

International business in Russia: myths and realities

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Russian market is in demanding situation now, as we all know.. The economy growth in 2018 is only 1.5 %. Meanwhile, as the Central Bank of Russia asserts, the capital outflow has increased to \$ 26.5 bln during eight months of 2018.

In this context a foreign investor in Russia is in the same position as every Russian entrepreneur. Collapsing consumer demand, growing poverty of people especially after the double drop of the ruble rate, all these are factors that complicate the business.

Moreover, frequent alteration of laws and rules cause certain difficulties for foreigners used to living in an understandable legislative environment. For example, VAT will be increased by 2% in 2019. The changes in the migration code lead to some obstacles for foreign managers' registration and obtaining a work permit. And, clearly, the fear of getting under the sanctions doesn't improve the situation.

Nevertheless, a quick survey we made among the European businessmen in Moscow and Saint-Petersburg explicitly showed that none of foreign entrepreneurs was going to leave Russia; on the contrary they were getting ready to expand the business here. So, Greek businessman expressly declared: "For those who works in Russia for a long time and knows this country, the present situation is not an exceptional problem".

According to the opinion of Russian lawyers dealing with the foreign companies, Russian authorities and fiscal services are much more loyal and careful to foreign companies than to domestic ones.

As for the German companies working in Russia, they noticed a business growth in 2018.

About 5 000 of German companies work in Russia today. 270 000 More than 60% of German businessmen noted the turnover increasing in 2018, and almost one-third of them plans to scale up investments.

According to a survey of the Russian-German Chamber of Commerce, about 70% of the Chamber members are planning to remain the same level of performance in Russia and 30% are about to enlarge their activities in spite of the sanctions and the market situation.

There are also agreements on new large projects, such as a 10-years investment contract between “Daimler KamAZ Rus” and “KamAZ”, implying 46.5 bln rubles investments in KamAZ and Mercedes-Benz truck series building.

“Volkswagen Group Rus” has set up production of new crossover Scoda Kodiaq in Nizhny Novgorod.

The biggest IT Developer – SAP has opened Digital Leadership Centre in Russia, the second largest center in the world.

Certainly, all these are large-scale projects. But they precisely show that international companies which make long-term global strategies can not ignore huge Russian market. Chocolate giant “Mars”, top level car manufacturers, all foreign businesses act the same, as they are not going to lose this market strategically.

All said above was about the reality. And now let’s talk about myths. The most incredible thing was said by a German entrepreneur, when he first visited Russia: “I am shocked by enormous lie about Russia in our mass media. I am overwhelmed by immensity of Moscow. I am astonished by the window of opportunities that opens here for my business”.

As business consultants we can just complete the story by saying, that when the entrepreneurs intend to work in new markets, they are sure to come through big risks. Those risks are very high in Russia now for any kind of business. Yet, as we all know, it’s easier to enter the market when it’s going down. Today Russia is the perfect country for investing in this regard. This place is challenging, requiring fast decisions and caution in actions, but at the same time, having an enormous potential for growth, that is just waiting in the wings.