Confluence INVESTMENT MANAGEMENT

Weekly Geopolitical Report

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Schumann in Volgograd

If you ever find yourself in Volgograd, Russia, you will visit Rodina Mat' Zovyot. It's unavoidable. The statue, depicting Mother Russia calling her sons to battle against her invaders, is one of the tallest in the world. Standing almost 280 feet high, she is nearly twice as tall as the Statue of Liberty. Her colossal height is accentuated by her position at the summit of Mamayev Kurgan, the high ground overlooking Volgograd, whose great, grassy green slopes were fertilized by the blood of a quarter-million Soviet soldiers who died defending it from the invading Nazis during World War II, when the city was still known as Stalingrad.

You never know when you're about to have an experience that will stay in your memory, and haunt you, for the rest of your life. Such was the moment when I first entered the glittering round chamber below the statue, where an eternal flame keeps alive the memory of the 20 million or so Russians who died in the war. I entered just at the beginning of the ceremony marking the changing of the guard. Young Russian soldiers in ill-fitting uniforms and black jack boots marched in painfully slow goose steps up the ramp around the perimeter of the chamber to relieve the previous sentries of their duty. It was impressive in the extreme. But, more than anything, I remember the haunting, plaintive choral music playing in the background (see this video). It perfectly expressed the quiet calm and peace that all who suffer in war must yearn for, if only in death. But when I asked my guide what the song was, I was flabbergasted by her reply: "Daydreams, by Schumann."

What?! A Russian World War II memorial playing the music of a German composer? How could it be?

Russian Sacrifice in World War II

In history, the scale of the battle and the magnificence of the memorial have meaning only to the extent that they touch the individual human soul. It's not enough to say that Russians accounted for most of the casualties during the war, so that the Russians have some justification in thinking the contributions from the United States, Britain, France, and the other allies were too little, too late. What's significant is the scale of human suffering and challenge visited on virtually every Russian during the conflict. It's therefore no surprise that as Russia commemorated the 75th anniversary of Victory in Europe Day last week, its people continue to feel the pain of the war deep in their souls.

My visit to Volgograd, just weeks after the August 1991 coup attempt against Soviet President Gorbachev, was "sponsored" by the Central Intelligence Agency, where I was working as an analyst at the time. Under cover as a college student, I was traveling with a tour group focused on World War II battle sites. In each city, from Moscow and St. Petersburg (then Leningrad) to Kursk, Kiev, and Yalta, the guides had arranged for us to meet various Soviet survivors of the war to discuss their experiences. For example, there was Volodya in St. Petersburg, who as a child

had survived months of famine during the Siege of Leningrad by unknowingly eating human flesh, until the neighbor peddling it as rabbit meat was arrested for murder.

Rodina Mat' Zovyot (The Motherland Calls) (Source: Flikr.com)

But as harrowing as that was, it was nothing like the experiences of the veterans who fought in the chaotic hell of urban warfare in Stalingrad. There was Pyotr, who, when I asked if he had ever been wounded, answered that he had been shot five times, pointing to his arm, leg, shoulder, hip, and, finally, his forehead. There was Alexey, who told how he had fought in brutal battles where the Germans held one floor of a building, the Soviets held the next, and the Germans held the floor above that one, with the soldiers shooting at each other in the stairwells and through holes in the floor. But he insisted those fights weren't nearly as harrowing as the pitched battles he participated in deep underground in the city's sewers.

Pride in Victory

Years later, as I shivered uncontrollably in the unearthly cold of early February in Moscow, an old Russian general chuckled at me and reminded me how his country's greatest military asset is "General Frost," the bitter, unrelenting cold that did so much to drive both Napoleon and Hitler from the gates of the Kremlin. I've found that Russian military officers always talk like that. What they seldom note, however, is that General Frost often causes as many casualties among the Russians as he does to the country's invaders. And this brings me to Mikhail.

I never met a Soviet veteran of Afghanistan who cried, but I met many Soviet veterans of World War II who told me their stories with tears in their eyes, including Mikhail. His great memories were of his desperate fight to stay alive while manning the trenches on Mamayev Kurgan, just below the place where the modern statue and eternal flame are situated, during the winter of 1943. He recounted how control of the hill shifted a dozen times in just five months, and how the snow never settled on the hill because of the constant explosions. But, most movingly, he spoke of how he and his companions would sleep piled three deep in the trenches. Often, in the morning, the man on top or the man on bottom had frozen to death during the night, but the man in the middle survived on account of the heat from the others.

To understand today's Russia under President Vladimir Putin, exactly 75 years after the country's victory over the Nazis, you need to keep in mind how these memories of shared sacrifice and final

triumph still operate as validation of national strength for many Russians. Political scientists teach that the development of modern nation states and nationalism beginning in the 1400s depended on large groups of people becoming conscious that they have a unique identity based on their common ethnicity, culture, language, and history. Nevertheless, the mere consciousness of being separate and unique has never been enough to motivate a people to build and support a strong, sovereign nation state. That kind of motivation requires even more nebulous feelings: pride in the nation's history and achievements, belief in its goodness, and faith in its future.

Rodina Mat' Zovyot standing over the city of Volgograd. (Source: *Meet the Slavs*)

To appreciate how President Putin has played the nationalism card in Russia, it's important to first understand his overall political agenda. Ever since he first gained full presidential powers in May 2000, Putin's first priority has been to centralize authority in himself and his cabinet through his vaunted "vertical of power." To accomplish this, he:

- Gained control over the State Duma (parliament) through deft coalition building and bribery;
- Pushed through laws stripping Russia's regional governors of much of their power and independence;
- Jailed opposition journalists and forced media companies to sell themselves to his supporters;
- Brought the crown jewels of Russian industry, such as natural gas giant Gazprom, under state control;
- Struck sweetheart deals with Russia's billionaire "oligarchs," under which he validated their corrupt acquisition of former state enterprises during the chaotic post-Soviet privatization programs and gave them free rein to monopolize their respective industries, so long as they promised to support him politically and financially.

At every step of the way, Putin has used his growing power and experience laundering money for the KGB in the late 1980s to embezzle perhaps billions of dollars from the Russian treasury and business community.[1] In fact, his career as a KGB officer in East Germany in the 1970s and 1980s goes far toward explaining his power, his broader national goals, and his connection with the nationalist yearnings of the Russian people. It's not just that his administration is dominated by former KGB officials skilled in hard-ball political tactics like assassinating political enemies or framing opposition journalists for all manner of crimes. Just as important, KGB-style perspectives on international relations and social order are the philosophical foundation for his policy goals.

Putin and the KGB Vision

Putin described his vision for the country in "Russia at the Turn of the Millenium," published just before President Yeltsin named him acting president at the end of 1999. In the essay, Putin payed lip service to basic human rights like freedom of the

[1] For a history of Putin's rise to power, see: Dawisha, Karen. (2014). *Putin's Kleptocracy: Who Owns Russia?* Simon & Schuster Books.

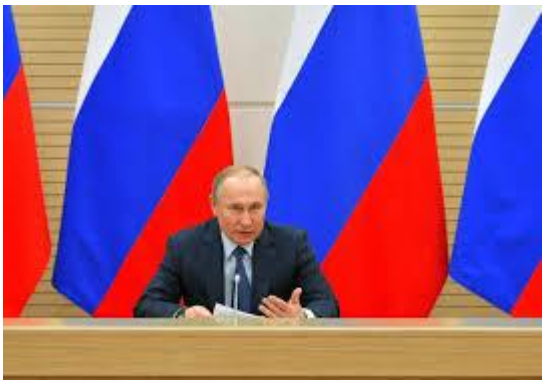
press and the right to hold property. However, he insisted those rights had to be married with traditional Russian values like social solidarity, patriotism, maintaining a strong state, and re-establishing Russia as a Great Power. Since Putin spent his formative years in the KGB, when the organization was one of the few relatively stable and successful branches of the Soviet government, it's no surprise that he sees former KGB officers as uniquely professional and effective. Beyond that, he knows in his bones that his fellow KGB officers share his uncompromising commitment to the ideals of a strong state and "Great Power-ism."

It is against this broad backdrop of utilizing "hard power" that Putin has also sought to use the "soft power" of stable economics and nationalist propaganda to connect with everyday Russian citizens. His propaganda effort often aims to shore up the Russian people's remembrance and respect for Russia's glorious past. That effort has included bringing back the symbols of Russia under the tsars, like the tricolor flag and the double-headed eagle. It also includes Putin's constant references back to the Soviet victory over Nazi Germany in World War II. The elaborate 75th anniversary commemoration last week was just one example of that.

But Why Schumann?

I've never been able to find an authoritative explanation of why Robert Schumann's "Daydreams" was selected to play at Rodina Mat' Zovyot. It appears that Schumann's only direct connection with Russia was a concert tour there with his wife in the 1840s. Schumann was reputedly an important inspiration for the great Russian composer Pyotr Ilych Tchaikivsky, but that also doesn't seem to provide the answer.

Russian man-of-war flying the tsarist tricolor flag in the 1600s. (Source: Aurumrp.ru)



President Putin flanked by Russia's modern tricolor flag. (Source: nbcnews.com)

More likely, I suspect that it is simply a case of the music fitting the venue better than any other. If so, the fact that the Russians have enough self-confidence and national pride to play a German composer in one of their key World War II monuments shows how deeply the victory over the Nazis resonates with them. Even today, most Russians have an uncle, aunt, father or mother, grandfather or grandmother who suffered in and contributed to the war effort. The power of that collective memory and pride shouldn't be forgotten. President Putin certainly understands it, and his skillful evocation of those emotions has helped him capture the power of nationalist sentiment to maintain support and hold onto power.

Tsar Nicolas II wearing the double-headed eagle, early 1900s. (Source: pravoslavie.ru)

President Putin with the double-headed eagle. (Source: freerepublic.com)

Ramifications

President Putin's ability to leverage his people's patriotism for his own purposes has important implications for the country's overall investment climate. Putin's deft references to tsarist glory and Soviet triumph in World War II help shore up his political support. Just as right-wing populism in the United States and other major developed countries resonates strongly in economically lagging rural areas, Putin's use of this leverage is most powerful in the conservative countryside away from big cities like Moscow and St. Petersburg, where the more liberal, Western-oriented professionals are concentrated. Coupled with the iron triangle binding together Russia's billionaire oligarchs, corrupt bureaucrats, and predatory politicians, Putin's use of nationalist, right-wing populism helps ensure the survival of his kleptocracy.

This isn't to say that an investor can't make good money in any particular Russian asset. Since the Russian economy is so heavily connected to oil and gas production, any significant rebound in commodity prices after their recent rout could well produce outsized gains for Russian equities and the ruble, for example. All the same, the entrenched Russian corporatism and kleptocracy mean that any position in those assets would have to be considered at least partly speculative. Even in highly developed democracies with strong property rights, an effective judiciary system, and properly calibrated regulation, investing involves a range of risks. In a country like Russia, investors need to be cognizant that company finances may be more dependent on opaque political considerations than economic performance.

More broadly, President Putin's lock on domestic political power also has important implications for geopolitics and the global investment environment. With his domestic political position secure and the strength of the Russian state now re-established, Putin has more room to maneuver as he pursues his dream of regaining Russia's status as a Great Power, weakening rival powers, and, incidentally, making sure those efforts work out financially for him and his cronies. If the Russian people's pride in their victory

over the Nazis is enough for them to tolerate a Schumann choral work being played at a major World War II memorial, they may do little to restrain President Putin from embarking on risky new revanchist moves like his intervention in Syria or his seizure of the Crimea.

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Confluence Investment Management LLC

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