

Navigator

Now, next and how for business

Russia



Together we thrive

Overview

Optimism abounds, undeterred by low-key growth

Russia's economy continues to grow, but the pace is modest, despite short-term inflationary risks receding. Russia is also more exposed to potential global shocks, such as a large fall in oil prices. Despite this, Russia's companies are keen on international trade and their outlook on global business is higher than the rest of Europe or the world.

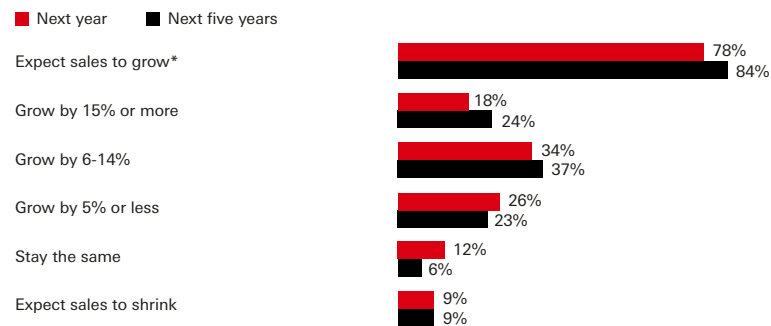
State of play

Transformation low on Russia's agenda

The outlook for Russian firms is on a par with the global and European averages, with 78% of companies expecting to grow next year. The region is aligned with Europe in that there are slightly fewer companies anticipating high growth of 15% or more in the next year (18% versus 22% globally).

However, the standout difference for Russian firms is that transformation appears to be low on the agenda. Only 34% of companies are expecting total or substantial change in their business in the next five years. That's considerably below the global average of 50% and the European level of 41%.

Expectations for future business growth



*This is the sum of grow by 5% or less, 6-14%, 15% or more



What you need to know



Russian businesses are more optimistic about the outlook for international trade in the next one to two years at 83% compared to the previous two years (73%).



International traders tend to be more optimistic about their prospects for growth.



Only around one in 10 Russian companies believe their sales will shrink in the next year.

What your business can do



Consider sustainability measures. 30% of companies say an increasing interest in sustainability is a driver for projected growth.



Expand into new markets. 51% of firms say that new markets are driving future growth.



Find ways to improve the quality of your offering, which is a strategy to overcome potential threats for 41% of firms.

Trade outlook

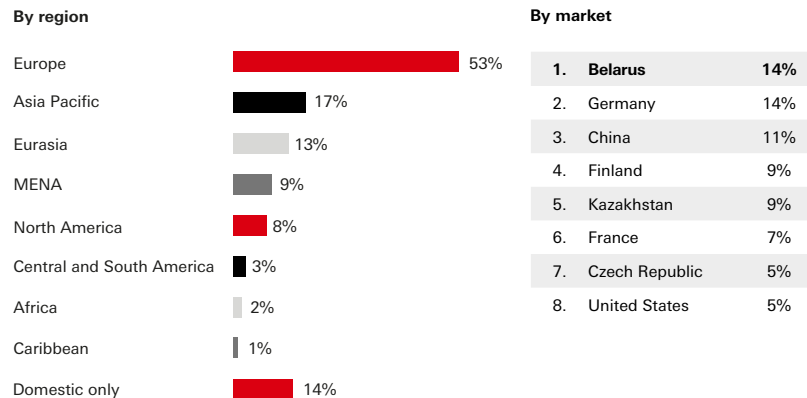
Increasing trade with China

Russia retains strong trading links with the rest of Europe, but regions like China and the US are increasing in importance. European trade has decreased slightly from 77% in 2018 to 70% this year, with Germany and Belarus the most important partners. But it's clear that Russian firms are also looking further afield. Asia Pacific (APAC) and North America have both grown in importance, driven by increased business with China (24% in 2019 from 15% in 2018) and the US (12% in 2019 from 5% in 2018).

Russia's relationship with China is particularly interesting. In the next three to five years, it will become one of the top three markets for Russia. Companies interested in expanding here are attracted to its proven customer demand, access to new suppliers and partnership opportunities.

Russian firms are feeling positive about the impacts of trade over the next five years. They overwhelmingly believe it will drive innovation (83%), as well as provide new business opportunities and improve efficiency (both 82%).

Future trading expansion markets in the next three to five years



What you need to know



Europe (53%), APAC (17%) and Eurasia (13%) – particularly Kazakhstan – remain the top three regions in the next five years.



Trade with China is picking up, growing in importance from 15% in 2018 to 24% in 2019.



Fewer businesses in Russia have stopped/reduced or are considering stopping/reducing trading internationally in the next two years than globally or in Europe.

What your business can do



Find the right local partners. Favourable partnership opportunities is one of the most attractive market qualities for Russian firms in every region.



Know your audience. Russian companies looking at international markets are seeking proven customer demand for their products.



Present good terms for partnerships to promote trade. There's little you can do about geopolitical risks and rising labour costs but favourable partnerships are a top draw.

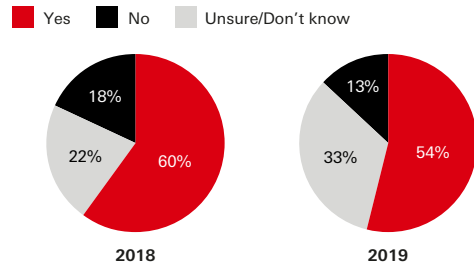
Protectionism and geopolitics

Russia sees falling protectionism

Fewer Russian firms think that their key trading markets are becoming more protective versus last year's sentiment, unlike most other regions where the trend is running the other way. In 2019, 54% of firms say they feel protectionism is increasing, compared to 60% last year. But the overall figure is in line with the European average of 55%, which is behind the global average of 65%.

Half of Russian businesses feel they win more than they lose from protectionism, similar to both Europe at 51% and the world at 57%, but a further 32% feel they win and lose equally, second only to Spain within Europe.

Whether protectionism is growing



What you need to know

- 1 Fewer Russian businesses think their key trading markets are becoming more protective than last year.
- 2 66% of Russian firms are strongly impacted by geopolitics, slightly more than the global (64%) and European (60%) average.
- 3 Russian firms are mainly cutting costs (44%) to cope with protectionism and the proportion of businesses cost-cutting is the second highest globally.

What your business can do

- Secure your supply chain. 22% of firms say protectionism is changing their supply chain and 26% are sourcing from local suppliers to cope.
- Pursue partnerships locally. In common with businesses worldwide, Russian firms feel joint ventures with local companies can help defend against protectionism and geopolitical risk.
- Stay open to changing your trade routes, a strategy employed by Russian firms to mitigate for geopolitical risk.

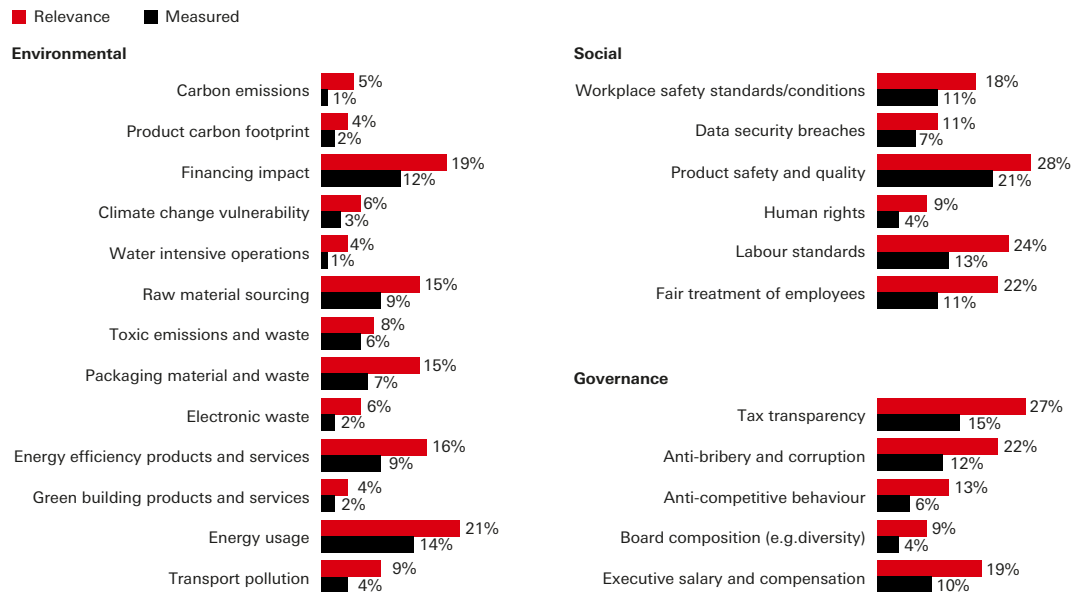
The sustainable future

A gradual adoption of sustainability practices

Although Russian firms align with their global counterparts in seeing that sustainability is a strong driver for growth, there is evidence that the sustainability drive is weaker in this market. Environmental, social and governance (ESG) metrics are relevant for and being measured by companies, but at levels that are amongst the lowest globally. And less than half of businesses feel they have a role to play in delivering the UN's Sustainable Development Goals (SDGs), with just 15% believing that role is significant.

Russian businesses believe that sustainable business practices can grow sales, help them to meet regulatory standards, gain a reputational advantage and give them a competitive edge. Over the next five years, they are feeling pressure to become more sustainable from end users (46%), governments (42%) and competitors (35%). But a substantially high proportion report lacking the additional finance to pursue sustainability over the next five years – 45% compared to 28% in Europe and 35% worldwide.

Key ESG metrics considered relevant and measured by businesses



What you need to know

- 1 Russian businesses are the third highest globally to be motivated towards sustainability by sales growth.
- 2 They are also the second highest globally to feel the most pressure over the next five years from their end users to become more sustainable.
- 3 The top most relevant ESG factors are product safety and quality, tax transparency and labour standards.

What your business can do



Set yourself apart with a strong focus on sustainability. If companies are struggling to implement ESG practices, those that succeed will gain a competitive edge.



Partner with sustainable suppliers. You can improve your ESG status at little or no cost by working with sustainable firms.



Focus on workers. Labour standards are a strongly relevant ESG metric for Russian firms.

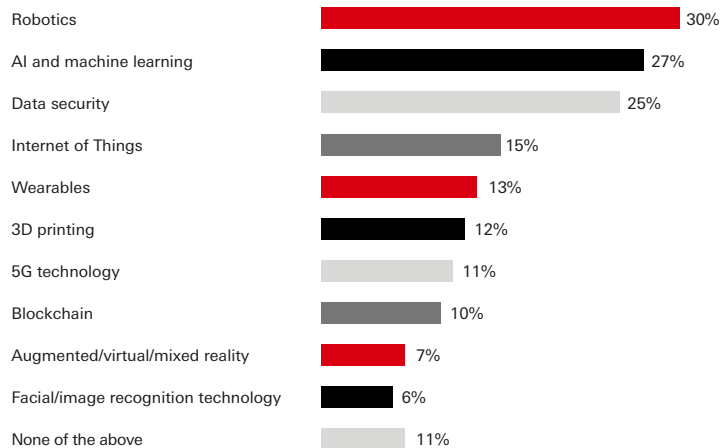
Breakthrough tech

Robots rule for Russian firms

Russian firms agree with a majority of companies worldwide that artificial intelligence and data security will have a significant impact on their businesses in the next five years. But they place robotics ahead of both of these key innovations. Companies in the region expect that robotics will improve productivity (52%), reduce costs (50%) and improve the quality of their products and services (47%).

Once more, the US stands out as a technology hub where innovations are at their most advanced, particularly for AI, mentioned by 48% of firms, and data security, mentioned by 46% of firms. But Japan slightly edges the US in robotics, mentioned by 40% of firms versus 35%.

Technologies Russian businesses think will be important in the next five years



What you need to know



Future innovative technologies are viewed as multiple enablers for business improvement, boosting productivity, products/services quality and reducing costs.



Robotics is considered the top technology that will impact Russian business, followed by AI and data security.



The US is viewed as the reigning tech hub, but China, Germany and Japan are also rated highly.

What your business can do



Don't just invest in the headline tech such as AI and robotics. The Internet of Things, wearables and 3D printing will all have an impact.



Invest wisely. Robotics will impact manufacturing most, while AI is more important in the mining and energy sectors for those companies who expect an impact.



Cut costs with key innovations. Cost-cutting is one of the leading business strategies for Russian firms and a large proportion of them believe that tech can help.

About HSBC Navigator Russia

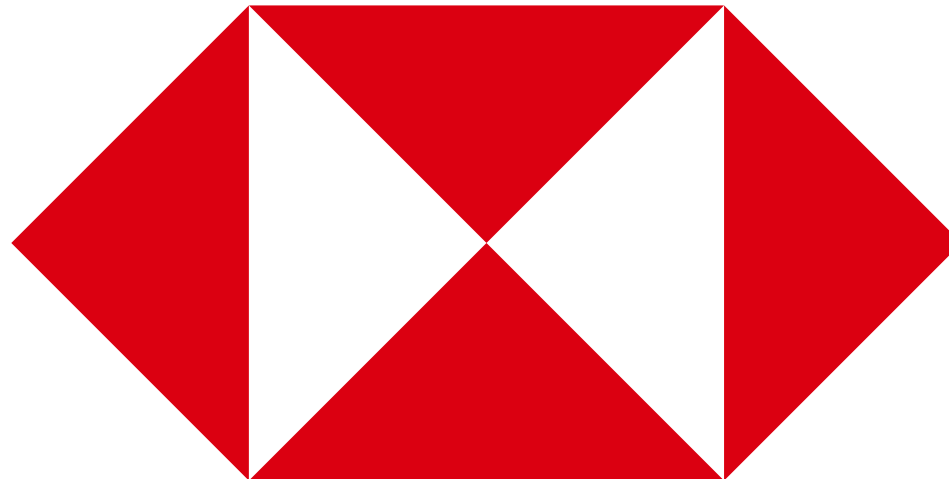
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellness. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 350 businesses surveyed in Russia. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2, 5 & 6: all companies. n=150

Page 3: international operators (trend). n=106

Page 4: companies who are impacted by geopolitics.
n=8629/150



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