Commentary on Tom Riley's "Is Russia Imperialist?"

Josh Decker & Barbara Dorn
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We have not been convinced by Tom [Riley]'s document to change our position on the imperialist character of Russia. Aside from dismissing major sectors of the economy and failing to fully consider the role that Russia plays in global imperialist rivalries over markets and spheres of influence, Tom's document paints a misleading portrait of Russian finance capital and its status in relation to capital export. While we have no doubt the distortions are unintentional (they likely stem from a tendency to "read" the data on the basis of a pre-established view of Russia as a sort of basket case, as well as from an inclination to use the United States as an ideal type), they nonetheless contribute to a downgrading of Russia to something less than the imperialist power it is today.

It is our view that the body of evidence of Russia's imperialist status is substantial and growing. And it is not limited to the economic questions addressed in Tom's document, as important as many of them are. Indeed, we do not believe that the debate can be settled (or the imperialist character of Russia definitively established) simply by successfully countering the points made in his document. We have elsewhere treated other aspects of the question, and doubtless much more could be said. Nonetheless, Tom has put forward what he evidently views as the core of the question, and insofar as what he has to say is misleading, it has been necessary – at least for what we understand to be his central points, which we have bolded – to insert our own comments. We have done so in red (in lettered/numbered entries), occasionally breaking the original paragraphs. Our correction of misunderstanding/misleading analysis in Tom's document has mostly taken the form of placing the data in context and comparative perspective, and supplementing with new data, revealing a very different picture.

It is undeniable that the Russian economy is underdeveloped in important respects. Yet Russia does not fit the picture of a dependent, underdeveloped country that Tom attempts to paint. In some ways, it resembles the economies of the most advanced imperialist powers. According to the CIA Factbook, Russia's GDP by composition in 2012 was as follows: agriculture = 3.9% ; industry = 36% ; services = 60.1%. According to the European Parliament:

> "[Russia's] service sector activity is, as a proportion of total value added, closing in on levels observed in the EU. In 2010, services accounted for 68 per cent of total value added in Russia, compared to the EU average ratio of 79.7 per cent, and ratios of 50 per cent for China and 49.7 per cent for Indonesia.
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> "Thus, it is clear that over two decades of economic transformation in Russia has resulted in an economy that is closer in structure to its rich EU neighbours than it is to some other large, low- and middle income countries."
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> - European Parliament, "The Economic Significance of Russia's Accession to the WTO," June 2012

Of course, none of this is to deny that significant backwardness exists, and in some respects Russian capitalism lags massively behind – Tom has pointed to much of this. But it is important to get a sense of perspective, and not to accept on face value caricatures of Russia.

If Russia circa 1914 was imperialist despite the significant relative backwardness of its economy (far more backward than modern-day Russia), it is difficult to see why Russia circa 2013 is not imperialist: it has large finance-capital corporations that dominate its economy (and have important connections with the state); these corporations have maintained and developed economic linkages (via capital export) with non-imperialist countries that transfer value back to Russia; the Russian bourgeoisie is able to maintain what is probably the second or third most powerful military on the planet; it has implicated itself in, or maintained its position within, key institutions through which the great powers negotiate and struggle against one another over matters of geopolitical concern (for instance the recent G8 negotiations over Syria); and it is quite arguably – in terms of the confluence of its economic position/power, military strength and geopolitical weight – the second most powerful capitalist state on the planet.

Is Russia Imperialist?

Tom Riley
3 June 2013

As Leon Trotsky observed in the *Transitional Program*: "Imperialism means the domination of finance capital." We are agreed that the imperialist world system operates to channel wealth from relatively backward countries to the elites of the "developed" capitalist countries. Those countries that are active participants in what Trotsky referred to as "the expansionist policy of finance capital" (a policy at least partially mediated through a complex web of international political and particularly economic institutions) can properly be considered imperialist.

A century ago, Tsarist imperialism was a hybrid of dynastic Romanoff 19th century "imperialism" and the modern financial capitalist operations of Russia's bourgeoisie in neighboring more backward countries. At that time, Lenin observed, Russia's military clout, like that of its somewhat more advanced Japanese rival, supplemented and partially offset its relative economic backwardness.

Russia today plays little or no role in key global institutions established after World War II through which imperialist policy (e.g., the "Washington Consensus") is developed and implemented in the neocolonies.

[A1] It is not clear what this statement means, either empirically or analytically. First, Russia does indeed play a role in key postwar institutions like the United Nations Security Council, the G8, the World Trade Organization (to which it was admitted in 2012) and the IMF. In the IMF, Russia has about 2.5% of the quotas of Special Drawing Rights, just a nudge below Canada and more than Belgium, Switzerland, Australia and Spain. Nonetheless, it is true that, for the IMF at least, Russia is not a core member (Brazil has 1.8% of SDRs). But then neither are most countries we call imperialist, with the exception of the U.S., Japan, Germany, France and Britain.

[A2] Second, there is no unified "imperialist policy" agreed upon by all of the world's major powers. Lenin's view of imperialism was distinguished in part by its insistence that the imperialist countries have antagonistic relations that render a joint "policy" toward the neocolonies unlikely, to say the least. The post-WWII period did indeed see a considerable degree of cooperation for obvious reasons, but even then no common policy was developed. The Washington Consensus institutions are not the collective managing committee of imperialist domination of the neocolonies. It is to be expected that hostile new-comers will tend to be under-represented.

Russian banks and corporations have derived no benefit from the give-away privatizations imposed by IMF "structural adjustment" policies. **Nor does the Russian bourgeoisie operate a separate, or parallel, state system, in which it dominates and oppresses weaker countries.**

[B1] Russia is the dominant member in the Commonwealth of Independent States, the Eurasian Economic Community and, along with China, the Shanghai Cooperation Organization, though the latter has a largely military purpose. It is not clear what we are supposed to compare these institutions to – the IMF, the EU or what? Russia cannot be disqualified as an emerging imperialist power because of the weakness of the formal institutions through which it is attempting to reinforce its dominance over dependent countries. The fact that it finds itself at the center of fledging institutions which are intended, from the standpoint of Moscow, to play this role is itself noteworthy.

There are no mechanisms, beyond the sale of oil and gas at world market prices, by which Russia extracts wealth from less developed countries on any significant scale.

[C1] As demonstrated below, Russia has significant investments abroad that transfer value back to the country.

It appears that the only time Trotsky explicitly discussed the criteria by which to determine which countries were imperialist was in 1938 in the context of a discussion of the position revolutionaries should take in the event of a military conflict between Czechoslovakia and Nazi Germany. Trotsky stressed the importance of "finance capital" and pointed to Czechoslovakia's highly developed industrial capacity, as well as its alliances with other imperialist powers:

> "I believe that Czechoslovakia is a small country and in the event of war her existence would be directly threatened [my emphasis]. But the difference between Czechoslovakia and France lies in the fact that France has colonies. It is an imperialist country. Czechoslovakia has no colonies. But this difference is only apparent. Czechoslovakia is an imperialist country in every respect. It is a highly developed country with finance capital in a leading position in a very concentrated industry, the very important war industry. This is why Czechoslovakia is a developed capitalist

> country, but not only that. In Czechoslovakia we now have a population of about 15 million. It is not a big country. Under European conditions it is a medium-sized country."
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> . . .
>
> "I forgot to add that Czechoslovakia is a partner of a world corporation of imperialist countries. If it doesn't have colonies, it has loans from Britain. These loans are possible because of Britain's colonies; likewise with military support from France. It is a link in the imperialist chain."
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> —*LTWritings*, 1937-38, p. 353, 356

Russia is certainly not a link in any imperialist chain. Nor can finance capital be said to be in a leading position, for reasons outlined below. **Nor is the Russian economy highly developed, despite the fact that in a few specialized fields, particularly military, its inheritance from the Soviet degenerated workers' state allows it to produce world class goods.**

[D1] The Russian economy continues to combine considerable backwardness with important elements of the most advanced capitalism based on high technology. The origins of the advanced sectors is irrelevant, and the military industry cannot simply be dismissed with the wave of a hand. Most imperialist countries borrow technology from others; Russia does this, and it has inherited substantial advances from the Soviet degenerated workers' state – advances which it has maintained and continued to develop. Aggregate labor productivity in Russia is admittedly low compared to other imperialist countries (just over 40% of "high-income" OECD countries), and the significant progress that was made in the 2000s has slowed since the onset of the global economic crisis. On the whole, Russian manufacturing is not particularly competitive, but there are sectors that can compete globally – most notably, chemicals and metals, though other key industries (e.g., transport vehicles) lag behind (Ye.Yasin et al., "Russian Manufacturing Revisited: Industrial Enterprises at the Start of the 2008 Financial Crisis," Bank of Finland). UNCTAD confirms this assessment, noting that Russia's "Metallurgy and chemicals are already competitive in world markets and operate without major subsidies" (World Investment Report 2012, p58).

For the most part, however, Russian products are not competitive on the world market. Nouriel Roubini, an insightful analyst who was among a handful who predicted the 2008 financial crash years before it occurred, provided the following thumbnail sketch of Russia's economic situation in the aftermath of that event:

> "The weakness of the Russian economy and its highly leveraged banks and corporations, in particular, which was masked in recent years by the windfall brought by spiking oil and gas prices, burst into full view as the global economy tumbled. Saddled with a rust-belt infrastructure, Russia further disqualifies itself with dysfunctional and revanchist politics and a demographic trend in near-terminal decline."
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> —"Another BRIC in the Wall?," 15 October 2009

Russia has the attributes of a large and (because of its Soviet inheritance) militarily formidable power which is able to play a major role in global politics.

[E1] We need to ask how Russia maintains this "inheritance"? It has been a generation since the fall of the Soviet Union, and yet capitalist Russia has become a world power and continues to produce world class, advanced military technology. Russia's military industry, like the Russian economy as a whole, is marked by combined (or at least differential) levels of development, and the military exhibits both backwardness and advancement. Western media have often emphasized the backwardness (and we heard echoes of this in our debate, when Russia's military apparatus was once compared to "spears" in the face of America's "Gattling guns"). It seems the only time that the advanced character of some of Russia's war technology is acknowledged in the U.S. media is when it threatens to interfere with American plans, as demonstrated by the announced sale of advanced anti-aircraft S-300 missiles to the Syrian government.

[E2] The fact that Russia plays "a major role in global politics" is both an expression/reflection of its imperialist status and a means by which the Russian bourgeoisie is attempting to leverage its military and geopolitical power into economic advances. Russia's ruling class is an independent and powerful player within the global order.

It is also a country with enormously valuable natural resources. At the same time the development of the Russian bourgeoisie (and its ability to reduce the gap separating it from its more advanced capitalist rivals) is deformed by cultural backwardness and bureaucratic corruption. In a 2010 report on "The state of Russia" the *Economist* wrote:

> "By 2005 the bribes market, according to INDEM, a think-tank, had risen to $300 billion, or 20% of GDP. As Mr Khodorkovsky said in a recent interview, most of this was not the bribes paid to traffic police or doctors, but contracts awarded by bureaucrats to their affiliated companies.
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> "Unlike private businessmen, who started to invest in their core businesses (Yukos among them) in the late 1990s, bureaucrat-entrepreneurs have little incentive to do so. Their wealth is dependent on their administrative power, rather than newfangled property rights. The profits are often stashed away in foreign bank accounts or quickly spent: on luxury property in European capitals, or on their children's education in British private schools. All this is inevitably accompanied by anti-Western rhetoric and claims of Russia's resurgence.
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> "Unsurprisingly, surveys now show that the young would rather have a job in the government or a state firm than in a private business. Over the past ten years the number of bureaucrats has gone up by 66%, from 527,000 to 878,000, and the cost of maintaining such a state machine has risen from 15% to 20% of GDP. At the same time, Russia's standing in indices of corruption, property rights and business freedom has deteriorated. "
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> —*Economist*, 9 December 2010

The Russian economy is both integrated into the world market and overwhelmingly dependent on resource extraction, particularly hydrocarbons. Revenues from oil and gas sales in the past dozen years have tended to mask the problems at the core of Russian capitalism, particularly a failure to diversify economically and an inability to produce commodities that are competitive internationally:

> "Corruption was also excessive in the 2000s, but it was compensated for by strong economic growth and fast-rising incomes. This, and soothing television pictures, created a sense of stability. But the global financial crisis hit the Russian economy harder than that of any other large industrial country, exposing its structural weakness. As Vladislav Inozemtsev, an economist, argues in a recent article, the improvement in living standards was achieved at the cost of massive under-investment in the country's industry and infrastructure. In the late Soviet era capital investment in Russia was 31% of GDP. In the past ten years Russia's capital investment has been, on average, about 21.3% of GDP. (For comparison, the figure over the same period in China was 41%.)
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> "Despite rising oil prices and a construction boom, Mr Inozemtsev says, in the post-Soviet period Russia has built only one cement factory and not a single oil refinery. The Soviet Union used to build 700km of railways a year. Last year, it built 60km. 'We have lived by gobbling up our own future,' he argues. Peter Aven, the head of Alfa Bank, the largest private bank in the country, thinks today is like the late Soviet period: 'Once again the main source of wealth is oil and gas, which is being exchanged for imported goods.'"
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> —*Ibid.*

While generating immense profits, Russia's oil and gas sector is technologically backward by world standards.

[F1] Although many imperialist countries are home to powerful corporations specializing in fossil fuels (e.g., BP, ExxonMobil), the suggestion here is that oil and gas capital in Russia don't really count as finance capital due to the relative technological backwardness of Russian natural resources industries. While it is true that Gazprom and other Russian energy companies have partnered with other companies to borrow their technology, this does not render the Russians dependent on Britain, for example. Such partnerships are normal across imperialist countries. Nor does Russia's relative technological backwardness in these strategic sectors mean that it is working with shovels. The fact that large Russian energy corporations in many respects lag behind their U.S. competitors is hardly a reason to disqualify them as examples of imperialist finance capital.

When Lukoil (a major Russian producer) won a contract to develop a portion of Iraq's oil fields it had to subcontract most of the work to a U.S. firm (see *Appendix A* "In Rebuilding Iraq's Oil Industry, U.S. Subcontractors Hold Sway"). American authorities claimed the fact that Iraqi contracts mostly went to foreign oil corporations proved that the conquest of Iraq had nothing to do with seizing oil assets. They were well aware that U.S. companies, with their advanced technology, stood to reap most of the benefits:

"While Baker and its American peers are poised to make significant profits from such work in Iraq, wafer-thin margins seem to await Lukoil…."

This phenomenon was described in the "Theses on the Eastern Question" adopted at the Fourth Congress of the Comintern in December 1922:

> "The progress of indigenous productive forces in the colonies thus comes into sharp contradiction with the interests of world imperialism, since **the essence of imperialism is its exploitation of the different levels of development of the productive forces in the different sectors of the world economy**, in order to extract monopoly super-profits."
>
> —emphasis added

Russia's rulers enjoy relative independence both from imperialist economic penetration and the political control that goes with it, but this is not sufficient to qualify as an imperialist power. To a considerable extent this "independence" is a product of social dysfunction—investors steer clear of places where the judicial system cannot be relied upon to enforce contracts and ensure payments.

[G1] The term "independence" is used in a confusing way here. Our position is not that Russia is an "independent" player in the global economic order in the sense that it receives less investment than neocolonies (after all, a significant proportion of imperialist investment is directed toward other imperialist countries), but rather that the Russian bourgeoisie is not subordinate to, or dependent on, other imperialist powers.

Turkey, Venezuela, India and various other non-imperialist countries have also periodically asserted considerable political independence from Washington and its allies in recent years. In *1917* No. 29 we discussed the possibility of a U.S. defeat in Iraq resulting in Iran emerging the primary "regional power" in the Persian Gulf.

I. Large Ogopolistic Corporations: Russia & Brazil Compared

In his 6 April 2011 preconference document arguing that Russia should be considered an imperialist power (the most recent statement of that view that has been circulated) comrade [Josh] Decker pointed to an "economy dominated by large oligopolistic corporations (combining banking and industrial capital)":

> "Russia has several massive corporations listed in the Forbes 500, including in the banking, steel and telecommunications sectors. Most importantly, of course, are oil and natural gas: Gazprom was the 16th largest corporation in the world in 2010, while Lukoil was 69th and Rosneft was 77th."

He added that "Sberbank (93rd) and VTB Bank (437th) are large Russian financial institutions," and rounded out the list with "Severstal, the largest steel company in Russia, is 313th" and Novolipetsk Steel (390th)," another steel producer.

The current Forbes 500 lists nine Russian companies—two thirds of them gas and oil corporations, including five of the top six.

[H1] One must be careful with the Forbes list, as it sometimes masks the real ownership structure of big companies. For instance, if one looks at the profile of the Netherlands (which has ten entries, two of which are oil and natural gas companies), one finds VimpelCom, a telecommunications company. Yet VimpelCom, while headquartered in Amsterdam, is majority owned by Alfa Group, a large Russian investment company headquartered in Moscow. VimpelCom is the "sixth largest mobile network operator in the world" (Wikipedia).

[H2] Some imperialist countries have roughly similar profiles on the list to that of Russia, while others barely register. Norway has three entries in the Forbes 500, one of which is an oil and natural gas company that dwarfs the other two combined. Austria has two entries, one of which is an oil and gas company. New Zealand, to take an extreme case, does not even have a single entry among the top 500 – one has to scroll down to #1820 to find a New Zealand company.

[H3] Inclusion of large corporations on the Forbes 500 is an important indicator of the weight of an economy in the global order, but this fact must be studied in relation to the role which this capital plays in relation to neocolonial countries, and weighed against other factors.

The other major BRIC capitalist economies hold a roughly similar position: six Brazilian and ten Indian ten corporations are listed. The Brazilian and Indian companies are less heavily weighted in resource extraction than their Russian equivalents. **Brazil's six entries, coincidentally, have roughly the same market value as Russia's nine.**

[I1] Setting aside the important question of what these companies do and what relationship they have to neocolonial countries and the global economic order, it is worth noting – in order to gain some perspective on the above observation – that the profits of the Russian entries totaled $96.6 billion, while those of the Brazilian entries was $35.4 billion.

In general the Indian firms are ranked somewhat lower (see ***Appendix B***).

The BRIC countries are grouped rather closely in terms of entries on Forbes list ogopolies. **It is notable that Russian entries (7 of 9) are resource companies, whereas four of the six corporations from Brazil are in the financial sector, including one "Major Bank." All other BRIC financial institutions are categorized as "Regional Banks."**

[J1] The suggestion is made here that since energy corporations play a relatively greater role in the Russian economy than do banks, Russia is comparable to – or even at a disadvantage when set against – semi-colonial countries like Brazil and India in terms of status in the global imperialist order. This is a spurious argument, whose premise is that the energy sector somehow doesn't really "count" as finance capital. By this logic, we would have to exclude ExxonMobil, Royal Dutch Shell, Chevron and BP.

[J2] It is unclear how Forbes determines what is a "major bank" versus a "regional bank" – there is no mention in their methodology that we can find to explain this. We note that Brazil's Itaú Unibanco Holding is listed as a "major bank" with $453.6 billion in assets, $6.2 billion in profits and $82 billion in market value, whereas Russia's Sberbank is downgraded to a "regional bank" with $441.1 billion in assets, $10.8 billion in profits and $73.3 billion in market value. By contrast, Austria's Raiffeisen Bank International – with a mere $190.5 billion in assets, $1.3 billion in profits and $7.6 billion in market value – is considered a "major bank." Nor is it clear that sales are a factor: Austria's "major bank" had only $13.9 billion in sales compared to $36.1 billion for Russia's "regional bank." Perhaps these classifications reflect the particular network standpoint of Wall Street than they do any objective measurement of financial capital.

The fourth "BRIC" state—China—has 39 entries on the list, more than the other three combined and second only to the U.S. which has 160. Britain is in third place (30), followed by France (27) with Germany and Canada tied for fifth (23 each).

II. Foreign Direct Investment: Russia & Brazil Compared

A second criterion posed by Decker's 2011 document was: *"Does Russia have an exploitative 'finance capital' relationship with neo-colonial countries?"* There is no question that substantial amounts of Russian money is sent abroad, but this is not necessarily evidence of imperialist activity. The pattern of foreign investment by Russia closely parallels that of Brazil, and is distinct from core imperialist countries like France, Canada, *et al*. ***Attachments 1 & 2*** are scans of several documents that provide important information about Russia's foreign holdings, particularly in comparison to Brazil's. (The first of these, a 2008 Deutsche Bank report, was extensively cited in Decker's 2011 contribution.) Some of the texts have been abbreviated to include only only those portions that seemed most relevant. For ease of reference the scanned pages have been numbered sequentially**.**

The documents are the following:

1. "*Russia's outward investment*" by Deutsche Bank, 30 April 2008" <p1-6>
2. "*Russian outward FDI [Foreign Direct Investment] and its policy context*", Columbia FDI Profiles, 13 October 2009 <p 7-15>
3. "*The growth of Brazil's direct investment abroad….*", Columbia FDI Perspectives, 17 August 2009 <p16-19>
4. "*Inward investment in Russia and its policy context*," Columbia FDI Profiles, 30 November 2010 <p20-32>
5. "Russia's *emerging multinational companies amidst the global economic crisis*," Dr. S. Filippo, Delft University, 21 January 2011 <p33-38>

Passages that seem particularly significant are marked. The following comments related to information in the scanned documents (with references to page numbers being those written in the lower right corner.)

"Russia's outward investment" by Deutsche Bank

P 2 Note that **Russia has only 6 companies rated as "global challengers" compared to 20 for India and 13 for Brazil** (footnote #4).

[K1] Actually, the Deutsche Bank report was citing a Boston Consulting Group paper with a measure of "global challengers" that was more restrictive than what DB itself included in Chart 1 – DB said that the global reach of the Russian corporations was "not clear-cut" from its own perspective. DB did note, however, that "Russia's ODI stock became the second largest among emerging markets in 2006" (Hong Kong [China] was the largest).

[K2] Nonetheless, Brazil's foreign investment has reached impressive levels – while there are good reasons to view Brazil as playing a qualitatively different role in the global economic system, there is no reason to deny that on certain important measures it is quantitatively close to Russia.

P 3 Russia's share in ODI (outward direct investment) by "emerging markets" is estimated at 9% for 2006, but as Table 5 on page 4 shows emerging market ODI was only 13% of the total, so Russia's share of total ODI was approximately 1.2% of the total—hardly what one would expect from an "imperialist" country with the world's 6th largest GDP (PPP adjusted). Even if this was all money invested in attempts to realize higher rates of profit than available domestically (which most of it is not, see below) it would still **portray Russian "finance capital" as only a very minor factor in the world economy.**

[L1] While the 2008 DB report is an important document, it is somewhat dated. The most recent figures demonstrate that Russia has further entrenched itself as a finance capital power. Russia's share of global outward FDI stock has continued to increase, as has its share of global outward FDI flow (aka ODI) – roughly speaking, the "stock" is the accumulated "flow" adjusted for revaluations, so the stock variable of an emergent imperialist power is expected to be relatively low for some period of time. The following chart is compiled from UNCTAD data.

Russia's Share of Global Outward FDI (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Outward FDI Flow (% of world total)	0.3	0.3	0.7	1.7	1.5	1.4	1.6	2.1	2.8	3.7	3.6	3.9
Outward FDI Stock (% of world total)	0.3	0.6	0.8	0.9	0.9	1.2	1.4	1.9	1.3	1.6	1.8	1.7

Source: http://unctadstat.unctad.org/TableViewer/tableView.aspx

[L2] According to UNCTAD, the so-called BRICS (Brazil, Russia, India, China and South Africa) accounted for 9% of the total outward FDI flow in 2012 ("Global Investment Trends Monitor," special edition, 25 March 2013). Of that 9%, China and Russia accounted for the vast majority – 54% and 40% respectively. In other words, Russia accounted for 3.6% of world FDI outflow in 2012, which is slightly down from the year before but double the figure from 2006.

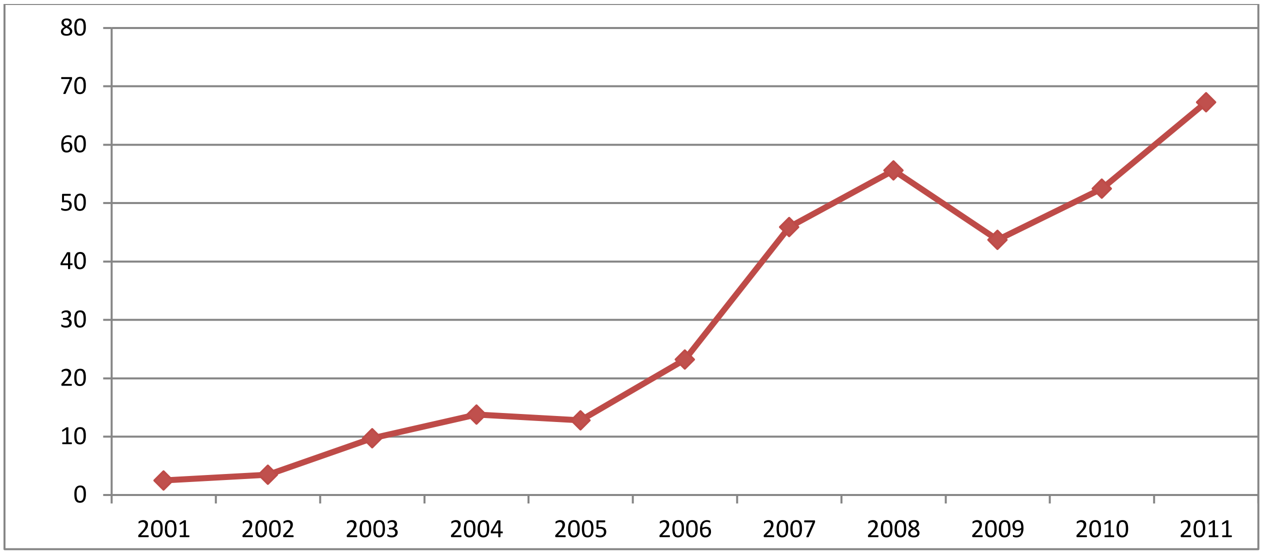
[L3] Brazil's profile is more erratic, and it does not appear to play the same role as Russia. (Note: instead of Brazil, one could have subbed in India, which plays a similarly small role.) Zeros are used for negative values.

Brazil's Share of Global Outward FDI (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Outward FDI Flow (% of world total)	0.2	0	0.5	0.1	1.1	0.3	2.0	0.3	1.0	0	0.8	0
Outward FDI Stock (% of world total)	0.7	0.6	0.7	0.6	0.6	0.6	0.7	0.7	1.0	0.9	0.9	1.0

Source: http://unctadstat.unctad.org/TableViewer/tableView.aspx

[L4] As discussed below, there is some reason to discount a chunk of Russia's outward FDI stock (and flow). Such a procedure could, however, just as easily be justified for Brazil as well, meaning that the difference between the two countries in terms of outward FDI profile would likely remain roughly the same. More importantly, in the case of Russia we are looking at a country that has, unlike Brazil, jumped onto the outward FDI flow scene in a big way since 2000-2001, when the two countries were fairly similar in profile. Here is a graph illustrating the dramatic expansion of outward FDI flow from Russia (billions of dollars) over the last decade:



Source: UNCTAD

[L5] The dramatic expansion of Russian capital export was linked to the consolidation of large Russian corporations:

> "Russian outward investment is boosted by rising volumes of cross-border M&As. While M&A purchases by Russian TNCs tripled between 1992–1996 and 1997–2000, and between 1997–2000 and 2001–2004, they soared more than 10 times in the last four years. This pattern confirms the evolution of Russian TNCs which started consolidating their competitiveness through oligopolistic or monopolistic advantages, first at home and later on abroad."
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> - Kalman Kalotay and Astrit Sulstarova, "Modelling Russian outward FDI," http://gdex.dk/ofdi/49%20Kalotay%20Kalman.pdf

[L6] Many other imperialist countries are roughly comparable to Russia in terms of outward FDI flow, and only slightly exceed Russia in terms of outward FDI stock (which is not surprising, since they are more established finance capital powers that have had more time to accumulate stock). For example in 2011, Spain's share of global outward FDI flow was 2.2% (its share of stock was 3.0%); Italy's flow figure was 2.8% (and 2.4% of outward stock); and the Netherlands' flow figure was 1.8% (its stock figure was 4.5%). And Russia is not too far behind the most advanced imperialist powers. In absolute terms in 2011, Russia's outward FDI flow was $67 billion, compared with $397 billion for the U.S., $114 billion for Japan, $107 billion for the UK, and $90 billion for France. It was ahead of Germany, which had $54 billion, though Germany's figure is normally higher (Nigel Driffield et al., "Outward FDI from the United Kingdom and its policy context," Columbia FDI Profiles, 25 November 2012 http://www.vcc.columbia.edu/files/vale/documents/UK_OFDI_-_25_Nov_2012_-_FINAL.pdf). In terms of outward FDI stock in 2012, Russia ranks 15th in the world, behind (in this order): U.S., UK, France, Germany, Hong Kong (China), Switzerland, Belgium, Netherlands, Japan, Spain, Canada, Italy, China (mainland) and Australia. The size of Russia's outward FDI stock was $413 billion compared with $537 billion for Italy (source: CIA Factbook).

[L7] What about the net effect of FDI flow in and out of Russia? Since 2009, Russia has been a net exporter of FDI flow. In 2011, it took in $53 billion in FDI flow and exported $67 billion – the only country in the CIS that was a net exporter. Which other countries in the world are net exporters of FDI flow? In addition to Russia, they are (in alphabetical order, according to the most recent figures found in UNCTAD's World Investment Report 2012): Austria, Canada, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom and the United States. (Some countries normally considered imperialist are not on the list, e.g., Belgium and New Zealand, and there are some non-imperialist countries that do appear – more on this below.) How does Russia's net FDI outflow rank in relation to other imperialist countries? In 2011, Russia's net FDI flow export was $14.4 billion, while it was $14 billion for Germany, $49.2 billion for France, $53.2 billion for Britain and $172.5 billion for the U.S. Spain, which is considered imperialist, had a net FDI outflow of $7.8 billion, i.e., about half that of Russia.

[L8] What about the presence of non-imperialist countries on the list of net FDI exporters? Egypt was a net exporter only because foreign investment collapsed in 2011 (otherwise it is a consistent importer, and its exports do not even reach $1 billion). British Virgin Islands is a net exporter, though this is due to its role in round tripping. Angola is technically a net exporter, but only because its FDI flows have been negative (set against very small positive FDI outflows). Portugal swings between being a net importer and net exporter, as does Thailand, Bahrain, Qatar, Yemen and French Polynesia (and most of these countries' net exports are miniscule in value). There are a handful of other non-imperialist net exporters whose inclusion might be explained for other reasons: South Korea, Taiwan, Malaysia, Kuwait. It is worth noting that there appears to be no consistent pattern for oil exporting countries (e.g., Saudi Arabia is a net importer).

[L9] What about other so-called developing or rising economies – are they on the list? Notable countries which, unlike Russia (with +14.4 billion in 2011), are not net exporters of FDI flow: China (-$170.5 billion), India (-$17.4 billion in 2011) and Brazil (-$67.7 billion in 2011). In other words, Russia's role in the pattern of global FDI – at least since 2009 – is different from the other BRIC countries.

P 4 In fact very little of the 1.2% of global ODI that originated in Russia is invested. **Most of it has been sent to Cyprus (37.5%), Luxembourg (26.7%) and other financial centers only to later be returned to Russia in a tax evasion maneuver known as "round-tripping" (see footnote 16 on page 4 and Table 9 on page 5)**.

[M1] Russians use Cyprus as a tax haven and transit country, and it is true that a non-negligible percentage of Russian capital export can be discounted in this way. Not everyone agrees with what that percentage is. There are, for instance, wild discrepancies between what the Russian and Cypriot banking authorities report in terms of FDI stock and flows between Russia and Cyprus (see "The 2013 Cyprus bailout and the Russian foreign direct investment platform," Kalman Kalotay [UNCTAD], 23 May 2013; http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2269634). According to the Russian figures cited by Kalotay, approximately 1/3 (33.6%) of Russian outward stock was in Cyprus in 2011. According to the Cypriot figures cited by Kalotay, a negligible 0.5% of the Russian outward stock officially recognized by the Bank of Russia was in Cyprus. (Similarly unbelievable discrepancies were recorded for flow variables.)

[M2] Much of Russian "investment" in Cyprus is indeed round-tripping that ends up back in Russia. But it is also true that Cyprus is a temporary home to some Russian capital, which then gets invested elsewhere, including in Central Asia. This process is known as "trans-shipping," which is distinguished from "round-tripping". Cyprus in fact advertised itself as a good jumping off point for investors looking to branch out in the world. It would seem, however, that a majority of Russian capital sent to Cyprus was round-tripping, not trans-shipping – about 28% of Russia's inward FDI stock, according to the Russian source cited by Kalotay, is from Cyprus (most of that presumably being Russian-origin).

[M3] But how different is Russia in terms of round-tripping? Certainly the rampant corruption seen in Russia (which in itself is not an indicator for or against imperialist status) is not seen to such an extreme in many other imperialist countries in the modern era (though was fairly typical of these countries at the dawn of the imperialist era). And this will presumably mean that the problem of round-tripping is larger in Russia than it is in other imperialist countries. It would indeed seem that a higher proportion of Russia's outward FDI is accounted for by round-tripping. But "round-tripping" is not a Russian word. Take the case of Britain. In 2011, approximately 10% of the inward FDI stock in the UK was from "UK offshore islands" and the tiny "grand duchy" of Luxembourg alone (Grahame Allen & Aliyah Dar, "Foreign Direct Investment," House of Commons Library, 14 March, 2013). UNCTAD's World Investment Report 2012 complains that tax-haven countries like Luxembourg and Cyprus (which are also home to SPEs – "special purpose entities" that disguise real ownership) obscure the true picture of world FDI flows. In 2011, the British Virgin Islands received over $54 billion in FDI inflow – a figure that was more than that for France and Germany (each with around $40 billion) and nearly identical to that for the UK itself (i.e., around $54 billion)!

[M4] The recent G8 summit in Britain, aside from wrangling over Syria, was significant in part because of the focus on clamping down on tax havens. According to a leaked government report that was initially seen by the Guardian (9 May 2013), there is a network of "complicated financial structures using companies and trusts stretching from Singapore and the British Virgin

Islands to the Cayman Islands and the Cook Islands." Britain's wealthiest, alongside billionaires from other imperialist countries (including Russia), have hidden, according to a recent report by the International Consortium of Investigative Journalists, trillions of dollars in tax havens – equivalent to a staggering 44% of global GDP. Summarizing the revelations, the WSWS (30 May 2013) noted:

> "The clients of these offshore tax havens include the super-rich from nearly every country. The clientele ranges from American billionaires to Russian oligarchs, Hong Kong property developers, corrupt government bureaucrats, and gangsters. According to the leaked documents, about $10 trillion is the property of a mere 100,000 individuals. On average, this tiny sliver of the global population is hoarding $100 million each.
>
> "Enormous banking institutions like Deutsche Bank, UBS, the Swiss private bank Clariden, ING, and ABN Amro have actively worked to set up tax evasion schemes for their clients in offshore hiding places. JP Morgan, linked inconclusively by leaked documents to a number of tax evasion schemes, has 50 subsidiaries in Bermuda, the Bahamas, and similar 'treasure islands.'"

Russian companies have a major market share in the CIS "due to linkages already in place in the Soviet Union as well as a lack of foreign investors from elsewhere" (the lack of other investors presumably due to unstable domestic situations in many cases.) Telecom companies as well as energy companies require "on site" capacity which is perhaps why they are prominent among the holdings of Russian investors.

[N1] Russia certainly does invest heavily in Central Asia and Eastern Europe. It's unclear why this is supposed not to count as finance capital. Naturally, Russian imperialism has built upon pre-existing "linkages" with its periphery.

But the percentage of Russian investment going to CIS declines sharply as total Russian ODI grows—from 59% of the total in 1997-99 to 12% in 2004-06.

P 6 Table 12 shows that **Russian investment abroad is overwhelmingly concentrated in oil/gas and metallurgy sectors. The reasons for investing (outlined on p 3 of the Deutsche Bank paper) include a desire to upgrade technological and managerial capacity, gain easier access to foreign capital investment, and avoid the political uncertainty and "difficult business and institutional environment" at home. Such considerations do not normally shape investment decisions by imperialist corporations based in North America, the EU and Japan.**

[O1] The question of why Russian corporations invest abroad is a complex issue, and there is no consensus. The DB report provides a summary on page 2: "The bulk of Russia's foreign investment is accounted for by private companies and it mainly reflects economic considerations such as obtaining higher profit margins, increasing companies' growth potential and securing access to raw materials. Foreign engagement also allows access to new technologies, thereby helping to modernise the Russian economy. In addition, foreign activities, especially in developed markets, force Russian companies to increase transparency and to improve their corporate governance structures."

[O2] A more recent study drew a very different (and indeed contradictory) conclusion by noting "the changing strategies of outward investing Russian firms: in the early 1990s, they were mostly privately owned TNCs, seeking for 'safety nests' abroad to protect themselves from domestic uncertainty; these days, State-owned or -influenced TNCs dominate Russian capital exports, motivated by a desire to control the value chain of their products." (Kalman Kalotay and Astrit Sulstarova, "Modelling Russian outward FDI," http://gdex.dk/ofdi/49%20Kalotay%20Kalman.pdf).

[O3] The UNCTAD report echoes this analysis, adding that Russia's profile differs from that of the other so-called BRIC countries:

> "Recently, Russian TNCs have found their way to the BRICS countries, increasing their stock to US$1.1 billion. In contrast to TNCs from other BRICS countries, the main aim of Russian TNCs is not simply to secure the supply of raw materials to their home country, but also to expand their control over the value chains of their own natural resources, to build sustainable competitive advantages vis-à-vis other firms, and to strengthen their market positions in key developing countries. For example Rosneft formed joint-venture with CNPC (China) to develop oil extraction projects in the Russian Federation and downstream operations in China."
> (http://unctad.org/en/PublicationsLibrary/webdiaeia2013d6_en.pdf)

[O4] Another account adds to the overall picture, and sheds some light on the role of telecom and financial services companies:

> "There are several stimulants driving Russia's outward investment flows. First, through OFDI, Russian companies seek to establish additional control over foreign natural resources in order to complement their domestic reserves. The Russian natural resource-based multinationals generally seek upstream investment targets that can be developed more readily and cost-effectively than untapped domestic resources, which are often geographically isolated and require vast investments and years to develop. These resource-seeking investments make up a relatively modest share of Russia's total OFDI compared to those of China. Second, the Russian multinationals increasingly seek downstream assets in order to build up their value chains internationally and reach end customers. In particular, this strategy is popular with the natural resource-based companies that are responsible for the lion's share of Russia's OFDI. Third, Russia's

leading telecommunication and financial service providers, among others, increasingly are seeking targets for strategic acquisitions in order to establish control over markets in the former Soviet republics. Among these strategic acquisitions, one may also include purchases of assets granting easier access to certain protected markets, such as the acquisitions by Russian companies in the US steel and automotive industries. Finally, Russia's state-owned enterprises make purchases that seem to serve the purposes of Russia's foreign policy rather than commercial logic. While these investments are often speculative, they generally attract considerable attention."

- Peeter Vahtra, "Russia's Outward FDI Rise Amidst the Global Fall," http://www.css.ethz.ch/publications/pdfs/RAD-65-6-8.pdf

[O5] Rising oil prices are related to Russian capital export insofar as they contributed to allowing Russian corporations to invest more capital abroad, securing strategic positions in the world economy (including in other "BRIC" countries). But it has gone well beyond these origins. According to UNCTAD:

"FDI outflows from the transition economies, mainly from the Russian Federation, reached an all-time record level in 2011. Natural-resource-based TNCs in transition economies, supported by high commodity prices and higher stock market valuations, continued their expansion into emerging markets rich in natural resources. For example, TNK-BP (Russian Federation) entered the Brazilian oil industry with a $1 billion acquisition of a 45 per cent stake in 21 oil blocks located in the Solimoes Basin. At the same time, the company base of outward FDI continued widening as other firms from various industries also invested. For example, Sberbank – the largest Russian bank and the third largest European one in terms of market capitalization – was pursuing major acquisitions abroad (e.g. in 2011 the bank completed the acquisition of Volksbank (Austria) affiliates in four transition economies and four new EU member countries). As corporate customers of Russian banks venture abroad, they demand that their banks have a local presence in host countries to help finance their activities there. Russian technology-based firms also acquired large assets, especially in developed markets (e.g. Sky Technology acquired 10 per cent of Twitter (United States))."

- World Investment Report 2012, p.57

[O6] Russia has begun to invest in Africa, though it is still a relatively minor player (even compared to some non-imperialist countries, particularly China):

"The expansion of Russian TNCs in Africa is fairly recent but rapid, reaching US$1 billion in 2011. The arrival of Russian TNCs has been motivated by a desire to enhance raw-material supplies and to expand to new segments of strategic commodities, as well as a desire to access local markets. For example Rusal, the world's largest aluminium producer, has operations in Angola, Guinea, Nigeria and South Africa. Russian banks are also moving into Africa. Vneshtorgbank for instance opened the first foreign majority-owned bank in Angola, and then moved into Namibia and Côte d'Ivoire, while the Russian Renaissance Capital owns 25% of the shares in Ecobank, one of the largest Nigerian banks." (http://unctad.org/en/PublicationsLibrary/webdiaeia2013d6_en.pdf)

[O7] A report by the European Parliament's Directorate-General for External Policies of the Union notes:

> "What is perhaps most striking is Russia's unusually high ratio of OFDI [outward FDI] to GDP. Russia's ratio of OFDI is considerably higher than nearly all other emerging economies as well as advanced economies like Japan and Italy. Large Russian enterprises are active in the acquisition of foreign companies, usually as Russian energy or metals firms acquire 'downstream' assets ('market-seeking' OFDI), or because of the desire to acquire foreign technologies or technological capabilities and know-how ('technologyseeking' OFDI)."

- European Parliament, "The Economic Significance of Russia's Accession to the WTO," June 2012

"Russian outward FDI and its policy context", Columbia FDI Profiles

P 7 Russia's economic resurgence since 1999 due to "consistently high prices in its main export products" (particularly oil and gas) resulted in direct investment abroad.

P 8 Russian ODI was $208 billion in 2008; Brazil's was $162 B; Russian investment in CIS grew from $.13B in 2000 to $10B in 2008. (But the majority of this went to Belarus, see Table 4 page 14).

P 9. State companies play "an important role in Russian OFDI" [outward foreign direct investment]; many Russian capitalists want to avoid domestic political instability by moving capital abroad. (Not the usual motivation of imperialist investors, beyond tax avoidance). Note that two-thirds of total ODI flowed to "international financial center such as Cyprus, the Netherlands, the British Virgin Islands and Gibraltar, which partly serve as tax havens for Russian firms as well." (See Table 5, page 14).

P 10 Some former Soviet bloc countries are antagonistic to Russian investment.

P 13 More than three quarters of Russian M&A (merger and acquisitions) involve firms in "developed countries" rather than neo-colonies, CIS etc. This is similar to the usual proportion for corporations from the U.S., etc.

P14 Russian investment in CIS countries in 2007 and 2008 was overwhelmingly concentrated in Belarus, which at that time was a close ally. This implies that political, rather than economic, calculations were dominant. See ***Appendix C*** "Belarus Bailout Hinges on Russia" in which the author quotes an analyst's observation that "Financially, Belarus is becoming another South Ossetia."

"The growth of Brazil's direct investment abroad…." Columbia FDI Perspectives

P 17 There are close parallels between Brazilian and Russian FDI—in each country tax havens account for roughly two-thirds of the total. **The remaining investment also follows similar pattern—predominantly going to "developed" capitalist countries, presumably for similar reasons.**

[P1] A large proportion of global FDI, often a majority, goes to developed countries, including FDI originating in developed countries. In other words, it is common for some imperialist countries to mainly invest in other imperialist countries. In 2011, of the $90 billion in FDI outflow from France, about two-thirds went to other advanced European economies (http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#).

[P2] It is true that there was a drop in FDI inflows into developed countries between 2011 and 2012. In this connection, UNCTAD's report makes the following observation, which is useful in judging the analytical significance of some of the points made in the next section:

> "FDI flows fell drastically in developed countries to values last seen almost ten years ago. Of the global decline of US$300 billion in FDI inflows, from UD$1.6 trillion in 2011 to an estimated US$1.3 trillion in 2012, almost 90% was accounted for by developed countries. FDI declined sharply both in Europe and in the United States. In Europe, Belgium and Germany saw large declines in FDI inflows. In Belgium – which, with a drop of US$80 billion, accounted for much of the fall – FDI flows are often volatile or inflated by the transactions of the special purpose entities (SPE). Germany posted a large decline from US$40 billion in 2011 to only US$1 billion in 2012, due in part to large divestments. The decline of inflows to the United States is largely explained by the fall in cross-border M&A sales; despite the fall the country remained the largest recipient of FDI flows in the world. Elsewhere, Japan saw a net divestment for the third successive year."

"Inward investment in Russia and its policy context," Columbia FDI Profiles

P 20 Corruption discourages FDI in Russia. What investment there is tends to be in big urban centers and oil and gas regions.

P 21-2 Much Russian FDI is simply "round-tripping" laundered money; CIS countries invest in Russia because of preexisting Soviet networks etc.; foreign MNE (multinational enterprises) help modernize Russian industry with technology transfers.

P23 Russia's economy was heavily impacted by global financial crisis; "Many of the largest Russian private companies demonstrated that they could not survive without state support." Russia is high on the corruption scale, which is not typical of imperialist countries, but common among "emerging" economies with large "informal" sectors.

P 25 Russia is ranked 63rd in global competitiveness, 143rd in economic freedom: "both Russian and foreign large investors usually solve their problems with the bureaucracy in informal ways", i.e., there is no reliable legal mechanisms for adjudicating property disputes.

P 27 There is a fairly close parallel between inward FDI stock in Russia and Brazil.

"Russia's emerging multinational companies amidst the global economic crisis"

P 34 This list shows only two Russian companies among the top 50 in Europe and only four in the top 100—all of them oil and gas firms. The next two largest companies on this list are also oil and gas concerns. If Russia's population of 140 m makes up roughly 28% of the total population of Europe (including all of Russia) the fact that Russian companies make up such a small percentage of the top firms (4% of the top 100, 5% of the top 200, and 6% of the top 500) is indicative of Russia's relative economic backwardness. The proportions are doubtless reversed for France, Germany et al (i.e., their share of firms in the European top 500 is a multiple, rather than a fraction, of their percentage of the continent's total population.)

The dominance of resource [particularly oil and gas] extraction for Russia is of course more characteristic of "developing" rather than "developed" economies.

P 37 "While the economic crisis has halted the foreign expansion of Russian private capital, state-owned capital strengthened its position as an investor." Once again a phenomenon more commonly associated with "developing" rather than "developed" capitalist economies.

III. Russia & Brazil: Marginal Players in Global 'Finance Capital'

In terms of institutions of "finance capital" neither Russia nor Brazil play in the first division, as indicated by the absence of both countries from a list provided by the authors of a 2011 study of "The Network of Global Corporate Control" by Switzerland's premier institute for macroeconomic research, the Eidgenössische Technische Hochschule in Zürich (ETHZ). This study (posted to DISC on 10 May) powerfully confirms Lenin's contention regarding the tendency of capitalism toward monopoly, expressed as the ever increasing domination of the global economy by "a small tightly-knit core of financial institutions" (p1). Using mathematical systems modeling to investigate "the architecture of the international ownership network" the ETHA found a "super-entity" at the center of which "only 737 top holders accumulate 80% of the control over the value of all TNCs" (transnational corporations). A smaller group of 147 TNCs hold "nearly 4/10ths of the control over the economic value of TNCs in the world" (p 6).

The study lists the top 50 "control holders," 45 of which are financial institutions. **No Russian (or Brazilian) corporations are included.**

[Q1] Also missing from the list: Australia, Austria, Belgium, New Zealand, Norway, Spain, Switzerland and a few other countries we consider imperialist. The study is interesting and useful, but the fact that it not only misses these countries but barely includes Italy (and even Germany only gets 2/50!) is indicative that, for Marxists, it is probably only telling part of the story.

[END OF DECKER/DORN COMMENTS]

There are two entrants from the Chinese deformed workers' state, but all the rest are from "advanced capitalist" (i.e., imperialist) countries: 24 from the U.S., 8 from Britain, 5 are French, 4 Japanese, 2 each are German, Canadian and Dutch and the remaining one is Italian.

The Swiss study seems considerably more sophisticated than the standard rankings of global financial institutions, but the pattern is similar. ***Appendix D***, a list of the world's 35 top banks based on market capitalization (as of 23 August 2011), includes four Brazilian banks but only one Russian one. Most of the banks on the list are from the "developed" capitalist world (as well as six from China) (www.relbanks.com/worlds-top-banks/market-capitalization-2011).The picture is essentially the same in ratings of banks by assets. Of the top 50 six are Chinese and the rest are from "developed" capitalist countries, with the sole exception of Banco do Brasil which stands in the 49th spot (see ***Appendix E***—www.relbanks.com/worlds-top-banks/market-assets-2012). No Russian bank appears on that list.

IV. Russia's 'Underdeveloped' Pariah Capitalism

American authorities issued the following downbeat assessment of Russia's financial sector in 2011:

> "Although still small by international standards, the Russian banking sector before the crisis was growing fast and becoming a larger source of investment funds. **To meet a growing demand for loans, which they were unable to cover with domestic deposits, Russian banks borrowed heavily abroad in 2007-2008, accounting for 57% of the private-sector capital inflows in 2007. …**
>
> "Even with the banking sector's recent growth, **financial intermediation in the overall economy remains underdeveloped**. **Contradictory regulations across the banking and securities markets have hindered efforts to transfer resources from capital-rich sectors, such as energy, to capital-poor sectors**, such as agriculture and manufacturing. The sector is dominated by large state banks, and concentrated geographically in Moscow and the Moscow region. Thus financial service providers face little competition for resources and charge relatively high interest rates for favored, large corporate borrowers.
>
> "This state of affairs makes it difficult for entrepreneurs to raise capital, and banks generally perceive small and medium commercial lending as risky. Most of the country's financial

> institutions are inexperienced with assessing credit risk, though the situation is improving. The low level of trust, both between the general public and banks as well as among banks, makes the system highly susceptible to crises. After an uncertain year in 2009, by spring 2010 Russian officials announced an end to anti-crisis bank support, and a World Bank report said that 'a systemic banking crisis had been averted, the liquidity crunch eased and depositor confidence reestablished.' The report cautioned, however, that **systemic weaknesses exposed during the crisis—especially excessive dependence on foreign borrowing and non-performing loans—still needed to be addressed**."
>
> —U.S. State Department Country Survey on Russia, 16 March 2011, emphasis added

Heavy dependence on foreign borrowing is typical of countries with relatively "underdeveloped" economies.

In Russia, like other BRIC countries, state-owned banks predominate (see: "Banking in BRIC Countries," 9 August 2010, Knowledge for Markets *(w*ww.ftkmc.com/newsletter/Vol1-21-aug09-2010.pdf). The same report notes that among the BRIC banks "a study of key performance ratios reveals that ROA (Return on Asset) is the highest for Brazil banks and much lower for Russia." According to the European Bank for Reconstruction and Development Russia's private sector's share of GDP shrunk from 70 to 65 percent between 2004 and 2010:

> "Despite large-scale privatizations, the seven existing state corporations still play a large role in the Russian economy. (Note: State corporations are 100% owned by the Russian government and operate under special legislation. The Russian economy also features thousands of other companies owned in part or whole by the Russian government that operate under different legal arrangements, such as unitary enterprises and joint stock companies.) While private enterprises are technically allowed to compete with state corporations on the same terms and conditions, in practice, the playing field is tilted. State corporation holding structures and management arrangements (e.g., state representatives as board members) make it difficult for private enterprises to compete. Furthermore, specific legal constructions can result in preferential treatment of state corporations."
>
> —"2012 Investment Climate Statement – Russia," U.S. Bureau of Economic and Business Affairs

The level of corruption in Russia has been an enormous drag on economic development:

> "Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law. Moreover, the NGO Information Science for Democracy (INDEM) estimated in a 2009 report that bribes and corruption annually cost Russia the equivalent of one-third of its GDP. In November 2010, President Medvedev announced that Russia is losing up to a trillion rubles (approximately $33 billion) annually due to corruption in its state procurement system."
>
> —*Ibid.*

This reality has inhibited both foreign and domestic investors:

> "While Russia's peers in the BRIC group of leading emerging economies are coping with an inflow of capital, $21 billion fled out of Russia in the first ten months of the year. Unlike foreign firms such as Pepsi...Russia's private firms are too nervous to invest in their own economy."
>
> —*Economist*, 9 December 2010

In 2011, a government development bank, Vnesheconombank, launched a special new fund designed to lure overseas investment. To reassure skittish capitalists this private equity fund was headed by a former Goldman Sachs banker and personally backed by then prime minister Vladimir Putin whose "personal involvement in the fund is intended to reassure investors that they will not be abused by arbitrary or corrupt lower-ranking officials" (see ***Appendix F*** "New Fund, With Ties to Kremlin, Seeks Foreign Investors").

But even Putin's personal guarantee was not enough and Russia's ailing financial sector has remained a major problem for the Kremlin. The 2012 U.S. State Department report cited above stated that "most large Russian companies choose to list their stock in London and elsewhere abroad in order to obtain higher valuations."

A 20 February 2013 article, entitled "$500,000 Makeover Not Just Cosmetic," report was published in *Russia Beyond the Headlines*, a government-funded "Special Advertising Supplement" that appears in more than a dozen major international papers, including the *Wall Street Journal*, *New York Times*, and London *Telegraph*. The article, (see ***Attachment No. 3***) begins: "In a new image campaign, the Russian government has hired investment bank Goldman Sachs to persuade investors and ratings agencies of the country's appeal." It continues:

> "Sberbank Pesident German Gref has complained publicly that Russia is underestimated in the international rankings. (In terms of financial sector development, Russia lies in 134th place in the World Economic Forum's competitiveness ranking, below Albania, Armenia, Botswana, and Peru.) "

The Goldman Sachs PR team faces a formidable challenge, particularly as Russian capitalists themselves lack confidence in their future:

> "growing numbers of the elite feel that the present political and economic model has been exhausted and the country is fast approaching a dead end. 'The problem is not that this regime is authoritarian, the problem is that it is unfair, corrupt and ineffective,' says one leading businessman. 'Corruption will erode and bring down this system.' The paradox is that few Russian government officials disagree with this."
>
> —*Economist*, 9 December 2010

This depressing assessment of the predicament of "actually existing" Russian capitalism is confirmed by a recent report in the *New York Times* that things have become so grim that Moscow's stock exchange has recently been having difficulty competing with Warsaw's for regional financial center:

> "The midsize companies in neighboring Ukraine or other former Soviet republics are choosing to go public in Warsaw. They are hardly bothering to look at the carefully laid out welcome mat in Russia."

The report continues:

> "Mr. Medvedev had named senior Western bank executives to an advisory council for transforming Moscow's financial sector. They included Jamie Dimon, the chief executive of JPMorgan Chase; Vikram S. Pandit, the former chief executive of Citigroup; and Lloyd C. Blankfein, the chief executive of Goldman Sachs.
>
> "But the Global Financial Center Index, published in March by Z/Yen, a consulting agency, placed Moscow 65th out of 79 cities studied. London was first, followed by New York and Hong Kong. The ranking placed Moscow between Bahrain and Mumbai."
>
> —"Moscow Tries to Reinvent Itself as Financial Hub," *New York Times*, 3 April 2013 (reproduced as ***Appendix G***)

The market capitalization of the Moscow's MICEX/RTS stock market circa January 2012 was $844 billion, compared to Warsaw's $157 billion. Brazil's Sao Palo's MB&F—the eighth largest exchange in the world—had a valuation of $1,188 billion (see: www.world-exchanges.org).

. . .

On balance the evidence indicates that the "actually existing" Russian bourgeoisie is no more imperialist—in the Leninist "modern [i.e., finance capitalist] sense"—than their Brazilian counterparts.

Appendix A: "In Rebuilding Iraq's Oil Industry, U.S. Subcontractors Hold Sway," *New York Times*, June 16, 2011

Appendix B: FORBES 500 entries for capitalist BRIC economies: Russia, Brazil and India

*Appendix C: "*Belarus Bailout Hinges On Russia," Moscow Times, 22 April 2011

Appendix D: World's Largest Banks by market cap 2011, http://www.relbanks.com/worlds-top-banks/market-capitalization-2011

Appendix E: Top Banks in the World 2012

Appendix F: "New Fund, With Ties to Kremlin, Seeks Foreign Investors," Private Equity, June 8, 2011

*Appendix G: "*Moscow Tries to Reinvent Itself as Financial Hub," New York Times, April 3, 2013