



FROM RUSSIA WITH LOVE
ИЗ РОССИИ С ЛЮБОВЬЮ
LIEBESGRÜSSE AUS MOSKAU

From Russia with Love

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Marc Faber, with whom I have been friends for 20 years, asked me if I would write an article about my life in Russia for the February issue of his The Gloom, Boom & Doom Report, which I happily did. The Gloom, Boom & Doom Report is one of the world's most respected publications for professional investors. Here is my report.

It will be more meaningful for the reader if I put my view of life in Russia in a broader context and elaborate a bit more on what my life has been like.

I was born in Zurich in 1964, in the last year of the Baby Boomers. I grew up in a middle- class family and I spent the first 14 years of my life in an apartment block not far from the city of Zurich.

In my youth, Switzerland was strongly affected by American influence in politics and business. The Cold War was on and everyone knew who the good guys and the bad guys were. One was sure to be on the right side.

This became clear when I joined the army. In my time, every young Swiss had to serve in the militia army. In exercises and maneuvers, the enemy was always red and came from the East – that's probably the easiest way to sum up Switzerland's foreign policy stance at the time in one sentence. It was a simple, bipolar world.

In my life, I was strongly influenced by my grandmothers. My maternal grandmother was German, married to a Swiss expatriate. She was a "non-practicing" Jew, he a goldsmith. In 1923, they lost everything to hyper-inflation in Germany and fled to Switzerland, where they built a modest existence with a goldsmith's atelier. During the war my grandmother feared for her life. They hid their Jewish background, converted to Catholicism, and hoped that the Germans would not invade Switzerland.

My paternal grandmother wanted to explore the world all her life. She spoke five languages and was already an au-pair in Algeria as a 16-year-old, at the beginning of the 20th century.

My grandmothers brought me closer to culture — especially music — and the vast world.

So, I grew up in a country that was full of Atlanticists. One looked up to America and thus the geopolitical attitude was given. Furthermore, the USA was also the measure of all things in terms of career. If you wanted to work for a top law firm — for example, as a lawyer like I wanted to be — you needed a doctorate and, after training in Switzerland, a degree from a top university in the USA.

I also took this path and studied several times in the USA, first in summer schools, where I took economics courses during the summer breaks. In 1993/1994, I studied law at Georgetown University and received my LL.M. degree.

Nevertheless, because of music and literature, I was from a very young age enthusiastic about Russia — purely emotionally. Six-year-old geopoliticians don't exist.

I asked my multilingual grandmother how Russia could be considered so bad, when it produced such beautiful music and such beautiful books. She simply replied that in the world things were often different from the way the majority described them, and that everything was different when one looked at it up close. Her comment stuck with me like no other in my life.

I surely inherited my curiosity about new and different things from my grandmother. I always wanted to see more, and the law firm where I worked in Zurich gave its young people a lot of freedom and responsibility. I appreciated this and used it to an immense extent.

I was always interested in messed-up cases, which were a great challenge for the lawyer and also for the clients: disputing parties, families, and transactions that were actually impossible. I enjoyed that. So, I soon got the cases that no one else wanted and one of them was a real estate transaction in Russia. This was very exciting and unusual. My colleagues in the Zurich office thought my trip was dangerous. Would I be arrested, kidnapped or even killed?

I went to Russia for the first time in 1997 with great interest. On the one hand, I was politically influenced by the West and on the other hand I had an open heart for the culture of this gigantic empire. Would it be a positive experience?

Moscow wasn't the Moscow of today. One wouldn't recognize it. The late 1990s was the time of the oligarchs. To the observer, a large part of Moscow looked to be gray-on-gray in tone. The air quality was bad, traffic was a mess, most people were unwell — you could feel it. Infrastructure for a middle class didn't exist, as there was no middle class.

There were virtually no restaurants, because no one could afford them. The exceptions were a few overpriced outlets, most of which were in the big hotels. The lobbies of the hotels were meeting centers of oddball and gloomy characters who held meetings there all day. I stayed at the Metropol Hotel, a big building that had survived the czarist era. Nevertheless, the great times could still be glimpsed behind the lived-in and poorly maintained surface.

My first walk took me to Red Square late in the evening. By the way, the "red" in the name of this square comes not from the colour red but from the Russian word for "beautiful" — and it was. I knew this place all my life as a background photo from the daily television news — the Kremlin behind the big red walls, gloomy and scary. Another lasting image was of the Soviet leaders on the tribune above Lenin's mausoleum during military parades.

Now I stood there, in front of the basilica, at night, in a light snowfall. The beauty was overwhelming and the threatening atmosphere I had felt earlier was blown away and replaced by a sense of grace, elegance and friendliness. The colored parts of the basilica towers looked like colored silk pillows sewn together — the colors were warm and vibrant.

Our Russian joint venture partner was a charmer, spoke good English, and was a gifted salesman. His Russian lawyer was a fighter, aggressive but bright as a flash, loud but also charming and hands-on.

The project was small but nice. The location of the project was good and the transaction turned out to be a great success for both sides. Our Russian partner delivered what he promised and we did the same: joint venture.

On the last evening of my visit, the counter-attorney invited me to a concert at the Tchaikovsky Concert Hall. Kurt Mazur, one of the great conductors of the 20th century, played Tchaikovsky. The audience, people from the street — not an elitist event as in the West — were just great, and the quality of the music was second to none.

I had to revise completely the image I'd had of Moscow so far. Under the surface of this giant city, a juggernaut, there was beauty and culture at its best. Many friends describe having similar impressions of their first stay, with their negative expectations replaced by very positive and unexpected moments — a positive culture shock.

Nevertheless, the system that prevailed in the 1990s was unhealthy. The state functioned more poorly than it should have, with a small layer of oligarchs who gutted Mother Russia at the expense of the vast majority, and another group of ruthless and smart businessmen who exploited the state's inefficiencies — always at the expense of the ordinary citizen.

In August 1998, everything that can collapse in a country collapsed. When I was in Moscow the following month, I read in the *Financial Times* that tanks were on their way to Moscow and that there was a civil war. None of that was true.

People were no longer receiving wages and factories were paying their employees in those goods they were producing. The father of my girlfriend, who worked as an engineer in a car headlight factory, came home with car headlights. Employees of coffin factories were paid in coffins. In any Western country there would have been civil war, but Russians stayed quiet and tried to get by somehow. The dacha, where Russians grew their own vegetables, helped — no one starved. But times were bad and with the collapse of the ruble people lost not *much*, but *everything*.

Those who held Russian stocks lost almost everything. The mood was at a low point, but I never felt any aggression and the riots, or even civil wars, conjured up by the West never materialized.

The Russians, as I learned in 1998 at the nadir of the crisis, had a quality in their personality that can only be described as "incredible": they remained calm, as if they knew that chaos would only make things worse.

The public were surprised when a young, inexperienced man from St. Petersburg was soon appointed prime minister and then elected president. Vladimir Putin could not have had a more difficult start, and no one in the West believed that Russia would rise again.

President Putin took up the work and called the oligarchs to him. He told them to stay out of politics, but they could keep their money if they complied. His position was weak, too weak to take back the oligarchs' money. Most of them complied, some left Russia, and Khodorkovsky, the richest, tried to gain political power. He failed and ended up in prison.

This article is not about judging President Putin's overall performance. Here, I am referring to what is probably the most comprehensive and objective biography of Putin, by Thomas Fasbender. The author is an expert on Russia and spent much time in the giant empire as a manager and entrepreneur. I couldn't tell from reading the biography whether he is for or against Putin. This is an achievement of an author who attributed objectivity to his shield.

This story is intended only to describe my life in Russia: how good it was and how good it is today, in times of new turmoil.

From 1998 I was no longer working in Russia as a lawyer, but as a manager. The first projects were a great success, and so we invested a lot of money with our Russian joint venture partner. We had six projects under construction in the summer of 1998 when the economy collapsed!

At the beginning of the crisis, my bosses weren't willing to make the last 35% of the investment to complete the projects. However, a half-finished real estate project has a value of exactly zero. On the equity investment side, the loss barometer showed – 98% and my bosses didn't want to continue investing in a disaster.

I explained to them that Russia was stable, and that the reports from the West were a panicked response by greedy investors who had initially earned a lot and now would turn their view 180 degrees to somehow explain their gigantic losses and look better — but at the expense of Russia. I was able to convince my bosses, and many of my colleagues were sure of Peter Hanseler's downfall. I was aware that I would lose my job if I wasn't proven right.

The situation stabilized, our joint venture partner delivered, and after completion of all our projects we were able to sell them profitably. It was a tour de force and everybody knows that most people don't act very friendly under pressure. Nevertheless, I kept my job.

A few years later, I opened my own company in Moscow. It was a difficult time. When I started, everyone was still drunk on the stock market fever during the dot.com bubble, but my fundraising started right when the dot.com bubble burst — again, great timing!

In a giant empire like Russia, everything proceeds at a leisurely pace — one might think. The processes were Soviet-style, with an administration that couldn't keep up with development for a very long time. It was inefficient and non-transparent, which encouraged corruption.

I saw the potential of Russia in 1997, and its disintegration in 1998, and witnessed an incredibly difficult time in the next five years or so. Still, it was always clear to me that Russia would make it, and I was to be proven right. I always saw — despite all the problems — the positives: the size and wealth of the country, and the wealth of the people. I always perceived Russians as very warm and open; nevertheless, they are skeptics. Russians don't have the open and very engaging behavior of Americans, for example. Not everything is great and likeable from the first moment, and you don't become friends in 15 minutes.

Russians don't look at you grimly — as we assume — but with skepticism. The warmth comes slowly, but honestly. If you take the trouble to learn Russian, you have the key to open the Russian heart. For every Westerner, however, this language is an imposition: the grammar is a horror, the pronunciation doesn't really have much to do with the written language, and every cleaning lady has a huge vocabulary, so that one loses sight and hearing. In addition, the language is spoken faster than many others. But it is worth it.

About life today: I live in Moscow, but I also travel to the regions for private reasons. Moscow isn't Russia, just as New York City isn't the USA. A big city of 17 million people always has a concise, but also tough, touch — everywhere. What is striking is the fact that the skyscrapers are concentrated in a small area outside of the center — in Moscow City. The city center is characterized by many old buildings. A friend of mine who loves Paris told me on the occasion of his first visit to Moscow that it was like Paris, only everything is grander and more lavish.

Everybody likes something different — everyone is different. For me, the restaurant selection is extremely important: I don't want to live where there is no good food. I knew

maybe five restaurants in Moscow in 1998; today, there are 17,000 — a huge number of offers, from very cheap to very expensive. Like Swiss cuisine, Russian cuisine isn't very artistic or highbrow. However, the restaurants are very international and many Russian chefs are extremely creative. This is a big plus of Moscow.

Many people in the West expected the huge supply of supermarkets and hypermarkets to collapse as a result of the sanctions. This wasn't the case. Since the sanctions started in 2014, Russia has become the world's largest agricultural exporter, which means that all staple foods are available in large quantities to everyone. Most goods find their way to Russia, and Western exporters know this all too well — they now simply make their sales in Kazakhstan or Armenia, through which imports to Russia now pass. My Italian coffee capsules now have a sticker from Yerevan, the capital of Armenia, on the boxes. Those businesses that left the country are corporations such as McDonald's, which made about 8% of its total sales in Russia. A joke that the Americans would support the Russians in terms of public health made the rounds. Then the whole organization was taken over by a Russian and is now called "vkusna i tochka", which roughly translates as "yummy and full stop". However, the quality hasn't improved: junk remains junky.

The dry spell for Western goods lasted about two to three months. Everything is now available again and, despite the detours the products take, inflation in Russia is steadily decreasing — to the surprise even of Elvira Nabiullina, president of the Russian Central Bank.

When I tell my friends in Switzerland that the selection of goods in Moscow is greater than in Zurich, they don't believe me, but it is indeed the case. The supply chain is therefore great and physical well-being is taken care of.

In terms of culture, music and art, Russia has always held a top position and culture is very available and affordable for all.

I live in the center and as an avid pedestrian do most of my trips on foot. Sometimes I cover 20 kilometers or more; you simply see more and get a better feel for the city on foot than in a car. Those who live in the center and have a car are not to be envied. The traffic is a horror. The streets — even in the center — often have 2 x 6 lanes and everything is packed with cars. Parking is a rarity and expensive. For long trips, the metro is one of the most efficient in the world. There are also streetcars and buses. The quality of cabs is good and very inexpensive.

So much for the tangible aspects of this city. Everything works fine — that's what a Swiss says! Some things could be better, but I have the feeling that the city government is always trying to do that. Moscow wants to please — and does. The city has undergone a development in the last 20 years that deserves the adjective "breathtaking".

How are the Russians behaving with regard to the Ukraine crisis and towards the West? It is a Western propaganda myth that other opinions cannot be heard in Russia. Of course, the Russian media also engage in propaganda, but the state knows that it is facing a bunch of 150 million inhabitants who are all skeptics. The press isn't believed in Russia — history has proven that.

There are also very critical reports regarding the state, corruption and military performance. In any case, the Russian media have been closer to the truth since February 22, 2022 than the Western media. I know this because I spend a large part of my time reading, and ducks are rarer in Russian newspapers than in Western ones.

Russians have a very different relationship to the state than their Western friends. Again, and again: skepticism. The state as a service provider for the citizen has developed in an outstandingly positive way. Residents' registration offices, motor vehicle registration offices, tax offices — everything that gets on the nerves of a citizen anywhere in the world runs efficiently and in a modern way. The low tax burden (a flat tax of 13–15%), as well as the fact that there is no wealth tax, not only seems paradisiacal, but is so.

Regarding political freedom: Russia could not be managed with a Swiss system. It's impossible. Already there is a lack of interest in politics. The Russians want to be left alone; they want electricity, water, and a business climate that doesn't break the little guy. The fact that President Putin has been at the helm for a long time doesn't bother the vast majority of Russians at all. He was the first to clean up and actually improve life for average Russians. Do they love him? "Respect" is probably a better word to use — and he has earned it.

So, now I live in Moscow and have had the privilege of observing its development over 25 years. The capital of the largest country on earth is a jewel; you just have to come and see it. My grandmother was right: in the world, things are often different from the way the majority describe them and everything is different when you look at it up close.

Analysis Faber, Marc Russia Gloom Boom & Doom Report Nabiullina, Elvira
Financial Times (FT) Vkousno i tochka