

# Fixing Russia

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Vladimir Kvint

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NEW YORK - In his speech announcing his nomination of Viktor Chernomyrdin as prime minister, President Boris Yeltsin stated that no one could have expected the Russian financial crisis. Soldiers and workers aren't getting paid, export earnings end up in Swiss bank accounts and no one could have foreseen a crisis? The man is clueless.

The crisis cannot be ended by IMF loans or half-hearted reforms. It can end only when the crooked privatizations of the early 1990s are reversed, some controls reestablished and the crooks who stole the proceeds from Russia's exports forced to disgorge their foreign bank accounts. This Yeltsin cannot do: He is the creature of the kleptocrats.

When Yeltsin falls -- whether via resignation or by a coup d'tat -- his successor will have to do things that may be seen abroad as a backsliding to communism, but that will be a misconception. I do believe that money honestly invested in shares and physical assets from abroad and by ordinary investors at home will not be confiscated. To attract foreign investors back into the economy and to persuade ordinary Russians to invest their savings, both groups will have to be made whole -- although foreigners who bought those now-frozen government bonds (GKOs), are going to be stuck holding the paper for a long time. Voiding the crooked privatizations and doing it again honestly and openly could bring in more foreign exchange than all the money that the IMF could ever lay its hands on. Some of that foreign exchange would come right out from under Russian mattresses.

I think, therefore, that sound investments made now in Russia will pay off: in telecoms -- but not in mass media -- in oil exploration, public

utilities in some regions, transportation, high-tech and software companies, the construction industry and a few reliable banks.

But know what you are buying. There is a big difference between companies run by Western-style management and publicly traded in the U.S. and those that are run by the old-style bureaucrats and their kleptocratic masters. Which means that companies controlled by Russia's new magnates should be avoided (see "The last days of Yeltsin," Sept.7). These companies are likely to be renationalized and ultimately resold, perhaps in part to foreign interests, in open tenders organized by foreign and domestic accounting, law and investment banking firms.

On the other hand, several of the mutual funds managed by foreign firms, such as the Templeton Russia fund, could be promising investments once Yeltsin is out of the way and Russia starts afresh. With their prices down 87% and more, there are certain to be bargains among Russian stocks.

We had all better hope that the change comes quickly. For many years, when Westerners asked me about the control of nuclear weapons in Russia I laughed, because these weapons were always in strong hands: Brezhnev, Gorbachev, Yeltsin. These guys would never use nuclear weapons. They loved life and the privileges their rank brought them. They had no death wish.

It is different, though, with military men who have not been paid and whose families have no money for decent food. Discipline in the Russian army hasn't been at such a low level since the last days of the czar.

Soldiers have been selling guns and tanks and aircraft. What's to stop them from selling nuclear and biological weapons? Terrorists do not need to buy a nuclear bomb as a whole; they can buy them in pieces from different places. Chechen guerrillas have already threatened Russian leaders with word that they possess biological weapons.

Americans worry about the possible coming to power in Russia of a nationalistic dictatorship that might turn aggressive to make the Russian people forget their troubles. Not to worry. Even a military dictatorship would have an enemy close at hand: the pseudocapitalists who hijacked the Russian economy and stole the bread from Russian mouths. As recently as 1992 these pseudocapitalists were as poor as most other Russians. They had no capital and no access to it but bribed and muscled their way to wealth by methods described in previous issues of FORBES (Dec. 30, 1996 and Sept. 7). They then proceeded to send abroad the money earned from Russian exports, leaving Russian companies unable to pay their workers. These people -- not foreign investors -- will feel the wrath of Yeltsin's successors. Indeed, selling foreigners a stake in the economy will be seen as the only real hope of putting Russia on a more prosperous path. Dr. Vladimir Kvint is a consultant, and a professor at the Fordham University Graduate School of Business. Writing in FORBES in 1990, he was one of the first people to predict the imminent breakup of the Soviet Union.