

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

RUSSIA



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OPPORTUNITIES FOR EXPATRIATES IN RUSSIA

Since 2014, many international companies have withdrawn foreigners or switched them to local contracts. Are you noticing an increase in classic expatriate contracts again?

A renaissance of the „classic“ expatriate model - ie employment in the parent company with secondment abroad - cannot be observed in Russia.

Companies assign their management positions in Russia almost exclusively with Russian candidates or seek to place foreigners who already live locally and are prepared to work on a local contract. Especially small and medium-sized companies tend to send no expatriates at all.

Somewhat different is the picture in corporations. Here, sensitive positions in administration can still be held by seconded expatriates.

What opportunities do Russian companies provide to foreign specialists?

Europeans are now recruited primarily as consultants into Russian companies, less in permanent line functions.

Many Russian companies have found that it is difficult for European executives to integrate into Russian corporate structures. Foreign managers with experience in Russian companies report that they have been particularly troubled by the lack of corporate networks and the specific management style. If there is a language barrier added, things can get really complicated.

Nevertheless, European expertise remains in demand in Russia. We frequently receive inquiries from Russian companies interested in the recruitment of technical specialists. Most of these assignments involve concrete project implementation in connection with investments - for example, in a cheese production line, in hothouses for growing vegetables or the development of a deposit. International expertise is needed for planning, commissioning and increasing efficiency of capital investments especially when there are no qualified Russian specialists at all.

In fact, in recent years, such requests have come mainly from agriculture and the food industry, which have seen massive investments. However, international expertise is also frequently requested in areas such as metallurgy, mining, retail and mechanical engineering.

What can I do if I am interested in working for a Russian company? Which qualification is required?

CT Executive Search frequently assists Russian companies with recruiting suitable international experts. We have a dedicated database of consultants that is constantly



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updated and expanded. If you are interested in a consulting assignment, it would be useful to contact us.

Consulting requests from Russian companies are very diverse, the required expertise is often very specific. We have already looked for a veterinarian with expertise in pig breeding, a contract mining specialist, and a retail expert who should scrutinize the product range of a regional food chain.

Potential consultants should have long-term industry experience and be recognized experts in their field.

In addition to opportunities for such „technical specialists“, there is also a market for strategy consultants.

Typical mandates would be consultations on internationalization issues - are the company's products suitable for export? Which markets are interesting, how can they be approached?

Financial specialists can also be requested, for example in connection with the acquisition of equity or debt capital. Knowledge of Russian is always helpful, but especially in technical consulting, English is usually sufficient.

„THERE IS CURRENTLY NO PROSPECT OF A SIGNIFICANT SANCTION REDUCTION“

What is the impact of the re-election of President Putin on economic development in Russia?

The answer depends entirely on the path of economic policy taken after the elections.

Basically, I see three scenarios: The most likely (about 60% subjective probability) is that we see little change in economic policy.

The immediate effects of re-election would be humble in this scenario. The Ministry of Finance continues to pursue austerity measures, the budget deficit will reach a black zero in the coming years, and the central bank will only slowly lower its key interest rates to between 6 and 7 percent.

At the same time, few privatizations are likely to occur, and the influence of the state and state companies on the economy should remain very high. Reforms would be limited to the bare minimum, e.g. an adjustment of the pension age. For this scenario, medium-term economic growth rates would be close to the current level of 1 to 2 percent.



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Far less likely (about 15%) is that a clear economic reform course will be taken after the elections. Such a course could include privatization, reduction of bureaucracy, and stronger monopoly control at federal and regional level.

Such a policy, however, would meet with considerable resistance, since the profiteers of the current economic system would have to expect losses. Social hardships and dismissals would be difficult to avoid. With growth rates around 3 percent, results would only gradually become visible after a bottom of 1 to 2 years. The good election result for Putin could give the Kremlin the necessary self-confidence to reform.

A third variant (25% probability) would be the intensified development towards an economy still dominated by state and monopolies and a continued trend towards isolationism. This could increase the stagnation tendencies in the Russian economy and further weaken economic growth. An important signal regarding the further development will be the announcement of the prime minister after the presidential inauguration.

What consequences does the election result have on European-Russian economic relations? What are your expectations regarding the sanctions and the import substitution policy?

The election results are likely to have limited effects on European-Russian economic relations. The market participants have resigned or adapted to the existing sanctions, for better or for worse.

There is currently no prospect of a significant sanction reduction. Rather, the signs point to some further escalation in relations, which could occasionally lead to new restrictive measures. At the same time, most of the trade still does not fall under sanctions.

However, Russia has suffered as an investment location. Also, one should be careful to infer from possible economic reform steps in Russia on a foreign policy relaxation. For the most part, Russian (business) liberals are backing the foreign policy of their president.

The import substitution policy, as expected, has reduced competition for some industries in Russia and given some impetus. This can be seen in the food sector, which increased by an average of 3.9% a year despite the recession in 2015-2017, while the manufacturing sector as a whole saw production decline slightly by 0.7%.

Russia, especially if it wants to produce more products itself, needs production equipment from abroad. These are currently also offered by German engineering companies.

Overall, a mere import substitution policy aimed at foreclosure is unlikely to be effective in the long term. Without international competitive pressure, domestic consumers will benefit less, and only producers. A global export strategy - at least in the second step - would probably be more useful here.

In Russia there is much talk of increased competitiveness as a result of the weaker ruble. To what extent have Russian companies managed to gain shares in the world market?

Interestingly, the Russian economy has not benefited much from the strong ruble devaluation. The real trade-weighted exchange rate, a measure of the strength of the ruble compared to the currencies of the trading partners, fell by 40% between 2013 and 2015, thus significantly improving the price competitiveness of Russia internationally.

In the meantime, the ruble has appreciated in nominal terms again. However, the exchange rate is still around 20% below the 2013 level in real terms.

Russia's competitive position is limited as its export structure is still dominated by oil, gas and other commodities. These goods are more concerned with commodity prices than with other factors. While Russian exports have risen again last year, this is mainly due to the recovery in commodity prices.

However, exports of Russian equipment somewhat increased: Their export share rose by three percentage points from 5% to around 8%. Still, the nominal export value of the sector only just reached the level of 2013 in 2017. A conquest of world markets looks different.

To what extent have the Russian government's hopes into import substitution fulfilled?

Expectations of export substitution were probably exaggerated in the early stages. I think that a more pragmatic attitude in dealing with this policy will gain the upper hand.

Politics can provide some steering impetus in the sense of an „industrial policy“ with import substitution, but I remain skeptical as to whether this is the best economic policy path for Russia!

„WORLD CUP HOST COUNTRY WILL SHOW ITS BEST SIDE“

What services does the German-Russian AHK offer? Are they only open to German companies?

Through its service subsidiary, the AHK offers a range of services under the DEinternational brand, which support companies entering or working on the Russian market. These services are open to all companies.

The service range includes the identification of potential business partners, trade fair visits, and exploratory trips to Russia to get an idea of the country. This is followed by market analysis and site search assistance when a company is considering being represented locally.



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This is usually the time when companies become members of the AHK. All companies can book services, but AHK member companies receive a discount.

Our lawyers help to verify the creditworthiness of potential contractors, assist during company registration and with obtaining work permits and visas. The AHK website has a job portal where companies can post their job offers. In addition, DEinternational also actively helps to find suitable employees in Russia and, together with partners, offers advanced training for existing staff.

For companies wanting to explore the Russian market without much risk, we offer the service „business presence“. We provide an office in Moscow or St. Petersburg and a dedicated bilingual project manager for sales activities in Russia. At the same time, the company becomes an AHK member and thus assumes access to a wide range of contacts and information.

This enable clients to enter the Russian market with low risk and cost, as there is no need to register and manage a legal entity.

Which services are currently most in demand?

We see that many companies have become more cautious during the crisis and prefer to rely on our „business presence“ service before setting up their own subsidiary in Russia. Also, companies monitor the creditworthiness of potential business partners more often in advance. Our debt collection services are used more frequently.

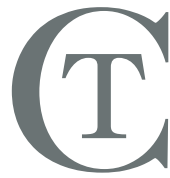
We have more inquiries regarding recruitment, however, companies are mostly interested in hiring local staff.

How can AHK help companies localize?

The AHK supports the localization, ie the setup of local production in Russia, at all levels. First, we update on the current legislation on the topic in our publications, our newsletter „AHK Morning Telegram“ and at dedicated events. Additionally, AHK members can discuss the topic in our localization committee once a month.

We facilitate contacts with decision-makers and infrastructure providers in the regions, offer the opportunity to travel there and regularly hold dialogues with governors in cooperation with the German Embassy.

The AHK also accompanies companies to ministries and provides political backing in individual cases, acting on behalf of the German economy. The AHK regularly conducts surveys among its members, evaluating the attractiveness of certain regions as investment locations.



EXECUTIVE SEARCH

EXECUTIVE SEARCH EXPERTS IN THE EMERGING MARKETS

CT Executive Search focuses on placing key positions in the emerging markets – in Russia/ CIS, Africa, the Middle East and Asia.

We are experts in cross-border search processes and identifying top-notch candidates for international companies. Leveraging a broad network of analysts and consultants across the emerging markets, CT Executive Search has established itself as a reliable partner for well-reputed companies.

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