

An American of Russian ancestry, Boris Jordan was a key figure in Russia's economic transition to capitalism in the early '90s, assisting in the launch of the Russian stock market and the privatization of state assets. Later appointed chief executive of Russia's Gazprom Media as well as general director of its NTV television network, Jordan was forced to resign in early 2003 under political pressure.

Jordan discusses the dramatic changes made to the Russian economy over the past decade, particularly in relation to the privatization of state assets.

Jordan's Personal Background

INTERVIEWER: You grew up in the States. Why are you in Russia?

BORIS JORDAN: Well, I originally came here strictly from a curiosity perspective. I was very interested in Russia. My family came from this country. I was educated in the United States at home as a Russian. I had a Russian education on Saturdays for Russian language and Russian history. My university education was based on U.S.-Soviet diplomacy. I'd always wanted to come and see what this country was like, but due to my parents' very public anticommunist stance, we weren't really allowed or welcome here during communist times. And so I came here in 1987. It was my first trip, and I decided that as soon as business opportunities opened up, I would like to come here, live here, and work on the restructuring and changes that were going to take place in this country.

INTERVIEWER: What were your first impressions when you came here?

BORIS JORDAN: I was looking around at that time almost everywhere in the world for an employer that was interested in my background, which was Russian finance, and there were not a lot of people that were terribly interested. But there was one gentleman, a real visionary at Credit-Suisse First Boston, who had very aggressively moved the whole firm not only into Eastern Europe, but also into Russia. At that time, with my background of finance and my background of working in merger markets like Mexico and Chile and Brazil, it fit very well into what they were looking for, as did my language skills. And so I got employed by them to come here. That was in very early 1992.

Russia's Economy and Political System in 1992

INTERVIEWER: What was the political economic environment like early in 1992?

BORIS JORDAN: Well, the environment was terribly different than what I was brought up to think about Russia. It wasn't at all about troikas, you know, sleigh riding on horseback and beautiful St. Petersburg and Russian literature and Russian history. The Soviet Union, in my opinion, had depredated a lot of the important values that I was brought up with as an American of Russian descent and Russian heritage.

But on the other hand, it was a country of tremendously interesting people and vast potential wealth, completely underutilized, and an economy spiralling downward and out of control. That positioned them for an enormous opportunity.

INTERVIEWER: You came in the early days of market reform in Russia. What was going on in economic terms?

BORIS JORDAN: Gorbachev had started a process of perestroika, which was, in my opinion, more a political process than an economic process. When I came here, Boris Yeltsin, who himself had virtually no economic background, had become premier. He had a belief that communism was a bad thing, and that's a principle Yeltsin lived with and lives with today, to the end. He brought in a group of very inexperienced young Russians, mainly from St. Petersburg, that were writing economic policies based on readings that they'd had of the West. They had very little background.

It wasn't like Mexico or Argentina, where the presidents of those countries brought in Harvard-, Yale-, Princeton-, and Stanford-educated Argentines and Mexicans who came back to help them restructure those economies. Russia did not have that resource at the time, and so it was working with people who read textbooks. So the process that they embarked on was in many ways naïve and more of a survival tactic. How can we destroy the centrally controlled communist economy, rather than how are we going to restructure Russia for its future? It was more of, "Let's destroy the army, let's destroy the KGB, and let's destroy centrally controlled planning" rather than "How are we going to build an economy that's going to look like Western economies?"

Many people might say that they we're building an economy with a future, but in fact, they weren't thinking more than two months ahead.

Voucher Privatization

INTERVIEWER: Tell us about your involvement in the privatization of Russia's industries in 1992.

BORIS JORDAN: Well, for instance, people like [Yegor] Gaidar and [Anatoly] Chubais and I were hired in October of 1992 to help implement voucher privatization. They had distributed 144 million vouchers to the people [which could be exchanged for stock], but they had no practical idea of how to get companies through the privatization process and into public hands away from the state. But they knew that if they didn't at least launch the program by December 9, 1992, when the Congress of People's Deputies was getting together—that's pre-parliament government, an old Soviet body that was going to get together and basically kill [communist-controlled] privatization—the government needed somehow to take these vouchers that were being traded on the street for vodka bottles and actually convert them to ownership of old state assets and make the process irreversible. That was the key focus of Chubais and Gaidar: to make the process of privatization irreversible and break down central planning.

INTERVIEWER: So you had a pretty tight deadline?

BORIS JORDAN: It was very tight. It was an almost unrealistic time schedule. But from my perspective, the risk to my partner and me was that if this didn't happen, we might as well pack up and move back to the West. From cultural and personal perspectives maybe it's different, but from a business perspective, if there wasn't going to be privatization, there was going to be no market economy, and as a young financier coming to participate in restructuring a country, I would have had nothing to do. So we took the challenge on the basis that if we won, it was going to be a great story and we'd have a long future here. If we lost, we'd go back to the West.

INTERVIEWER: Walk us through what actually happened.

BORIS JORDAN: Well, when we were hired, we were asked to implement a legal process that was developed by a group of both American and Russian advisors to the Russian government. Harvard University was involved with this. Jeffrey Sachs and a group of Russian advisors were involved as well and put together a legal structure and a legal framework for the privatization of Russian assets. The problem lay in the fact that these were largely lawyers and theoreticians who did a fantastic job putting the framework together, but to put that into practice, none of them had the experience. That's why they brought on people with investment banking backgrounds—to show them how to sell these assets.

We came in and realized that there were a lot of holes in the legislation, from a perspective of practical application, and so we sat down with them, and we made amendments to the laws. We only had a very short period of time to do that. They had to run to government offices to get signatures on these changes. Then we had to identify the first company that would be sold, and it was critical that it be a high-profile sale not only in order to announce to the world that Russia was moving into privatization, but also to announce to the Congress of People's Deputies that voucher privatization wasn't a failure, because up until that point it was. They distributed all these pieces of paper to the individuals in the country and said, "You will own a piece of your country, basically free." But they couldn't convert that paper into anything, and that's what our job was. We identified several companies that we worked very closely with to get them corporatized, to convert them from state ownership to joint stock companies, companies that have shares. That was an incredibly difficult exercise, because most of the general directors at that point in time—that is, the CEOs of those companies, or factory managers is probably a better way to describe them—had no real interest in becoming private companies. They had no incentive. They wanted to get state subsidies, but they didn't want anyone to change their lives.

And so we had long lessons in offices of the Bolshevik Biscuit Factory, where I would be explaining the concept of private ownership, the benefits that would bring to the company, and the benefits that would bring to them as managers. In the end it was a very old, simple process that got these guys to agree. We had to basically, I wouldn't say bribe, but incentivize them by giving them stock. And so the program that was developed gave managers of their factories, and the employees of the factories about 50 percent of the stock in the company that would get distributed, based on the amount of years you worked at that company.

And that gave the impulse for those companies to start converting themselves to joint stock companies, and then the balance of the equity would be sold in the public markets to Russian citizens through these vouchers. So we had two or three weeks, basically, to convince these people that this is what we had to do, and we needed one or two to sign up. We finally got the Bolshevik Biscuit Factory to agree to go through this process. Then we spent time training Russians on setting up the auction process, writing algorithms that were going to calculate the results of these processes, setting up PR around the country, setting up a process on how people were going to deposit these vouchers, how these vouchers were actually going to get converted into stock. This was an around-the-clock exercise for a period of a month and a half. We trained several hundred young students to help run these auction centers that were going to take in these vouchers and convert them. Finally, on December 8, 1992, we opened up the first official auction of a Russian company to the public market.

INTERVIEWER: Tell us what that day was like.

BORIS JORDAN: It was a big exhibition hall, but, you know, it was very difficult to get people interested. People in the street didn't believe it. They felt that if the voucher could buy them two bottles of vodka, then that was a lot better than something called equity. And most of the people that were actually standing in line were employees of the company that not only got stock through the internal subscription that gave it to them, but they also then got their voucher from the state. And they came in with their voucher to buy more stock in the company, which is encouraging—employees believing in their own company. But what was discouraging was, we were expecting this mass onslaught of people were going to rush in from all over Moscow to bid their voucher. That really didn't start happening until the market changed fundamentally, and all of a sudden, brokerage firms that were trading anything from coffee to sugar to whatever in this country realized that those shares actually had value. The real awakening to me and my partner in this was that there's an identical company to The Bolshevik Biscuit Factory in Poland that we, as investment bankers from Credit-Suisse First Boston, sold a year before that to Pepsi for approximately \$80 million. This company, Bolshevik, as priced based on the voucher auction process, it opened at \$684,000, and we realized that there was an incredible arbitrage opportunity because of the lack of interest in voucher privatization.

Very few vouchers were bid for an individual share, and what we realized after that first action closed is that these assets were going to go out tremendously undervalued, and that word started to spread very quickly through the very undeveloped financial community in Moscow. And all of a sudden, brokerage firms started to pop up everywhere. People were buying these vouchers and were going to the auction centers, bidding for these companies because they realized they could get them real cheap. That was the nascent development of the Russian capital market back in '92.

INTERVIEWER: During that five-week period, what was it like? You were working out of the Metropol Hotel? It all sounds very logical when you lay it out, but it must have been an incredible experience.

BORIS JORDAN: Well, there were a lot of very difficult things. One of the difficulties in Russia was, at that point in time, you couldn't really find a place to even eat. My partner, Steven Jennings, and I were the heads of this process. We hired out a lot of people to help us with it, and we had no office space. There was no modern office space in the city, and so we basically rented out an old hotel suite at the Metropol Hotel and paid the hotel to run extra telephone cables into it. We went out and in on airplanes and brought in fax machines. We literally had to come in on a weekly basis with a suitcase of \$25,000 or \$50,000, or \$100,000 in cash to just finance this whole operation and put it together.

There was no payroll. There was no system for how you hire people. There were no systems of communication. We brought in cell phones from abroad that were this big, because the technology was just starting to arrive in the country. Then we had to hire a tremendous amount of young Russians to help us in the process, and I was the only real bilingual in the group, speaking both Russian and English. My partner was an English speaker, so that made it even more difficult to try and put this whole process together.

But we were amazed. We found very strong young Russians in finance institutes around the city that spoke English well, that were getting a good education, that were eager to work for us. They were fast learners, and we were able to get this group of probably over 300 people to open up this auction by the December 8, which was a real goal. But it was a difficult process. The companies didn't want to be privatized. A lot of people in the government bureaucracies

were against privatization. When you were bringing changes to the law to them, they tried to block you. You had to run around the halls and it was a very, very difficult exercise. I don't think that I'd ever take that on again. We were real kamikazes, putting that together.

INTERVIEWER: What was driving you personally?

BORIS JORDAN: Two things were driving us. The first thing was the sheer excitement of being someone who was [not even 30] years old who had an opportunity to fundamentally change the direction of a country. That was the ultimate exciting thing for any young man, I think. The second was a nostalgia thing. Our families' lands, homes, and businesses were taken away by the Communists. And here I had the ability to come back and maybe stick it to them by taking it back from them and giving it back to the people by selling it off. And, you know, here I was, participating in the ultimate thing my family stood for and that was breaking down the communist system. There's nothing like market economics, which is the antithesis of central planning, to break down the communist system. And that really drove us tremendously. And both my partner and I are real believers in that.

The Socialist Backlash to Privatization

INTERVIEWER: Shortly after the privatization, Yegor [Gaidar], the deputy prime minister [and minister of finance], left government. Was there a backlash? Did he get the beginnings of privatization in under some deadline where really it might have been shut down?

BORIS JORDAN: Every day, as we were nearing December 8, December 9, we thought we were going to lose. We were running against time, and we weren't actually getting a lot of help from the state. That's the irony of it. I think that even the politicians like Chubais, who called himself a kamikaze, were hedging a little bit at certain times. Chubais was one of the stronger-minded people in pushing this process forward, but there were certainly people in the bureaucracy that were hedging, worried that if this was a failure, would they have their job the next day?

The removal of Gaidar, I remember it very well. We'd already opened the auction, and I was sitting in the auction center. We had a small office there. I was watching the television, and I watched Gaidar get removed and Viktor Chernomyrdin get appointed. At that time, I had no

idea who he was. I immediately started going through records that we had to find out who was this guy that was going to be running things. And of course, the early news on Chernomyrdin was not great. He was a guy from the central planning system, a general director of the Gazprom, and the only thing that gave people like myself confidence was Yeltsin. I always believed, and I believe even today, after some of the ups and downs of his political career, that Yeltsin had one main principle that went through his whole political career. He was an anticommunist, and he was not going to bring someone into power that he could not at least have a significant influence over to manage the process the way he envisioned it. And that was the only thing that gave us confidence. But I have to say the appointment of Chernomyrdin at the time was a very negative signal to people like myself who were trying to run the reform process. But in the end, he ended up being a backer of it. One can criticize the ups and downs of his political career, but he backed it.

INTERVIEWER: Did you feel any backlash against you personally and other Western bankers and advisors coming over? You say you saw this as a way of sticking it to the communist system. Did that generate any animosity?

BORIS JORDAN: The animosity came later. At that time, I was an unknown figure. I was known to very few people. I'd only spent six months in the country. I was running this process, but for the most part the process was identified as a Chubais-directed process. It wasn't until about six months to a year later that the political circles in Russia started to understand that there was some Russian-American by the name of Boris Jordan who was running around town creating havoc. And that's when I started to feel backlash. Newspapers would write stories about me being a CIA spy, an agent of Mossad. You name it and I've been there and done it, according to the Russian KGB.

That's when I started to feel the backlash. It wasn't until about a year and a half into the process that people started to know who I was. Until then, it was Chubais and his international advisors. As a group, we certainly felt pressure. As a group of people who were advising Anatoly Chubais on the privatization process, we definitely felt pressure.

INTERVIEWER: What do you think that pressure was a reflection of? What kind of groups within the establishment were putting that pressure on?

BORIS JORDAN: It was basically the communist establishment against the reformers. It was not like it is today in Russia. It's a very different landscape today, politically. Even in 1993 it became different. Up until about '96, '93 inclusive; it was very much Communists against reformers. In '96, the political landscape fundamentally changed. That's not the issue anymore. Until '96, but more importantly from '91 to '93, it was very much, "We're the Communists, and we ran this country. We ran the ministries, and who are these guys that have arrived here and are fundamentally pulling out the rug from under us? They're going to destroy our way of life." That was who was against us.

INTERVIEWER: Did you think during that period, say right up to the presidential elections, that really it might all go back to the way it had been, that the market economy might be reversed?

BORIS JORDAN: Absolutely. We fundamentally believed that if the process didn't move fast enough, it might not happen at all. Today there are a lot of critics of the Russian privatization process, a lot of critics of what I did in that process. I will always defend myself and say that we had a much higher purpose in that process than is recognized by the world financial community, including organizations like the IMF. Our goal at that time, which many people don't realize, was to bring down central planning and the communist system, which was very much in existence in 1991. Perestroika was a political process that had begun, but it did not break the economic principles that were running the country. It had brought some political freedoms of speech, assembly, and other things, but it did not break the central planning system.

And if that system was not broken, this country could not come around. It was our belief that it was too late for Russia, given its economic condition, to go the Chinese route. The Chinese started in 1978. Given the state of the Russian economy as compared to its Western counterparts at that point in time, we felt that you had to break the old system, no matter what it was going to do in terms of chaos. In many ways we predicted that what took place in the years between '93 and '98 might happen. But if you look back at it, I think 30 years from now or 40 years from now, I believe that what we did will be seen as the right thing to do, because Russia is now on an economic recovery path. No one can argue that it has fundamental problems in its system. You can't change something like the Soviet system of 80

years of totalitarian rule—not only the public and political aspects, but the economic aspects—and bring in a market economy overnight without going through a period of chaos....

The world today is governed by economics. Those nations that can provide the right way of life for their people are those that are prospering in both political aspects and economics aspects worldwide.

That is what is important for Russia to do. Russia needs to be able to recover, and to do it over a 50-year period. In my opinion it would have been unacceptable, and had too many risks of going back, to do it any other way. This way, the old system was destroyed. The new system is not in development yet, but it will evolve, I think, over the next 20 to 30 years, and then Russia will join the world community, both from a political and economic perspective, faster than it would have, and at much less risk than it would have, had it taken more of a Chinese approach to it.

Privatizing a Giant: The Case of Norilsk Nickel

INTERVIEWER: When [Vladimir] Potanin and his group started looking at how to privatize Norilsk Nickel, what were the obstacles that they faced?

BORIS JORDAN: Well, Norilsk Nickel went through two stages of privatization. The first stage was voucher privatization. That was the stage where employees were given vouchers and were able to buy some stock. However, Norilsk Nickel was classified under strategic assets, and so the government retained a controlling interest. Bolshevik Biscuit, for example, was not a strategic asset of the nation, and therefore it was 100 percent sold to the market. In the case of Norilsk Nickel, as with many other companies that were considered monopolies or strategic in nature, Norilsk was producing raw materials like palladium, platinum, and nickel and other things that we use both in the military and industrial complex. And so the state retained a controlling interest.

BORIS JORDAN: But Potanin proposed a privatization program to the state, which today is still used, that was extremely controversial. It was a "loans-for-shares program." It was proposed to the state in the spring of 1995. That program entailed Russian business giving government loans in return for taking the shares of strategic assets as collateral to be later sold. And when

it was sold, the participant that gave the loan would have a 30 percent upside. In fact, what ended up happening is most of these companies ended up getting sold back to the guy that actually provided the loan.

There are many different stories about whether this was Yeltsin's payback, [something] that he did this prior to his election. After his election, all these guys converted and got what they wanted. There are many different hypotheses about why this took place. One is that Anatoly Chubais was creating a group of supporters for Yeltsin politically, because even after the elections of '93, he was under massive attack by the still-Communist-led Duma. He was looking for a way to solidify Yeltsin's position so that the Communists could not come back in '96 and reverse the process that might still have been possible.

He needed to create a support group. He understood that money, contrary to the Communists' opinion, was going to make that decision, and he said, "I need to transfer certain industries into Russian hands so that Russians, those that will have an interest in Russia's economic future as a market economy, will support me and the president in what we're doing." And so he created this group of people who also amassed tremendous wealth overnight in order to be able to support himself and Yeltsin. There's that hypothesis.

Then there's the hypothesis that Chubais was under tremendous political pressure for selling too much to foreigners under voucher privatization by the prime minister. Then he had to sell something to Russians, and he picked a group of Russians and sold the assets to them. There are many different hypotheses. The point is that he did transfer very large percentages of Russia's large companies into Russian entrepreneurial hands in one way or another.

What I think is the bigger picture, the bigger issue is, were these people going to be able to make something of these assets, which is very important for Russia's future? Firstly, I think he did secure the goal of getting their support to get Yeltsin elected, and I'm a 100 percent supporter of that. I think that is the higher goal than the actual process and whom he gave the companies to. Keeping the Communists out of power in '96 was critical, because today it's irrelevant. With every year, more and more Russians who weren't even born under communism are voting. If you think about the people, the 18-year-olds who will be voting in the next election, they were born in '86. You know, they don't know what communism is. And

so more and more people every year, or every four years, are non-communists. So I think the threat of reverting to that totalitarian system is gone and Yeltsin achieved it through these means.

So the political task succeeded. The economic task then was, can these guys change these companies? These companies were run by very powerful communist-era directors, all of whom had access to the president. And the president was under tremendous fire at that time. He was very ill. Norilsk Nickel was probably the test case. The hardest guy, one of the most powerful men in Russia, and there were two at that time—Chernomyrdin and Rem Vyakhirev of Gazprom, and Anatoly Filatov of Norilsk.-- those were the big honchos. And Potanin, who was at that time a relatively unknown person in this country, went up against this guy, and it was a long, hard, difficult battle. I remember times when Potanin, who I'd already met at that stage, was ready to give up. But he persevered, and he actually removed Filatov.

When he, Potanin, took over Norilsk Nickel, it was a company in several billion dollars of debt. Wages hadn't been paid. The infrastructure was in complete decay. No reinvestment had taken place for over 20 years in the Nickel plant. Today, although he's still got lot to do, it's a very profitable company. I would argue that the workers of that company think he's a great guy in what he's done. He has started to rebuild the infrastructure of Norilsk, and he has invested probably \$1 billion over the last two years back into the plant. I mean, it's not as though he doesn't take something for himself; of course, he's a very wealthy man, and that's fine, because I believe that that's the principle of capitalism.

Yet in many ways, Norilsk is a showcase of what happened in Russia, and of what needed to happen in Russia. The Norilsk share price is outperforming even the current market, and I think that's just a sign of shareholder support for what they've done up there.

INTERVIEWER: If you look at Norilsk Nickel, how was it different from the way resources like that might be exploited in the West? How is it a refraction of the legacy of the Soviet economic system?

BORIS JORDAN: Norilsk Nickel is a complete Soviet establishment. I wouldn't even call it a company during the Soviet era. It partly was a prison camp, which reflected totalitarian rule

and the lack of freedoms that existed in this country. It was built in order to exploit the nickel reserve mainly for the Russian military industrial complex. Then it slowly started to convert into a large Soviet town, a large infrastructure company town, over a period of about 30 years. And when the company was privatized in 1995, it reflected the decay of the Soviet economic system. In other words, it was this half prison, half Soviet town that had no reinvestment in it for a period of 20 years. It completely reflected every stage of Soviet development, from totalitarian rule to the go-go years of the oil boom and the natural resources boom in the 1970s with large development to the actual collapse of the Soviet economic system by 1991. So if you look at Norilsk, you can walk through every stage of Soviet economics and political system.

INTERVIEWER: And today?

BORIS JORDAN: Obviously you cannot change everything in nine years. The company still retains a huge infrastructure in the form of buildings, hospitals, schools, and towns. It's got over 400,000 people living in it. The fact is you could probably run that company with less than 100,000 workers who could be brought up and recruited on a three-month basis. So the company is addressing that issue. Norilsk Nickel, almost on a monthly basis, is opening up new construction sites around the country. They're relocating people to live in more Southern areas of the country, where the cost of infrastructure, of shipping food and things, is a lot cheaper than bringing it all the way up to Norilsk. I think that that's probably a 10-year process, but I believe that the current shareholders of the company understand that from a purely economic perspective, if they can't reduce the infrastructure in Norilsk by at least half within the next five to 10 years, they will face economic problems similar to the ones the Soviet Union did. They're now going through the benefits of their earlier restructuring and the very high commodity-price environment. And it is at this time that they have to use the profits developed by the company if they want to keep those profits for another 30, 40 years. They have to use some of them now to invest in the changeover of the company, not only in new re-equipment of it, which they're doing, but also in the fundamental, Soviet-era legacy that they have—this huge social infrastructure which you basically have to shut down.

INTERVIEWER: So, in a way, it's still a symbol of Soviet economy.

BORIS JORDAN: Absolutely, except that it's a symbol of the Soviet economy that is being transformed into a market economy company.

Russian Capitalism: Present and Future

INTERVIEWER: Can you help a Western audience understand about the oligarchs and the power they have around the country? You mentioned that you were a student of the robber-baron era in American history. What are your general thoughts on the relationship of that era to the type of capitalism that we have in Russia now?

BORIS JORDAN: The current situation in Russia and the situation at the turn of the last century in the United States, from the late 1800s to the early 1900s, are very much similar. Government institutions were in their infancy, and their development stages in the U.S. then, and the financial structure of the country, was very much out of government's hands and very much in private hands. The United States didn't have a proper Federal Reserve Bank for a very long period of time. J.P. Morgan single-handedly solved the financial crisis of 1913 in the U.S. economy with his group of bankers. Today, that would be unheard of in the United States. Now you have proper institutions.

Similarly in Russia, the institutions necessary for the development of a country from a centrally planned economy to a democracy are not yet fully in place. You have weak financial institutions in the form of the Ministry of Finance, the Central Bank, and other organizations. So financial players, entrepreneurs, play a much more significant role, as they did in the United States. The presidents of the United States, up until Franklin Roosevelt, really met with the Morgans and the Rockefellers and those types on a regular basis. There's a tremendous amount of influence these people had over the development of policy in the United States, largely because there was no anti-monopoly committee and no anti-monopoly legislation in the United States. All the antitrust legislation, as it's known today, was brought on at later times.

In Russia, you have had a similar process. Most people were focusing on making irreversible the macroeconomic restructuring of Russia rather than on building the institutions needed to then hold that together. Those institutions are now being developed. We now have a Securities and Exchange Commission in Russia; we have an anti-monopoly committee in

Russia. We have a lot of the same institutions. They're not as powerful as they are in the United States, and they probably won't be for a period of another five to 10 years, but they are in formation. And what happened was, in that environment of weak institutions, many people got tremendous influence, primarily because they controlled a very large percentage of national GDP, and they used that monetary influence not only to elect the presidents, but also to continue to benefit their large corporations.

In President Putin's approach to these people, we can see already today the first sign of rollback. [It's] very similar to what Teddy Roosevelt started to institute in the United States, that was eventually brought to fruition through antitrust legislation and tax law changes. Similar things are starting to happen here. Putin is starting to distance these people from the state. He is starting to [build] stronger institutions within the government so that they can have a fair relationship with these people rather than being on someone's payroll. And I think that this initiative will change the face of Russia tremendously over the next 10 years.

INTERVIEWER: Doing business in this country, not just for the elite, but for mid-sized businessmen, how different is capitalism here from what we would understand it to be in the West?

BORIS JORDAN: I would say there's one phrase that probably defines it. There is a lack of rule of law, and enforcement of law, in the Russian market economy. It's a bit of a free-for-all that has its own rules, and those rules are a combination of the circumstances that Russia's in now from a purely historic perspective, the breakdown of the centrally planned economy and conversion to a market economy, and the existence of a fundamentally different mentality from the West. The Russians are neither Europeans nor are they Asians. They're Euro-Asians. Fundamentally, I believe that. They have a very different view on how it is you do business. That view you can see in the development of the Russian financial community and economic community prior to the revolution of 1917, where very similar practices of doing business were used in the Russian economy as are used today. In other words, the concept of bribing, what we consider as strong corruption, in Russia is viewed as a natural process. I remember someone telling me that even under the Soviet Union, the head of the Soviet medical agency, based in Moscow, came to Stalin and said that we need to raise the wages of our doctors around the country. And Stalin looked at him and he said, "Those that are very good will pay

their own way, and those that aren't, well, we don't need them." In other words, those that are good will earn salaries on the side, by having people paying for the medical services, which was illegal at that time.

It's the same now. It's a way of life in this country, and that will have to change. As Russia wants to move into the global community, and that global community's ethics, morality, and rules of the game are being developed right now with a more Anglo-Saxon approach to business, they will have to adjust their ways of doing business. But let's be honest: It's taken the Koreans a long time to adjust. It's taken the Japanese a long time to adjust. The Chinese are far away in terms of their adjustment to that way of life, and I think it will take a long time for the Russians to adjust. One of the biggest misconceptions of Russian reform in the early 1990s was that in three years we were going to have a market economy. In three years we destroyed the centrally planned economy, but it's going to take probably 30 to 50 years to build an economy which will resemble what I think the global economy is heading toward, which is a more Anglo-Saxon approach to doing business. Russia will get there, but it's going to take time.

Russian Economic Culture in a Global Context

INTERVIEWER: Not just in this country, but also in France, China, and elsewhere, you hear people say that one of the problems with globalization is precisely this Anglo-Saxon sort of bias that you're talking about. Do countries like Russia really have a choice to opt out or adapt globalization to their own rules and culture, or is it, frankly, inevitable that they have to become more like the West?

BORIS JORDAN: The Russians could opt out, but they'll lose in the global power grab. They have to adjust. They're not going to completely be like the Anglo-Saxons. Nor is China. Nor are the French, for that matter. But if you take a look at who is gaining power globally in the economic approaches, it's mostly those countries that follow a more American, U.S. approach to the development of their economy.

Transparency and openness of markets, I think, is a proven element, although George Soros might argue that from time to time. He changes his mind, frankly, but he does argue it from time to time. But, you know, open markets are the way forward I think, and that's been

proven across the board and in many countries around the world. I mean, Poland is a great example of a country that continues every year to open its markets up more and more, and by doing so is becoming a real economic power within Europe. I think it's not an accident that we're headed toward monetary union in Europe. The fact that we've had some hiccups in it, the fact that the euro has always traded low since it was issued, I think that that's just a temporary adjustment and a fudge, because Europe has not really completely united its economies yet. I think over time, that it will.

It's more of a way-of-life issue, I think. Are people prepared to live that kind of lifestyle? And I think the argument, worldwide, probably is that most republics are prepared to say, "No. We want to live our own lifestyle." The French have certainly argued, for a very long period of time, that they want to live their own lifestyle. But I think that they're losing; that those countries that are not changing, not adjusting, are losing the quality of life of their people in the long term. More importantly, I think they are losing in what I would call the global power grab; that is, influence over global economic policy and political power.

INTERVIEWER: And the concept of economic fair play, does it apply here? Coming from your background, how do you practice business here?

BORIS JORDAN: I've had to adjust tremendously, and I've received a lot of criticism from many international players for having to adjust. There's an argument that I've compromised principles somehow by trying to adjust to doing business in the Russian environment. I think that's not true. First of all. I think that I haven't compromised any principles. But I think that what I've tried to do, unlike many people who just come in here to speculate, to buy and sell shares, is that I, as an owner of large businesses that I've been building over the years, have tried to understand the Russian economy and the state in which it's in. And I'm always a person that's proposing, pushing it forward. But I'm also a realist. If you're going to operate within this environment, if you're going to have an impact on changing it, you can't do it overnight. You can't come in here and say, "For God's sake, you have to follow the U.S. laws on securities for these operations." You can't do that. It's just impossible. And if you are an investor that wants that, well, then invest in the United States; don't invest in Russia. That's the real decision.

But I put myself in a slightly different role than your average investor that's looking to earn a 25 percent or 30 percent or 50 percent return on equity in this environment. I've created a way of life for myself here. I'm living here with my family and my children for a very long period of time, and I intend to continue to live here. We are participants in an evolution and a change in this country. And those people that look at it the way I do, we have to look at it from a much longer-term perspective. We have to understand that we can't make these changes in the next two or three years. I'd love to. I'd love to change this country in two, three years, but I don't want to make it look like the United States because, frankly, this country has tremendous things that are different from the United States. I love the U.S.; it's my home country, and I grew up there. But, you know, you don't want to destroy the ethnicity of this country, the culture of this country in the process. That's why the difficult part, in my opinion, is over. The breakdown of the economy, the threat of returning to that communist way of life, I think that is behind us.

We haven't traded it for another dictatorship or totalitarianism. I believe we've ended that, not only economically, but also politically. The Communists had a very strange way of life that was extremely damaging to people's psyches, to the [morale] of the country. I think it was very important to destroy that, and now we're on a path forward, which I think is a democratic path forward. I'm confident that Putin will continue to build democratic institutions in this country. I do believe that he will, from time to time, probably violate international codes of operation because he has to roll back a little bit the chaos created by Yeltsin. That's not to criticize Yeltsin. I think he had to do it. But Putin has to rein that in a little bit in order to start building on the destruction, building from the destruction forward.

It's a little bit like what they had to do after the Third Reich in Germany. They literally destroyed a nation, and then they had to rebuild it. And let's be honest: Germany is not fully recovered from the Third Reich. It's a bit of an issue in that country to this day.

INTERVIEWER: And so here?

BORIS JORDAN: So here I think that, like in Germany, we are not through communism completely. The effects of that system of 70, 80 years will stay with this country, I think, for another 50 or 60 years.