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Don't forget the "R" in BRIC

by Andrew Cahn, CEO, UK Trade & Investment

I have just returned from Russia with a message: if you lead a UK company that wants to grow in today's globalising world – and particularly in the high-growth markets identified as BRIC (Brazil, Russia, India and China) – you should be looking closely at Russia. The case for doing business with India and China is already well made. The case for Russia is a little harder, but compelling all the same.

Some bare facts. Russia is a huge country bordering the EU, with stable finances, average growth of 7% over the last ten years, a developing and dynamic market, a quickly growing middle class, and a government among whose main challenge is how to get money out of its overflowing coffers and into its decaying infrastructure. Russian GDP has grown by over two-thirds in seven years. It is now the tenth-largest economy in the world.

In a report at the end of last year, the World Bank said Russia had, "robust growth, supported by high energy prices, large capital inflows, rising domestic demand and prudent macroeconomic management".

Speaking to the British business community in Russia, I found a clear consensus: Russia is open for business and, in general, welcoming to UK business and expertise. Moscow in particular is booming and must rank now as one of Europe's most dynamically changing capitals. I was particularly struck by the huge number of shopping malls springing up across the capital and now in the regions, too.

In the early years of this century, the main driver of economic growth was the oil and gas sector. Despite sky-high hydrocarbon prices that is no longer the case, with growth being driven by a entrepreneurs setting up a wave of new businesses. There are still inefficiencies to be squeezed out of the old economic system, but we can expect to see continued growth in excess of 5% at least for the next three to five years. And it is the consumer leading the charge.

If UK companies are not convinced by where Russia is now, my advice would be: have a look where most economists expect it to be in 20 years' time. Unless there is a major shock, Russia will likely be the largest market and the largest economy on the European landmass.

The UK has a mixed position in Russia. In financial services and oil/gas we are way out in front. Shell has put around £10 billion into the Sakhalin project in the far east of the country. BP also has major investments. More than three-quarters of the Russian companies that list abroad have done so through the City of London. More than one-quarter of all IPOs through the City last year were Russian. UK exports of goods were up by 37% last year. But we should be doing more in Russia. More SMEs and UK mid-corps should be in Russia, because it is not just UK majors that are doing well there.

Today was Fun, a London-based SME, is typical of the British companies making inroads into the Russian consumer market and taking advantage of the growing taste – and purchasing power – there for premium goods.

Maker of the award-winning organic Green Green Tea™, said to be the first carbon neutral tea, Today was Fun approached UKTI's London International Trade Team for assistance with an enquiry from Russia. International Trade Advisers helped the company compile export documentation for Russia and tackle the country's import regulations – a daunting prospect for a new exporter. A trade mission to the Moscow Food Fair, and an event mounted at the British Embassy so that they could meet local buyers, opened the company's eyes to the potential of the Russian market and the significant number of consumers willing and able to pay for a premium product.

Not long after, the company received its first Russian order, from leading upmarket supermarket chain Azbuka Vkusa, which has more than 30 stores in centres including Moscow and St Petersburg. Today was Fun is forecasting a 400% rise in sales this year as the chain expands across Russia and rising incomes and growing consumerism change the way Russians shop for food and other items.

Today was Fun founder Sharyn Wortman said: “The store that we supply is like a cross between Harrods or Harvey Nichols and Waitrose. All the products have a country of origin flag.

“What I found fascinating is that Russians are hungry for European/Western brands. The old historic market in Red Square where people used to queue for bread is now filled with luxury designer stores. I saw a number of tea brands that were not English but traded on the fact that they looked as if they came from the UK, using country house tea party scenes.

“In April, I was interviewed on TV’s ‘Russia Today’ about the growth in demand for luxury consumer items. For companies like ours that offer a premium product in a category that they already consume, the opportunities are great!”

So, tackling the Russian market presents practical and cultural challenges, but these can be overcome, and as the Russian economy races ahead, the balance of business calculations has shifted. The question used to be: ‘What risks are we taking by being in Russia?’ It is increasingly becoming: ‘What risks are we taking by not being in Russia?’

So, why not Russia? Some will have well-founded business reasons. It might not be the time right now. But if it is a question of negative perceptions driven by Cold-War-era suspicions, might I politely suggest UK companies think again. Russia seems, somehow more threatening than India, China or Brazil. But to state the obvious, and for all its specifics, quirks and history, Russia is still a variant on a European theme.

Russia certainly seems to be making the national press for controversial reasons. But what gets missed from the media, as ever, is some of the good news, the increasing

prosperity that most Russians feel. And from the point of view of UK Trade & Investment, the excellent opportunity for UK companies in Russia.

Of course, it is not all good news. Inflation is a worry. Like all rapidly developing emerging markets there are likely to be bottlenecks and uneven sector performance. And Russia, like other BRICs, is not always the easiest place for foreign companies to do business. There are still market access issues, and developing the long-term relationships necessary to do business in Russia requires time, effort and patience. Most in the UK business community in Russia will be able to tell a story or two about the complexities of dealing with Russian bureaucracy but most, if not all, will in the next breath tell of high profit margins and hard-working, capable and well-educated Russian colleagues.

My advice is invest some time in Russia. Explore the market and develop business relationships. Take some time to enjoy the culture and be aware of the history. Get some advice from my large and growing team at the British Embassy in Moscow. Patience is an absolute requirement and yes, there is bureaucracy and red tape, and yes, that can breed frustration. It is also getting quite pricey. But visitors to Russia will find an endlessly fascinating and vast country going through one of the most exciting and vibrant periods of its history. It is an opportunity not to miss.

Notes to editors:

1. UK Trade & Investment is the Government organisation that provides integrated support services for UK companies engaged in international trade, and foreign businesses focused on the UK as an inward investment location. It brings together the work of teams in 200 British embassies and FCO posts overseas and Whitehall departments.
2. For more information on UKTI visit www.uktradeinvest.gov.uk
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3. UKTI South East is dedicated to increasing the competitiveness of SMEs in the region through international sales development. A team of International Trade Advisers delivers tailored help to businesses who are either exporting for the first time or looking to enter new markets.

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