and commissions were accrued in FIMACO and then drained off. FIMACO's investment management agreement with Eurobank, signed in 1993, entitled it to 0.06 percent of the managed funds per quarter.

Even accepting the central banker's ludicrous insistence that the balance never exceeded $1.4 billion - FIMACO would have earned $3.5 million per annum from management fees alone - investment profits and brokerage fees notwithstanding. Even Eurobank's president at the time, Andrei Movchan, conceded that FIMACO earned $1.7 million in management fees.

The IMF insisted that the PwC reports exonerated all the participants. It is, therefore, surprising and alarming to find that the online copies of these documents, previously made available on the IMF's Web site, were "Removed September 30, 1999 at the request of PricewaterhouseCoopers".

The cover of the main report carried a disclaimer that it was based on procedures dictated by the central bank and "... consequently, we (PwC) make no representation regarding the sufficiency of the procedures described below ... The report is based solely on financial and other information provided by, and discussions with, the persons set out in the report. The accuracy and completeness of the information on which the report is based is the sole responsibility of those persons. ... PricewaterhouseCoopers have not carried out any verification work which may be construed to represent audit procedures ... We have not been provided access to Ost West Handelsbank (the recipient of a large part of the $4.8 IMF tranche)"

The scandal may have hastened the untimely departure of the IMF's Managing Director at the time, Michel Camdessus, though this was never officially acknowledged. The US Congress was reluctant to augment the Fund's resources in view of its controversial handling of the Asian and Russian crises and contagion.

This reluctance persisted well into the new millennium. A congressional delegation, headed by James Leach (R, Iowa), Chairman of the Banking and Financial Services Committee, visited Russia in April 2000, accompanied by the FBI, to investigate the persistent contentions about the misappropriation of IMF funds.

Camdessus himself went out of his way to defend his record and reacted in an unprecedented manner to the allegations. In a letter to Le Mond, dated August 18, 1999 - and still posted on the IMF's Web site, three years later - he wrote, inadvertently admitting to serious mismanagement:

"I wish to express my indignation at the false statements, allegations, and insinuations contained in the articles and editorial commentary appearing in Le Monde on August 6, 8, and 9 on the content of the PricewaterhouseCoopers (PWC) audit report relating to the operations of the Central Bank of Russia and its subsidiary, FIMACO.

Your readers will be shocked to learn that the report in question, requested and made public at the initiative of the IMF ... (concludes that) no misuse of funds has been proven, and the report does not criticize the IMF's behavior ... I would also point out that your representation of the IMF's knowledge and actions is misleading. We did know that part of the reserves of the Central Bank of Russia was held in foreign subsidiaries, which is not an illegal practice; however, we did not learn of FIMACO's activities until this year—because the audit reports for 1993 and 1994 were not provided to us by the Central Bank of Russia.

The IMF, when apprised of the possible range of FIMACO activities, informed the Russian authorities that it would not resume lending to Russia until a report on these activities was available for review by the IMF and corrective actions had been agreed as needed ... I would add that what the IMF objected to in FIMACO's operations extends well beyond the misrepresentation of Russia's international reserves in mid-1996 and includes several other instances where transactions through it had resulted in a misleading representation of the reserves and of monetary and exchange policies. These include loans to Russian commercial banks and investments in the GKO market."

No one accepted - or accepts - the IMF's convoluted post-facto "clarifications" at face value. Nor was Dubinin's tortured sophistry - IMF funds cease to be IMF funds when they are transferred from the Ministry of Finance to the central bank - countenanced.

Even the compromised office of the Russian Prosecutor-General urged Russian officials, as late as July 2000, to re-open the investigation regarding the diversion of the funds. The IMF dismissed this sudden burst of rectitude as the rehashing of old stories. But Western officials - interviews by Radio Free Europe/Radio Liberty - begged to differ.

Yuri Skuratov, the former Prosecutor-General, ousted for undue diligence, wrote in a book he published two years ago, that only c. $500 million of the $4.8 were ever used to stabilize the ruble. Even George Bush Jr., when still a presidential candidate accused Russia's former Prime Minister Viktor Chernomyrdin of complicity in embezzling IMF funds. Chernomyrdin threatened to sue.

The rot may run even deeper. The Geneva daily "Le Temps", which has been following the affair relentlessly, accused, two years ago, Roman Abramovich, a Yeltsin-era oligarch and a member of the board of directors of Sibneft, of colluding with Runicom, Sibneft's trading arm, to misappropriate IMF funds. Swiss prosecutors raided Runicom's offices just one day after Russian Tax Police raided Sibneft's Moscow headquarters.

Absconding with IMF funds seemed to have been a pattern of behavior during Yeltsin's venal regime. The columnist Bradley Cook recounts how Aldrich Ames, the mole within the CIA, "was told by his Russian control officer during their last meeting, in November 1993, that the $130,000 in fresh $100 bills that he was being bribed with had come directly from IMF loans." Venyamin Sokolov, who headed the Audit Chamber prior to Sergei Stepashin, informed the US Senate of $2 billion that evaporated from the coffers of the central bank in 1995.

Even the IMF reluctantly admits:

"Capital transferred abroad from Russia may represent such legal activities as exports, or illegal sources. But it is impossible to determine whether specific capital flows from Russia-legal or illegal-come from a particular inflow, such as IMF loans or export earnings. To put the scale of IMF lending to Russia into perspective, Russia's exports of goods and services averaged about $80 billion a year in recent years, which is over 25 times the average annual disbursement from the IMF since 1992."

The Chechen Theatre Ticket

By: Dr. Sam Vaknin

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One hundred and eighteen hostages and 50 of their captors died in the heavy handed storming of the theatre occupied by Chechen terrorists four days ago. This has been only the latest in a series of escalating costs in a war officially terminated in 1997. On August 22, a helicopter carrying 115 Russian servicemen and unauthorized civilians went down in flames.

The Russian military is stretched to its limits. Munitions and spare parts are in short supply. The defense industry shrunk violently following the implosion of the USSR. Restarting production of small-ticket items is prohibitively expensive. Even bigger weapon systems are antiquated. A committee appointed by the Duma, Russia's lower house of parliament, found that the average age of the army's helicopters is 20. Russia lost dozens of them hitherto and does not have the wherewithal to replace them.

The Russian command acknowledges 3000 fatalities and 8000 wounded but the numbers are probably way higher. The Committee of Soldiers' Mothers pegs the number of casualties at 12-13,000. Unpaid, disgruntled, and under-supplied troops exert pressure on their headquarters to air-strafe Chechnya, to withdraw, or to multiply the money budgeted to support the ill-fated operation.

Russia maintains c. 100,000 troops in Chechnya, including 40,000 active soldiers and 60,000 support and logistics personnel. The price tag is sizable though not unsustainable. As early as October 1999, the IMF told Radio Free Europe/Radio Liberty: "Yes, we're concerned that it could undermine the progress in improving (Russia's) public finances."

As they did in the first Chechen conflict in 1994-6, both the IMF and the World Bank reluctantly kept lending billions to Russia throughout the current round of devastation. A $4.5 billion arrangement was signed with Russia in July 1999. Though earmarked, funds are fungible. The IMF has been accused by senior economists, such as Jeffrey Sachs and Marshall Goldman, of financing the Russian war effort against the tiny republic and its 1.5 million destitute or internally displaced citizens. Even the staid Jane's World Armies concurred.

No one knows how much the war has cost Russia hitherto. It is mostly financed from off-budget clandestine bank accounts owned and managed by the Kremlin, the military, and the security services. Miriam Lanskoy, Program Manager at the Institute for the Study of Conflict, Ideology and Policy at Boston University, estimated for "NIS Observed" and "The Analyst" that Russia has spent, by November 2001, c. $8 billion on the war, money sorely needed to modernize its army and maintain its presence overseas.

Russia was forced to close, post haste, bases in Vietnam and Cuba, two erstwhile pillars of its geopolitical and geostrategic presence. It was too feeble to capitalize on its massive, multi-annual assistance to the Afghan Northern Alliance in both arms and manpower. The USA effortlessly reaped the fruits of this continuous Russian support and established a presence in central Asia which Russia will find impossible to dislodge.

The Christian Science Monitor has pegged the cost of each month in the first three months of offensive against the separatists at $500 million. This guesstimate is supported by the Russians but not by Digby Waller, an economist at the International Institute for Strategic Studies (IISS), a London-based military think tank. He put the real, out-of-pocket expense at $110 million a month. Other experts offer comparable figures - $100-150 a month.

Similarly, Jane's Defense Weekly put the outlay at $40-50 million a day - but most of it in cost-free munitions produced during Soviet times. A leading Soviet military analyst, Pavel Felgengauer, itemized the expenditures. The largest articles are transport, fuel, reconstruction of areas shattered by warfare, and active duty bonuses to soldiers.

The expense of this brawl exceed the previous scuffle's. The first Chechen war is estimated to have cost at most $5.5 billion and probably between $1.3 and $2.6 billion. Russia allocated c. $1 billion to the war in its 2000 budget. Another $263 million were funded partly by Russia's behemoth electricity utility, UES. Still, these figures are misleading underestimates.

According too the Rosbalt News Agency, last year, for instance, Russia was slated to spend c. $516 million on rebuilding Chechnya - but only $158 million of these resources made it to the budget.

Russia has been lucky to enjoy a serendipitous confluence of an export-enhancing and import-depressing depreciated currency, tax-augmenting inflation, soaring oil prices, and Western largesse. It is also a major producer and exporter of weapons. Chechnya serves as testing grounds where proud designers and trigger-craving generals can demonstrate the advantages and capabilities of their latest materiel.

Some - like the Institute of Global Issues - say that the war in Chechnya has fully self-financed by reviving the military-industrial complex and adding billions to Russia's exports of armaments. This surely is a wild hyperbole. Chechnya - a potentially oil-rich territory - is razed to dust.

Russia is ensnared in an ever-escalating cycle of violence and futile retaliation. Its society is gradually militarized and desensitized to human rights abuses. Corruption is rampant. Russia's Accounting Board disclosed that a whopping 12 percent of the money earmarked to fight the war two years ago has vanished without a trace.

About $45 million dollars in salaries never reached their intended recipients - the soldiers in the field. Top brass set up oil drilling operations in the ravaged territory.

They are said by Rosbalt and "The Economist" to be extracting up to 2000 tons daily - double the amount the state hauls.

Another 7000 tons go up in smoke due to incompetence and faulty equipment. There are 60 oil wells in Grozny alone. Hence the predilection to pursue the war as leisurely - and profitably - as possible. Often in cahoots with their ostensible oppressors, dispossessed and dislocated Chechens export crime and mayhem to Russia's main cities.

The war is a colossal misallocation of scarce economic resources and an opportunity squandered. Russia should have used the windfall to reinvent itself - revamp its dilapidated infrastructure and modernize its institutions. Oil prices are bound to come down one day and when they do Russia will discover the true and most malign cost of war - the opportunity cost.

Russia's Israeli Oil Bond

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Also Read

Russian Roulette - The Energy Sector

Last week, Russia and Israel - erstwhile bitter Cold War enemies - have agreed to make use of Israel's neglected oil pipeline, known as the Tipline. The conduit, an Iranian-Israeli joint venture completed in 1968 is designed to carry close to a million barrels per day, circumventing the Suez canal.

It rarely does, though. The Shah was deposed in 1979, Egypt became a pivotal Western ally, the Israeli-developed Sinai oil fields were returned to Egypt in the early 1980's, and, in a glutted market, Israel resorted to importing 99 percent of the 280,000 barrels it consumes daily.

According to Stratfor, the Strategic Forecasting consultancy, "tankers bearing Russian crude from the Black Sea port of Novorossiysk would unload at Israel's Mediterranean port of Ashkelon. After that, the oil would traverse the Tipline to Israel's Red Sea port of Eilat, where it would be reloaded onto tankers for shipment to Asia. The Eilat-Ashkelon Pipeline Co. estimates the pipeline will be ready for Russian crude in mid-2003."

Russia is emerging as a major oil supplier and a serious challenge to the hegemony of Saudi Arabia and OPEC. Even the USA increasingly taps the Russian market for crude and derivatives. With Arab countries - including the hitherto unwaveringly loyal Gulf states - progressively perceived as hostile by American scholars and decision makers, Russia arises as a potent alternative. The newfangled Russian-Israeli commercial alliance probably won applause from Washington hardliners, eager to relieve the Saudi stranglehold on energy supplies.

Quoted by the American Foreign Policy Council, Russia's Energy Minister, Igor Yusufov, addressing the Russian-US Energy Forum in Houston, Texas, last month said that "the high degree of economic and political stability that the Russian Federation has achieved makes it a reliable supplier of oil and gas."

He expressed his belief - shared by many analysts - that Russia will become a major exporter of oil to the USA "in the foreseeable future". According to the Dow Jones Newswires, private Russian oil firms, such as Lukoil, are heavily invested in US gas stations and refineries in anticipation of these inevitable developments. As if to underline these, the Financial Times reported, on October 3, a purchase of 300,000 barrels of oil from the Russian Tyumen Oil company.

The deal with Israel will allow Russia to peddle its oil in the Asian market, a major export target and a monopoly of the Gulf producers.

Russia is in the throes of constructing several pipelines to Asia through its eastern territories and Pacific coastline - but completion dates are uncertain.

For its part, according to the Department of Energy, Israel extracts natural gas from offshore fields but has no commercial fossil fuel resources of its own. It imports oil from Mexico, Norway, and the United Kingdom and coal from as far away as Australia, Colombia, and South Africa. Israel buys natural gas and oil from Egypt. The bulk of the energy sector is moribund and state-owned, ostensibly for reasons of national security. The deal with Russia is a godsend.

Israel is perfectly located to offer an affordable alternative to expensive and often clogged oil shipping lanes through the Suez Canal or the Cape. A revival of the Trans-Arabian pipeline (Tapline) to Haifa can considerably under-price the politically wobbly Iraqi-Turkish and the costly Suez-Mediterranean (Sumed) alternatives.

With one of every five Israelis a Russian migr and confronted with the common enemy of Islamic militancy, Israel and Russia have embarked on a path of close cooperation. Prime Minister Sharon's visit to Russia last month was a resounding success. Faced with these millennial geopolitical developments, anti-Semitic conspiracy theorists are having a field day.

The Jewish lobby, they say, is coercing America, its long arm, to hijack the Iraqi oil fields in the forthcoming war and thus to counterbalance surging Russian oil exports. Israel, they aver, planned to carry out, in October 2001, an operation - "Mivtza Shekhina" - to secure southern Iraq's oil fields while also mitigating the threat of weapons of mass destruction aimed at its population centers.

Conspiratorial paranoia notwithstanding, it is unlikely that the USA is motivated by oil interests in its war on Saddam. A battle in Iraq aimed solely at apprehending its crude would be fighting over yesterday's oilfields. Only an easily replaceable one tenth to one eighth of American oil consumption emanates from the Gulf, about a million barrels per day of it from Iraq. Moreover, the war is likely to alienate far more important suppliers, such as Russia - as well as the largest European clients of Gulf oil extracted by American firms. Strictly in terms of oil, a war in Iraq is counterproductive.

Additionally, such a war is likely to push oil prices up. According to the Council on Foreign Relations, "for every dollar-per-barrel increase in oil prices, about $4 billion a year would leave America's $11 trillion economy, and other importing countries would lose another $16 billion per year."

Israel understandably did discuss with the USA its role in a showdown with Iraq. Russia, unsettled as it is by America's growing presence in central Asia and exercised by its determination to take on Iraq - may be trying to lure Israel away from its automatic support of US goals by dangling the oiled carrot of a joint pipeline.

Russia also hopes to neuter the rapprochement between Israel and the Islamic nations of Turkey and Azerbaijan, traditional adversaries of Moscow. Israel is the second largest buyer of oil from Azerbaijan. It is one of the sponsors of a pipeline from the Baku oilfields to the port of Ceyhan in Turkey. The pipeline stands to compete with a less costly and more hostile to the West Russian-Iranian route.

These are momentous times. Oil is still by far the most strategic commodity and securing its uninterrupted flow is essential to the functioning of both developed and developing countries. There is a discernible tectonic shift in production and proven reserves from the Persian Gulf, the US except Alaska, the North Sea, and Latin America to northern Europe, Russia, and the Caspian Basin. Yet, oil is still a buyers' market. OPEC has long been denuded of its mythical power and oil prices - even at the current interim peak - are still historically low in real terms.

But Russia stands to gain whichever way. Middle East tensions, in Palestine and Iraq, have ratcheted oil prices up resulting in a much-needed budgetary windfall. Russia's mostly-privatized oil industry has cleverly ploughed back its serendipitous profits into pipelines, drilling, and exploration. When the dust settles in the deserts of Arabia, Russia will emerge victorious with the largest oil market share. Israel is not oblivious to this scenario.

Russia's Idled Spies

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Also Read

The Industrious Spies

Russian Roulette - The Security Apparatus

Sweden expelled yesterday two Russian diplomats for spying on radar and missile guidance technologies for the JAS 39 British-Swedish Gripen fighter jet developed by Telefon AB LM Ericsson, the telecommunications multinational. The Russians threatened to reciprocate. Five current and former employees of the corporate giant are being investigated. Ironically, the first foreign buyer of the aircraft may well be Poland, a former Soviet satellite state and a current European Union candidate.

Sweden arrested in February last year a worker of the Swiss-Swedish engineering group, ABB, on suspicion of spying for Russia. The man was released after two days for lack of evidence and reinstated. But the weighty Swedish daily, Dagens Nyheter, speculated that the recent Russian indiscretion was in deliberate retaliation for Swedish espionage in Russia. Sweden is rumored to have been in the market for Russian air radar designs and the JAS radar system is said by some observers to uncannily resemble its eastern counterparts.

The same day, a Russian military intelligence (GRU) colonel, Aleksander Sipachev, was sentenced in Moscow to eight years in prison and stripped of his rank. According to Russian news agencies, he was convicted of attempting to sell secret documents to the CIA. Russian secret service personnel, idled by the withering of Russia's global presence, resort to private business or are re-deployed by the state to spy on industrial and economic secrets in order to aid budding Russian multinationals.

According to the FBI and the National White-collar Crime Center, Russian former secret agents have teamed with computer hackers to break into corporate networks to steal vital information about product development and marketing strategies. Microsoft has recently admitted to such a compromising intrusion.

In a December 1999 interview to Segodnya, a Russia paper, Eyer Winkler, a former high-ranking staffer with the National Security Agency (NSA) confirmed that "corruption in the Russian Government, the Foreign Intelligence Service, and the Main Intelligence Department allows Russian organized criminal groups to use these departments in their own interests. Criminals receive the major part of information collected by the Russian special services by means of breaking into American computer networks."

When the KGB was dismantled and replaced by a host of new acronyms, Russian industrial espionage was still in diapers. as a result, it is a bureaucratic no-man's land roamed by agents of the GRU, the Foreign Intelligence Service (SVR), and smaller outfits, such as the Federal Agency on Government Communications and Information (FAPSI).

According to Stratfor, the strategic forecasting consultancy, "the SVR and GRU both handle manned intelligence on U.S. territory, with the Russian Federal Security Service (FSB) doing counterintelligence in America. Also, both the SVR and GRU have internal counterintelligence units created for finding foreign intelligence moles." This, to some extent, is the division of labor in Europe as well.

Germany's Federal Prosecutor has consistently warned against $5 billion worth of secrets pilfered annually from German industrial firms by foreign intelligence services, especially from east Europe and Russia. The Counterintelligence News and Developments newsletter pegs the damage at $13 billion in 1996 alone:

"Modus operandi included placing agents in international organizations, setting up joint-ventures with German companies, and setting up bogus companies. The (Federal Prosecutor's) report also warned business leaders to be particularly wary of former diplomats or people who used to work for foreign secret services because they often had the language skills and knowledge of Germany that made them excellent agents."

Russian spy rings now operate from Canada to Japan. Many of the spies have been dormant for decades and recalled to service following the implosion of the USSR. According to Asian media, Russians have become increasingly active in the Far East, mainly in Japan, South Korea, Taiwan, and mainland China.

Russia is worried about losing its edge in avionics, electronics, information technology and some emerging defense industries such as laser shields, positronics, unmanned vehicles, wearable computing, and real time triple C (communication, command and control) computerized battlefield management. The main targets are, surprisingly, Israel and France. According to media reports, the substantive clients of Russia's defense industry - such as India - insist on hollowing out Russian craft and installing Israeli and west European systems instead.

Russia's paranoid state of mind extends to its interior. Uralinformbureau reported earlier this year that the Yamal-Nenets autonomous okrug (district) restricted access to foreigners citing concerns about industrial espionage and potential sabotage of oil and gas companies. The Kremlin maintains an ever-expanding list of regions and territories with limited - or outright - forbidden - access to foreigners.

The FSB, the KGB's main successor, is busy arresting spies all over the vast country. To select a random events of the dozens reported every year - and many are not - the Russian daily Kommersant recounted in February how when the Trunov works at the Novolipetsk metallurgical combine concluded an agreement with a Chinese company to supply it with slabs, its chief negotiator was nabbed as a spy working for "circles in China". His crime? He was in possession of certain documents which contained "intellectual property" of the crumbling and antiquated mill pertaining to a slab quality enhancement process.

Foreigners are also being arrested, though rarely. An American businessman, Edmund Pope, was detained in April 2000 for attempting to purchase the blueprints of an advanced torpedo from a Russian scientist. There have been a few other isolated apprehensions, mainly for "proper", military, espionage. But Russians bear the brunt of the campaign against foreign economic intelligence gathering.

Strana.ru reported last December that, speaking on the occasion of Security Services Day, Putin - himself a KGB alumnus - warned veterans that the most crucial task facing the services today is "protecting the country's economy against industrial espionage."

This is nothing new. According to History of Espionage Web site, long before they established diplomatic relations with the USA in 1933, the Soviets had Amtorg Trading Company. Ostensibly its purpose was to encourage joint ventures between Russian and American firms. Really it was a hub of industrial undercover activities. Dozens of Soviet intelligence officers supervised, at its peak during the Depression, 800 American communists. The Soviet Union's European operations in Berlin (Handelsvertretung) and in London (Arcos, Ltd.) were even more successful.

Russia's Middle Class

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Also Read

Women in Transition

A conference held, at the beginning of the month, in St. Petersburg, was aptly titled "Middle Class - The Myths and the Reality". Russia is way poorer than Slovenia, the Czech Republic, Hungary, or even Poland. But, as income disparities grow, a group of discriminating consumers with the purchasing power to match, is re-emerging, having been submerged by the 1998 implosion of the financial sector.

The typical salary in the large metropolises is now more than $600 per month - four times the meager national average. Some 20 percent of the workforce in Moscow earns more than $1700 a month, comparable to many members of the European Union. Real average wages across Russia have surpassed the pre-1998 level in May.

Moreover, Russians are unburdened by debt and their utility bills and food are heavily subsidized, though decreasingly so. Few pay taxes - lately dramatically reduced and simplified - and even fewer save. Every rise in disposable income is immediately translated to unadulterated consumption. Takings are understated - Russia's informal economy is probably half as big as its formal sector.

A study, financed by the Carnegie Foundation, found that only 7 percent of Russians qualify as middle class. Another 12 percent or so have some bourgeois characteristics. Sixty percent of them are men, though the Komkon marketing research agency says that the genders are equally represented.

Figures culled from the census conducted this year throughout the Russian Federation - the first since 1989 - are expected to confirm these findings. About one fifth to one quarter of all Russian households earn more than the average monthly income of $150 per person.

Political parties which purport to represent the middle class - such as the Union of the Forces of the Right (SPS) - garnered 10-15 percent of the votes in the 1999 parliamentary elections. Direct action groups of the "third estate" may transform the political landscape in forthcoming elections.

In a recent study by sociologists from the Russian Academy of Sciences' Institute of Philosophy, more than half of all Russians self-flatteringly considered themselves middle class. This is delusional. Even the optimistic research firm Premier-TGI pegs the number at 19 percent at most.

Businesses adapt to these new demands of shifting tastes and preferences. The St. Petersburg-based cellular operator Delta Telecom, owner of the first license to provide wireless-communications services in Russia, intends to test the market among middle class clients.

Ikea, the Swedish home improvement chain, has plunged $200 million into a new shopping center. French, German and Dutch cash-and-carry and do-it-yourself groups are slated to follow. Russian competitors, every bit as sleek, have erupted on the scene. The investment spree has engulfed the provinces as well.

Last month, Citibank opened a retail outlet for affluent individuals in Moscow - though its standards of transparency may yet scare them off, as Gazeta.ru observed astutely. A private cemetery in Samara caters to the needs of the expired newly rich. Opulently-stocked emporiums have sprouted in all urban centers. TV shopping and even online commerce are on the up. According to the Washington Post, Moscow retail space will have tripled by the end of next year from its level at the beginning of 2002.

The Russian Expert magazine says that the middle class, minuscule as it is, accounted last year for a staggering 55 percent of all consumer goods purchased and generates one third of Russia's gross domestic product. The middle class is Russia's most important engine of wealth formation and investment, far outweighing foreign capital.

Russia's post-1998 fledgling middle class is described as young, well-educated, well-traveled, community-orientated, entrepreneurial and suffused with work ethic and a desire for social mobility. It is almost as if the crisis four years ago served as a purgatory, purging sins and sinners alike and creating the conditions for the revival of a healthier, longer-lived, bourgeoisie.

But being middle class is a state of mind more than a measure of wealth. It is an all-encompassing worldview, a set of values, a code of conduct, a list of goals, aspirations, fantasies and preferences and a catalog of moral do's and don'ts. This is where transition, micromanaged by western "experts" failed.

The mere exposure to free markets was supposed to unleash innovation and entrepreneurship in the long-oppressed populations of east Europe. When this prescription - known as "shock therapy" - bombed, the West tried to engender a stable, share-holding, business-owning, middle class by financing small size enterprises. It then proceeded to strengthen and transform indigenous institutions.

None of it worked. Transition had no grassroots support and its prescriptive - and painful - nature caused wide resentment and obstruction. When the dust settled, Russia found itself with a putative - and puny - middle class. But it was an anomalous beast, very different from its ostensible European or American counterparts.

To start with, Russia's new middle class is a distinct minority.

Prism, a publication of the Jamestown Foundation, quoted, in its August 2001 issue, the Serbian author Milorad Pavic as saying that "the Russian middle class is like a young generation whose fathers suffered a severe defeat in a war: with no feeling of guilt and no victorious fathers to boss them around, the children of defeat see no obstacles before them."

But this metaphor is misleading. The Russian middle class is a nascent exception - not an overarching rule. As Akos Rona-Tas, Associate Professor in the Sociology Department at the University of California, San Diego, notes correctly in his paper "Post Communist Transition and the Absent Middle Class in Central East Europe", a middle class that is in the minority is an oxymoron:

"In democracies the middle class is the nation proper. The typical member of a national community is a member of the middle class. When democratic governments need a social group they can address, a universal class that carries the overarching, common interest of the country, they appeal to the middle class. This appeal, while it calls on a common interest, also acknowledges that there are conflicting interests within society. The middle class is not everyone, but it is the majority and it represents what everyone else can become."

Russia has a long way to go to achieve this ubiquity. Its middle class, far from representing the consensus, reifies the growing abyss between haves and haves not. Its members' conspicuous consumption, mostly of imports, does little to support the local economy. Its political might is self-serving. It has no ethos, or distinct morality, no narrative, or ideology. The Russian middle class is at a Hobbesian and primordial stage.

Whether it emerges from its narcissistic cocoon to become a leading and guiding social force, is doubtful. The middle class' youth, urbaneness, cosmopolitanism, polyglotism, mobility, avarice and drive are viewed with suspicion and envy by the great unwashed - the overwhelming majority of Russia's destitute population. Empowered by their wealth, the new bourgeoisie, in turn, regards the "people" with naive admiration, patronizing condescension, or horror.

Granted, this muted, subterranean, interaction is not entirely deleterious. It is the social role of the rich to generate demand by provoking in the poor jealousy and attempts at emulation. The wealthy are the trendsetters, the early adopters, the pioneers, the buzz leaders. They are the engine that engenders social and economic mobility.

A similar dynamic is admittedly evident in Russia - but, again, it is tampered by a curious local phenomenon.

Writing for the Globalist, two Brookings Institution scholars, Carol Graham, a Senior Fellow of Economic Studies and Clifford Gaddy, a Fellow of Foreign Policy and Governance Studies described it thus:

"The eyes of Russia's middle class, on the other hand, are figuratively directed downward, towards the poor. In fact, as poverty in Russia increased dramatically in the 1990s, the middle class's reference norms shifted downward as well. As a result, Russia may be the only country in the world where the "subjective poverty line" is falling.

That is, the amount of money that Russians say that they need in order to stay out of poverty has been steadily falling over the past five years. It is even below the objective poverty line. For the time being, at least, these curious Russian attitudes, along with the existence of the non-monetary virtual economy, have insulated the country against political upheaval."

The list of anomalies is not exhausted.

The new middle class comprises the embryonic legitimate business elite - entrepreneurs, professionals and managers - but not the remnants of the financially strapped intelligentsia. It is brawn with little brains. In dissonance with western Europe, according to a survey published in the last two years by Expert magazine, the majority of its members are nationalistic, authoritarian and xenophobic. Their self-interested economic liberalism is coupled with social and political intolerance. But two thirds of them support some kind of welfare state.

Thus, there are major differences between the middle class in the West and its ostensible counterpart in Russia.

The Russian parvenus - many of them women - do not believe their state, their banks, or their compatriots. They fear a precarious future and its inevitable calamities though they are not risk averse and are rather optimistic in the short run. They keep their money under the proverbial mattress, invest it surreptitiously in their ventures, or smuggle it abroad. They are not - yet - stakeholders in their country's stability and prosperity.

Often bamboozled by other businessmen and fleeced by a rapacious bureaucracy, they are paranoid. Tax evasion is still rampant, though abating. They trust in equity and avoid debt. Some of them have criminal roots or a criminal mindset - or are former members of Russia's shady security services.

Three fifths, according to the Expert-Komkon survey, find it "hard to survive" when "observing all laws". "Strong leaders are better than all sorts of laws" is their motto, quoted by Izvestia. Generally, they are closer to being robbers than barons.

Early capitalism is always unruly. It is transformed into a highly structured edifice by the ownership of land and realty (the prime collateral), the protection of private property, a functioning financial system comprised of both banks and capital markets and the just and expedient application of the rule of law.

Russia has none of these. According to Business Week, bank deposits amount to 4 percent of the country's mid-size GDP - compared to half of GDP in other industrialized countries. Mortgages are unheard of, deposits are not insured and land ownership is a novel proposition. The judiciary is venal and incompetent. Might is still right in vast swathes of the land.

The state and the oligarchs continue to represent a rent-seeking opportunity. Businessmen spend time seeking concessions, permits, exemptions and licenses rather than conducting business. The "civic institutions" they form - chambers of commerce, clubs - are often mere glorified lobbying outfits of special and vested interests. Informal networks of contacts count more than any statute or regulation. In such a mock "modern state" no wonder Russia ended up with a Potemkin "middle class".

Russia in 2003

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Contrary to recent impressions, Russia's Western (American-German) orientation is at least as old as Gorbachev's reign. It was vigorously pursued by Yeltsin. Still, 2002 marks the year in which Russia became merely another satellite of the United States - though one armed with an ageing nuclear arsenal.

Russia's economy has revived remarkably after the 1998 crisis, but it is still addicted to Western investments, aid and credits. Encircled by NATO to its West and US troops stationed in its central Asian hinterland, Russia's capitulation is complete. In the aftermath of conflicts to be engineered by the United States in Afghanistan, Iraq, North Korea, Iran, Syria and, potentially, Cuba - Russia may feel threatened geopolitically as well as economically. Both Iran and Iraq, for instance, are large trading partners and leading export destinations of the Russian Federation.

If anything can undo the hitherto impressive personality cult of Russia's new "strong man", Vladimir Putin, it is this injured pride among the more penumbral ranks of the country's security services. Russia's history is littered with the bloodied remains of upheavals wrought by violent ideological minorities and by assorted conspirators.

Hence Putin's tentative - and reluctant - attempts to team up with China and India to establish a multi-polar world and his closer military cooperation with Kyrgyzstan and Armenia - both intended to counter nationalistic opposition at home.

Luckily, the sense of decline is by no means prevalent.

Russians polled by the American Pew Research Center admitted that they feel much better in a world dominated by the United States as a single superpower. The KGB and its successors - Putin's former long-term employers - actually engineered Russia's opening to the West and the president's meteoric ascendancy. And no one in the army seriously disputes the need for reform, professionalization and merciless trimming of the bloated corps.

Reforms - of the military, Russia's decrepit utilities, dilapidated infrastructure and housing, inflated and venal bureaucracy, corrupt judiciary and civil service, choking monopolies and pernicious banking sector - depend on the price of oil. Russia benefited mightily from the surge in the value of the "black gold". But the windfall has helped mask pressing problems and allowed timid legislators and officials to postpone much needed - and fiercely resisted - changes.

Russia's "economic miracle" - oft-touted by the "experts" that brought you "shock therapy" and by egregiously self-interested, Moscow-based, investment bankers - is mostly prestidigitation. As the European Bank for Reconstruction and Development (EBRD) correctly noted in November, Russia's 20 percent growth in the last three years merely reflects enhanced usage of capacity idled by the ruination of 1998.

Neutering the positive externality of rising oil prices, one is left with no increase in productivity since 1999. Industrial production - outside the oil sector - actually slumped. As metropolitan incomes rise, Russians revert to imports rather than consume shoddy and shabby local products.

This, in turn, adversely affects the current account balance and the viability of local enterprises, some of which are sincerely attempting to restructure. According to Trud, a Russian business publication, two fifths of the country's businesses are in the red. Russia's number of small and medium enterprises peaked at 1 million in 1995-6. They employ less than one fifth of the workforce (compared to two thirds in the European Union and in many other countries in transition).

Thus, falling oil prices - though detrimental to Russia's ability to repay its external debt and balance its budget - are a blessing in disguise. Such declines will force the hand of the Putin administration to engage in some serious structural reform - even in the face of parliamentary elections in 2003 and presidential ones the year after.

Russians - wrongly - feel that their standard of living has stagnated. Gazeta.ru claims that 39 million people are below the poverty line. Many pensioners survive on $1 a day. In truth, real income per capita is actually up by more than 8 percent this year alone. Income inequality, though, has, indeed, gaped.

Responding to these concerns, though, in a "coattails" effect, the president is expected to carry pro-Kremlin parties back into power in 2003 - a modicum of elections-inspired bribing is inevitable. State wages and pensions will outpace inflation. The energy behemoths - major sources of campaign financing - will be rewarded with rises in tariffs to match cost of living increases.

Russia faces more than merely a skewed wealth distribution or dependence on mineral wealth. Its difficulties are myriad. On cue from Washington, it is again being hyped in the Western press as a sure-fire investment destination and a pair of safe geostrategic hands. But the dismal truth is that it is a third world country with first world pretensions (and nuclear weapons). It exhibits all the risks attendant to other medium-sized developing countries and emerging economies.

External debt repayments next year will exceed $15 billion. It can easily afford them with oil prices anywhere above $20 and foreign exchange reserves the highest since 1991. Russia even prepaid some of its debt mountain this year. But if its export proceeds were to decline by 40 percent in the forthcoming 3-4 years, Russia will, yet again, be forced to reschedule or default. Every $1 dollar decline in Ural crude prices translates to more than $1 billion lost income to the government.

Russia's population is both contracting and ageing. A ruinous pension crisis is in the cards unless both the run-down health system and the abysmally low birthrate recover. Immigration of ethnic Russians from the former republics of the USSR to the Russian Federation has largely run its course. According to Pravda.ru, more than 7 million people emigrated from the Federation in the last decade.

Russia's informal sector is a vital, though crime-tainted, engine of growth. Laundered money coupled with reinvested profits - from both legitimate and illicit businesses - drive a lot of the private sector and underlie the emergence of an affluent elite, especially in Moscow and other urban centers. According to the Economist Intelligence Unit, Goskomstat - the State Statistics Committee - regularly adjusts the formal figures up by 25 percent to incorporate estimates of the black economy.

Russia faces a dilemma: to quash the economic underground and thus enhance both tax receipts and Russia's image as an orderly polity - or to let the pent-up entrepreneurial forces of the "gray sectors" work their magic?

Russia is slated to join the World Trade Organization in 2004. This happy occasion would mean deregulation, liberalization and opening up to competition - all agonizing moves. Russian industry and agriculture are not up to the task. It took a massive devaluation and a debilitating financial crisis in 1998 to resurrect consumer appetite for indigenous goods.

Farming is mostly state-owned, or state-sponsored. Monopolies, duopolies and cartels make up the bulk of the manufacturing and mining sectors - especially in the wake of the recent tsunami of mergers and acquisitions. The Economist Intelligence Unit quotes estimates that 20 conglomerates account for up to 70 percent of the country's $330 billion GDP. The oligarchs are still there, lurking. The banks are still paralyzed and compromised, though their retail sector is reviving.

Russians are still ambivalent about foreigners. Paranoid xenophobia was replaced by guarded wariness. Recently, Russia revoked the fast track work permit applications hitherto put to good use by managers, scholars and experts from the West. Foreign minority shareholders still complain of being ripped-off by powerful, well-connected - and minacious - business interests.

With the bloody exception of Chechnya, Putin's compelling personality has helped subdue the classic tensions between center and regions. But, as Putin himself admitted in a radio Q-and-A session on December 19, this peaceful co-existence is fraying at the edges.

The president will try to reach a top-down political settlement in the renegade province prior to the 2004 elections, but will fail. Reform is anathema to many suborned governors of the periphery and the Kremlin's miserly handouts are insufficient to grant it a decisive voice in matters provincial. Devolution - a pet Putin project - is more about accepting an unsavory reality than about re-defining the Russian state.

The economic disparity between rural and urban is striking. The
Economist Intelligence Unit describes this chasm thus:

"The processing industry is concentrated in the cities of Moscow, St Petersburg, Yekaterinburg and Nizhny Novgorod. These larger cities have managed the transition relatively well, as size has tended to bring with it industrial diversity; smaller industrial centers have fared far worse. The Soviet regime created new industrial centers such as Tomsk and Novosibirsk, but Siberia and the Russian Far Eastern regions remain largely unindustrialised, having traditionally served as a raw materials and energy base. Owing to the boundless faith of Soviet planners in the benefits of scale, one massive enterprise, or a small group of related enterprises, often formed the basis for the entire local economy of a substantial city or region. This factor, compounded by the absence of unemployment benefits, makes the closure of bankrupt enterprises a politically difficult decision."

The politically incorrect truth is that Russia's old power-structure is largely intact, having altered only its ideological label. It is as avaricious, nefarious and obstructive as ever. Nor does the Russian state sport any checks and balances. Its institutions are suspect, its executive untouchable, its law enforcement agencies delinquent.

Russians still hanker after "men of iron" and seek tradition rather than innovation, prefer unity to pluralism, and appreciate authority more than individualism. Russia - a ramshackle amalgamation of competing turfs - is still ill-suited for capitalism or for liberal democracy, though far less than it was only ten years ago.

Conspicuous consumption of imported products by vulgar parvenus is no substitute to true modernity and a functioning economy. Russia is frequently praised by expats with vested interests and by international financial institutions, the long arms of its newfound ally, the United States.

But, in truth, "modern", "stable", Russia is merely a glittering veneer beneath which lurk, festering, the old ills of authoritarianism, lawlessness, oligarchy, aggression, ignorance, superstition, and repression mingled with extremes of poverty and disease. Here is one safe prediction: none of these will diminish next year.

Russia Straddles the Euro-Atlantic Divide

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Also Read

The Janus Look

Russia's Second Empire

Russian Roulette - The Security Apparatus

Russia as a Creditor

Let My People Go - The Jackson-Vanik Controversy

The Chechen Theatre Ticket

Russia's Israeli Oil Bond

Russia's Idled Spies

Russia in 2003

Russian President Vladimir Putin warned on Tuesday, in an interview he granted to TF1, a French television channel, that unilateral American-British military action against Iraq would be a "grave mistake" and an "unreasonable use of force". Russia might veto it in the Security Council, he averred.

In a joint declaration with France and Germany, issued the same day, he called to enhance the number of arms inspectors in Iraq as an alternative to war.

Only weeks ago Russia was written off, not least by myself, as a satellite of the United States. This newfound assertiveness has confounded analysts and experts everywhere. Yet, appearances aside, it does not signal a fundamental shift in Russian policy or worldview.

Russia could not resist the temptation of playing once more the Leninist game of "inter-imperialist contradictions". It has long masterfully exploited chinks in NATO's armor to further its own economic, if not geopolitical, goals. Its convenient geographic sprawl - part Europe, part Asia - allows it to pose as both a continental power and a global one with interests akin to those of the United States. Hence the verve with which it delved into the war against terrorism, recasting internal oppression and meddling abroad as its elements.

As Vladimir Lukin, deputy speaker of the Duma observed recently, Britain having swerved too far towards America - Russia may yet become an intermediary between a bitterly disenchanted USA and an irked Europe and between the rich, industrialized West and developing countries in Asia. Publicly, the USA has only mildly disagreed with Russia's reluctance to countenance a military endgame in Iraq - while showering France and Germany with vitriol for saying, essentially, the same things.

The United States knows that Russia will not jeopardize the relevance of the Security Council - one of the few remaining hallmarks of past Soviet grandeur - by vetoing an American-sponsored resolution. But Russia cannot be seen to be abandoning a traditional ally and a major customer (Iraq) and newfound friends (France and Germany) too expediently.

Nor can Putin risk further antagonizing Moscow hardliners who already regard his perceived "Gorbachev-like" obsequiousness and far reaching concessions to the USA as treasonous. The scrapping of the Anti Ballistic Missile treaty, the expansion of NATO to Russia's borders, America's presence in central Asia and the Caucasus, Russia's "near abroad" - are traumatic reversals of fortune.

An agreed consultative procedure with the crumbling NATO hardly qualifies as ample compensation. There are troubling rumblings of discontent in the army. A few weeks ago, a Russian general in Chechnya refused Putin's orders publicly - and with impunity. Additionally, according to numerous opinion polls, the vast majority of Russians oppose an Iraqi campaign.

By aligning itself with the fickle France and the brooding and somnolent Germany, Russia is warning the USA that it should not be taken for granted and that there is a price to pay for its allegiance and good services. But Putin is not Boris Yeltsin, his inebriated predecessor who over-played his hand in opposing NATO's operation in Kosovo in 1999 - only to be sidelined, ignored and humiliated in the postwar arrangements.

Russia wants a free hand in Chechnya and to be heard on international issues. It aspires to secure its oil contracts in Iraq - worth tens of billions of dollars - and the repayment of $9 billion in old debts by the postbellum government. It seeks pledges that the oil market will not be flooded by a penurious Iraq.

It desires a free hand in Ukraine, Armenia and Uzbekistan, among others. Russia wants to continue to sell $4 billion a year in arms to China, India, Iran, Syria and other pariahs unhindered.

Only the United States, the sole superpower, can guarantee that these demands are met. Moreover, with a major oil producer such as Iraq as a US protectorate, Russia becomes a hostage to American goodwill. Yet, hitherto, all Russia received were expression of sympathy, claimed Valeri Fyodorov, director of Political Friends, an independent Russian think-tank, in an interview in the Canadian daily, National Post.

These are not trivial concerns. Russia's is a primitive economy, based on commodities - especially energy products - and an over-developed weapons industry. Its fortunes fluctuate with the price of oil, of agricultural produce and with the need for arms, driven by regional conflicts.

Should the price of oil collapse, Russia may again be forced to resort to multilateral financing, a virtual monopoly of the long arms of US foreign policy, such as the International Monetary Fund (IMF). The USA also has a decisive voice in the World Trade Organization (WTO), membership thereof being a Russian strategic goal.

It was the United States which sponsored Russia's seat at table of the G8 - the Group of Eight industrialized states - a much coveted reassertion of the Russian Federation's global weight. According to Rossiiskaya Gazeta, a Russian paper, the USA already announced a week ago that it is considering cutting Russia off American financial aid - probably to remind the former empire who is holding the purse strings.

But siding with America risks alienating the all-important core of Europe: Germany and France. Europe - especially Germany - is Russia's largest export destination and foreign investor. Russia is not oblivious to that. It would like to be compensated generously by the United States for assuming such a hazard.

Still, Europe is a captive of geography and history. It has few feasible alternatives to Russian gas, for instance. As the recent $7 billion investment by British Petroleum proves, Russia - and, by extension, central and east Europe - is Europe's growth zone and natural economic hinterland.

Yet, it is America that captures the imagination of Russian oligarchs and lesser businesses.

Russia aims to become the world's largest oil producer within the decade. With this in mind, it is retooling its infrastructure and investing in new pipelines and ports. The United States is aggressively courted by Russian officials and "oiligarchs" - the energy tycoons.

With the Gulf states cast in the role of anti-American Islamic militants, Russia emerges as a sane and safe - i.e., rationally driven by self-interest - alternative supplier and a useful counterweight to an increasingly assertive and federated Europe.

Russia's affinity with the United States runs deeper that the confluence of commercial interests.

Russian capitalism is far more "Anglo-Saxon" than Old Europe's. The Federation has an educated but cheap and abundant labor force, a patchy welfare state, exportable natural endowments, a low tax burden and a pressing need for unhindered inflows of foreign investment.

Russia's only hope of steady economic growth is the expansion of its energy behemoths abroad. Last year it has become a net foreign direct investor. It has a vested interest in globalization and world order which coincide with America's. China, for instance, is as much Russia's potential adversary as it is the United State's.

Russia welcomed the demise of the Taliban and is content with regime changes in Iraq and North Korea - all American exploits. It can - and does - contribute to America's global priorities. Collaboration between the two countries' intelligence services has never been closer. Hence also the thaw in Russia's relations with its erstwhile foe, Israel.

Russia's population is hungry and abrasively materialistic. Its robber barons are more American in spirit than any British or French entrepreneur. Russia's business ethos is reminiscent of 19th century frontier America, not of 20th century staid Germany.

Russia is driven by kaleidoscopically shifting coalitions within a narrow elite, not by its masses - and the elite wants money, a lot of it and now. In Russia's unbreakable cycle, money yields power which leads to more money. The country is a functioning democracy but elections there do not revolve around the economy. Most taxes are evaded by most taxpayers and half the gross national product is anyhow underground. Ordinary people crave law and order - or, at least a semblance thereof.

Hence Putin's rock idol popularity. He caters to the needs of the elite by cozying up to the West and, in particular, to America - even as he provides the lower classes with a sense of direction and security they lacked since 1985. But Putin is a serendipitous president. He enjoys the aftereffects of a sharply devalued, export-enhancing, imports-depressing ruble and the vertiginous tripling of oil prices, Russia's main foreign exchange generator.

The last years of Yeltsin have been so traumatic that the bickering cogs and wheels of Russia's establishment united behind the only vote-getter they could lay their hands on: Putin, an obscure politician and former KGB officer. To a large extent, he proved to be an agreeable puppet, concerned mostly with self-preservation and the imaginary projection of illusory power.

Putin's great asset is his pragmatism and realistic assessment of the shambles that Russia has become and of his own limitations. He has turned himself into a kind of benevolent and enlightened arbiter among feuding interests - and as the merciless and diligent executioner of the decisions of the inner cabals of power.

Hitherto he kept everyone satisfied. But Iraq is his first real test. Everyone demands commitments backed by actions. Both the Europeans and the Americans want him to put his vote at the Security Council where his mouth is. The armed services want him to oppose war in Iraq. The intelligence services are divided. The Moslem population inside Russia - and surrounding it on all sides - is restive and virulently anti-American.

The oil industry is terrified of America' domination of the world's second largest proven reserves - but also craves to do business in the United States. Intellectuals and Russian diplomats worry about America's apparent disregard for the world order spawned by the horrors of World War II. The average Russian regards the Iraqi stalemate as an internal American affair. "It is not our war", is a common refrain, growing commoner.

Putin has played it admirably nimbly. Whether he ultimately succeeds in this impossible act of balancing remains to be seen. The smart money says he would. But if the last three years have taught us anything it is that the smart money is often disastrously wrong.

Russia's Stealth Diplomacy

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Also Read

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Let My People Go - The Jackson-Vanik Controversy

Possibly irked by persistent American U-2 aerial spy missions above its fringes, Russia fired yesterday, from a mobile launcher, a "Topol" RS-12M Intercontinental Ballistic Missile (ICBM).

On Wednesday, Agriculture Minister Alexei Gordeyev, offered Iraq aid in the form of wheat. The Russian Grain Union, the industry lobby group, claims to have already provided the besieged country with half a million tons of grain under the oil-for-food program.

Russia linked with Syria in declining to approve the new oil-for-food draft resolution as long as it implied a regime change in Iraq. The Duma - having failed to ratify a key nuclear treaty with the USA - called to increase defense spending by at least 3.5 percent of gross domestic product, or about $4 billion this year.

Only 28 percent of Russians polled now view the United States favorably, compared with 68 percent a mere few months ago. A majority of 55 percent disapprove of the USA in a country that was, until very recently, by far the most pro-American in Europe. A Russian telecom, Excom, is offering unlimited free phone calls to the White House to protest U.S. "aggression".

Washington, on its part, has accused the Russian firm, Aviaconversiya, of helping Iraqi forces to jam global positioning system (GPS) signals. Other firms - including anti-tank Kornet missile manufacturer, KBP Tula - have also been fingered for supplying Iraq with sensitive military technologies.

These allegations were vehemently denied by President Vladimir Putin in a phone call to Bush - and ridiculed by the companies ostensibly involved. Russia exported c. $5 billion of military hardware and another $2.6 billion in nuclear equipment and expertise last year, mostly to India and China - triple the 1994 figure.

Russia and the United States have continually exchanged barbs over the sale of fission technology to Iran. In retaliation, Atomic Energy Minister, Alexander Rumyantsev, exposed an Anglo-German-Dutch deal with the Iranians, which, he said, included the sale of uranium enrichment centrifuges.

Is Putin reviving the Cold War to regain his nationalist credentials, tarnished by the positioning, unopposed, of American troops in central Asia, the unilateral American withdrawal from the Anti-Ballistic Missile (ABM) treaty and the expansion of NATO and the European Union to Russia's borders?

Or, dependent as it is on energy exports, is Russia opposed to the war because it fears an American monopoly on the second largest known reserves of crude? Russia announced on Thursday that it would insist on honoring all prewar contracts signed between Iraq and Russian oil companies and worth of billions of dollars - and on the repayment of $8-9 billion in Iraqi overdue debt to Russia.

According to Rosbalt, every drop of $1 in oil prices translates into annual losses to the Russian treasury of $2 billion. Aggregate corporate profits rose in January by one fifth year on year, mostly on the strength of surging crude quotes. The Economist Intelligence Unit expects this year's GDP to grow by 3.8 percent. Foreign exchange reserves are stable at $54 billion.

The threat to Russia's prominence and market share is not imminent. Iraqi oil is unlikely to hit world markets in the next few years, as Iraq's dilapidated and outdated infrastructure is rebuilt. Moreover, Russian oil is cheap compared to the North Sea or Alaskan varieties and thus constitutes an attractive investment opportunity as the recent takeover of Tyumen Oil by British Petroleum proves. Still, the long-term risk of being unseated by a reconstructed Iraq as the second largest oil producer in the world is tangible.

Russia has spent the last six months enhancing old alliances and constructing new bridges. According to Interfax, the Russian news agency, yesterday, Russia has made yet another payment of $27 million to the International Monetary Fund. The Russian and Romanian prime ministers met and signed bilateral agreements for the first time since 1989. This week, after 12 years of abortive contacts, the republics of the former Yugoslavia agreed with the Russian Federation on a framework for settling its $600 million in clearing debts.

Recent spats notwithstanding, the Anglo-Saxon alliance still regards Russia as a strategically crucial ally. Last week, British police, in a sudden display of unaccustomed efficacy, nabbed Russian oligarch and mortal Putin-foe, Boris Berezovsky, charged by the Kremlin with defrauding the Samara region of $13 million while he was director of LogoVaz in 1994-5.

The Russian foreign minister, Igor Ivanov, did not remain oblivious to these overtures. Russia and the USA remain partners, he asserted. RIA Novosti, the Russian news agency, quoted him as saying: "If we settle the Iraqi problem by political means and in an accord, the road will open to teamwork on other, no less involved problems."

As Robert Kagan correctly observes in his essay "Of Paradise and Power: America and Europe in the New World Order", the weaker a polity is militarily, the stricter its adherence to international law, the only protection, however feeble, from bullying. Putin, presiding over a decrepit and bloated army, naturally insists that the world must be governed by international regulation and not by the "rule of the fist".

But Kagan - and Putin - get it backwards as far as the European Union is concerned. Its members are not compelled to uphold international prescripts by their indisputable and overwhelming martial deficiency. Rather, after centuries of futile bloodletting, they choose not to resort to weapons and, instead, to settle their differences juridically.

Thus, Putin is not a European in the full sense of the word. He supports an international framework of dispute settlement because he has no armed choice, not because it tallies with his deeply held convictions and values. According to Kagan, Putin is, in essence, an American: he believes that the world order ultimately rests on military power and the ability to project it.

Russia aspires to be America, not France. Its business ethos, grasp of realpolitik, nuclear arsenal and evolving values place it firmly in the Anglo-Saxon camp. Its dalliance with France and Germany is hardly an elopement. Had Russia been courted more aggressively by Secretary of State, Colin Powell and its concerns shown more respect by the American administration, it would have tilted differently. It is a lesson to be memorized in Washington.

Russia's Second Empire

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

History teaches us little except how little we can learn from it. Still, there is nothing new under the sun. Thus, drawing too many parallels between the environmentalist movements of the late 19th century and their counterparts in the second half of the twentieth century - would probably prove misleading. Similarly, every fin de siecle has its Fukuyama, proclaiming the end of history and the victory of liberalism and capitalism.

Liberal parliamentarianism (coupled with unbridled individualistic capitalism) seemed to irreversibly dominate the political landscape by 1890 - when it was suddenly and surprisingly toppled by the confluence of revolutionary authoritarian nationalism and revolutionary authoritarian socialism.

Yet, every ostensibly modern (or post-modern) phenomenon has roots and mirrors in history. The spreading of the occult, materialism, rationalism, positivism, ethnic cleansing, regionalism, municipal autonomy, environmentalism, alienation ("ennui"), information networking, globalization, anti-globalization, mass migration, capital and labour mobility, free trade - are all new mantras but very old phenomena.

Sometimes the parallels are both overwhelming and instructive.

Overview

Karl Marx regarded Louis-Napoleon's Second Empire as the first modern dictatorship - supported by the middle and upper classes but independent of their patronage and, thus, self-perpetuating. Others went as far as calling it proto-fascistic.

Yet, the Second Empire was insufficiently authoritarian or revolutionary to warrant this title. It did foster and encourage a personality cult, akin to the "Fuhrerprinzip" -but it derived its legitimacy, conservatively, from the Church and from the electorate. It was an odd mixture of Bonapartism, militarism, clericalism, conservatism and liberalism.

In a way, the Second Republic did amount to a secular religion, replete with martyrs and apostles. It made use of the nascent mass media to manipulate public opinion. It pursued industrialization and administrative modernization. But these features characterized all the political movements of the late 19th century, including socialism, and other empires, such as the Habsburg Austro-Hungary.

The Second Empire was, above all, inertial. It sought to preserve the bureaucratic, regulatory, and economic frameworks of the First Empire.

It was a rationalist, positivist, and materialist movement - despite the deliberate irrationalism of the young Louis-Napoleon. It was not affiliated to a revolutionary party, nor to popular militias. It was not collectivist. And its demise was the outcome of military defeat.

The Second Empire is very reminiscent of Vladimir Putin's reign in post-Yeltsin Russia.

Like the French Second Empire, it follows a period of revolutions and counter-revolutions. It is not identified with any one class but does rely on the support of the middle class, the intelligentsia, the managers and industrialists, the security services, and the military.

Putin is authoritarian, but not revolutionary. His regime derives its legitimacy from parliamentary and presidential elections based on a neo-liberal model of government. It is socially conservative but seeks to modernize Russia's administration and economy. Yet, it manipulates the mass media and encourages a personality cult.

Disparate Youths

Like Napoleon III, Putin started off as president (he was shortly as prime minister under Yeltsin). Like him, he may be undone by a military defeat, probably in the Caucasus or Central Asia.

The formative years of Putin and Louis-Napoleon have little in common, though.

The former was a cosseted member of the establishment and witnessed, first hand, the disintegration of his country. Putin was a KGB apparatchik. The KGB may have inspired, conspired in, or even instigated the transformation in Russian domestic affairs since the early 1980's - but to call it "revolutionary" would be to stretch the term.

Louis-Napoleon, on the other hand, was a true revolutionary. He narrowly escaped death at the hands of Austrian troops in a rebellion in Italy in 1831. His brother was not as lucky. Louis-Napoleon's claim to the throne of France (1832) was based on a half-baked ideology of imperial glory, concocted, disseminated and promoted by him. In 1836 and 1840 he even initiated (failed) coups d'etat. He was expelled even from neutral Switzerland and exiled to the USA. He spent six years in prison.

An Eerie Verisimilitude

Still, like Putin, Napoleon III was elected president. Like him, he was regarded by his political sponsors as merely a useful and disposable instrument. Like Putin, he had no parliamentary or political experience. Both of them won elections by promising "order" and "prosperity" coupled with "social compassion". And, like Putin, Louis-Napoleon, to the great chagrin of his backers, proved to be his own man - independent-minded, determined, and tough.

Putin, like Louis-Napoleon before him, proceeded to expand his powers and installed loyalists in every corner of the administration and the army. Like Louis-Napoleon, Putin is a populist, traveling throughout the country, posing for photo opportunities, responding to citizens' queries in Q-and-A radio shows, siding with the "average bloke" on every occasion, taking advantage of Russia's previous economic and social disintegration to project an image of a "strong man".

Putin is as little dependent on the Duma as Napoleon III was on his parliament. But Putin reaped what Boris Yeltsin, his predecessor, has sown when he established an imperial presidency after what amounted to a coup d'etat in 1993 (the bombing of the Duma). Napoleon had to organize his own coup d'etat all by himself in 1852.

The Balancing Act

Napoleon III - as does Putin now - faced a delicate balancing act between the legitimacy conferred by parliamentary liberalism and the need to maintain a police state. When he sought to strengthen the enfeebled legislature he reaped only growing opposition within it to his domestic and foreign policies alike.

He liberalized the media and enshrined in France's legal code various civil freedoms. But he also set in motion and sanctioned a penumbral, all-pervasive and clandestine security apparatus which regularly gathered information on millions of Frenchmen and foreigners.

Modernization and Reform

Putin is considerably less of an economic modernizer than was Napoleon III. Putin also seems to be less interested in the social implications of his policies, in poverty alleviation and in growing economic inequalities and social tensions. Napoleon III was a man for all seasons - a buffer against socialism as well as a utopian social and administrative reformer.

Business flourished under Napoleon III - as it does under Putin. The 1850's witnessed rapid technological change - even more rapid than today's. France became a popular destination for foreign investors. Napoleon III was the natural ally of domestic businessmen until he embarked on an unprecedented trade liberalization campaign in 1860. Similarly, Putin is nudging Russia towards WTO membership and enhanced foreign competition - alienating in the process the tycoon-oligarchs, the industrial complex, and the energy behemoths.

Foreign Policy

Napoleon III was a free trader - as is Putin. He believed in the beneficial economic effects of free markets and in the free exchange of goods, capital, and labour. So does Putin. But economic liberalism does not always translate to a pacific foreign policy.

Napoleon III sought to annul the decisions of the Congress of Vienna (1815) and reverse the trend of post-Napoleonic French humiliation. He wanted to resurrect "Great France" pretty much as Putin wants to restore Russia to its "rightful" place as a superpower.

But both pragmatic leaders realized that this rehabilitation cannot be achieved by force of arms and with a dilapidated economy. Napoleon III tried to co-opt the tidal wave of modern, revolutionary, nationalism to achieve the revitalization of France and the concomitant restoration of its glory. Putin strives to exploit the West's aversion to conflict and addiction to wealth. Napoleon III struggled to establish a new, inclusive European order - as does Putin with NATO and, to a lesser degree, with the European Union today.

Putin artfully manipulated Europe in the wake of the September 11 terrorist attacks on the USA, his new found ally. He may yet find himself in the enviable position of Europe's arbitrator, NATO's most weighty member, a bridge between Central Asia, the Caucasus, North Korea and China - and the USA. The longer his tenure, the more likely he is to become Europe's elder statesman. This is a maneuver reminiscent of Louis-Napoleon's following the Crimean War, when he teamed up with Great Britain against Russia.

Like Putin, Napoleon III modernized and professionalized his army. But, unlike Putin hitherto, he actually went to war (against Austria), moved by his (oft-thwarted) colonial and mercantilist aspirations. Putin is likely to follow the same path (probably in Central Asia, but, possibly, in the Baltic and east Europe as well). Reinvigorated armies (and industrialists) often force expansionary wars upon their reluctant ostensible political masters.

Should Putin fail in his military adventures as Napoleon III did in his and be deposed as he was - these eerie similarities will have come to their natural conclusion.

T H E A U T H O R

SHMUEL (SAM) VAKNIN

Curriculum Vitae

Born in 1961 in Qiryat-Yam, Israel.

Served in the Israeli Defence Force (1979-1982) in training and education units.

Education

Graduated a few semesters in the Technion - Israel Institute of Technology, Haifa.

Ph.D. in Philosophy (major : Philosophy of Physics) - Pacific Western University, California. My doctoral thesis is available through the Library of Congress.

Graduate of numerous courses in Finance Theory and International Trading.

Certified E-Commerce Concepts Analyst.

Certified in Psychological Counselling Techniques.

Full proficiency in Hebrew and in English.

Business Experience

1980 to 1983

Founder and co-owner of a chain of computerized information kiosks in Tel-Aviv, Israel.

1982 to 1985

Senior positions with the Nessim D. Gaon Group of Companies in Geneva, Paris and New-York (NOGA and APROFIM SA):

- Chief Analyst of Edible Commodities in the Group's Headquarters in Switzerland.

- Manager of the Research and Analysis Division

- Manager of the Data Processing Division

- Project Manager of The Nigerian Computerized Census

- Vice President in charge of RND and Advanced Technologies

- Vice President in charge of Sovereign Debt Financing

1985 to 1986

Represented Canadian Venture Capital Funds in Israel.

1986 to 1987

General Manager of IPE Ltd. in London. The firm financed international multi-lateral countertrade and leasing transactions.

1988 to 1990

Co-founder and Director of "Mikbats - Tesuah", a portfolio management firm based in Tel-Aviv.

Activities included large-scale portfolio management, underwriting, forex trading and general financial advisory services.

1990 to Present

Free-lance consultant to many of Israel's Blue-Chip firms, mainly on issues related to the capital markets in Israel, Canada, the UK and the USA.

Consultant to foreign RND ventures and to Governments on macro-economic matters.

President of the Israel chapter of the Professors World Peace Academy (PWPA) and (briefly) Israel representative of the "Washington Times".

1993 to 1994

Co-owner and Director of many business enterprises:

- The Omega and Energy Air-Conditioning Concern

- AVP Financial Consultants

- Handiman Legal Services

Total annual turnover of the group: 10 million USD.

Co-owner, Director and Finance Manager of COSTI Ltd. - Israel's largest computerized information vendor and developer. Raised funds through a series of private placements locally, in the USA, Canada and London.

1993 to 1996

Publisher and Editor of a Capital Markets Newsletter distributed by subscription only to dozens of subscribers countrywide.

In a legal precedent in 1995 - studied in business schools and law faculties across Israel - was tried for his role in an attempted takeover of Israel's Agriculture Bank.

Was interned in the State School of Prison Wardens.

Managed the Central School Library, wrote, published and lectured on various occasions.

Managed the Internet and International News Department of an Israeli mass media group, "Ha-Tikshoret and Namer".

Assistant in the Law Faculty in Tel-Aviv University (to Prof. S.G. Shoham).

1996 to 1999

Financial consultant to leading businesses in Macedonia, Russia and the Czech Republic.

Collaborated with the Agency of Transformation of Business with Social Capital.

Economic commentator in "Nova Makedonija", "Dnevnik", "Izvestia", "Argumenti i Fakti", "The Middle East Times", "Makedonija Denes", "The New Presence", "Central Europe Review" , and other periodicals and in the economic programs on various channels of Macedonian Television.

Chief Lecturer in courses organized by the Agency of Transformation, by the Macedonian Stock Exchange and by the Ministry of Trade.

1999 to 2002

Economic Advisor to the Government of the Republic of Macedonia and to the Ministry of Finance.

2001 to present

Senior Business Correspondent for United Press International (UPI)

Web and Journalistic Activities

Author of extensive Websites in Psychology ("Malignant Self Love") - An Open Directory Cool Site

Philosophy ("Philosophical Musings")

Economics and Geopolitics ("World in Conflict and Transition")

Owner of the Narcissistic Abuse Announcement and Study List and the Narcissism Revisited mailing list (more than 3900 members)

Owner of the Economies in Conflict and Transition Study list.

Editor of mental health disorders and Central and Eastern Europe categories in web directories (Open Directory, Suite 101, Search Europe).

Columnist and commentator in "The New Presence", United Press International (UPI), InternetContent, eBookWeb and "Central Europe Review".

Publications and Awards

"Managing Investment Portfolios in states of Uncertainty", Limon Publishers, Tel-Aviv, 1988

"The Gambling Industry", Limon Publishers., Tel-Aviv, 1990

"Requesting my Loved One - Short Stories", Yedioth Aharonot, Tel-Aviv, 1997

"The Macedonian Economy at a Crossroads - On the way to a Healthier Economy" (with Nikola Gruevski), Skopje, 1998

"Malignant Self Love - Narcissism Revisited", Narcissus Publications, Prague and Skopje, 1999, 2001, 2002

The Narcissism Series - e-books regarding relationships with abusive narcissists (Skopje, 1999-2002)

"The Exporters' Pocketbook", Ministry of Trade, Republic of Macedonia, Skopje, 1999

"The Suffering of Being Kafka" (electronic book of Hebrew Short Fiction, Prague, 1998)

"After the Rain - How the West Lost the East", Narcissus Publications in association with Central Europe Review/CEENMI, Prague and Skopje, 2000

Winner of numerous awards, among them the Israeli Education Ministry Prize (Literature) 1997, The Rotary Club Award for Social Studies (1976) and the Bilateral Relations Studies Award of the American Embassy in Israel (1978).

Hundreds of professional articles in all fields of finances and the economy and numerous articles dealing with geopolitical and political economic issues published in both print and web periodicals in many countries.

Many appearances in the electronic media on subjects in philosophy and the Sciences and concerning economic matters.

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After the Rain

How the West

Lost the East

The Book

This is a series of articles written and published in 1996-2000 in
Macedonia, in Russia, in Egypt and in the Czech Republic.

How the West lost the East. The economics, the politics, the geopolitics, the conspiracies, the corruption, the old and the new, the plough and the internet - it is all here, in colourful and provocative prose.

From "The Mind of Darkness":

"'The Balkans' - I say - 'is the unconscious of the world'. People stop to digest this metaphor and then they nod enthusiastically. It is here that the repressed memories of history, its traumas and fears and images reside. It is here that the psychodynamics of humanity - the tectonic clash between Rome and Byzantium, West and East, Judeo-Christianity and Islam - is still easily discernible. We are seated at a New Year's dining table, loaded with a roasted pig and exotic salads. I, the Jew, only half foreign to this cradle of Slavonics. Four Serbs, five Macedonians. It is in the Balkans that all ethnic distinctions fail and it is here that they prevail anachronistically and atavistically. Contradiction and change the only two fixtures of this tormented region. The women of the Balkan - buried under provocative mask-like make up, retro hairstyles and too narrow dresses. The men, clad in sepia colours, old fashioned suits and turn of the century moustaches. In the background there is the crying game that is Balkanian music: liturgy and folk and elegy combined. The smells are heavy with muskular perfumes. It is like time travel. It is like revisiting one's childhood."

The Author

Sam Vaknin is the author of Malignant Self Love - Narcissism Revisited and After the Rain - How the West Lost the East. He is a columnist for Central Europe Review, PopMatters, and eBookWeb , a United Press International (UPI) Senior Business Correspondent, and the editor of mental health and Central East Europe categories in The Open Directory and Suite101 .

Until recently, he served as the Economic Advisor to the Government of
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