

Watch your wallet! (The emerging business world of the Soviet Union)

By Natalia Darialova and Vladimir Kvint

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UNTIL RECENTLY, practically anyone who was rich in the U.S.S.R. was rich illegally. We know a manager of Moscow's food storage, Yakov. He grew very rich under communism. He was in the *levak* business—stealing goods (in this case food) from the state, and selling them privately.

Poor Yakov. He can't show off his wealth. He does not even wear his favorite ring, which cost ten times what he earns legally in a year as a food distributor. As a man who benefited from the system, albeit illegally, Yakov has always been a loyal member of the Communist Party. "Modesty is the best decoration for a Communist," Yakov says, explaining why his prized ring remains in a drawer in his apartment.

Yakov is of the old school. A new breed of entrepreneurs has emerged in the past year or so who have shed the protective colors of communism and frugality. Many of these are hardworking, talented entrepreneurs and managers, good partners for Western companies. Others are outright crooks like Yakov, who simply knew how to play the old system.

Moral for foreigners wanting to do business here: Be careful whom you take as partners.

Among the legitimate entrepreneurs who have made a big splash is Artem Tarasov. Tarasov made a lot of money collecting some of the industrial waste—scrap metal and the like—that goes unused in the Soviet Union and selling it abroad. He used the proceeds to buy computers, which he imported into Russia and sold at huge profits in rubles.

One day in 1989, Tarasov came to pay his party membership fee, 3% of his income. His income, Tarasov disclosed, was 7 million rubles. He was quickly charged with doing business illegally; the Ministry of Finance froze his bank account.

But times had changed. Tarasov wasn't sent to Siberia. Tarasov sued the Ministry of Finance—and won. The State Arbiter ruled that the Finance Ministry should return millions of rubles to Tarasov.

Another talented entrepreneur is the famous Soviet eye surgeon Sviatoslav Fyodorov. Starting in 1989, he and his employees took advantage of early perestroika reforms and leased his medical hospital and research center from the state. His company has become a successful medical empire, with hospitals, ten joint ventures, and mobile hospitals touring Europe.

In December 1986 economic reformers pushed through laws allowing the establishment of cooperatives in which members could invest their savings. There have since been many cases of fraud reported at individual cooperatives, but many are honest enterprises. Some 4 million people work at such cooperatives in Russia.

These cooperatives and other new businesses have developed some strong entrepreneurs. Armen Kazarian is one of the first brokers at the new Moscow commodity exchange. He has already concluded contracts with a total value of about 300 million rubles (\$10 million at the ruble's current street value) in such commodities as construction materials and industrial waste. If the amount seems small, remember such a business was unthinkable barely 24 months ago. Another young Moscow-based entrepreneur, German Sterligov, has established a network of people with access to construction materials and is putting them together with people who want to build houses and commercial buildings.

Wealth is slowly losing its bad connotation in Russia. Even, unfortunately, ill-gotten wealth.

Consider Leonid Brezhnev's son-in-law, Yuri Churbanov. He was deputy to the minister of the interior and was very corrupt. After Brezhnev's death in 1982, Churbanov was sentenced to prison for participating in the black market. He is currently doing his time in the Urals as a prison sauna keeper. But the Brezhnev family has held on to its wealth and connections. Brezhnev's granddaughter's husband, Gennadi Varakuta, is active in joint ventures with Westerners. One of Varakuta's joint ventures has until quite recently specialized in bringing delegations of Western businessmen to the Soviet Union and introducing

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them to influential officials. But he was not a good partner: Varakuta was closely involved with Gennadi Yanaev, one of the chief plotters in the failed coup.

Geidar Aliev was head to the Azerbaijan republic and is said to be one of the old empire's leading mob bosses. Aliev, Brezhnev's best friend, now in his 60s, was Azerbaijan's KGB boss before becoming the head of the republic in the early 1970s. Under Aliev, corruption in Azerbaijan reached levels that were scandalous even by Soviet standards. At the next elections this thug may well be elected the republic's president. But such an election will probably have been rigged, and, despite his connections and lofty standing, Aliev is not a good person to do business with.

How can Western businessmen know whether a potential partner is a crook or just a good business person? Some guidelines: The state enterprises are usually safer

partners than cooperatives or individuals, for two reasons. One, there are still many black marketers involved in cooperatives; two, state enterprises are legal entities, whereas a cooperative may appear to be a legal entity but really isn't. Moreover, state enterprises usually have much better facilities than cooperatives. If you are dealing with a cooperative, try to find out the nature of its income and learn more about the people behind it. U.S. auditing firms like Ernst & Young or Weiner Associates can help.

With the end of the Soviet Union, Russia and the other republics will probably go through a period of "wild" capitalism. A new breed of entrepreneur, energized by the freedom to buy and sell, will quickly arise. Some will be quick-buck artists and worse. Some will be smart business people, good for the long pull.

Choose your partners carefully.

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