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HEADLINE: U.S. Companies Still Like Russia

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BODY:

Russia still attracts a lot of attention from U.S. businesses, despite Moscow's unwelcome intrusions in the private sector. The Kremlin's latest economic diktat is a law working its way through the Parliament, or Duma, that will restrict foreign direct investment (FDI) in various strategic sectors, including energy, metals, shipbuilding and aircraft manufacturing.

This sure doesn't look like a welcoming place for non-Russian companies seeking profits. But there are still plenty of openings in the manufacturing sector that U.S. companies are speeding to fill. "Anyone who can get a foothold in Russia is making big money," says Anders

Andrew Somers, president of the **American** Chamber of Commerce in Russia, sees a big shift in focus by U.S. firms. Whereas they used to sink money primarily into autos, food processing and basic consumer goods, their dollars are now chasing niches such as chemicals, biotechnology, white goods (refrigerators, washing machines, etc.) and architectural glass.

Somers adds that even the proposed limits on FDI into natural resources will have a positive side: Investors will have a greater degree of certainty about the level of foreign involvement the Kremlin will tolerate in these industries. "We're not too concerned [about the new law], as this is common in many countries around the world," he notes.

A new burst of Kremlin spending is likely to help U.S. exports as well. With Duma elections scheduled for December 2 and presidential elections following up on March 2, 2008, the government of current President Vladimir Putin is burnishing its image by pouring nearly $13 billion into various infrastructure upgrades. Putin allies are virtually assured of victory anyway, given the government's manipulation of electoral laws and its control over the media. But Putin still wants to see a high voter turnout, and the lavish public spending is seen as a way to make that happen.

About $6 billion of this money will go to improve the nation's rickety health care system. Some of the funding will take the form of raises for doctors, who are state employees, and grants for prenatal care and new mothers, but much of it will also go to purchase X-ray machines, lab equipment and ambulances -- all areas in which U.S. manufacturers excel.

Another $3 billion will go to beef up education. Just over a third of the education funding will go to repair or replace school buildings and to provide raises for teachers and grants for students. But there will be money left over to set up Internet connections for 60,000 schools nationwide -- a job that U.S. IT companies are well placed to get. Another $1.7 billion will go to improve agricultural equipment, likely spurring U.S. exports of tractors, plows, cultivators, seeders and harvesters.

Other U.S. exports that may benefit from Russian capital spending include oil and gasfield equipment and services, civilian aircraft and aircraft parts, telecommunications equipment (particularly pay phones) and energy conservation technology.

The country's oil and gas wealth is also helping to boost consumer spending. After decades under the Soviet economy, followed by a decade of economic turbulence in the 1990s, Russian consumers are eager to spend. This is fueling a retail and construction boom, as well as a boost in demand for associated financial services, such as mortgage lending.

"There's a great amount of disposable income with a [comparatively] small amount of people, looking for Western goods, contemporary goods, upscale goods," says Hal Brownfield, founder and CEO of Mount Airy, N.C.-based furniture manufacturer Andrew Pearson Design. Brownfield is in a good position to compare the old Russia to the new, having sold machine tools to the Soviet Union while working for Fiat 20 years ago. Back then, Brownfield says, it was tough enough for average Russians just to buy bread. "In some ways, they're [now] like kids with too much money, looking to outdo their friend who also has money."

The U.S. is also likely to benefit from Kremlin investments abroad. Less than a decade after suffering a financial meltdown that left it deeply in debt, Russia experienced an oil windfall that has helped the state build up foreign currency reserves of $356 billion -- the third-largest such reserves in the world -- with an additional $108 billion banked in a reserve fund against future economic downturns. Rather than waiting for its foreign currency holdings to accumulate to Japanese or Chinese levels, the Kremlin is preparing to use some of its petrodollars more productively.

Early next year, the reserve fund will be split into two components -- one for investing in government bonds and the other for higher-risk, private-sector investments. Principally, the

Kremlin will try to bolster its role as a major energy exporter by sinking money into foreign oil, gas and energy services firms. But investments in foreign real estate and high-tech companies can also be expected.

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