Capital Flight and Off-Shore Investment

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ANALYSIS

Foreign Investment from Offshore Jurisdictions into Russia: An Analytical Overview

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Abstract

Drawing on a dataset from ROSSTAT, the authors investigate foreign investment from offshore jurisdictions into Russia. They conclude that it is reasonable to suggest that corrupt public officials in Russia utilize round-trip schemes via offshore centers for laundering the proceeds of corruption. In addition, they highlight a trend whereby offshore investors choose to invest in the more corrupt regions of Russia within the real estate and financial sectors, suggesting that this is because these sectors are known to be associated with corruption.

A distinctive feature of Russian foreign investment patterns is the correlation of the inward and outward investment flows between Russia and offshore jurisdictions, such as Cyprus and British Virgin Islands (BVI). According to ROSSTAT (Russian State Statistics Service), the key offshore destinations of Russian registered capital outflows—Cyprus and the British Virgin Islands (BVI)—are persistently among the major source countries of foreign investment into Russia. Russian capital stock abroad amounted to 106706 million USD by the end of 2011, 24.6% of which was registered in Cyprus and 5.2% in BVI[1]. At the same time, between 2005 and 2011 foreign investment from Cyprus into Russia represented, on average, 13.2% of total foreign investment into Russia, making Cyprus the second largest source of foreign investment after Great Britain (16.5%).[2] The Central Bank of Russia classifies Cyprus as the largest single source of foreign direct investment (FDI) in the Russian Federation, with a total of 41.7 billion USD in cumulative inbound FDI into Russia's non-financial sector between 2007 and 2010.[3] In general data patterns reflect round-trip investment via offshore jurisdictions (in particular, via Cyprus). The drivers for this phenomenon in Russia are widely discussed and mainly include tax avoidance/evasion, laundering the proceeds of corruption and securing the secrecy of an investor's identity from Russia's corrupt and autocratic authorities (reinvesting into Russia via offshore jurisdictions gives Russian businessmen the possibility of hiding their identity as investors: e.g. in Cyprus, the nominees can be appointed on behalf of the registered shareholders, if the true owner wishes to hide their identity).

In our research,[4] we focus on the second stage of this round-trip investment: foreign investment from offshore jurisdictions into Russia. Our analysis makes use of a ROSSTAT dataset, which provides information on around 20,000 firms with foreign capital registered in Russia during the period of 1997–2011, and which provided financial reports to ROSSTAT in 2011. This dataset includes information on firms with two ownership types: full foreign ownership and joint ventures between foreign owners (foreign entities and foreign citizens) and Russian private owners (Russian entities and citizens).

Patterns and Trends of Offshore Investment Into Russia: Evidence From Rosstat Firm-Level Data

As can been seen in Table 1 overleaf, which lists the main country-investors into Russia, Cyprus is a leading investor into Russia. Other offshore jurisdictions that are large investors into Russia, according to our data, are the British Virgin Islands (BVI), Seychelles and Switzerland.[5]

From Table 2 overleaf and Figures 1a and 1b on p. 4, we can see that genuine foreign investors (defined as investors from all countries except offshore jurisdictions with more than 25% agreement as defined in Palan et al. 2010 study (see note 5) and the Netherlands[6]) tend to invest significantly more in manufacturing industries than offshore

1 ROSSTAT, 2012: <http://www.gks.ru/bgd/regl/b12_13/Iss WWW.exe/Stg/d5/24-24.htm>

2 ROSSTAT, 2012: <http://www.gks.ru/bgd/regl/b12_13/Iss WWW.exe/Stg/d5/24-22.htm>

3 Joseph Cotterill, *Between Greek default and dodgy Russians*, 20.04.2011: <http://ftalphaville.ft.com/2011/04/20/551141/between-greek-default-and-dodgy-russians/>

4 1) Ledyaeva S., Karhunen P., Whalley J., *Offshore jurisdictions (including Cyprus), corruption money laundering and Russian round-trip investment*; NBER working paper 2013-19019; 2) Ledyaeva S., Karhunen P., Whalley J., *If foreign investment is not foreign: round-trip versus genuine foreign investment in Russia* , CEPII working paper 2013-05; 3) Ledyaeva S., Karhunen P., Kosonen R., Whalley J., *Determinants of offshore (round-trip) and genuine foreign investment across Russia: A comparative empirical analysis*, mimeo.

5 According to the classification of offshore jurisdictions/tax havens (with more than 50% agreement) in: Palan R., Murphy R.., and Chavgneux C., 2010. *Tax Havens: How Globalization Really Works*. Ithaca: Cornell University press.

6 The Netherlands is also a popular location among Russian natural resource companies to set up their financial subsidiaries and, at the same time, is one of the most important source countries of foreign investment into Russia.

investors, while investors from offshore jurisdictions are highly concentrated in the financial and real estate (including related services) sectors. The latter trend reflects the "corruption" component within offshore investment into Russia, as these sectors are often associated with corruption and money laundering.[7]

Table 1: Countries—Main Investors into Russia

Country	Number of firms (registered during 1997–2011)		Cumulative revenues (1998–2011), % of total
	Number	% of total	
Cyprus	6,015	30	54
British Virgin Islands (BVI)	1,688	8	4
Germany	887	4	4
Belarus	740	4	1
Ukraine	627	3	1
Netherlands	588	3	9
USA	488	2	1
Great Britain	473	2	2
Seychelles	420	2	0.38
China	388	2	0.24
Switzerland	370	2	8

Note: The authors' calculations are approximate (due to missing values and the presence of firms with multiple foreign owners (firms in which there are foreign owners from more than one country of origin) in the data).
Source: ROSSTAT and authors' calculations.

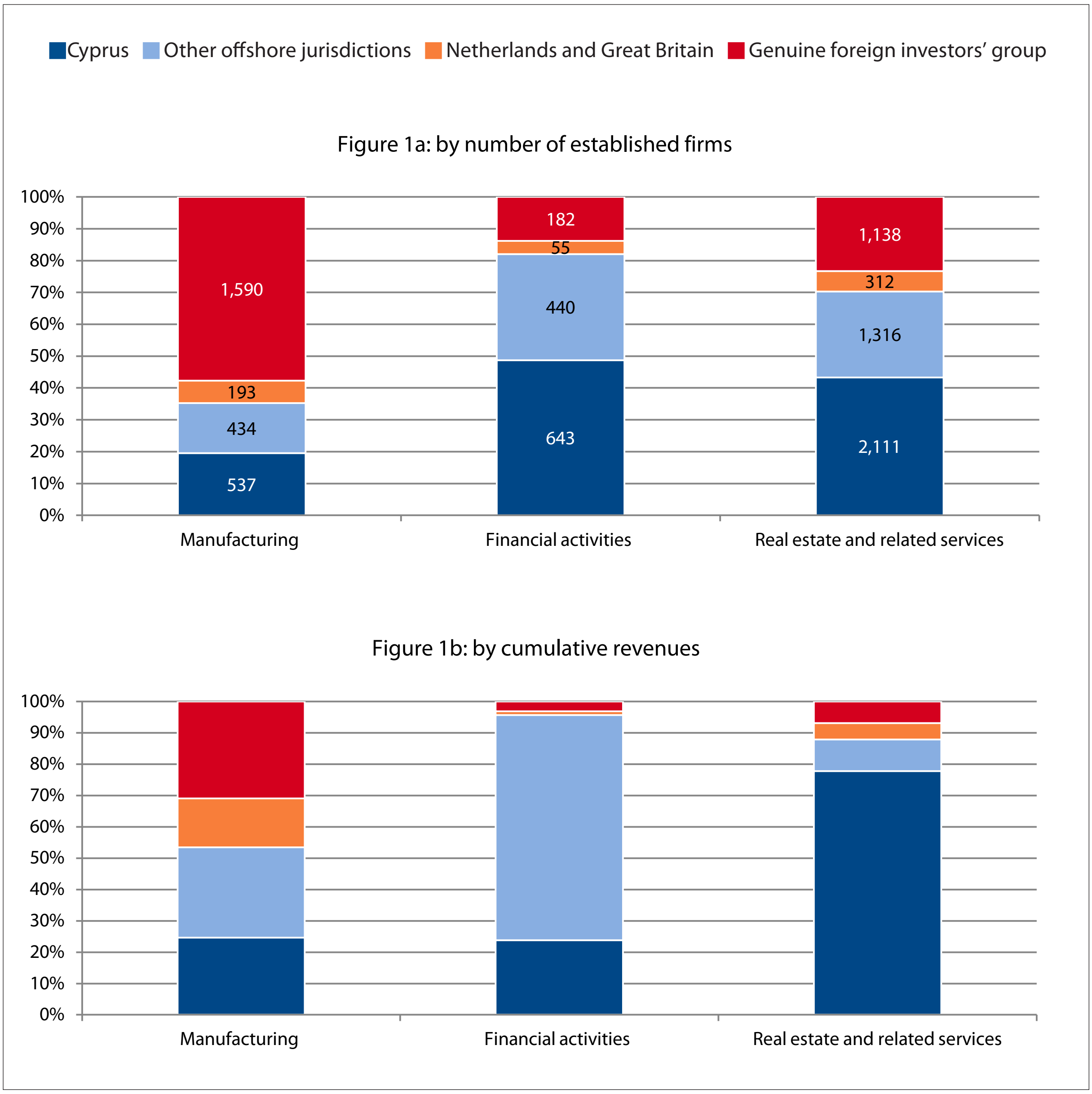
Table 2: Industrial Distribution of Firms with Foreign Ownership

Sector	Investors from Cyprus	Genuine foreign investors*
Real estate operations, lease and services	35	15
Trade and repair	22	41
Financial activities	11	2
Manufacturing industries	9	21
Construction	8	7
Transport and communications	6	6
Resource extraction	4	1
Agriculture, hunting, forestry, fishing	2	4
Hotels and restaurants	2	1
Production and distribution of electricity, gas and water	1	0
Others	2	2

* *Note: We define genuine foreign investors as investors from all countries except offshore jurisdictions with more than 25% agreement as defined in Palan et al. 2010 study (see note 5) and the Netherlands. The latter is widely recognized as an important channel for round-tripping of Russian capital.*

7 FATF 2011. *Laundering the proceeds of corruption.* FATF Report. Paris: The Financial Action Task Force.

Figures 1a and 1b: Firm Distribution by Country of Origin and Industrial Sector



Note: Genuine foreign investors are defined as in Table 2 (see note to Table 2). The group "Other offshore jurisdictions", includes jurisdictions appearing to a sufficient percentage (more than 50%) on 11 tax-haven lists produced by different researchers and compiled by Palan et al. 2010 (see note 5): Malta, Bahamas, Bermuda, Cayman Islands, Guernsey, Jersey, Panama, Barbados, Isle of Man, Liechtenstein, Netherlands Antilles, Vanuatu, BVI, Singapore, Switzerland, Hong Kong, Gibraltar, St. Vincent and the Grenadines, Turks and Caicos, Antigua and Barbuda, Cook Islands, Grenada, Ireland, Luxembourg, Monaco, St. Kitts and Nevis, Belize, Nauru, Andorra, Anguilla, Marshall Islands, Bahrain, Costa Rica, Aruba, Samoa, Seychelles, St. Lucia, Dominica and Liberia.

Source: ROSSTAT and the authors' calculations.

Tables 3 and 4 overleaf provide a more detailed breakdown of industrial structure (using two-digit industrial codes) of investments into Russia from Cyprus (according to our data): by number of established firms and by cumulative revenues, respectively. This data emphasizes the high-concentration of firms owned or jointly-owned by investors from Cyprus in the financial and real estate sector.

Table 3: Distribution of Cypriot Firms by Industry by Cumulative Number of Established Firms in 1997–2011 (Top 20 Industries)

Industry (two-digit industrial code)	Number of firms	%
Real estate operations	1,148	20.1
Wholesale trade and commission trade, except of motor vehicles and motorcycles	1,018	17.8
Other services (business consulting, architectural work, engineering, etc.)	661	11.6
Financial intermediation	530	9.3
Construction	433	7.6
Supporting and supplementary transport activities	180	3.2
Retail trade, except of motor vehicles and motorcycles, repair of household goods and personal hygiene items	147	2.6
Activities related to the use of computer engineering and information technology	108	1.9
Production (extraction) of crude oil and natural gas; services in these areas	104	1.8
Activities of hotels and restaurants	98	1.7
Trade of motor vehicles and motorcycles, their maintenance and repair	93	1.6
Manufacturing of food and beverages	92	1.6
Agriculture, hunting and services in these areas	91	1.6
Activities for organization of rest and entertainments, culture and sports	68	1.2
Auxiliary activities in the sphere of financial mediation and insurance	66	1.16
Land transport	62	1.1
Lease of the machines and equipment without operator; hire of household products and subjects of private use	62	1.1
Communication	60	1.05
Chemical production	57	1.0
Publishing and printing activities; replication of the written-down data carriers	46	0.8
Total	*5,124*	*89.7*

Source: ROSSTAT and authors' calculations.

Table 4: Distribution of Cypriot Firms by Industry by Cumulative Annual Revenues (in Millions of Euros) 1998–2011 (Top 20 Industries)

Industry (two-digit industrial code)	Cumulative revenues	%
Wholesale trade and commission trade, except of motor vehicles and motorcycles	234,236.85	41.32
Other services (business consulting, architectural work, engineering, etc.)	73,050.37	12.89
Trade of motor vehicles and motorcycles, their maintenance and repair	65,539.29	11.56
Construction	26,751.93	4.72
Financial intermediation	20,520.65	3.62
Auxiliary activities in the sphere of financial mediation and insurance	19,027.15	3.36
Retail trade, except of motor vehicles and motorcycles, repair of household goods and personal hygiene items	17,568.37	3.10
Manufacturing of food and beverages	14,087.01	2.49
Production (extraction) of crude oil and natural gas; services in these areas	12,030.78	2.12
Supporting and supplementary transport activities	8,974.90	1.58
Production (extraction) of coal, brown coal and peat	8,893.38	1.57
Real estate operations	6,908.21	1.22
Chemical production	5,621.57	0.99
Processing of secondary raw materials	4,947.18	0.87
Production of coke, oil products and nuclear materials	4,423.24	0.78
Metallurgical production	4,320.20	0.76
Agriculture, hunting and services in these areas	4,265.63	0.75
Production and distribution of electricity, gas and water	2,955.97	0.52
Production of electric machines and equipment	2,951.49	0.52
Extraction of metal ores	2,688.11	0.47
Total	*539,762.30*	*95.22*

Source: ROSSTAT and authors' calculations.

Corruption and Foreign Investment from Offshore Jurisdictions in Russia: Empirical Evidence from Firm-Level Data

Corruption has an obvious connection with money laundering. As argued in a 2011 report by the Financial Action Task Force (FATF),[8] "the stolen assets of a corrupt public official are useless unless they are placed, layered, and integrated into the global financial network in a manner that does not raise suspicion". The report asserts that corrupt public officials will seek to move the financial proceeds of corruption outside of their home jurisdiction. An examination of their case studies of corruption revealed that in nearly every case foreign bank accounts were being used as part of the corruption scheme. Taking into account the persistently high-level of corruption in Russia, it is reasonable to suggest that corrupt public officials in Russia utilize round-trip schemes via offshore centers for laundering the proceeds of corruption.

According to Simpson (2005)[9] and Perez et al. (2012)[10] between 7 and 16 billion US dollars of Russian capital flight was allegedly laundered through the Bank of New York from 1996 to 1999. Much of this money was allegedly the proceeds of criminal activity in Russia, and some of it was said to have been looted from IMF loans allocated to Russia. In this context, Shelley (2003)[11] also argues that the billions earned through corruption in Russia have been laundered in many countries, including offshore locations. Furthermore, she argues that the true extent of the capital resources of organized crime in Russia will never be known, "because much of it is parked in anonymous bank accounts and carefully masked trusts in offshore locations". Shelley (2003) names the Caribbean, Cyprus, Switzerland, Liechtenstein, Austria, Marshall Islands and Nauru Island in the South Pacific as common locales for Russian money-laundering.

In our empirical studies (based on the ROSSTAT firm-level data described above)[12] of the differences between the strategies determining where offshore and genuine foreign investments choose to invest across Russia's regions, we found convincing evidence that offshore investors tend to invest in regions with higher-levels of corruption, while genuine foreign investors have a strong preference to invest in less corrupt regions. This trend among offshore investors for investing in the more corrupt regions of Russia holds both for investment into the manufacturing and combined real estate and financial activities sectors. In the manufacturing sector, this preference reflects the fact that offshore investors are better able to deal with corrupt regional authorities, as we assume that they are Russians by origin. In addition, the more corrupt the region, the more likely it is that local businessmen use round-trip schemes via offshore jurisdictions to hide their identity from corrupt local authorities. Therefore, offshore investors tend to invest in more corrupt regions within the real estate and financial sectors. In our view, this trend might directly reflect practices of corruption and money-laundering via round-trip investment, as these sectors are largely associated with corruption.

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Further Reading

- Svetlana Ledyaeva, Päivi Karhunen, John Whalley, *Offshore jurisdictions (including Cyprus), corruption money laundering and Russian round-trip investment*; NBER working paper 2013-19019.
- Svetlana Ledyaeva, Päivi Karhunen, John Whalley, *If foreign investment is not foreign: round-trip versus genuine foreign investment in Russia* , CEPII working paper 2013-05.

8 FATF 2011. *Laundering the proceeds of corruption.* FATF Report. Paris: The Financial Action Task Force.

9 Simpson G. R., 2005. Risky Territory: How Top Dutch Bank Plunged Into World of Shadowy Money, *The Wall Street Journal*, Vol. CCXLVI, No. 142, (December 30, 2005).

10 Perez M.F., Brada J.C., Drabek Z., 2012. Illicit money flows as motives for FDI, *Journal of Comparative Economics* 40(1), 108–126.

11 Shelley L., 2003. International Dimensions of Corruption: The Russian Case. Working Paper Series on Russia and the Former Soviet States, August 2003, <http://www.princeton.edu/~lisd/publications/wp_russiaseries.html>.

12 Studies are listed in note 4.

ANALYSIS

Russian Capital Flight—How Big a Problem Is It for Russia's Growth?

Ben Aris, Moscow

Abstract

Economists have been wrong footed by 2013, as the expected slowdown of the Russian economy has been a lot more severe than expected. Persistent capital flight is partly to blame, but the problem is not as bad as it was in the 1990s. Capital flight is being driven by a combination of Russia's poor economic performance and by political uncertainty caused by the Kremlin's escalating crackdown on corruption.

Going into 2013, the widely held expectation for the Russian economy was for slower growth than in 2012, but a still reasonable 3% to 3.5% GDP growth. However, the slowdown has proven to be a lot more dramatic and the Russian economy effectively stalled by the middle of 2013, actually coming to a standstill in real terms in the summer, according to Deputy Economic Development Minister Andrei Klepach.[1]

The cause of the slowdown has been a mixture of low investment, low corporate borrowing, persistent inflation and on-going capital flight, not to mention the disappointing performance of economies in the rest of the world. Russia's high interest rates have been blamed for much of this slowdown: as annualised inflation has remained over 6% for all of this year (and actually rose from 6.1% in September to 6.3% in October)[2], the Central Bank of Russia (CBR) has not cut interest rates from the current 8.25%—the highest rate of any major country in Europe –, despite repeated predictions of a rate cut. This has caused wails of pain from companies that say the cost of borrowing it too high. At the same time, the historically low rate of unemployment means the labour market is drum-tight, which has driven up nominal wages by about 10% a year. The upshot is corporate profits are being gradually, but relentlessly, squeezed, which is only adding to the slowdown.

The lack of economic activity and low levels of borrowing, and by extension investment, are similarly squeezing the banks, which have also seen their profits fall, while capital adequacy ratios have dropped close to the mandatory minimum. Over the course of this year, non-performing loan levels in both the consumer and corporate segments have started to rise. As international capital markets are still not functioning, banks have been left dependent on the CBR for funding, except for the blue chip companies, which have been able to issue extremely cheap bonds.

The situation is, however, not yet dire, as the state has plenty of resources to support the economy for the meantime. Nonetheless, Russian companies have been talking about a new, but slow moving crisis, which began in the last quarter of 2012, which is more painful than the crash in 2008. The current situation is not sustainable. But rather than cut interest rates and loosen the public purse strings, the Russian government seems to be banking on a recovery in the rest of the world, and Europe in particular, in 2014 that will lead to an organic recovery for the Russian economy. The CBR and the Russian Ministry of Finance have somewhat perversely chosen now to impose their version of austerity and deal with the country's macroeconomic problems, of which high inflation is the most important.

The oil assumptions for the state budget are now calculated using the so-called 'fiscal rule,' which uses historical prices, rather than expectations for the future, to set the oil price in the three-year budget, which in effect sets levels of state spending. Under this new system, the budgeted oil price has been set at about $91 as opposed to current prices which are closer to $115. This has led to the first fall in state-spending in a decade, about 5% in real terms. Since Vladimir Putin became president in 2000, spending had been increased between 20% and 40% every year.

However, the bet on an organic recovery does not look like a bad one, as in November the Renaissance Capital-New Economic School macro monitor[3]—a leading forward-thinking monthly publication—reported the start of an economic recovery amongst its 92 indicators: the consensus among other economists concurs with this assessment and predicts 3%–3.5% growth next year.

Capital Flight Remains High

In the current economic environment of slowdown, Russian businessmen are reluctant to invest and are instead sending their money overseas. The CBR had predicted

1 See <http://www.bne.eu/archive_story.php?id=5432>

2 Olga Tanas & Ott Ummelas, 'Russian October Inflation Unexpectedly Quickens to 6.3%', Bloomberg, 6 November 2013, <http://www.bloomberg.com/news/2013-11-06/russian-october-inflation-unexpectedly-quickens-to-6-3-.html>

3 Russia: RenCap-NES Macro Monitor November 12, 2013 can be download from: <https://research.rencap.com/eng/RenCap-NES_Leading_GDP_Indicator.asp>

that capital flight would fall to $10bn at the start of 2013, but more than that left in the first two months of this year. Russia's Economic Development Ministry recently increased its net capital outflow forecast for this year to $30bn in October, but even this prediction looks to be on the low side one month later. The CBR is especially pessimistic about the amount of capital that is likely to leave this year: at the start of October, the CBR put the 2013 figure at a total of $62bn for this year, more than the $56.8bn that left in 2012.

Capital flight from Russia peaked at $133.7bn in 2008, when the global economic crisis broke out, and declined to $56.1bn in 2009, and then fell further to $34.4bn in 2010, before it started rising again to $80.5bn in 2011. In the third quarter of this year there was $12.9bn of capital flight, with $48.1bn over the first nine months of this year.

Table 1: Capital Flight ($bn)

2008	133.7
2009	56.1
2010	34.4
2011	80.5
2012	56.8
2013 *	62

* *estimate for full year*

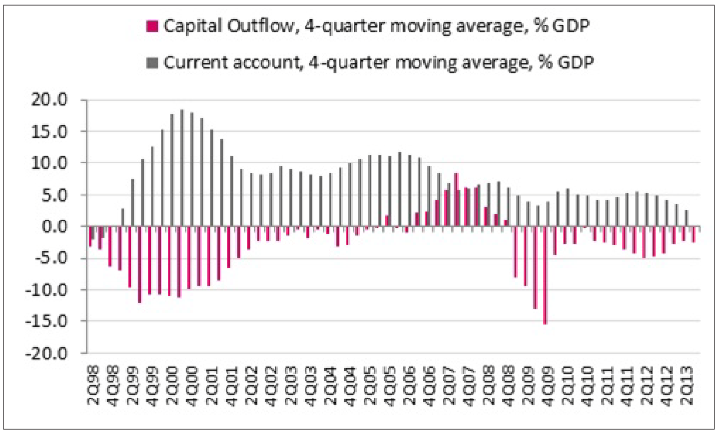
Source: Central Bank of Russia

Not as Bad as it Looks

Despite the high numbers, the overall level of capital flight is not quite as bad as it appears. Although the numbers are big as a proportion of GDP, the amount of capital flight is still a lot less than was leaving the country in the 1990s. Today's capital flight is equivalent to about 5% of GDP, whereas in the 1990s the level of capital flight was running at closer to 15%. Indeed, economists say that capital flight at the current level has become a persistent feature of the Russian economy. The reason that it has become more noticeable now is that this capital flight is not being recovered by concurrent capital inflows from outside. Looking at the issue from this perspective, then the current level of capital flight can be seen as less of an problem and more like 'business as usual.'

As the chart below shows capital flight in the latter part of the 1990s was actually much higher in absolute terms than now, and those levels were only surpassed in the depths of the meltdown in 2009. A credit boom began in the second half of 1999, as international lenders flocked to Moscow, enticed by the high returns, just as economic growth soared to over 10% a year—a record that has not been surmounted since—and continued for the rest of the decade. Indeed, it was this high-level of borrowing in the previous decade that caused so much damage to the Russian economy in 2008: the state was not heavily indebted, but several of the biggest and best companies were.

Interestingly it was only between 2006 and 2008 that capital flight reversed completely, as returning Russian money replaced international borrowing as the main source of investment capital at the height of the boom, only to rapidly flee again the following year.



Source: VTB Capital

Furthermore, not all this "capital flight" is actually capital flight. Part of the reason the number was so high in 2008 was that the cash-rich foreign banks with Russian subsidiaries were bailing out their parent banks by sending money back in the form of loans. The amounts got to be so big—some $30bn in 2008 alone—that the CBR called in the heads of these banks and threatened to impose administrative restrictions if this borrowing was not curtailed, as it was threatening the stability of the Russian banking sector. However, this lending fell off rapidly in 2009 as the global financial markets stabilized.

A quirk of Russian national accounting means that the profits of Russian companies with overseas assets that reinvest their profits into those assets are counted as 'capital flight'. This is not standard practice amongst most national accounts, where it is seen as a 'net plus' by most countries, but in Russia's case this investment accounts for up to a quarter of all 'capital flight'.

In addition to the profits, Russian businessmen are continuing to buy foreign assets, which represents true capital flight, but has a positive economic impact, as this sort of capital flight is ultimately productive for the Russian economy. This trend is actually increasing because the increased political uncertainty in Russia has led more and more businessmen to seek to diversify their wealth by investing overseas. Between 2008 and 2012 Russian companies' outbound-mergers and acquisition-deals were worth a total of $71bn, according to law firm Squire Sanders,[4] or 20% of the total capital flight in that period.

Source: Squire Sanders, Global M&A Briefing: Russia Outbound M&A, October 20135

New Rules of the Game, Desire to Diversify

Having said that capital flight is not quite the bogeyman that it seems to be, Russia nonetheless needs to reduce the amount of money leaving the country. Foreign direct investment into Russia has recovered well this year: Putin said in October that foreign direct investment was up three-fold over the first three quarters of this year to $55bn, which more than covers the outflows. European retailers, in particular, are flocking to Moscow to set out their stalls, pulled in by the rising income levels—per capita income in Russia, which if calculated on a price purchasing parity basis is now over $18,000, or, in other terms, at the lower end of the EU pay-scale—and pushed out of their home markets by the economic stagnation most European countries are facing.

However, the task at hand for the Kremlin is to convince its own businessmen to return home, if Russia really wants to return to high levels of growth; the returning flight capital in 2006–2008 supercharged the boom years. But that is unlikely to happen in the near-term, due to the growing political uncertainty in Russia that has unsettled Russia's business elite. Three factors are contributing to this generalised nervousness.

The first was the reappearance of a real political opposition following the parliamentary elections in December 2011 that has ended the status quo and brought Putin down from the Elysian levels of support he had previously enjoyed, forcing him into the dirt of doing real politics. Prior to the large-scale demonstrations in December 2011, Putin was in complete charge of the political agenda, but since then he has to some extent lost control of the debate. Putin retains a firm grip on political power, but the population has at least won some control over setting the terms of the debate, if not the ability to force the Kremlin to react to it.

The second factor is the growing momentum of the Kremlin's anti-corruption drive. The first real attempt to deal with the endemic problem of corruption was launched by Dmitry Medvedev after he became president in 2008. However, Putin has made this campaign his own more recently, which went up a gear in November 2012 with the sacking of Anatoly Serdyukov[6] due to corruption allegations. The corruption drive has now touched all branches of government with sackings and charges brought against state officials on a weekly basis. More recently the state-owned enterprises have come into the firing line. The income-disclosure rules applied to Duma deputies have been extended to cover the civil service and more recently employees of state-owned enterprises.

Corruption levels have fallen a little according to the Transparency International's Corruption Perception Index, which rank Russia 133 out of 174 states, but the main affect so far has been to drive up the cost of bribes five-fold[7], according to press reports. The anti-corruption drive is proving deeply unsettling, as anyone in business in Russia is now exposed to accusations of corruption and subsequent imprisonment and/or confiscation of property. The upshot has been to encourage Russian businessmen to invest abroad to safe guard at least some of their wealth.

The third factor is Putin's decision to submit a bill to the State Duma on February 12 banning Russian officials from having foreign bank accounts or owning foreign property, which was passed in the summer. This bill is part of the anti-corruption drive and in the summer of 2012 the then-governor of the CBR Sergei Ignatiev intimated that government officials are responsible for half of all the illegal money transfers out of Russia[8]—a truly shocking statement. Since the introduction of the ban several Duma deputies have resigned their

4 See <http://www.bne.eu/archive_blob.php?id=391342>
5 Available from: <http://www.squiresanders.com/global-m-and-a-briefing-russia-outbound-m-and-a/>
6 'Russian Defence Minister Anatoly Serdyukov fired by Putin', BBC, 6 November 2012, <http://www.bbc.co.uk/news/world-europe-20218216>
7 See <http://www.bne.eu/archive_story.php?id=3970>
8 See <http://www.bne.eu/archive_story.php?id=4601>

seats and other have been forced to resign for ignoring the new rules.

With these moves Putin has drastically changed the rules of the game. Previously a state functionary could assume that provided one showed loyalty to Putin's administration, one was free to benefit from the position. However, under the new rules even if one shows loyalty, positions of power—up to and including minister—are no guarantee against investigation or arrest. This change also has consequences for business as in effect Putin has introduced capital controls by limiting some people's ability to transfer funds out of the country. Even in the depths of the 1998 and 2008 crises the Kremlin had shied away from the use of capital controls. Given it is a short step from politics to big business, this has also unsettled businessmen and encouraged them to divest their wealth out of Russia.

The Duma ban on foreign assets can be seen as a repeat of the famous 'oligarch meeting' between Putin and Russia's captains of industry in 2001, in which the president offered a deal: "Keep what you have got, but stop the stealing". The Duma deputies have been offered the same deal, but as this is a change in the rules of the game, it could take several years before all the players in the game are comfortable enough with these new rules to want to invest in Russia again.

About the Author

Ben Aris is the editor/publisher of Business New Europe (<http://www.bne.eu/>), an online news resource and publication covering business, economics, finance and politics in Central, Eastern and Southeast Europe and the former Soviet Union.

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Founded in 1982, the Research Centre for East European Studies (Forschungsstelle Osteuropa) at the University of Bremen is dedicated to the interdisciplinary analysis of socialist and post-socialist developments in the countries of Central and Eastern Europe. The major focus is on the role of dissent, opposition and civil society in their historic, political, sociological and cultural dimensions.
With a unique archive on dissident culture under socialism and with an extensive collection of publications on Central and Eastern Europe, the Research Centre regularly hosts visiting scholars from all over the world.
One of the core missions of the institute is the dissemination of academic knowledge to the interested public. This includes regular e-mail newsletters covering current developments in Central and Eastern Europe.

The Center for Security Studies (CSS) at ETH Zurich
The Center for Security Studies (CSS) at ETH Zurich is a Swiss academic center of competence that specializes in research, teaching, and information services in the fields of international and Swiss security studies. The CSS also acts as a consultant to various political bodies and the general public. The CSS is engaged in research projects with a number of Swiss and international partners. The Center's research focus is on new risks, European and transatlantic security, strategy and doctrine, area studies, state failure and state building, and Swiss foreign and security policy.
In its teaching capacity, the CSS contributes to the ETH Zurich-based Bachelor of Arts (BA) in public policy degree course for prospective professional military officers in the Swiss army and the ETH and University of Zurich-based MA program in Comparative and International Studies (MACIS); offers and develops specialized courses and study programs to all ETH Zurich and University of Zurich students; and has the lead in the Executive Masters degree program in Security Policy and Crisis Management (MAS ETH SPCM), which is offered by ETH Zurich. The program is tailored to the needs of experienced senior executives and managers from the private and public sectors, the policy community, and the armed forces.
The CSS runs the International Relations and Security Network (ISN), and in cooperation with partner institutes manages the Crisis and Risk Network (CRN), the Parallel History Project on Cooperative Security (PHP), the Swiss Foreign and Security Policy Network (SSN), and the Russian and Eurasian Security (RES) Network.

The Institute for European, Russian and Eurasian Studies, The Elliott School of International Affairs, The George Washington University
The Institute for European, Russian and Eurasian Studies is home to a Master's program in European and Eurasian Studies, faculty members from political science, history, economics, sociology, anthropology, language and literature, and other fields, visiting scholars from around the world, research associates, graduate student fellows, and a rich assortment of brown bag lunches, seminars, public lectures, and conferences.

The Institute of History at the University of Zurich
The University of Zurich, founded in 1833, is one of the leading research universities in Europe and offers the widest range of study courses in Switzerland. With some 24,000 students and 1,900 graduates every year, Zurich is also Switzerland's largest university. Within the Faculty of Arts, the Institute of History consists of currently 17 professors and employs around a 100 researchers, teaching assistants and administrative staff. Research and teaching relate to the period from late antiquity to contemporary history. The Institute offers its 2,600 students a Bachelor's and Master's Degree in general history and various specialized subjects, including a comprehensive Master's Program in Eastern European History. Since 2009, the Institute also offers a structured PhD-program. For further information, visit at http://www.hist.uzh.ch/

Resource Security Institute
The Resource Security Institute (RSI) is a non-profit organization devoted to improving understanding about global energy security, particularly as it relates to Eurasia. We do this through collaborating on the publication of electronic newsletters, articles, books and public presentations.

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