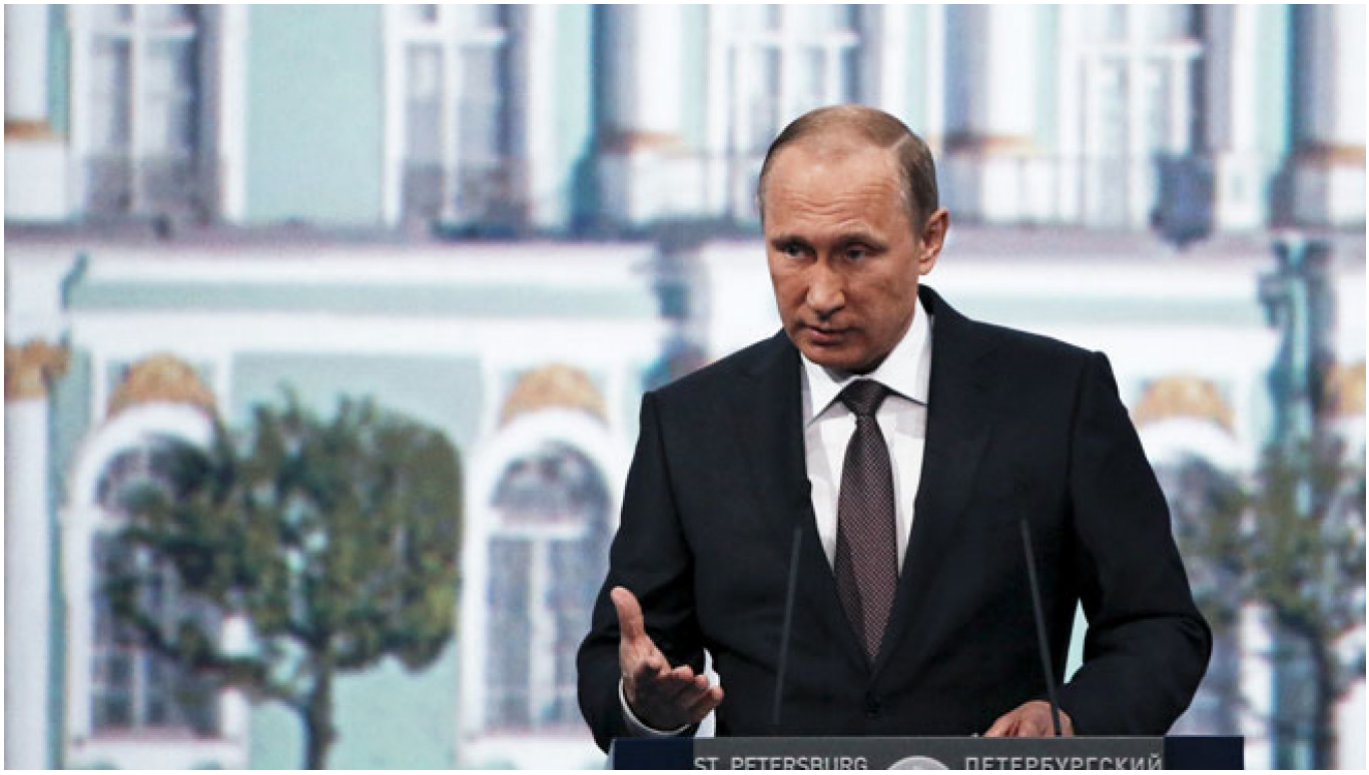
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Russia Has Only Itself to Blame for Yukos Mess

By George Bovt

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The recent St. Petersburg Economic Forum showed that Russia continues struggling to develop a strategy suited to the new economic conditions. This is largely the result of Moscow's inability to define a new strategy toward the West. Everyone understands that the old way of doing things will not return anytime soon, but that the new form of relations remains unclear.

Russia's political elite intuitively understands that they cannot long endure the new "Cold War," but that nobody in the West is inviting them to a "Yalta II" conference to carve the world into spheres of influence either.

Neither is it clear how Russia can build relations with the East since that friendship is motivated not so much by a desire to become immersed in Asian civilization as it is a reaction to "insults" from the "two-faced" West that fails to understand Russia.

It is not enough to simply say that Russia is "turning toward the East." The situation demands

more than simply pumping oil and gas eastward rather than westward.

Surveys of major Chinese companies reveal that they are wary about investing in Russia for the same reason as the West: Russia's poor governance, the weak protection afforded business, the poor institutional environment, corruption and so on. What a "surprise." Is it really true that the civilized world lives according to one law — at least in the economic sphere?

With Russia's strategically ambiguous position lying somewhere between war and peace, senior officials make conflicting statements to different audiences. They tell foreign investors one thing and domestic siloviki quite another, making sure to give their listeners exactly what they expect or want to hear.

Thus, First Deputy Prime Minister Igor Shuvalov calmly asserts that the seizure of Russian property abroad in connection with the Yukos case will not affect the investment climate, even while Kremlin aide Andrei Belousov warns that Russia might "squeeze" European companies out of the country in retaliation.

Typically, the authorities manage that trick with the help of "spot inspections" that suddenly discover that the company in question is producing or using something harmful. How can Russia improve its investment climate while simultaneously threatening to force foreign firms out of the country?

By the way, it is amazing the way the arrest of Russian assets in the Yukos case has boomeranged upon the very people who unanimously stress the importance of institutional reforms as a means for pulling Russia out of the crisis.

It is even possible that the Court of Arbitration in The Hague ruled that Russia pay $50 billion in reparations to Yukos shareholders because Moscow likes to dismiss the institution as a Washington puppet whose stupid procedures are best ignored. This despite the fact that Russia voluntarily agreed to put itself under the jurisdiction of the Court of Arbitration back in 2005.

What's more, Moscow agreed to consider the issue within the framework of the Energy Charter it had never even ratified. The truth is that Russian officials made no effort to peer a few years into the future to anticipate whether the court might make a ruling unfavorable to those in power. Instead, one group of officials agreed to the court's jurisdiction, leaving another group of officials to deal with the consequences. "It touches on Russia's national interests," you say? Well, Russia is a big country. It will resolve the problem somehow, and without getting overly upset about it.

Moscow even approved the appointment of the very arbitrators who ended up making the $50 billion ruling against Russia, and itself chose one of them: Stephen Schwebel of the United States. Russian also employed "big time" U.S. law firms Cleary Gottlieb Steen & Hamilton LLP and Baker Botts LLP to defend it. As far as is known, not a single Russian lawyer was engaged to take part in the legal proceedings.

Many legal experts contend that the defense presented a weak set of evidence, despite the fact that the case was far from hopeless: a different international court in Strasbourg had already

established that Yukos committed tax violations. However, Moscow neglected to do the painstaking work needed to strengthen its position, largely because it tended to dismiss the process as a whole.

By the way, the final ruling mentioned that attitude. "The Court notes that the defendant did not call witnesses who could refute or weaken the evidence presented by the plaintiff," it read. Interesting: Russia did not call any witnesses ...

But after all, what is the Russian understanding of a court? It is a process chaired by some government lackey like Viktor Danilkin — the judge who presided over the state's first case against Mikhail Khodorkovsky — that operates according to the maxim, "You can use the law however it suits you." And when senior Russian officials are told directly that the country cannot develop economically until, at the very least, judicial reforms are implemented, they simply return an uncomprehending stare.

Russia has largely fallen into the same trap that the Soviet Union did in the 1970s. That was when leaders made weighty pronouncements about scientific and technological progress, claimed that the economic policy of the Communist Party and government was aimed at improving the welfare of the Soviet people and that the country was committed to detente.

However, in practice, ossification and the ponderous bureaucracy squelched everything new and unique, thwarting the plan to curb the voracious appetite of the military-industrial complex and redirect those funds toward producing consumer goods.

The Soviet authorities tried to implement detente even while intensifying the ideological struggle to counter the "pernicious influence of the West." Even former Soviet leader Mikhail Gorbachev's perestroika failed to resolve those contradictions, and yet some observers are now calling for an updated version of that program, with adjustments for past mistakes.

However, the main mistake then — and now — is the lack of a clear vision of the future and the means by which to achieve it. It is finally time to do something about that.

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