

One More Reason Not to Invest in Russia

By [The Moscow Times](#)

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In the 1990s, Anatoly Chubais was guilty for all the country's economic woes, as the popular phrase goes. Now Regional Development Minister Viktor Basargin has found a new source of Russia's economic problems — foreign investors.

At the Baikal International Economic Forum on Monday in Irkutsk, Basargin criticized foreign investors, calling them “vacuum cleaners” that “suck up Russia's natural resources and export them out of the country.”

“Vacuum cleaners” is nothing compared with what Bill Browder, CEO of Hermitage Capital Management, was called. Although Hermitage was the largest portfolio investor in Russia in the mid-2000s — with more than \$4 billion in investments in the country — the Russian government labeled him “a threat to national security” in 2006 and denied him entry into the country. Browder was blacklisted after he spent years fighting against corruption and abuse of shareholder rights in Gazprom and other large companies that Hermitage invested in.

Russian officials have always had a peculiar love-hate relationship toward foreign investors.

They repeatedly state that without foreign investment, Russia cannot modernize or diversify. At the same time, it appears that Russia does everything in its power to dissuade foreign investment — even beyond the systemic problems of high corruption and lawlessness.

For example, even in the oil and gas sector, the lifeblood of Russia's economy, the environment can hardly be called investor friendly. Last year, the government amended its law on subsoil use, allowing the state to terminate exploration and production licenses issued to foreign companies operating in a "strategically important sector." A foreign company runs the risk of having its operational license revoked — with minimal compensation — if the state considers the company's operations "a threat to national defense and state security."

At a speech two years ago at Stanford, Browder said those who invest in Russia in the current climate are "completely out of their mind." While continuing to fight corruption in Russia from London — including against Interior Ministry officials who were implicated in seizing two Moscow-based Hermitage companies in a \$230 million embezzlement scheme — Browder has taken Hermitage's money elsewhere, focusing on more attractive emerging markets in Asia, Latin America, Eastern Europe and Africa.

This is perhaps the best lesson for the Kremlin to learn. Calling foreign investors "vacuum cleaners" and "enemies of the people" may help politicians whip up populist sentiment against foreigners they claim are insidious "carpet baggers" who, with the support of foreign governments, are out to weaken Russia. But this demagoguery only gives foreign investors yet another reason to invest in other countries that are safer and more investor friendly.

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