

Magnitsky Gives Financial Center a Boost

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Russian authorities took a major step in early July toward fulfilling their goal of creating an international financial center in Moscow. In fact, it was possibly the most significant step since the idea was first announced. Namely, they published the results of a public review of the case concerning the death of Hermitage Capital lawyer Sergei Magnitsky in a pretrial detention center. President Dmitry Medvedev had ordered the investigation. The report released by the president's human rights council names individuals within the Interior Ministry, prosecutor's office, Federal Tax Service, court system and prison who were responsible for Magnitsky's death. That is not the end of the story — nobody has been arrested — but it is real progress.

Why does this improve the prospects for the planned financial center? Because trying and punishing those responsible for Magnitsky's death will reduce the cost and risk of doing business in Russia. What do potential investors need from a financial center? They need to know that their ownership rights will be protected, their right to earn and retain profits from their investments and efforts. If an investor believes that there is a chance his money or other assets — as happened with Hermitage Capital — could be subject to attack and that mounting

a defense would place his own life or that of his staff at risk, he would understandably have less desire to proceed. But the enthusiasm of investors is not the only consideration. In a country where the standard legal practice of defending ownership rights through the courts can lead to a lawyer's death, lawyers justifiably demand higher salaries, even for routine services. In other words, the increased risk of doing business has concrete financial repercussions; investors must pay higher fees for almost every type of specialist in Moscow. And that equally dissuades both Russian and foreign investors from doing business in Moscow. The planned financial center can only succeed if the authorities can lower the costs and risks for investors.

Why is it so important that the Kremlin's human rights council has published the report? It is in Medvedev's and Prime Minister Vladimir Putin's interests to resolve the Magnitsky case because it has already done significant damage to their reputations and to Russia's. Future biographies of the pair will undoubtedly include references to it, no amount of spin can diminish its repercussions, and domestic and international attention to the case continues to mount. At the same time, there is very little that Medvedev and Putin can do to influence the proceedings in the case. For the past decade, Russian leaders have motivated their subordinates with the promise of personal gain. Officials involved with the Yukos affair got rich in the process, and those now developing innovations, building new roads and preparing for the 2014 Olympic Games in Sochi stand to receive even more. But what will be the reward for functionaries who prosecute the Magnitsky case to its logical conclusion by arresting and bringing convictions against the perpetrators? What can the president and prime minister give them in return?

By publishing the report, the president is appealing to the public for support. That will help restore faith in the president, in the collective wisdom of society, and in the prospects for establishing a financial center in Moscow.

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