

In the Wake of the August Coup

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and Steven J. Norton

Editor's Note: The following article was drafted immediately after the August coup in the former USSR, and was aimed at outlining some of the implications of the coup's failure for our understanding of politics in the region and for the possibilities for Western investment. The authors were not asked to revise the piece in view of the changes since the end of the USSR on Christmas Day, 1991; we felt that the article should stand on its own. Instead, the authors provide a short afterword reflecting on the changes since year end.

THE Soviet Union has been undeniably changed by the dramatic events of 19-21 August 1991. The attempted hard-line coup against the Gorbachev government seemed to jeopardize all the accomplishments of the previous six years in politics and economics. The failure of the coup not only gave hope to the Soviet people and people around the world, but it leaves us lessons to which observers interested in the Soviet Union might pay heed.

Though the events of the coup and its eventual failure will not be sorted out for some time yet, we may find three results of the events that tell us much about the USSR today:

- The first concerns the popular reaction to the coup. Contrary to the expectations of many observers, and apparently of the coup leaders themselves, the Soviet people were not cowed

into submission by decrees, curfews, and tanks in the streets. Nor were they willing, by and large, to trade democratization and openness for

the coup leaders' vague promises of economic improvement. Citizens, especially in large cities, organized to protest the "emergency committee's" actions and to try to protect the democratically elected governments of their cities and republics. The most visible was the standoff outside the Russian Republic parliament building in Moscow. Many did their best to dodge the restrictions on the news media and to inform their countrymen; others organized protest strikes. Of course, the fervor to

oppose the junta was not spread universally, and many analysts make convincing arguments that the coup leaders' failure to bring the bulk of the military with them doomed the success of the putsch (more below). Nevertheless, from its actions the junta expected much greater popular support (or at least acquiescence) than they received.

In sum, politics in the Soviet Union and the political values held by the populace have changed for good; no one can doubt that *glasnost* and democratization have had a permanent impact. Despite the economic hardships the Soviet public is enduring, and the consequent unpopularity of the Gorbachev (and many republic) governments, the Soviet people were willing to defend the progress they have made toward building democratic institutions and a free society. These changes bode well for the successful navigation of the very difficult waters (political and economic) ahead.

- The second concerns the shift toward "constitutionality." The failure of the coup leaders to involve more Communist Party functionaries, officials and departments of the central government, let alone the republics, and their failure to command most of the military represent the inability to return to the "old system." The Soviet transition away from the arbitrary rule of a political elite and towards the rule of law is essential for the success of democratization and a transition to a market economy. The coup was a clear attempt to change the direction of the country by fiat and was based on the assumption that the old rules, which dictated bureaucratic obedience to a secretive elite, still functioned. The fact that many in and out of government (and even, eventually, the Communist Party) refused to recognize the legality of the coup and insisted that constitutional procedures be followed is a significant step forward in the establishment of the rule of law. Even Boris Yeltsin, the popular president of the Russian Federation, was criticized for extra-legal decrees issued immediately after the coup, most of which were allowed to fade away. The apparent disorder in the Union was addressed convincingly by new executive structures—the State Council, etc.—designed to hammer out the future of the union and the republics. Foreign investors should be heart-

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ened by these developments, as they promise greater clarity in the economy as well.

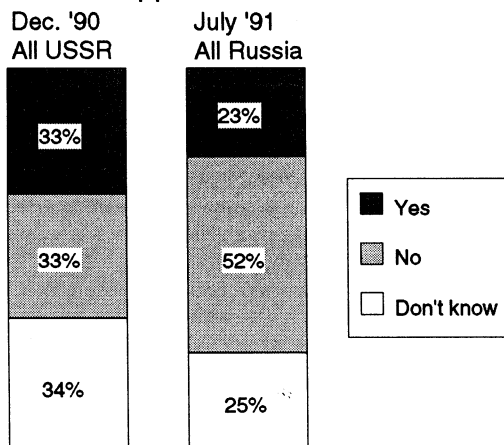
• The third has to do with the changing role of the republics and the future of the Union. One of the results of this coup attempt is that the republic governments, particularly the elected ones, have a much better feel for the extent of their popular support and are widely seen as the principal "victors" in the crisis. Certainly, many citizens looked first to their republic governments to protect them and to resist the coup. The republics, especially Russia, have emerged from the crisis with much more confidence and a greater determination to change the Soviet system in their favor. (Of course, Russia has historically played a dominant role in the Soviet Union and in the Russian Empire, the prospect of which many of the smaller republics are particularly wary and will eschew in any new union arrangement.)

While the coup prompted many republics to accelerate their moves toward independence, to "get while the getting's good" in other words, the success of the republic governments in resisting the coup in the center has encouraged many of them to stay involved in the dialogue about a renovated Union. In fact, the impending signing of a new Union treaty seemed to determine the timing of the coup. Now that the republics have resisted those forces which the hard-liners at the center could muster, their leaders feel that retaining some sort of association would pose less of a threat to their independence than once thought. The republic leaders appear more willing now to join in creating a new confederation in which necessary central coordination (of monetary policy, defense, etc.) is properly bal-

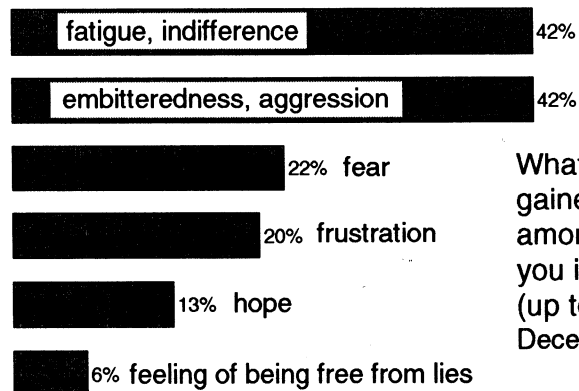
anced with republican (and individual) autonomy. Particularly important is the creation of an economic union of which all republics could be a member whether or not they become full participants in a new union. Proposals for a new Union signed immediately following the failed coup by ten of the republics during an emergency session of the Congress of People's Deputies give all republics complete freedom to join or not to join the Union. The way collective decision-making will work in this new Union is not yet clear, but the republics' newfound strength may help an effective system to evolve which is not hamstrung by fears of the central authorities. This cannot but help the prospects for successful economic reform. In fact, Western governments made it clear to Soviet representatives asking for assistance (at the annual meeting of the International Monetary Fund and World Bank in Bangkok) that coordinated progress on economic reform and a commitment from the republics to service the USSR's foreign debt were prerequisites for Western aid. Republic and Union leaders now seem much more aware of Western expectations and have become considerably more accommodating.

Events in the Soviet Union following the attempted coup of 19 August 1991 have and will continue to dramatically change the way foreign investors view business opportunities in the various republics. Many Western governments, including the United States and members of the European Community, also have a much more positive outlook on the future of the Soviet Union; governments seem more ready to offer aid and technical assistance than before the coup and are more optimistic

If you knew in 1985 what the incipient changes would bring in this country, would you have supported them?



Some disturbing trends...



What feelings have gained strength among those around you in the past year? (up to 2 responses)
December '90, all USSR

about the prospects for the Soviet Union developing a market economy. Similarly, international organizations like the World Bank and the IMF are more willing to offer membership status to the Soviet Union and to provide them with loans (the Soviet Union was recently granted an associate membership in the IMF).

As the dust settles, the Soviet Union remains basically intact minus the Baltic states, which have already been recognized as independent countries by most of the world, and possibly Moldavia, Georgia, and Armenia, which are similarly fervent in their desire for independence. However, the new union of ten to twelve republics will be loosely constructed with a much weakened central government. As discussed above, the Union will remain, but republican laws will take on greater importance. Many republican laws closely resemble those of the central government and although changes will certainly be made to these laws, the legislative process and parliamentary debates will undoubtedly delay their passage and implementation.

As a general rule, the recent events in the Soviet Union will make business relations with the central government virtually obsolete. The majority of business relationships will be with republican governments and with a growing number of private enterprises. No longer will a foreign business partner have to deal simultaneously with feuding central government and republican government officials, while trying to determine who ultimately has the authority to give the go-ahead on the project. It is important therefore to be familiar with the laws of a particular republic. On the other hand, one

should still recognize the importance of the other republics and of the economic union to a foreign joint venture or project in an individual republic. Many goods in the Soviet Union, especially production inputs, are still produced by only one factory; if this factory happens to be located, for example, in another republic, one must also be familiar with its laws and procedures to obtain that input.

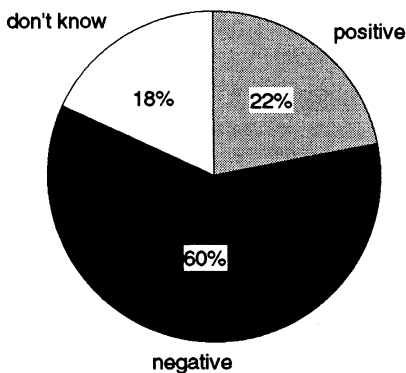
While dealing with individual republics will most likely be less complicated than dealing with the central government in addition to the republican governments, there will probably be fifteen distinct sets of rules of law with which to contend. On the other hand, these laws may soon more closely resemble those of the developed market economies in order to attract foreign investment (especially in the newly independent Baltic states). Competition may arise between the republics to attract this investment by using tax holidays and other incentives, affording opportunities for Western firms to negotiate with more than one republic to find the best opportunity.

The peoples and leaders of the Soviet Union and the republics face many difficult issues ahead, not least those which originally prompted the coup attempt. Nevertheless, the failure of the coup demonstrates that fundamental changes have been made and that the society may just have the resilience to cope with the problems it will continue to face. This should give foreigners and Soviets alike confidence that they will not have to face a slide back to dictatorship in the Soviet Union.

Afterword

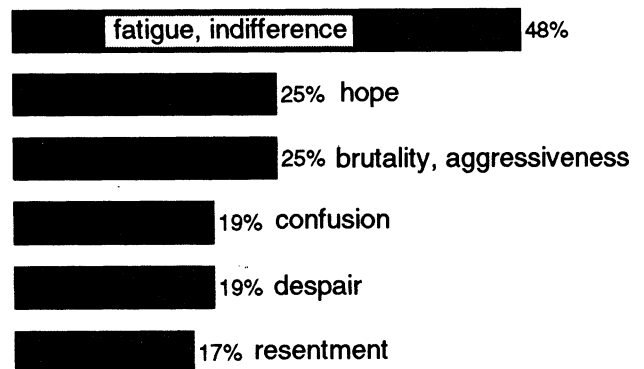
Of course, events in the former Soviet Union

...but with signs of hope



What would be your attitude towards the military taking power into their hands and bringing about order in the country in the current situation?
Dec. '90, all USSR

What feelings have been predominant among those around you in the past year?
July '91, all Russia



See notes to poll data on page 5

The independent republics have seen any form of union as anathema despite their triumph after the failed coup.

outstrip any efforts to analyse them. In accord with the Minsk agreement of 8 December between the leaders of Russia, Ukraine and Belarus, the Commonwealth of Independent States was declared the successor of the Soviet Union on 22 December 1991 by the eleven republics who agreed to sign on. The declaration virtually forced Soviet President Gorbachev to resign from his post three days later. The Minsk agreement committed those former Union republics who chose to join the Commonwealth to continue on the path of democratization and economic transformation and to coordinate their policies on economic and security matters. Nearly all the republics joined the CIS, except for the Baltic states and Georgia.

The path since January has not been entirely smooth. In late 1991 and early 1992, elections in most of the former Soviet republics returned to power leaders committed to nationalist agendas—often the same leaders who had held power under the old system. As a result, the independent republics have seen any form of Union as anathema despite their triumph after the failed coup. Coordination in security and economic matters has been hardest to effect: the republics have agreed to collective control over nuclear weapons, but disposition of the personnel and armaments of the Red Army has proved a contentious issue, particularly between Russia and Ukraine. Economic issues have also proved difficult, as Russia insisted on beginning a program of “shock therapy” much sooner than most other republics wished. Russian control over the ruble, and local nationalist goals, have also

sparked plans to create new currencies in Ukraine and Moldova in the near future (almost every republic has expressed interest in introducing its own currency eventually).

Foreign investment is still a priority for all the republics, and they have been able to agree on measures to ensure continued creditworthiness and Western confidence: all the former Soviet republics have agreed to share responsibility for repaying the Soviet foreign debt, and all are trying to bring their economic policies in line with Western government expectations to keep themselves eligible for aid. Most of the republics have been negotiating with the IMF and expect to become full members at the Fund meeting in April. Without question, these negotiations have included discussions of policy changes the Fund will require in return for financial assistance. Fund medicine may be bitter for the citizens of the CIS, but will probably be reassuring to Western business who had been worried about the ability of the republics, even the more radical Russia, to stick with reform.

The difficulties of economic stabilization have scared many prospective investors from the region, but the political commitment to continued reform (and the apparent willingness of the citizenry to go along with it) give some hope for light over the horizon. New legislation and rules on property, banking, investment and financial flows will make the economy much more transparent—and less threatening to the foreign investor hoping to take advantage of this immense new market. ◇

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Selected Economic Data for the former USSR

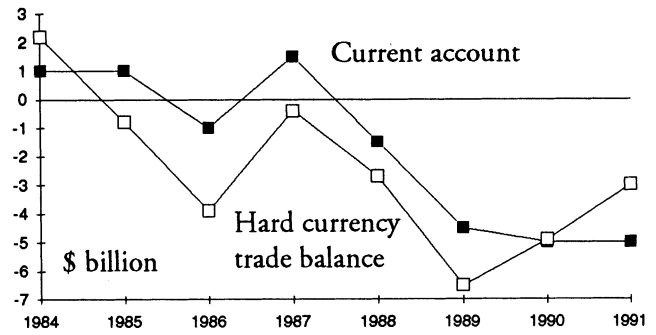
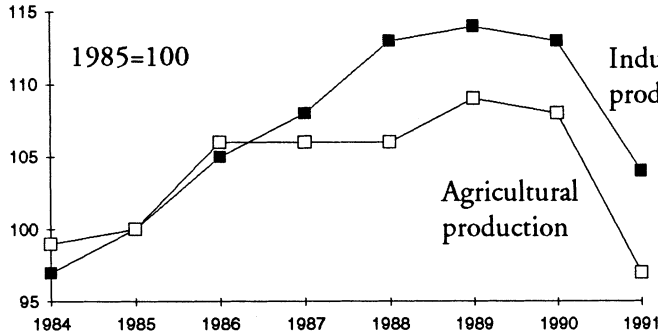
% change on previous year unless noted otherwise

	1986	1987	1988	1989	1990	1991
Real GNP growth	4.2	0.5	1.4	1.8	-6.4	-17
Inflation	3.2	4.3	6.0	8.0	10.0	186
Industrial production			4.4	2.4	-1.2	-8
Agricultural output			0.7	1.0	-2.3	-10
Trade balance with West (\$bil.)	-3.9	-0.4	-2.7	-6.5	-4.9	-3.0
Current account balance (hard currency, \$bil.)	-1.0	1.5	-1.5	-4.5	-5.0	-5.0
Gross external debt (\$bil.)	35	39	40	48	60	84
Hard currency reserves (\$bil.)	14.5	15.1	16.3	15.2	9.0	5.0

Data notes:

Data come from various sources, including: CIA and Goskomstat (for years before 1990) as cited in Lynda L. Mailliet and Jack A. Barbanel, *Business in the Soviet Union*, (Transnational Publishers, 1991); Economist Intelligence Unit *Country Report USSR* (#4, 1991); Planecon, as cited in *Wall Street Journal* of 4 September 1991; and *Ekonomika i Zhizn* (#4, #6 1992).

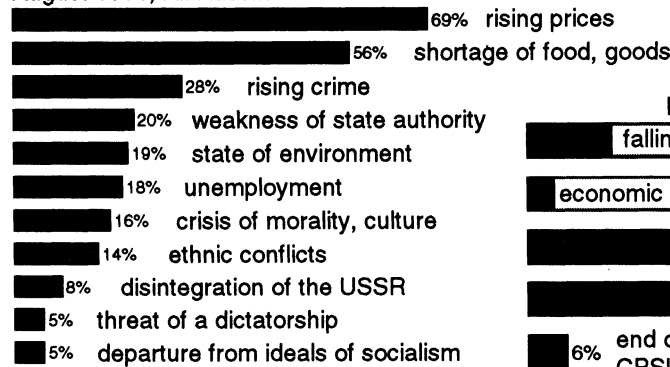
Economic statistics for the former USSR are more guesswork than fact, in general. Analysts have been disagreeing for years about the proper way to estimate Soviet GNP (the controversy over the magnitude of Soviet military expenditures is an example of this). While in the Gorbachev years efforts were made to improve the quality of statistics, the data collection system remained shaky and the honesty of enterprise and ministry reporting remained questionable. Distortions introduced by using official exchange rates (rather than purchasing power parities, which themselves were problematic under a fixed price system) complicated the picture. Better data, following more standard definitions, should become available when Russia and the other former Soviet republics join the IMF and World Bank later this year; consistent collection and reporting of standard economic data is one of the things the Fund insists upon. — SJJ



Changing Public Opinion in the former Soviet Union

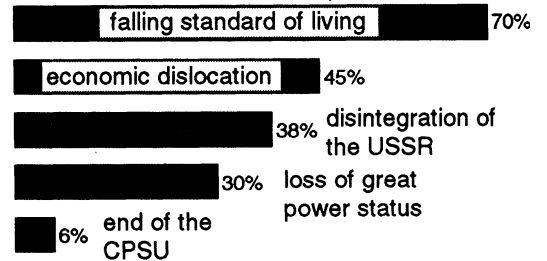
All opinion poll data is from *Moscow News*, various issues. The polls themselves were conducted by the Soviet Center for Public Opinion and Market Research (VCIOM), a reputable organization headed by economist Tatyana Zaslavskaya. Polls had between 1000 and 2500 respondents and were administered on the date and in the regions shown on each chart. — SJJ

August 1991, All Russia



Which developments do you find most menacing? (multiple responses permitted)

December 1991, former USSR



Are you willing to tighten your belt in the hope that Russia's radical economic reforms will succeed in a year's time? November '91, Russia

Do you support appeals for anti-price rise strikes? January '92 Russia

They say that free prices will fill shop shelves with food and goods; do you want free prices introduced? October '91, Moscow

