

# The Kula Ring

The Kula Ring charts the rise of trade, investment and business innovation across emerging markets

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## Doing Business in Conflict Zones and Super Frontier Markets

Posted on [January 9, 2013](#) by [merlinlinehan](#)

Having worked in countries such as Vietnam, Serbia and Georgia, I've long been interested in the effect of conflict on a country's economy and the role of "super frontier markets" those places which are highly unstable but offer potentially large returns for those investors who are brave enough to take the plunge.

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The [International Serena Hotel Chain](#) is one with a difference, rather than operating in the usual international business centres like Frankfurt, Sydney and Singapore, Serena operates in the more exotic locales of Kabul, Swat and Dushanbe. The chain offers luxury and a high security sanctuary in dangerous cities, with business people, aid workers and diplomats the target market. The costs of running the Kabul hotel, such as bringing in luxury goods and providing tight security means that it barely runs a profit. But in the case of the Serena Hotel Chain profit is not the only motive, for the chain is an initiative of the [Aga Khan Foundation](#), led by billionaire Prince Karim Al Hussaini, who in conjunction with the World Bank and Norwegian Government looks on the Serena Hotel project as a way to promote business in frontier markets, by creating jobs and opportunities in unstable economies it sets an example to other businesses and in a small way improves the economic situation of the country.

However a successful investment in a service industry like a hotel chain is an exception rather than the norm in a frontier market; natural resource companies are usually most visible in

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these places, as oil, gas and minerals are not always located in convenient safe places. The China National Petroleum Corporation (CNPC) is a particularly adventurous Chinese oil company with interests in Iraq, Somalia, Chad, and recently started producing oil to the tune of 1950 barrels per day in the Angot field in Northern Afghanistan.

[Adam Doost returned](#) to Afghanistan in the middle of the last decade and invested in a marble quarry and processing factory in Herat, realising the need for private investment and the opportunity the quarry represented, he took a risk which paid off in a big way, showing businesses can thrive even in the most arduous circumstances.

Somalia, which is the “classic” failed state and has been in a state of chaos for over 20 years, apart from the autonomous regions of Puntland and Somaliland, which have carved out de-facto states and a measure of stability not seen in Mogadishu and the rest of the country. Puntland has attracted oil prospectors from India and China eager for new oil supplies. The Turkish Company Genel is planning on drilling two wells in Somaliland in 2013.

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War, conflict and insurrection are generally considered disastrous (although not all see examples above) for conventional legal businesses, goods cannot travel safely, assets become at risk from violence and looting. However the confusion of war provides opportunities for many other businesses, most of them criminal. The most obvious opportunity comes from arms dealers, who can take advantage of the demand for weapons, usually rebel groups have to procure arms illegally, as a government will of course try and keep the supply of legal arms for itself. Victor Bout a Ukrainian dealer [exploited this to the max](#), until he was eventually caught.

When conflict is raging, the military are often the only form of authority, as the central government is far away or helpless and unable to control events in such a chaotic place. This means the [military often act as a business](#), supplying goods and services, or at least acting as a gateway for other businesses, taking a cut of profits. Conversely the lack of state can be a boon to criminal groups who can act with more freedom due to lack of law enforcement; drug gangs, terrorist

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groups and others can not only carry on their criminal activities, but take on the role of government themselves, Colombian drug gangs often provided the trappings of government in remote areas, gaining the respect and fear of local people. These groups can quickly gain a monopoly advantage, because no one else wants to operate in this area but more importantly because the criminals and the military are backed by the threat of violence.

The lack of government institutions means resources that might be off limits before are now up for grabs, so prohibitions on wildlife hunting and mining loosen and animals and minerals are all the more easily shot or stolen. Economies in super-frontier markets operate in a Wild West atmosphere, a lack of oversight means that businesses and entrepreneurs are unprotected and unregulated, only the bravest foreign investors operate in these places, and of course lawlessness often attracts or encourages criminals who can base and operate out from them, such as pirates in Somalia or heroin traffickers in remote parts of Myanmar (Burma).

The flipside of course is that lack of

government control means that while criminals have impunity, even criminals do not want to live in criminal, lawless places forever, often rebasing themselves nearby once they have made some money.

Failed states also attract other companies, not because they want to invest, but to take advantage of the country's fragile state in another way. Somalia has a longer coast line than the East coast of the US and the collapse of central government there meant its unpoliced waters [attracted fishing boats and waste dumpers](#) who used the seas around the coast as a tip – leaving radioactive waste and toxic materials, the cost of disposing of waste in Europe can be as high as \$1000 a tonne but shipping to the Somali coastline costs as little as \$2.5. [The UNEP attempted to carry out a study](#), but the piracy on the coast put them off for now.

Fragile, conflict affected states are a fascinating part of the world's economy, much of their economy is unofficial and unrecorded, and such places can be a haven for criminals, but they also offer opportunities to adventurous firms who dare to operate in such places.

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