



# INVESTMENTS AND IMPORTS TO RUSSIA:

RATIONAL OPTIMISM IN TURBULENT TIMES

5<sup>TH</sup> ANNUAL SURVEY OF THE AMERICAN CHAMBER OF COMMERCE IN RUSSIA  
Report prepared in partnership with EY, June 2020



The American Chamber of Commerce in Russia (AmCham) is the leading international business organization in Russia. Founded in 1994, AmCham advocates the trade and investment interests of its member companies. AmCham's mission is to enhance commercial relations between the Russian Federation and the international business community by promoting an investment-friendly environment.

 [www.amcham.ru](http://www.amcham.ru)

EY is a global leader in assurance, tax, transaction and advisory services. EY works together with companies across the CIS and assists them in realizing their business goals. EY Russia works to the highest international standards. The company is owned by Russian citizens, and 96% of employees hold Russian citizenship.

 [www.ey.com](http://www.ey.com)

4

Survey  
description

5

Executive  
summary

6

Information  
on the respondent  
companies

8

Importance of and  
outlook for business  
in Russia

9

Sanctions

10

Jobs

11

Production

13

Regional  
development

14

Direct  
investments

17

Foreign trade

19

Social  
responsibility

20

Development  
plans

**OUTLINE**

# 4 SURVEY DESCRIPTION



The fifth annual survey devoted to the prospects for direct investments and bilateral trade between Russia and the USA.



75 American companies took part in the survey out of over 500 members of the organization.



This report is based on the results of the survey, publicly available information, and official statistics.



The purpose of the survey is to show the actual scale of bilateral investment and trade between Russia and the US.



American  
Chamber of  
Commerce in  
Russia



The survey was conducted by the American Chamber of Commerce in Russia in partnership with EY in March-April 2020.



The survey's target audience are executives of American companies operating in Russia and government officials of the two countries.

1

Russia is a strategic market for most of the survey participants. Trade wars, geopolitical tensions and the coronavirus pandemic have created uncertainties for business but have not brought it to a complete standstill.

2

Sanctions have had a negative impact on business in Russia in the opinion of 80% of the survey participants. A quarter say that they are most negatively impacted by the uneven playing field that sanctions have created, putting them at a disadvantage relative to companies from other countries.

3

The business climate continues to be a barrier for investment growth. The efforts of the Russian government and the course charted to weather the economic effects of the pandemic will be crucial in creating a comfortable business environment.

4

Despite the external constraints and the uncertainty created by the pandemic, most of the American companies plan to launch new projects in Russia: 68% of those surveyed reported such plans.

5

Official statistics underestimate the actual level of trade and economic relations between Russia and the US. Bilateral investment figures collected as part of the study are 9 times higher than the official figures.

# EXECUTIVE SUMMARY



# 6 INFORMATION ON THE RESPONDENT COMPANIES

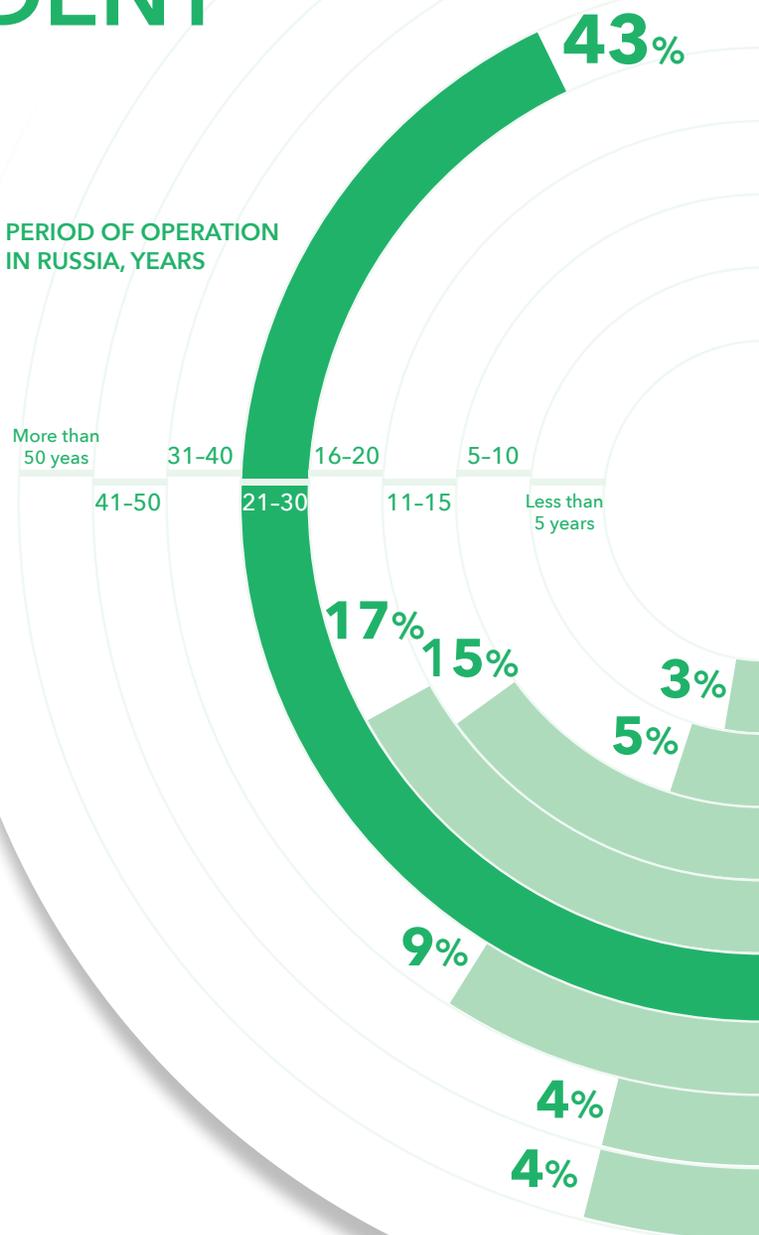
75 companies took part in the survey. The 2019 and 2018 studies had 75 and 83 respondents, respectively.

Survey participants had a combined total of over 126,000 full-time employees.

Over half the companies surveyed (60%) have been doing business in Russia since the early 1990s or before.

17% of the companies came to Russia as early as the 1970s-1980s. This is a strong sign of commitment to the Russian market, despite political disagreements and economic difficulties.

PERIOD OF OPERATION IN RUSSIA, YEARS



## INDUSTRY

Industry	% of respondents	Number of companies
 IT & Telecommunications	<b>16%</b>	<b>12</b>
 Professional Services	<b>15%</b>	<b>11</b>
 FMCG Manufacturing	<b>12%</b>	<b>9</b>
 Industrial Products Manufacturing	<b>11%</b>	<b>8</b>
 Energy & Natural Resources	<b>7%</b>	<b>5</b>
 Multi-Industry	<b>5%</b>	<b>4</b>
 Financial Services	<b>5%</b>	<b>4</b>
 Healthcare & Pharmaceuticals	<b>5%</b>	<b>4</b>
 HoReCa	<b>5%</b>	<b>4</b>
 Transport & Logistics	<b>4%</b>	<b>3</b>
 Chemicals	<b>3%</b>	<b>2</b>
 Media & Entertainment	<b>3%</b>	<b>2</b>
 Aerospace	<b>3%</b>	<b>2</b>
 Retail & Wholesale Trade	<b>3%</b>	<b>2</b>
 Agriculture	<b>1%</b>	<b>1</b>
 Automotive	<b>1%</b>	<b>1</b>
 Construction & Engineering	<b>1%</b>	<b>1</b>

This year's survey respondents include many companies engaged in IT and telecommunications (16% of respondents), professional services (15%) and FMCG manufacturing (12%).

Also well-represented are manufacturers of industrial products (11%), energy and natural resource companies (7%) and multi-industry holding companies (5%).

Respondents also included financial companies, pharmaceutical manufacturers and companies in the hospitality business (HoReCa).

# COMPANIES BY INDUSTRIES



# IMPORTANCE OF AND OUTLOOK FOR BUSINESS IN RUSSIA

For 58% of companies surveyed Russia is a strategic market. 18% of survey participants view Russia as the most important (key) market.

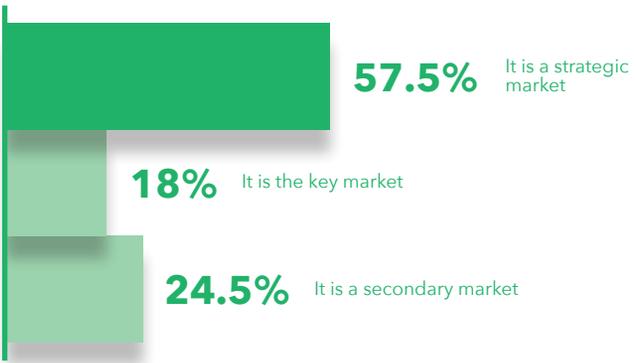
9 of 10 companies expect their Russian business to grow in the next three years, although most companies (78%) project a low growth rate.

The number of skeptics has grown: this year almost 6% of companies expect declining growth prospects for their business in Russia, and 7% expect stagnation.

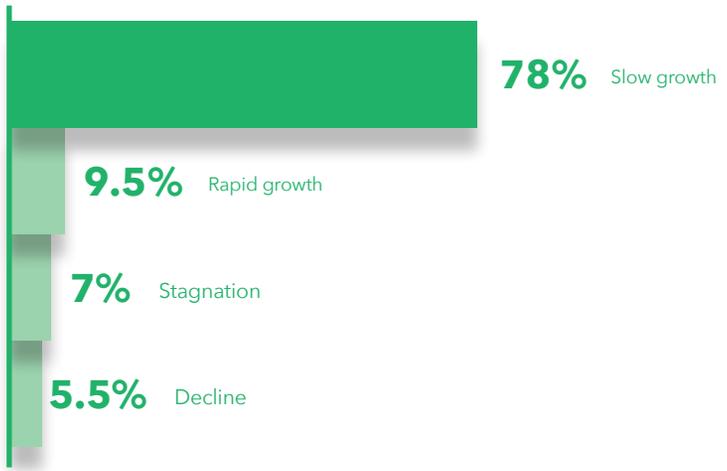
**i**

There is a notable difference between the stated importance of a Russian business and its contribution to the company's financial results. While the majority of companies regard Russia as a strategic market, 44% say their Russian business is still not among the top ten in terms of revenue.

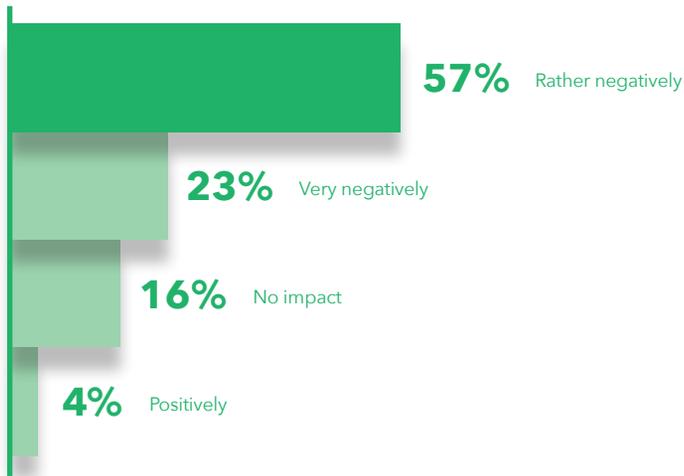
### IMPORTANCE OF RUSSIA IN TERMS OF STRATEGIC DEVELOPMENT



### GROWTH PROSPECTS FOR YOUR COMPANY IN RUSSIA OVER THE NEXT 3 YEARS



## HOW DO SANCTIONS IMPACT YOUR BUSINESS IN RUSSIA?

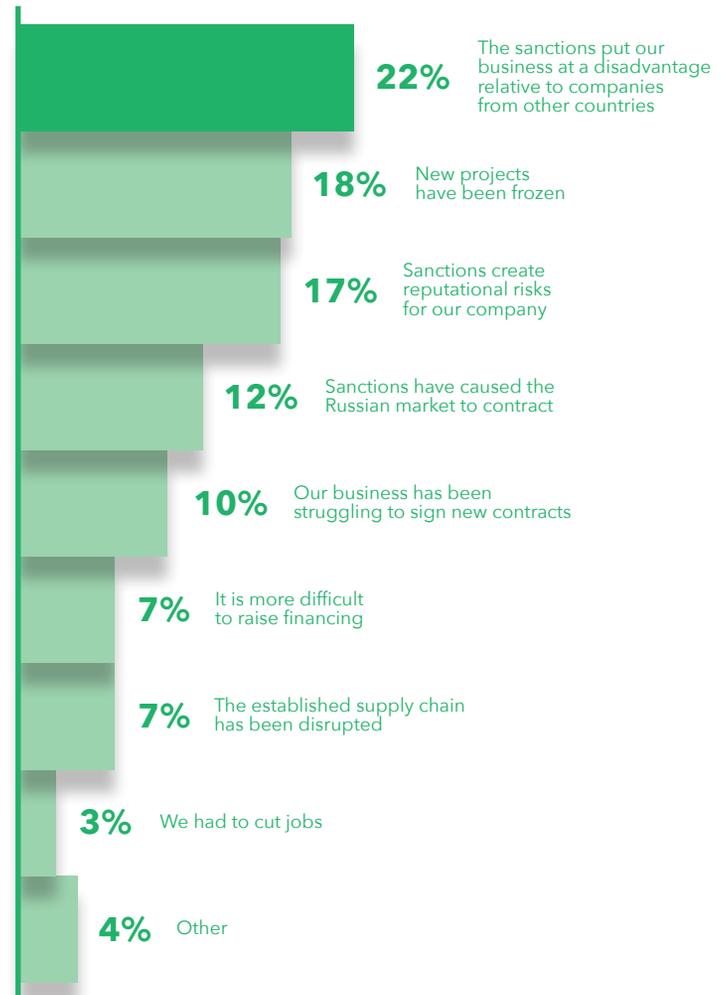


80% of the companies say their Russian business has been negatively impacted by US sanctions. This is 5 percentage points lower than last year.

However, 46% of the companies report that sanctions have had no impact on their Russian revenues.

Sanctions have put American businesses at a disadvantage relative to companies from other countries. This is the most widespread negative impact of sanctions (mentioned by 22% of respondents).

## NEGATIVE IMPACT OF SANCTIONS



# SANCTIONS

# 10 JOBS

Fewer companies are planning staff increases in Russia this year. 24% of respondents reported such plans, as compared with 31% a year before.

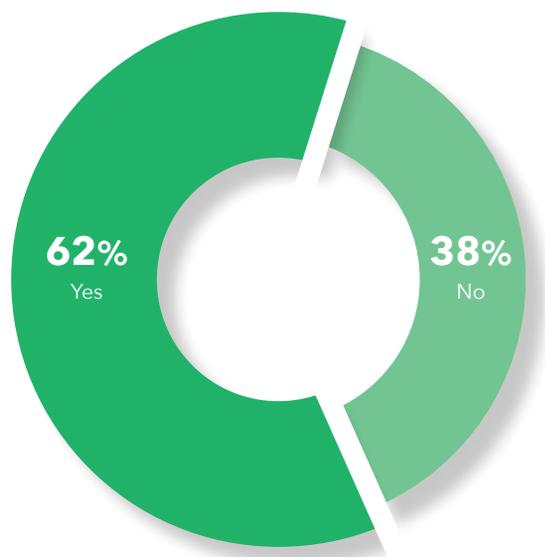
Over two thirds of companies (71%) plan neither staff increases nor cuts.

6 of 10 US companies operating in Russia support jobs in the US. A positive contribution is thus made to both countries' economies.

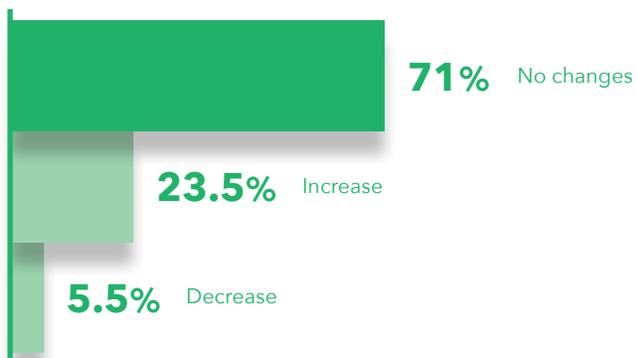
A single company supports an average of some 150 jobs in the US.

Overall, survey participants have created over 6,000 jobs in the US as a result of their Russian operations.

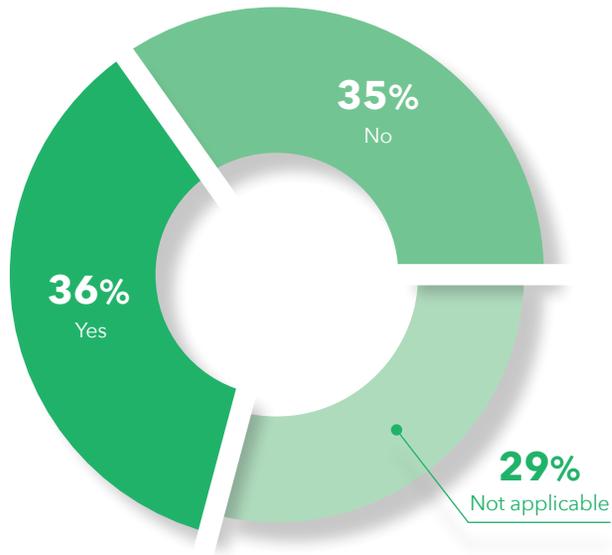
## ARE US-BASED JOBS SUPPORTED?



## CHANGES IN THE NUMBER OF FULL-TIME EMPLOYEES IN RUSSIA IN 2020



### DOES YOUR COMPANY HAVE A PRODUCTION SITE IN RUSSIA?



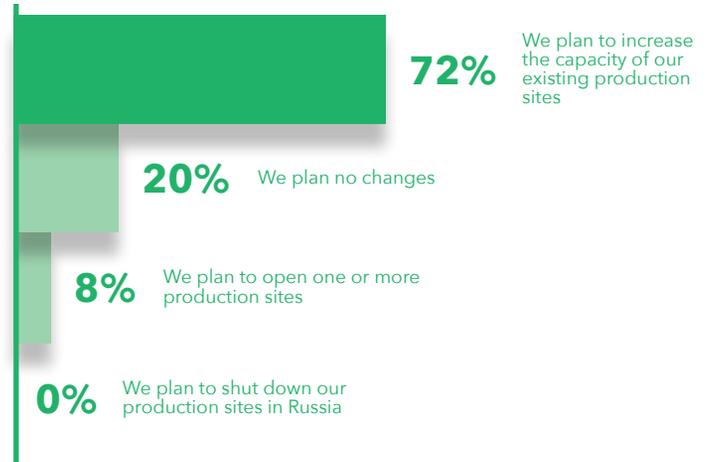
36% of the companies surveyed have a production site in Russia.

All the multi-industry companies operating in Russia as well as most FMCG manufacturers (78%) and industrial goods manufacturers (75%) have their own production sites.

Most companies with production sites in Russia plan to add new capacity (72%).

Only 8% of the surveyed companies plan to open a new production site.

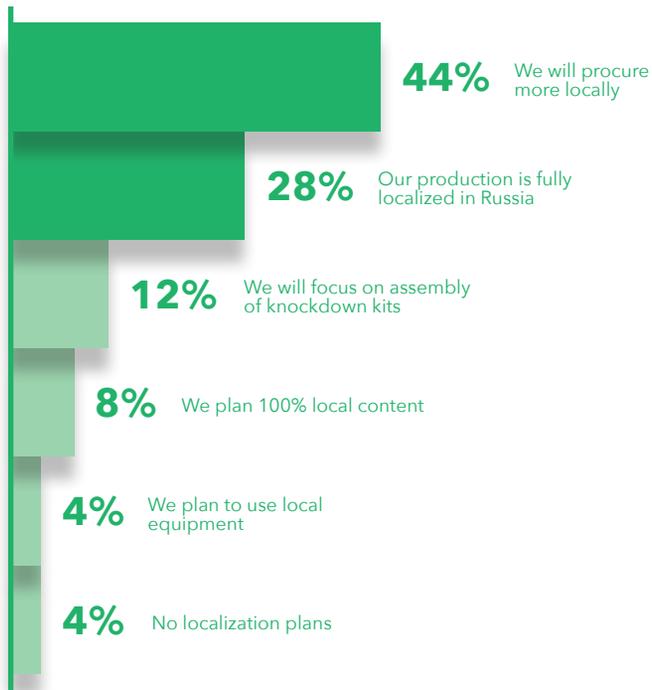
### PRODUCTION DEVELOPMENT PLANS



# PRODUCTION

# 1 2 LOCALIZATION AND TECHNOLOGY TRANSFER

## LOCALIZATION PLANS



Over a quarter of surveyed American companies with production sites in Russia have fully localized their production. Fewer companies, however, plan full localization in the future: only 8% of respondents reported such plans.

The most common means of localization is to procure more from local suppliers (the answer given by 44% of companies).

60% of companies with production sites in Russia will seek to transfer new technologies to their Russian sites.

23% of all survey participants plan to invest in research and development (R&D) in Russia, e.g. hire R&D experts or establish their own engineering center.

Two thirds of the survey respondents already have a presence in Russia's regions.

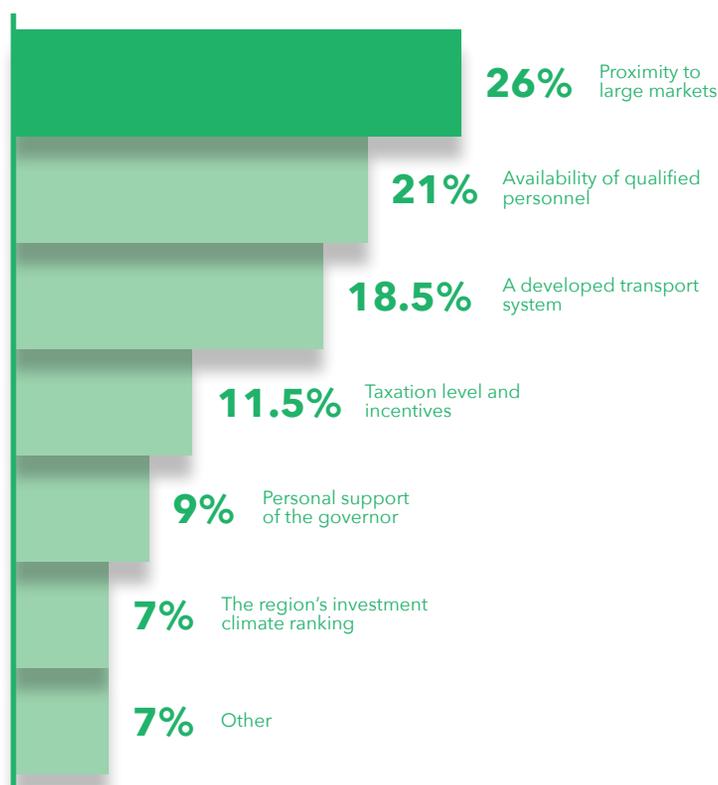
One in four plan further regional development - new offices, for example, or logistics and production sites.

Most respondents (72%) have no plans to expand their presence in the regions.

Companies that do plan to expand their regional presence regard the Central Federal District (including Moscow and the Moscow Region) and the Northwestern Federal District as the most attractive areas.

The reasons for choosing a region remain largely pragmatic: proximity to large markets (26%) and the availability of qualified personnel (21%) proved more important than the region's investment climate ranking.

#### THE MOST IMPORTANT FACTORS WHEN CHOOSING A REGION FOR INVESTMENT



# REGIONAL DEVELOPMENT



# 14 DIRECT INVESTMENTS

The total direct investments of US companies over the entire period of their operations in Russia amount to **\$91.86 billion**. This is an estimate based on the data of the 75 companies taking part in the current survey, public information and the data of companies surveyed in the previous four years.

The results of the current survey show the significant scale of business cooperation between Russia and the US, as well as the important role that US companies play in Russia's economy.

The official figures are significantly lower and may not fully reflect the current status of investment and trade between the two countries:

According to the Bank of Russia, the total flow of FDI from the USA to Russia amounted to \$9.9 billion over the period from 2007 through the first nine months of 2019 ([https://www.cbr.ru/vfs/eng/statistics/credit\\_statistics/inv\\_in-country\\_e.xlsx](https://www.cbr.ru/vfs/eng/statistics/credit_statistics/inv_in-country_e.xlsx))

According to the US Department of Commerce, US companies' total investments in Russia exceeded \$14.8 billion by 2018 (<https://www.selectusa.gov/country-fact-sheet/Russia>)

The discrepancies are due to the fact that US companies invest in Russia through other countries and reinvest their proceeds from Russian operations.

The survey uses the International Monetary Fund's definition of FDI (<https://www.imf.org/external/np/sta/di/glossary.pdf>).

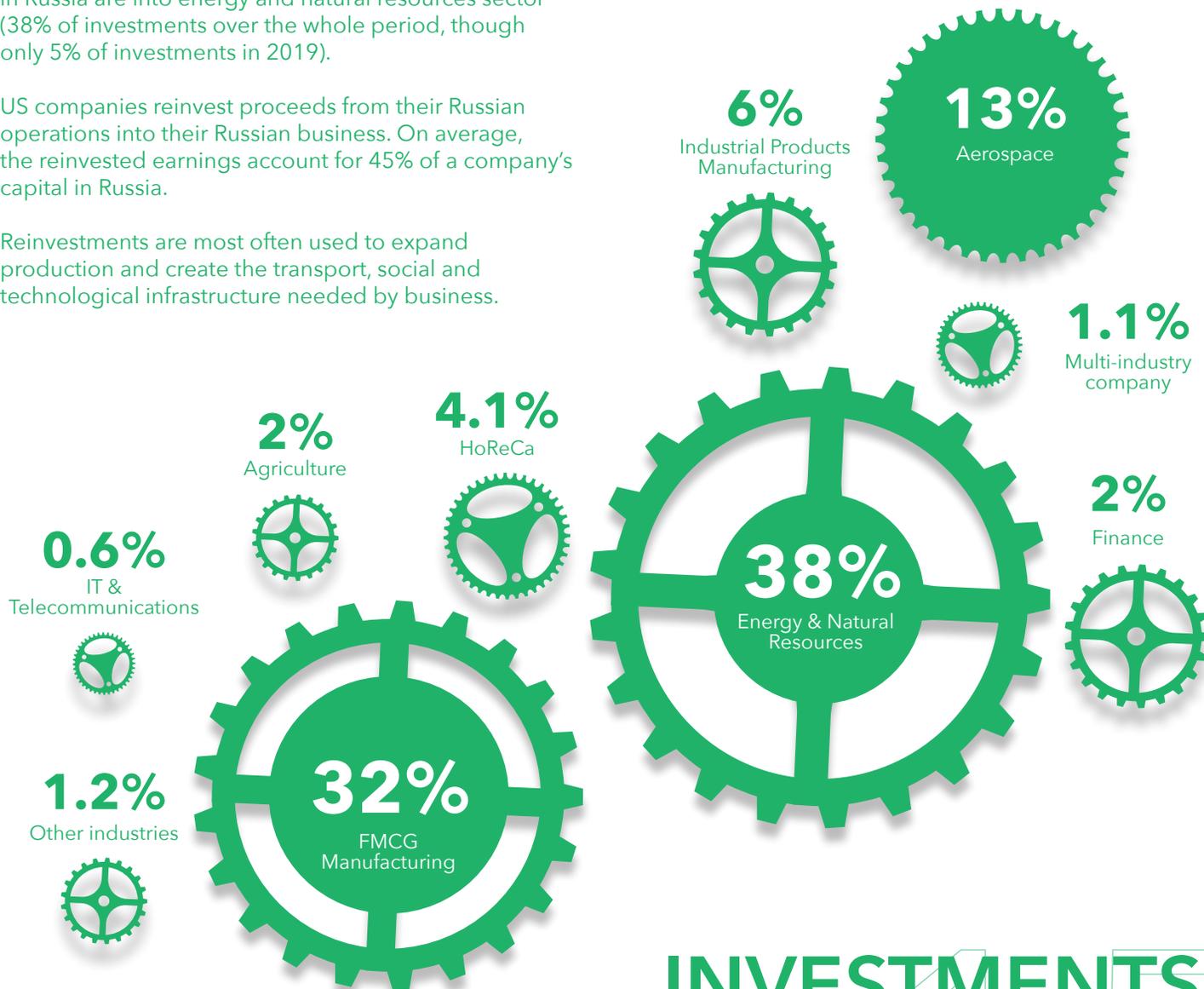


Over a third of American respondents' investments in Russia are into energy and natural resources sector (38% of investments over the whole period, though only 5% of investments in 2019).

US companies reinvest proceeds from their Russian operations into their Russian business. On average, the reinvested earnings account for 45% of a company's capital in Russia.

Reinvestments are most often used to expand production and create the transport, social and technological infrastructure needed by business.

## TOTAL INVESTMENTS



# INVESTMENTS BY INDUSTRIES

# PLANS FOR 2020 BY INDUSTRIES

In 2020, the survey participants plan to invest **\$1.8 billion in Russia.**

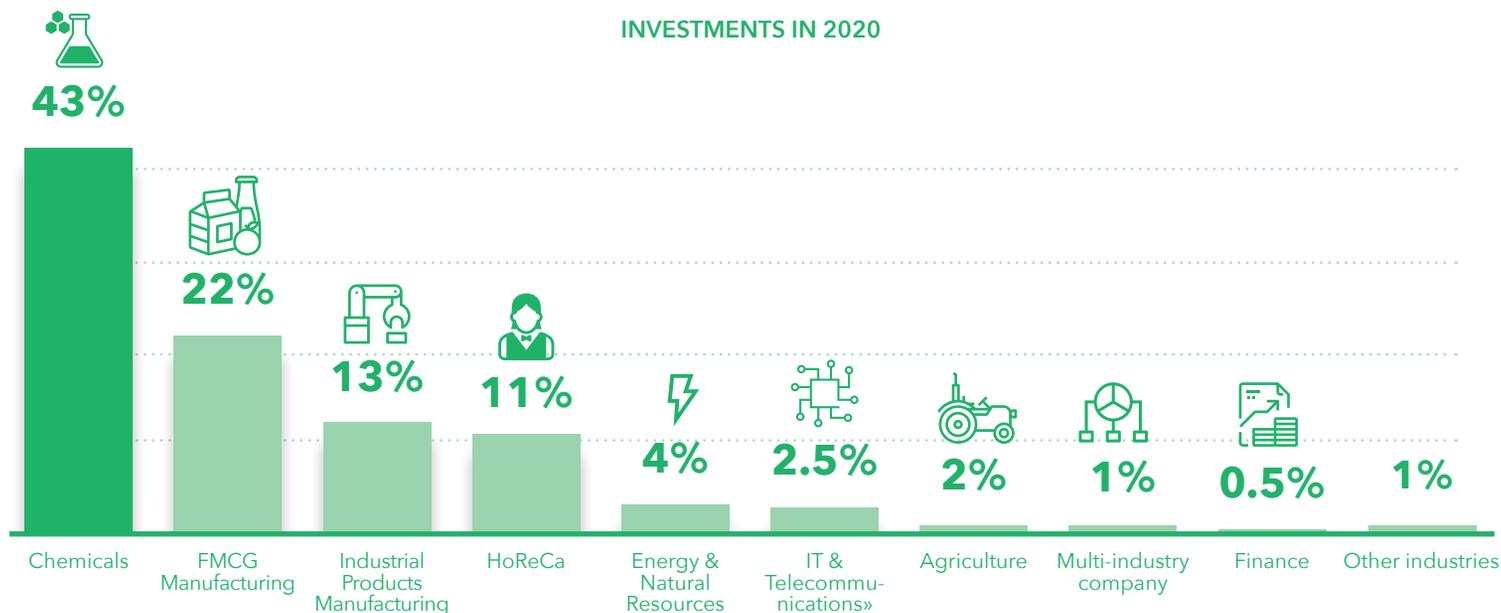
The chemical industry will lead 2020 by share of total investment, planning to attract more than in all prior years combined. One reason for this surge in investment activity is the lower prices for minerals used in production.

FMCG manufacturers account for a substantial share of foreign investments (22% of all planned investments in 2020).

Manufacturers of industrial products round out the top three sectors in terms of investment (13% of all investments this year).

Investments by energy and natural resources companies will decrease markedly (to 4%) due to the steep decline in commodity prices.

## INVESTMENTS IN 2020



Russia is one of the destinations of US companies' imports.

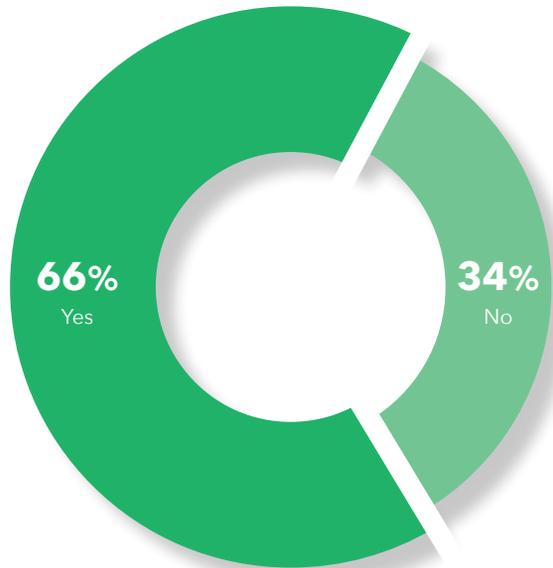
66% of the survey participants stated that they had imported their goods to Russia (versus 74% last year).

Only 34% of imports originated in the US. The remainder was imported to Russia from other countries.

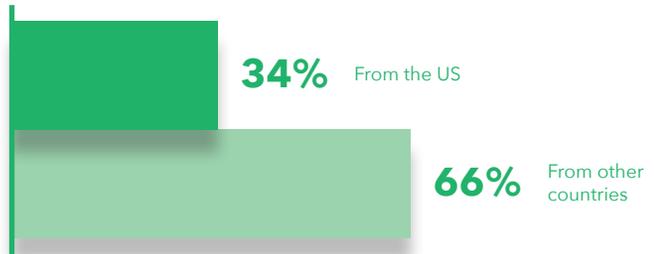
35% of companies reported that their total imports were within a range of from \$50 million to \$300 million last year.

The survey indicates that the real volume of US companies' imports to Russia is about 3 times higher than the official statistics.

#### DOES YOUR COMPANY IMPORT PRODUCTS FROM OTHER COUNTRIES TO RUSSIA?



#### IMPORTS FROM THE US AS A PERCENTAGE OF TOTAL IMPORTS TO RUSSIA



# 17 IMPORTS

# 18 EXPORTS

44% of the companies surveyed export goods manufactured in Russia to other countries.

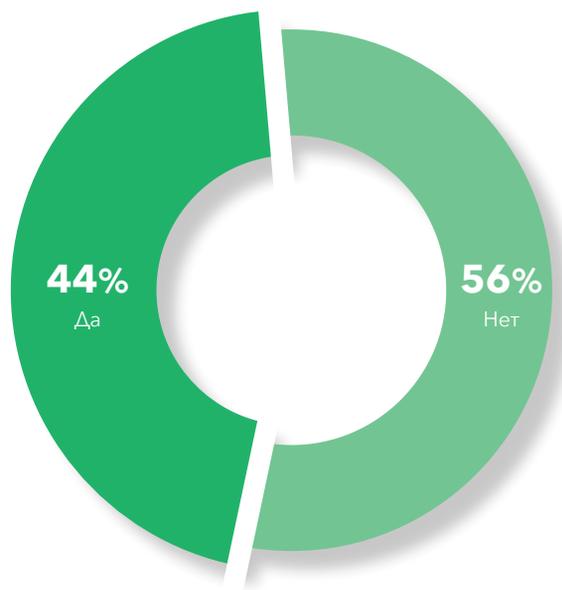
Around 16% of products made in Russia are exported directly to the US. 84% of exports go to other countries.

Nearly half of the surveyed companies export more than 20% of their Russian-made products.

This shows the export potential of Russian goods and the important role of US companies in increasing exports to other countries.

Russian suppliers become part of global supply chains, thus increasing Russia's overall export potential.

## DOES YOUR COMPANY EXPORT PRODUCTS FROM RUSSIA TO OTHER COUNTRIES?



## EXPORTS FROM RUSSIA TO THE US AS A PERCENTAGE OF TOTAL EXPORTS FROM RUSSIA



76% of the surveyed companies are involved in corporate social responsibility initiatives in Russia.

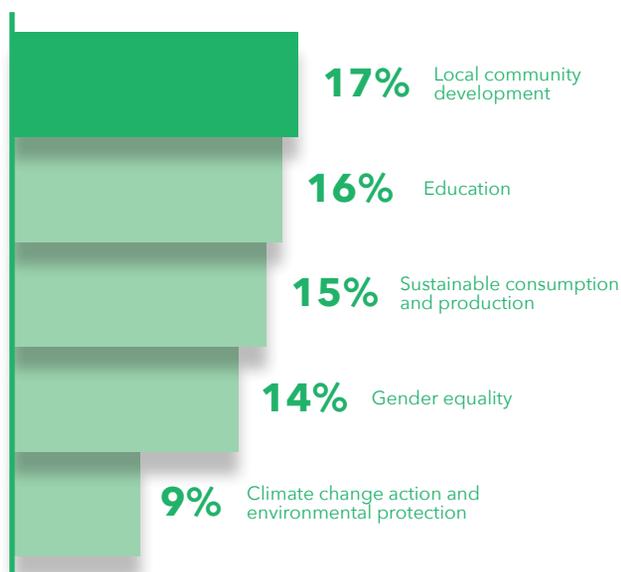
Most carry out such initiatives independently (45%), while around a third support other organizations, such as charity foundations.

A third of companies regard an enhanced reputation with society, business and government as the key benefit of a corporate social responsibility program.

30% of the companies surveyed view such initiatives primarily as a means of fulfilling their mission.

The majority of respondents (60%) spend less than 1% of their annual Russian revenue on corporate social responsibility projects.

#### MOST POPULAR CORPORATE RESPONSIBILITY INITIATIVES AMONG SURVEY PARTICIPANTS



#### Examples of CSR initiatives

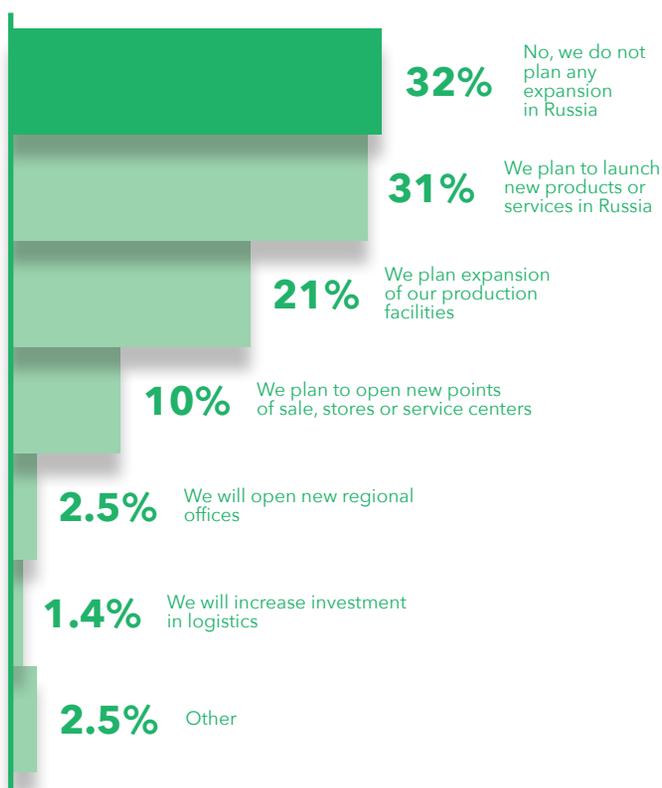
- Assistance for an orphanage in Tver Region  
**A company in the chemical industry**
- Support for student involvement in business games  
**A legal firm**
- Assistance for schools and a healthcare institution in Leningrad Region  
**A company in the pulp and paper industry**
- Support for women's entrepreneurship  
**A company engaged in direct sales of consumer goods**
- Involvement in environmental initiatives, including waste sorting and limiting the use of plastic  
**Nine companies in various industries**

# SOCIAL RESPONSIBILITY



# 2020 DEVELOPMENT PLANS

## PLANS TO EXPAND OPERATIONS AND LAUNCH NEW PROJECTS IN RUSSIA IN THE NEAR FUTURE



In 2019 the survey's participants invested **\$1.9 billion in Russia's economy.**

- Data of the Bank of Russia for the first 9 months of 2019 showed an outflow of American investments in the amount of \$72 million.

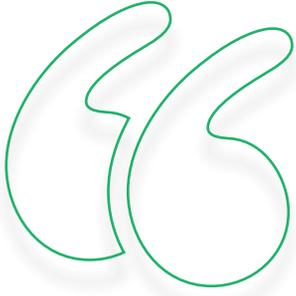
The surveyed companies' investment plans for 2020 are more modest; they will seek to invest some **\$1.8 billion in Russia.**

- Not all surveyed companies reported their total actual and planned investments.
- 86% of companies plan either to increase investments in Russia or keep them at the same level.

68% of survey participants plan to launch new projects in Russia.

- Companies primarily plan to launch new products or services in Russia (31%) as well as to expand their production facilities (21%)

One in three companies (32% of survey participants) does not plan any expansion in Russia. This has to do with the uncertainty created by the pandemic and the external constraints affecting American businesses in Russia.



Will stay the same.

Russia will remain a strategic market for us in the near future.

Russia's role will not change. It will retain its position as one of the leaders among emerging markets.

We don't expect any changes.

Russia is a key market for us, and we believe this will continue to be the case going forward.

It is a strategic direction to be present on this market and gain the loyalty of local customers.

[Russia] will become a growth driver.

[Our company] will continue to operate in Russia and the CIS, utilizing international experience and localizing

advanced technologies in cooperation with strategic partners <...> to meet the region's key infrastructure needs and improve the lives of people.

Russia will become one of the largest markets for our company.

Probably the role of Russia will increase in the future.

Russia's role in the near future is closely related to the geopolitical situation.

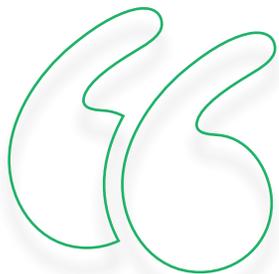
[The role of Russia for our business] will depend on implementation of the national import substitution program.

We expect no change <...> unless there are added sanctions which trigger a negative response from the Russian authorities.



**WILL RUSSIA'S ROLE  
CHANGE FOR YOUR COMPANY  
IN THE NEAR FUTURE?**

# WHAT IS YOUR COMPANY'S DEVELOPMENT STRATEGY IN RUSSIA FOR THE NEXT 3-5 YEARS?



Sit out the current COVID-19 effects and prepare for growth in 2021.

Strengthen the company's positions and increase brand recognition on the Russian market, organic growth and team consolidation.

Develop distribution, product portfolio, services and localization.

Maintain our market share and profitability.

Double our revenue within 3 years.

To develop our network across Russia, to develop new solutions for our customers, to be more digital.

[Our strategy is] active growth.

Continue our presence. Optimize structure and processes.

Maintain our positions; planned, organic growth.

Business expansion may require restructuring of our commercial format - for example, the introduction of direct sales in parallel with the distributor network.

Sustainable development, transparency of work, launching innovative products in Russia.

Grow, expand and become a trusted adviser for clients in both small and medium business and enterprise [segments].

Only growth and market share increase.



## GENERAL TRENDS

1

Changes to company tactics, but not strategy. Businesses are modifying their plans for the next few years to adapt to lower demand.

2

Cost-saving and higher efficiency are key priorities. The companies surveyed have had to reconsider their capital expenditure programs, put major investment projects on hold, and cut marketing costs where possible.

3

Businesses have stopped hiring but are trying to retain their current workforce. Offices are closed, and employees continue to work from home.

4

The recovery of business in Russia will depend on developments in the global economy.

## INDUSTRY SPECIFICS

### HOSPITALITY, RESTAURANTS AND CATERING

Some companies have launched programs to assist their employees financially and have come up with different ways of using idle properties.



### INDUSTRIAL PRODUCTS MANUFACTURING AND ENERGY

Supply chains have been disrupted, and travel restrictions have complicated access to technical and service specialists.



### HEALTHCARE AND PHARMACEUTICALS

The pandemic has not affected the companies' plans: they continue to pursue projects already under way and plan to achieve their financial targets this year.



### PROFESSIONAL SERVICES

Companies have cut costs and stopped hiring but have supplemented their portfolios with services to help clients better cope with the crisis.



# WILL YOUR PLANS FOR THIS YEAR CHANGE DUE TO THE COVID-19 PANDEMIC?\*

\* This slide is based on the findings of an additional survey done in May 2020