

Goldman Sachs' Mission Impossible

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In the third quarter of 2012, the economy chalked up its 55th straight quarter of growth and surprised analysts on the upside by growing 7.1 percent. The economy has apparently stabilized at 5 to 6 percent per annum recently, but the Finance Ministry reckons that the growth rate could eventually rise to 7 to 8 percent. Although no new taxes have been introduced, the tax take is up by nearly 2 percent of GDP, with the ministry expecting to pull in another 2 to 3 percent. Exports are holding up well despite the global headwinds thanks to the country's diversified economy.

Foreign investors are suddenly very bullish, so portfolio investment is flooding in and international manufacturers are looking to set up production plants.

This happy state of affairs shows how easily a determined president can turn things around.

Since taking office in May 2010, Benigno "Noynoy" Aquino of the Philippines has been

vigorously pushing the rule of law and fighting tax evasion and corruption — even former President Gloria Macapagal Arroyo is on trial for electoral fraud.

Seen against this background, the three-year agreement announced in early February that Russia's Economic Development Ministry and the Russian Direct Investment Fund had hired investment bank Goldman Sachs is rather odd.

Goldman is to help set up meetings with investors, better communicate government decisions and advise Russia on its bid to attract more capital and transform Moscow into an international financial center.

But Russia has been advised countless times in the past how to achieve these ends — including since 2000. It simply has to clean up its act by slashing corruption and bureaucracy and changing its policies to both welcome and protect domestic and international investors. Deep down, Russia knows this anyway. Early on in his first term, for example, President Vladimir Putin himself said that from now on there would be a dictatorship of the law, but Transparency International's 2012 corruption perception index ranked Russia 133 out of 176 countries and territories.

Many international and domestic observers, however, argue that the status quo actually suits Putin since the now overweening bureaucracy keeps both business and society at large in check. This chimes in with the president's view of the need for stability after what he and many Russians see as the chaotic 1990s, a view arguably strengthened after the Arab Spring and Russia's own protests last year.

But corruption and bureaucracy deter investors. The Russian business press regularly asks why — despite Russia's low corporate and income taxes — foreigners should invest in Russia when domestic capital flight is so high and Russian companies prefer to list their companies in London, New and Hong Kong rather than Moscow?

Many Russian businessmen simply do not trust the state for historical reasons — the legacy of centuries of arbitrary rule by the czars and the Soviets and the uncertainties since the 1990s. Even now, they say, "We don't know what'll happen tomorrow." Far better to put the money offshore than leave it exposed to the reaches of an unpredictable state.

All too often Russia gives the impression that it is doing investors a favor by allowing them in at all, when it should be vice versa. Even so, in 2012, Putin told the government to increase Russia's ranking in the World Bank's Doing Business rating to 20th by 2018, but although Russia had climbed eight positions to 112 by the Bank's October 2012 review and was above Brazil and India, this is still far too low.

Official Russia still seems reluctant to change its policies and believes the problem lies with its communications, image and an anti-Russian bias abroad. Earlier this year, Deputy Economic

Development Minister Sergei Belyakov told reporters, "We don't know how to communicate with investors." Andrei Kostin, chairman of VTB Group, Russia's second-largest bank, said last year that Russia was undervalued "because of its image of corruption and lack of necessity to comply with law."

The problem, however, is not one of image and communication but of Russian reality. The West has tremendous admiration for Russia's art, literature, music and sporting achievements, but has been criticizing the country's corruption and bureaucracy for centuries. And yet, Russia generally refuses to listen to constructive criticism and often reacts in a defensive-aggressive manner to well-meant advice. Goldman may have taken on "Mission Impossible."

In his recent book "The Strongman: Vladimir Putin and the Struggle for Russia," which has also appeared in Russian translation, former BBC correspondent Angus Roxburgh gives an account of the Kremlin's amateur approach to PR — something PR insiders knew very well at the time. In the runup to the G8 summit in St. Petersburg in July 2006, the Kremlin hired U.S. PR outfit Ketchum and its European partner GPlus in Brussels and Berlin — neither of which had any Russia experts at all. GPlus therefore approached Roxburgh to be their point man with the Kremlin — although as Roxburgh concedes, he had no PR experience whatsoever. He nevertheless took up the offer and commuted between Europe and Moscow, instead of staying permanently in the Russian capital to do the job properly.

Roxburgh also describes the desultory results of his efforts to help the Kremlin and various ministries with PR. His correct advice on introducing new investor-friendly policies and how the Kremlin could build trusting relations with international journalists was simply ignored.

Moscow also seems to believe that issues such as Sergei Magnitsky's posthumous trial and the ban against Americans adopting Russian children are totally separate from the country's investment climate and points out that many international investors and companies operate in Russia and make good profits.

This is perfectly true, but to those who do not know Russia from the inside, the country's ability to make global headlines for all the wrong reasons is always likely to drown out any improvements to its investment climate.

The hope must be that things will be different this time round and that Goldman will have much more success, even though as an investment bank it lacks genuine PR expertise and has suffered reputation loss itself in recent years. This, however, depends on Russia, not on Goldman.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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