

## German Business in Russia

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**ABSTRACT.** Since Perestroika German-Russian relationships have been steadily developing fueled by close contacts between the leaders of both countries. Boris Yeltsin and Helmut Kohl, Vladimir Putin and Gerhard Schröder, Dmitry Medvedev and Angela Merkel had friendly relations resulted in some fruitful business projects, intergovernmental economic forums etc. In my article I will consider the activities of German companies in Russia, advantages, barriers and expectations.

**Keywords:** German business projects; investments; Russian market; barriers; expectations; regional attractiveness.

### INTRODUCTION

German business in Russia has undoubtedly attractive market, caused by the efforts of Russian government to attract more foreign investments. Dmitry Medvedev at the International Economic Forum in St. Petersburg in June 2010 that the number of strategic joint-stock companies would be cut from 208 to 41, and federal unitary enterprises - from 230 to 159. [1]

Secondly, purchasing power of the Russian population increases every year. As revenues are growing faster than the supply of goods and services, Russian economy cannot meet this growing demand. At the same time, Russians are seeking for the products labeled "Made in Germany", because German brands are well-known and popular among Russian customers.

Thirdly, there is an increasing demand for such investment goods, which provide modernization of Russian economy. Almost half of Russian imports are machinery and equipment.

Moreover, 2 international sport events in Russia – 2014 Winter Olympic Games and 2018 FIFA World Cup – have huge potential for business. Both events need new stadiums and proper infrastructure and attract billion of viewers. German firms can be involved in such sectors as engineering, construction, transport etc.

### German companies in Russia

Today, Germany is the second biggest trade partner for Russia after China. Germany mainly exports to Russia machinery, motor vehicles, chemical and medical products, food and agricultural produce.

German companies have made substantial investments in Russia. Russian Ambassador to Germany Vladimir Grinin stated that German companies have recently invested some 30 billion dollars in Russia's economy.

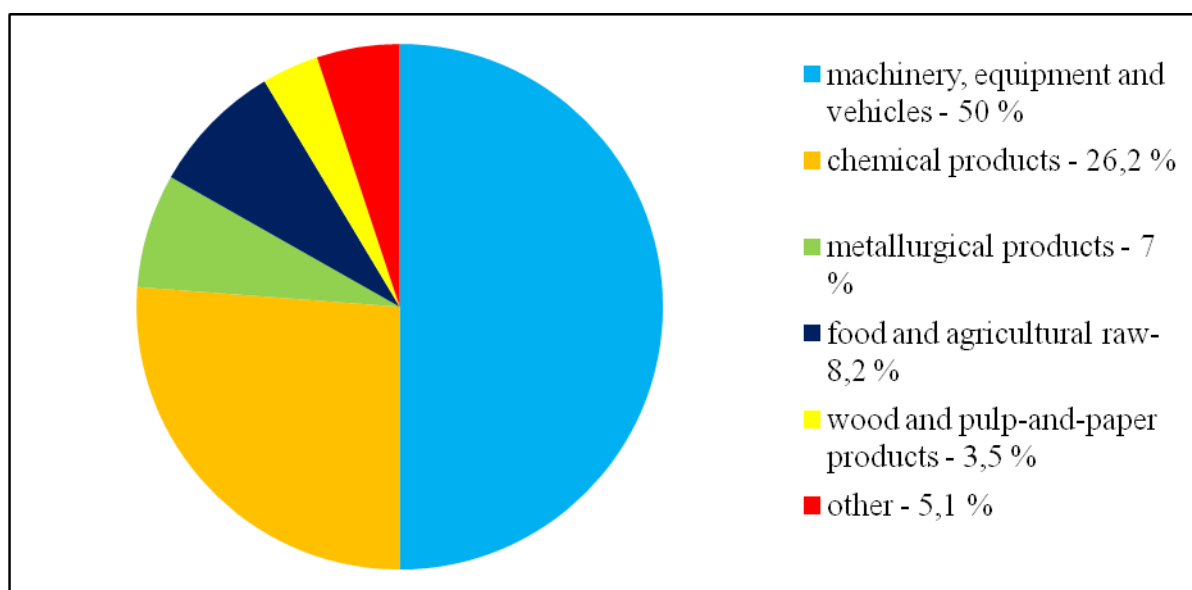


Chart 1. The structure of German export to Russia. Source: [2]

In 2003 Germany was represented in Russia by nearly 2,500 companies. 5 years later this number has increased to 4,600 in 2008. Today, some 6,000 German companies operate in Russia and more businesses are interested in entering the Russian market. It proves that Russia will remain an important and attractive market for German companies. [3, 4]

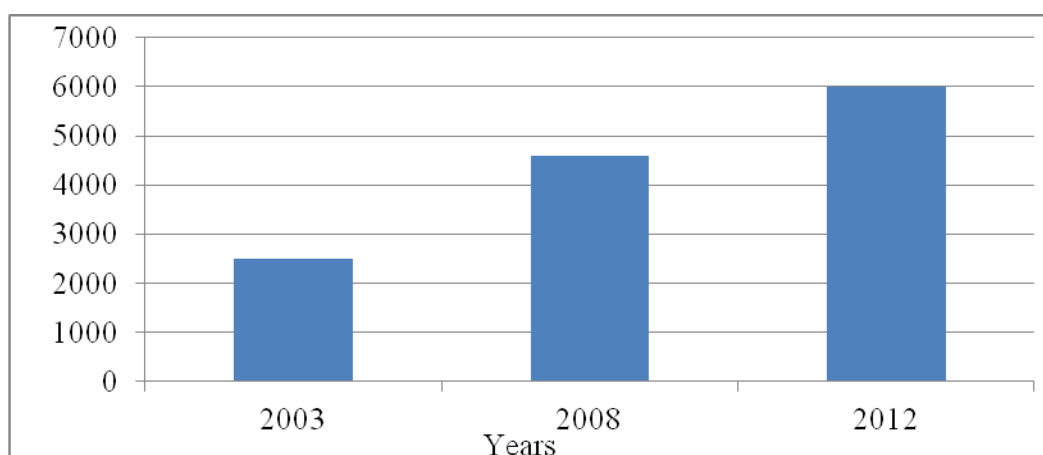


Chart 2. The number of German Companies in Russia. Source: [3, 4]

Talking about regional attractiveness, the most important features for German firms are: economic potential, good infrastructure, existence of resources, opportunities for cooperation with business partners and qualified personnel.

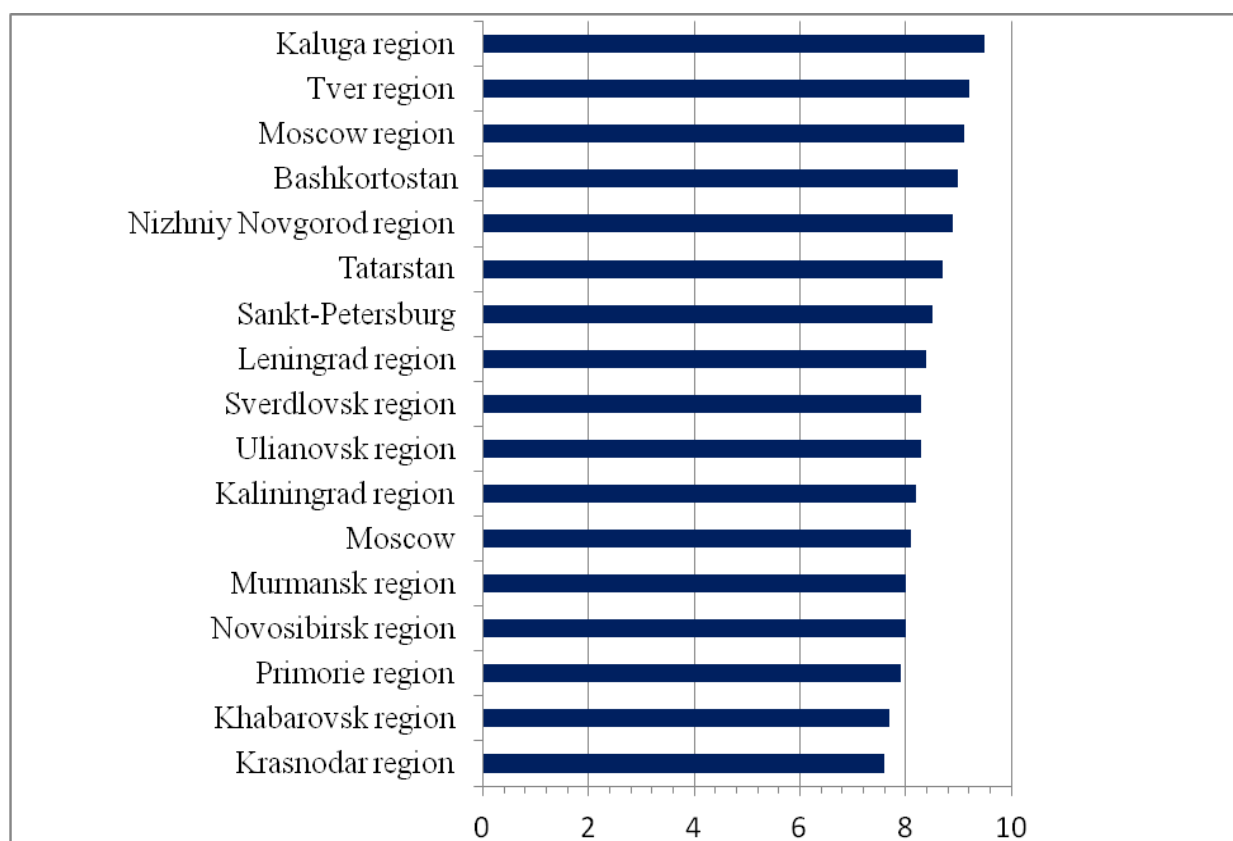


Chart 3. The attractiveness of regions. Source: [6]

In 2012 the German-Russian Chamber of Commerce asked German companies operating in Russia about their regional preferences. According to this survey the Kaluga region is the leader on investment climate in Russia. Then goes Tver region, Moscow region, Bashkortostan, Nizhny Novgorod region, Tatarstan, Sankt-Petersburg, Leningrad region. Moscow is only on the 12<sup>th</sup> place, Krasnodar region is the 17<sup>th</sup>.

70 % of interrogated companies answered that they are ready to expand their business in Russian regions. [5, 6]

For example, Volkswagen plans to invest €1 billion in Russia by 2018. It will invest €250 million in the construction of the plant in Kaluga, which will produce 150 000 engines each year, starting from 2015. Also, the company has already invested €570 million in the construction of plant, which produces automobiles. Volkswagen aims to sell half a million vehicles in the country annually by 2018 and sees Russia as attractive market for expansion of business. [7, 8]

Talking about Krasnodar region, the Claas Group, a manufacturer of agricultural equipment, has invested €30 million in the construction and operation of the plant in Krasnodar, which supplies Russia with modern combine-harvesters. The company plans to expand its plant in Krasnodar by 2015 and produce 2000 combines annually. Nowadays the plant can produce only 1000 machines a year. [9, 10]

In 17 October 2011 another German company, Siemens announced its plan to invest €1 billion in Russia. €700 million of this amount the company will invest in energy market. For example, about €400 million to be invested in new production facilities for efficient gas turbines; €120 million – in new production plant for wind turbines and a rotor blade manufacturing facility; about €115 million – in a local manufacturing plant for transformers and production facilities for high-voltage products and gas-insolated switchgear in Voronezh; about €60 million – in construction of a production plant in Perm to manufacture pipeline compressors for Russia's oil and gas industry. Except energy sector, company plans to invest in manufacturing capacity for the production of regional trains (€200 million) and in research and development center in Skolkovo (€40 million). [11]

German companies also help the Russian government to implement large-scale infrastructure projects, some of which has national importance. Builders from Germany are involved in the preparation of the Olympic Games, tunneling, reconstruction of airports, planning new highways in big cities.

For example, new stations of Moscow subway will be constructed using German equipment. Herrenknecht Tunnel Boring Machine is used for the construction of tunnels that connect the stations "Lermontovsky prospekt", "Vykhino", "Ramenki", "Lomonosovsky prospekt", "Brateevo" and "Troparevo" with the other stations of subway. This equipment was used also during tunneling in S.-Petersburg and Sochi. [12]

### Barriers

Of course German companies in Russia may face some problems and barriers.

The main problem is corruption. Despite Russian government's efforts to fight corruption, its level in Russia is still extremely high. The country is on the 143<sup>rd</sup> place out of 182 countries in Transparency International's Corruption Perceptions Index of 2011. [13]

Bureaucratic system of Russian Federation is another hurdle for business. Stephen Dalziel, Executive director of the Russian-British Chamber of Commerce said when he asked members of the Chamber, what the biggest problem of doing business in Russia is, the most frequent answer was "bureaucracy". «You have to have forms for this, forms for that, stamped and signed by the right authority, often in triplicate» - added Stephen Dalziel. He noticed that bureaucracy and corruption are «two sides of the same coin». Dmitry Peskov, spokesman of Russian president Vladimir Putin, said that to cut red tape is one of the priorities of Russian government. [14, 15]

Visa regime between Germany and Russia also creates some problems for business. This year Germany's six large economic organizations came out against visa regime. One of the arguments was expenses connected with visa regulations because Germany and Russia spend €160 million as administrative expenses in getting visas each year. [16]

In addition, too long transport routes take a lot of time and money.

### Expectations

In this part I'll consider two aspects, which in my opinion predict positive changes in German-Russian business relationships.

Firstly, in 2011 the trade turnover between Russia and Germany reached a record volume.

According to the Federal Customs Service of Russia, in 2011 the volume of trade increased by 37 % compared with previous year, and was 71,8 billion dollars. In 2011 the volume of trade was even more than in pre-crisis period (compared with 67,3 billion dollars in 2008).

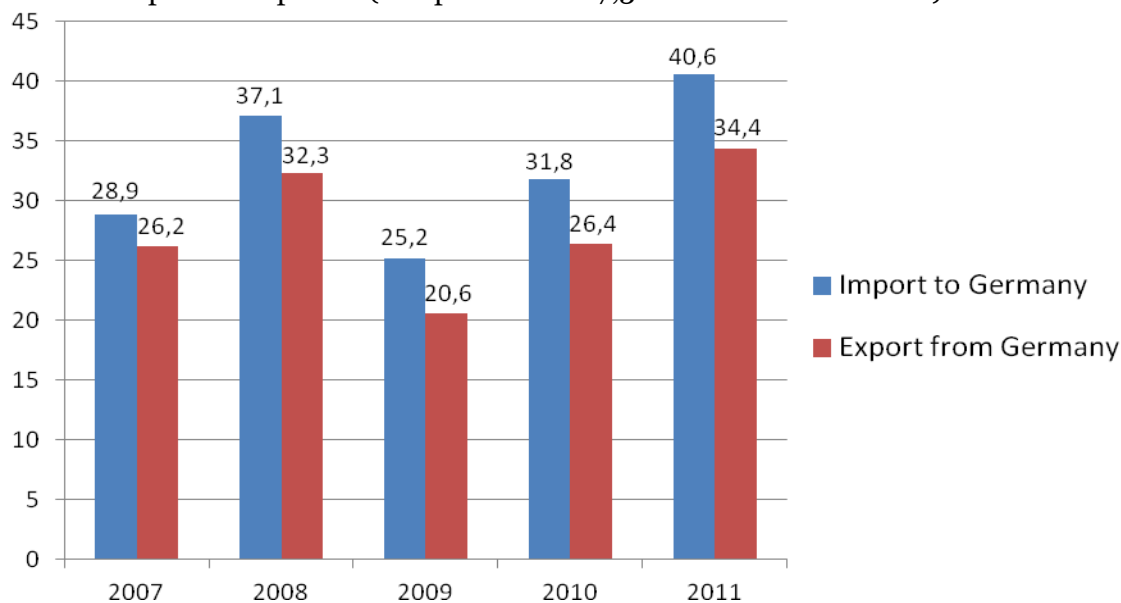


Chart 4. The dynamics of German-Russian trade turnover, bln EUR Source: [5]

According to the Federal Statistical Office of Germany foreign trade turnover with Russia reached 75 billion EUR. Eckhard Kordes, a Chairman of the Committee on Eastern European

Economic Relations, said that volume of German exports to Russia in 2011 increased by 30%, imports of Russian goods to Germany increased by 26%, and the trade turnover between Germany and Russia has grown much more rapidly than between Germany and any other country. [5]

It means that countries have overcome negative consequences of the world financial crisis which was reflected in decrease of the trade turnover.

Secondly, Russia has joined WTO on 22, August this year. Because of it there are many positive expectations. «Russia's joining the WTO will also promote the diversification and modernization of the Russian economy, which is important for Germany as well, in the context of partnership between our countries», – said German Foreign Minister commenting on Russian governments' decision to become a WTO member-state. [17]

German-Russian Chamber of Commerce together with Committee on Eastern European Economic Relations asked German companies about their expectations after Russian government has decided to enter WTO. 80 % of all respondents answered that they predict positive results for Russian economy in a short term, 20 % predicted negative consequences. In a long term, positive changes are expected by 96 %, negative – by 4 % of respondents. [5]

### **CONCLUSION**

Undoubtedly Russian government must and tries to improve investment climate for potential investors. Despite some problems characterizing the Russian market, we can expect that German-Russian business relationships will develop in a positive manner. The results of surveys of German companies, which have business in Russia, prove these expectations. The growth of trade turnover and the government policy of both countries predict positive results of this cooperation.

The partnership will benefit both sides; on the one hand, Russian economy and infrastructure will be modernized by German companies, on the other hand, German business will get new perspective market.

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### **Немецкий бизнес в России**

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**Аннотация.** Со времен перестройки немецко-российские отношения постоянно развивались, подталкиваемые близким общением между лидерами двух стран. Хорошие и дружественные отношения между главами государств отразились в некоторых совместных бизнес проектах, межгосударственных экономических форумах и т.д. В статье я буду рассматривать деятельность немецких компаний на российском рынке. Какие выгоды и препятствия характеризуют нашу страну в глазах немецких бизнесменов, и каковы их ожидания.

**Ключевые слова:** немецкий бизнес; инвестиции; российский рынок; препятствия; ожидания; региональные предпочтения.