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The "Made in Russia" strategy: a limited instrument for economic diversification

Faced with fluctuations in hydrocarbon prices and economic sanctions from Western countries, Russia has developed a strategy that favours "Made in Russia" - but the results have remained mixed.

In an effort to accelerate the diversification of its economy following Western sanctions linked to the annexation of Crimea, Russia has implemented a series of mechanisms to reduce its dependence on imports and hydrocarbons. But the willingness to substitute local production for imports depends on many factors, not all of which are present.

"Made in Russia" – targeting key sectors of the economy

Special investment contracts to encourage foreign investment, selective tax cuts for "Made in Russia" products, privileged access to public procurement – there are many initiatives to help companies change scale. Aiming to promote modernisation, technology, and innovation, a number of incentive schemes (special economic zones, public funding, bringing research and industry closer together, export support, etc.) have been embodied in the creation of the Russian Export Centre.

More mainly concerned with this attempt to promote local production, agri-food, pharmaceutical, automotive and the information technology sectors are already enjoying their own regulations and promotion mechanisms.

The most significant results have been achieved in the agri-food sector, with an embargo imposed on agri-food imports from countries that have imposed sanctions on Russia. The subsequent shortages have led to higher prices, which has diverted Russian consumers from imported to locally-produced products, leading to a significant increase in food production. This has allowed Russia to achieve self-sufficiency for its meat production. Nevertheless, the lower quality of certain local products in some cases supports imports, despite the price difference.

For the ICT sector, the public sector is now prohibited from importing computer, telecommunications and household equipment where there are local producers offering the same goods. At the same time, the authorities are seeking to expand electronic component production to match the Western embargo on the sale of technologies for the energy, intelligence and defence sectors – but the return remains modest.

The same desire to reduce import dependency is evident in the pharmaceutical sector, with tax incentives to produce locally and benefits for local products in public markets. Foreign industrialists that sign a special investment contract with Russian authorities can also benefit from an exclusivity with the state. But here again, the stated objectives are far from being achieved.



P R E S S R E L E A S E

Finally, in the automotive sector, special investment contracts with foreign manufacturers provide tax incentives, privileged access to public procurement, and protection against future tax developments in exchange for commitments to produce locally and promote innovation. But if Opel announces its return to the Russian market, Ford will close its factories there. The market for commercial vehicles and trucks is more dynamic and attractive.

A "Made in Russia" strategy that faces structural obstacles.

Subject to the availability of inputs, the modernisation of production lines, and the improvement of the business environment, the "Made in Russia" strategy remains complicated and will be a long-term engagement. Sanctions and counter-sanctions (both current and potential), the business environment, increasing political risk, and the lack of available labour are also weighing on domestic and foreign investment.

The country has a deficit in some high value-added petrochemical products, such as composites or additives, but also in rolled metallurgical products and tubes. This illustrates the inadequacy of local processing of raw materials, which the authorities also intend to remedy.

While the "Made in Russia" policy is necessary to face the economic realities of tomorrow, it is still far from bearing all its fruit, and will require a profound and long-term transformation of Russia's production chains.

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