

Siberia: a warm place for investors.

By Vladimir Kvint

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The breakup of the Soviet Union presents great opportunities for U.S. investors and business people. But to grasp them they will have to recognize that there no longer is a Soviet Union.

SHORTLY BEFORE the failed coup took place, this joke came out of the Soviet Union:

Mikhail Gorbachev sits in his office, musing on a huge portrait of himself. "Soon, my friend, the people will take us down," murmurs Gorbachev.

"You are a fool," the portrait responds. "The people will unhang me. They will hang you."

The joke was close to the mark. Leaders of the coup had counted on the Soviet people being ready to dump Gorbachev. In that they were probably right. But the coup leaders, along with most foreign government, ignored the fact that Gorbachev had become irrelevant. It was Boris Yeltsin and his Russian government not Gorbachev and the Soviet government, that the people and large parts of the military defended against the coup.

Which is another way of saying that the Soviet Union is dead. In its place 15 sovereign nations are emerging, Russia the largest by far. Some of these new nation - or old ones reborn - will gravitate economically toward Russia; others will move closer to Eastern Europe or the Balkans.

Each of these new nations will seek a seat in the United Nations, will establish its own diplomatic relations and create its own military forces. Most of them will be as independent of the old center as Poland or Hungary has become. What remains in the Kremlin will be something like the British Commonwealth of Nations: a ceremonial, consultative body based upon common interests whose commonality will fade over time.

A late August headline in the Wall Street Journal said that people "worry" that the Soviet Union may break up. Why this should worry anyone in Washington or anywhere else is beyond me. I suppose some people simply cannot confront change. This fission is a wonderful development.

Breaking that vast empire into more manageable pieces, grouped on economic rather than on political lines, presents tremendous opportunities for foreign business.

The U.S.S.R. will no longer be the Union of Soviet Socialist Republics. The terms "socialist" and "soviet" will disappear, just as the word "empire" disappeared with the emergence of the British Commonwealth. Its disappearance will be of more than formal significance because the breakup hastens the move toward market based economies. All political maps, encyclopedias, political directories will become outdated.

The Baltic republics, Georgia, Moldavia, Armenia, the Ukraine, Belorussia have called it quits. Others may follow. They will not even be part of the new, loose union. Altogether, more than 80 million people will secede entirely.

From now on the republics remaining in the union will decide what rights, functions and money to delegate to the center. The one who pays is the one who orders the music. Republics will finance the army. Which will shrink because of that.

Civil war? Most unlikely, except for the small-scale continuing war between Armenia and Azerbaijan and some ethnic clashes in Georgia and Central Asia. Over the last 18 months the leader of the republics proved that they can solve mutual political and economic problems directly.

What the timetable for the new order? The treaty that will replace the one aborted by the coup will last for about three years as progressive documents of a transition period. It will take at least that long for the various republics to stand on their own feet economically. Except for Russia, The Ukraine, Belorussia and Georgia, none of the other, smaller new republics has an economic basis for independence. At least not yet.

Every historical epoch creates its markets out of a mixture of politics and economics, and this one will be no different. There was the European Hanseatic cities union in the 14th

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to 16th centuries. There were trade routes like the Silk Route. Now America, Canada and Mexico are uniting in one market, as are European countries.

In place of one gigantic market created by force and maintained by force into the old Soviet Union, the new market groupings will follow more economic logic, which will itself lead to different political ties. While lecturing in Austria recently, I witnessed a similar process close up. Austrian, Hungarian and Czechoslovakian businessmen were going back and forth, putting together an economic grouping not unlike that of the old Austro-Hungarian empire; this grouping will probably be the link between Western Europe and the countries farther east. The Ukraine, having left the Soviet Union, will gravitate toward this grouping.

Siberia, though part of the Russian Republic, will get a certain independence. Because it faces the Pacific Ocean, it will become a Pacific Basin economy in good part. A federation of several Siberian cities has already been created. New air routes are connecting California and Alaska with far eastern Russia. In June Alaska Airlines began offering service three times a week from Anchorage to the city of Khabarovsk. And the Soviet carrier Aeroflot has had weekly flights to Khabarovsk from San Francisco via Anchorage since May. All this suggests American business should look at Siberia via the Pacific rather than via Moscow.

Kazakhstan and the republics of Central Asia - Tadjikistan, Uzbekistan, Turkmenistan and Kirgizia - will soon establish a kind of union among themselves. But this union will not gravitate toward the Middle East, despite historical and religious ties. As a market, these republics will establish close economic relations with the Russian Republics, but as equals, not as colonies as under the Communists.

All this turmoil, this breaking of old ties, presents a tremendous opportunity for U.S. business. This year more than 100 joint ventures a month have been created in the U.S.S.R. Since August 1990 the U.S. has been the leader in total capital invested.

But the Americans are not necessarily looking in the right places. Now 60% of Soviet-American joint ventures

are situated in Moscow, focusing on the western part of the old Soviet Union. Small Estonia has as many joint ventures with Americans as Siberia did. Yet 75% of all Soviet natural resources are found to the east of the Ural Mountain. Western investment in Siberia and the Far East is very safe. But the U.S. will need to move fairly fast. The Japanese are already very active in Russia's Far East, and the South Koreans even more so. Investments in fisheries and timber will parry off fast in Siberia.

American investment in the reconstruction of the machine-building and metallurgical plants may be very profitable. Factories to recycle the rich mining, metallurgical and agricultural waste that covers former territory of the U.S.S.R. are badly needed and can be highly profitable. Already the Japanese buy coal waste from Yakutia and other regions in the Russian Republic to produce chemical elements for manufacturing.

The new order in the East will require huge investment in communications and transportation - and large doses of modern technology. The KGB will have a diminished influence in the new republics. I think a fiber-optic cable will soon connect Europe and Japan through the Soviet territory. The time has come to fully use the potential of the Arctic Seaway. I have studied it for many years and know that it is the shortest and the cheapest way from Europe to Asia as well as from Vancouver to Europe.

There is so much to be done that there is opportunity for everyone. But first Western governments and Western investors must learn from their own experience that aid and investment channeled through central government is inefficiently used. Money spent to shore up Gorbachev is money wasted. Government loans should be channeled only to specific republics and for specific programs. Private investors should concentrate on projects, backed by reliable feasibility studies, that can pay back their investment in three to five years.

The Union of Soviet Socialist Republics is as dead as the Holy Roman Empire. The Russian people know this. Foreigners haven't yet gotten the full message.