**Piratization Of Russia**

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**Russia’s financial buccaneers**

The wild and woolly East

The battle for Sviazinvest would never pass as soap opera. Who would believe

it? But the 1997 struggle for ownership and control of Russia’s largest and potentially most profitable telecommunication company among one-time allies highlights the perverted and seamy nature of Russia’s economic reform. The battle sparked not only a scurrilous, semi-violent struggle over ownership of valuable corporate assets, but also a battle for influence over Boris Yeltsin, then the president of Russia. J.R.Ewing in *Dallas* never reached so high in his battles.

However, within a year, on August 17, 1998 when the Russian stock market crashed and their paper holdings fell to almost one-tenth of their original value,

the winners also became losers.

The bitter combatants in the 1997 Sviazinvest fight had agreed just a year earlier to set aside their previous quarrels to stage-manage the June 1996 presidential election campaign. Together they worked to manipulate the Russia electorate into voting for Boris Yeltsin. This small but influential band of thirteen businessmen-or “oligarchs” as they came to be called-mobilized themselves into a Yeltsin for President campaign committee headed by Anatoly Chubais. Yeltsin had just fired Chubais from his post as First Deputy Prime Minister, but everyone agreed that he had been a very effective administrator who almost single-handedly pushed through the government’s privatization effort. Until Chubais and the businessmen took over, the opinion polls showed that Yeltsin’s opponent, Gennady Zyuganov, the head of the Communist Party, would be the most likely winner, a prospect the oligarchs feared would lead to a return to a Soviet-style economy. On a personal level that meant that such a born-again communist state might not only seize the hundreds of millions of dollars worth of property they had accumulated since 1991, but might imprison or execute them as well.

In gratitude for his come-from-behind victory, Yeltsin gladly acquiesced as seven of the participants, Peter Aven, Boris Berezovsky, Mikhail Fridman, Vladimir Gusinsky, Mikhail Khodorkovsky, Vladimir Potanin, and Alexander Smolensky, divided up some of the country’s most valuable raw materials, businesses, and media outlets. In addition, he also appointed two of utside reformer, Boris Nemtsov, as one of the country’s two First Deputy Prime Ministers. Nemtsov previously had been the appointed and subsequently elected governor of Nizhny Novgorod. As governor, Nemtsov toiled and lobbied relentlessly to bring the market to his region in an open, relatively transparent way, an anomaly in Russia where so much was done covertly. His record was not perfect, and once he assumed power in Moscow, rumors and accusations abounded. Nevertheless, except for two or three governors in regions such as Samara or Velikii, Novgorod, few others had managed the economic reform process as effectively as Nemtsov did in Nizhny Novgorod.

Summoned to Moscow by Yeltsin in March 1997, Nemtsov moved immediately to institute the same level of integrity that he had sought in his province. As he put it, “I will promise three things: I will not steal. I will not take bribes. I will not tell lies.” Few believed him. As they saw it, there was no way to work and breathe the air of Moscow without becoming similarly infected by the all-pervasive greed and graft. As one of his critics told me, “You don’t go into a brothel unless you expect to sample the wares.”

As he himself anticipated, Nemtsov’s arrival in Moscow sparked a tidal wave of accusations and charges of past, hidden or imagined indiscretions, most of them false (the Russians call this *kompromat*).5 This was a throwback to the Soviet era when slander and half-truths were used to discredit rivals. Accusations of prostitutes and financial manipulators against Nemtsov (some broadcast on television) were largely initiated by those fearful that Nemtsov’s crusade might

impinge on their own interests.

Nemtsov’s initial attempts at a cleanup sparked fierce resistance and as a consequence produced rather trivial results. His opponents realized that if Nemtsov succeeded in forcing all government officials to replace their foreign-made cars with those made in Russia and to declare their income and wealth, Nemtsov might yet cause real damage. Thus, in the very first auction of the government’s foreign cars very few were sold off, and while a large number of officials did file income and wealth declarations, most of these reports bore little relationship to actual income or wealth. Moreover the decree did not cover family members, many of whom became the beneficiaries of assets put in their names.