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Activities of the Russian Business Support Infrastructure in the Eurasian Direction

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Export is an inherent systemic feature of the national economy health indicator. A country with an outstanding trade imbalance where import dominates over export faces significant risks to national stability. In its turn, export can be resource-based and non-resource-based, and in relation to a country like Russia – energy-based and non-energy-based. Main actors of the export policy implementation can be representatives of big, small and medium businesses. A significant factor is government's approach and the degree of attention towards the formation of conditions and the creation of infrastructure for export marketing.

This paper is based on the experience of the Export Support Center and Regional Center of the "Enterprise Europe Network" working under the auspices of Tomsk Chamber of Commerce and Industry (CCI), the opinions and conclusions of the experts from the Russian Federation CCI, the Russian Ministry of Industry and Trade Analytical Center, as well as the opinions of Mr. Petr Travinsky, an expert of the CCI system, expert of the Committee on Economic Policy, Industry, Innovation, and Entrepreneurship of the State Duma of the Russian Federation, consulting expert of the Ministry of Economic Development of the Russian Federation and a member of the working group of the Federal Customs Service.

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General evaluation of the situation

It should be admitted that for almost all of the post-Soviet history Russian export existed under unfavorable domestic and external conditions. The current situation does not allow one to form a positive view. It looks paradoxical, but statistically, for the last twenty years export has prevailed over import in the structure of Russian external turnover, and this tendency holds. Thus, in 2013 the export/import ratio was 526.4/317.8 billion US dollars, in 2014 – 497.7/287.9, in 2015 – 345.9/184.5 billion dollars.

Among the factors having major influence on the formation of the “face” of the Russian export, we could single out the following: focus on the resource export and the export of the low value added products, national industry’s high dependence on imports and prolonged absence of the support for the high-tech production, negligible share of the small and medium business in the national export, unfavorable international conditions that significantly narrow the geography of the potential foreign markets.

At some point, export support was significantly influenced by Russia’s accession to the WTO. According to P. Travinsky, “... the accession was completed on the terms crippling for Russia... The approach of this international structure can be expressed in the following way: if you do not have any industries, you do not have to develop them. You must reset to zero the tariff rate for this product type, so it could come from abroad without impediments. If, however, a country produces something, then the tariff rate for the analogous foreign products should be set to a minimum of 3 %. In addition, foreign producers should be provided with comfortable conditions and fair competition, and direct government subsidies for export-oriented companies should be stopped.

... Meanwhile the interest rate in Russia was about 20 %. At the same time, European business was able to receive loans under 1.5-2 % rate. Of course, it was impossible to compete as equals under such conditions. The conditions of production in Russia (low labor productivity, high materials intensity, costly financing) have a significant influence on the price of the final product which kills its competitiveness. Therefore, the production and export of any high-tech goods, apart from the military, has become unpractical” (excerpt from Mr. Travinsky’s presentation at the seminar at Tomsk CCI, June 27, 2018).

Travinsky probably makes some exaggerations in his analysis, but Russian export structure is indeed dominated by resources and semi-processed materials with a low added value. A tilt towards resource export is what can be called a “weak link in the history of Russian export”. It is comforting that the country’s leadership does understand the situation. Currently, the Ministry of Industry and Trade of the Russian Federation, the Russian Export Center Group, and the Industrial Development Fund have created a whole product line aimed at the export support for the high-tech Russian industry, and its share is steadily increasing every year.

In all fairness it has to be noted that as a result of the positive foreign trade balance formed due to the resource export the government was able to solve the social and economic issues unresolved for many years, to accumulate significant foreign exchange reserves and to build sovereign funds which, in turn, were instrumental in the painless survival through the most acute phase of the global financial crisis.

The second point that is important to understand is the role and the degree of participation of the small and medium business in the implementation of the country's export policy. The major Russian exporters are, as a rule, big companies, mostly with governmental participation. The share of the small and medium business in the export structure is negligibly small – 0.3 %. Meanwhile the share of similar companies in the leading world countries is several times higher: 60 % in China, 33 % in the USA, 28 % in Germany and 49 % in Italy.

The situation has worsened significantly due to the political confrontation between Russia and the West that resulted in the sequence of economic sanctions and the weakening of Russian ruble which led to the noticeable decrease of the investment import and did not help the diversification of the exports. At the same time our export products face different kinds of limitations in foreign markets. According to the Ministry of Economic Development, on October 1, 2018, 30 countries as well as the European Union and the Cooperation Council for the Arab States of the Gulf had restrictive measures introduced against Russian goods.

In the framework of the sanctions policy Western countries imposed restrictions on a number of Russian organizations and persons and banned imports of the goods produced in Crimea or Sevastopol. The exacerbation of the international situation closed a significant part of the markets for Russian business which now faces problems with getting loans, buying equipment and getting access to technologies which is critical given the high import dependence of the Russian industry.

Development of the new support and marketing policy for the Russian export

Before 2010 the Russian state had no coherent reasonable policy for export marketing. The support system was discretionary and fragmented between the network of the export support centers (they were established since 2011 in the frameworks of the Ministry of Economic Development programs), the network of trade missions abroad and such structures as CCI, "Business Russia", "Opora Rossii", "Agency for Strategic Initiatives" and others. It was the situation of too many cooks. In fact, the "on the ground" work was done only by the export support centers and regional CCIs.

No strategic program of export marketing was present. Eurasia was basically excluded from the foreign economic agenda. By default it was assumed that the West is the most beneficial and

attractive partner (the EU and the US). This statement is proved by the geography of the business missions organized by the export support centers at the time.

The situation began to change positively only in the last 3 to 5 years when in 2013 and 2014 small and medium businesses started to get involved in the export diversification and the search for additional options to fill the state budget.

Under the given conditions the government radically changed its approaches towards the support of export and exporters. Government's export support became more visible and directed at strengthening the competitiveness of the national companies in the international markets and creating the conditions for better promotion of the national business interests in the foreign markets. The main step was the uniting of the state institutes for export support into one structure.

To this end the government created the EXIAR and then the Russian Export Center (REC) with an aim to become a coordinating center for the acting institutes of the government's export support. Given the strategic importance of the REC activity, the Government of the Russian Federation decided to codify its legal status as a state institute for export support in the Federal Law no. 82-FZ of May 17, 2017 "On the Development Bank". Currently the REC group integrates the Russian Agency for Export Credit and Investment Insurance (EXIAR) and the State Specialized Russian Export-Import Bank (Eximbank of Russia).

The REC group is, first of all, the state institute for the export support, offering a comprehensive financial and non-financial support to Russian export-oriented companies in the "single window" format. One of the REC's key tasks is the interaction with the relevant ministries and agencies for the improvement of Russian foreign economic activities. The activities of the Center are also oriented at the support for the requests of the exporters in their interactions with the relevant ministries, agencies and government services. It is noteworthy that by the end of the first six months of 2018, about 80 % of the REC clients were representatives of the Russian small and medium business.

It should be noted that the creation of the REC did not destabilize the pre-existing well-oiled system of the support for the export-oriented companies on the basis of CCI and export support centers, but allowed concentrating financial and non-financial measures for the support of the big, medium, and small business, filling the existing obvious gaps in this direction.

The government's strategic approach towards the foreign markets also underwent serious changes. Before 2013, it was assumed by default that the most attractive partners were Western countries (the EU and the USA), but after the beginning of the sanctions wars the "turn to the East" was officially proclaimed. Since then, the topic of the support for non-resource and non-energy export began to sound more clearly.

As the next step, as early as in 2017 the Russian President formulated in the strategic documents presented at the meeting of the State Council on December 21, 2017 and in the Address to the Federal Assembly a serious fundamental task that requires rethinking many approaches towards the support on the federal and regional levels. In the next six years, it is necessary to double the volume of the non-resource and non-energy export to 250 billion dollars, increase the shipments of engineering products to 50 billion and increase the annual export of the services, including education, healthcare, tourism, and transportation to 100 billion dollars.

At the conclusion of the December meeting of the State Council, the President of Russia clearly formulated and put forward the task to return the regional business into our old traditional markets of the post-Soviet space where our positions have been significantly weakened. Especially noteworthy is the discussion that began in the expert circles about the possibility to integrate the ambitious Chinese transport and logistical project “One Belt, One Road” and the opportunities provided by the EAEU. Russian business is also becoming very active in Kyrgyzstan, Armenia, Mongolia, Vietnam, India, Uzbekistan, Belarus and Kazakhstan.

Thus, the goal was set as the “Eurasian direction + non-resource and non-energy export”.

Tomsk experience

To understand how the non-resource non-energy export is being promoted in Eurasia, let us look at the experience of the Tomsk CCI, which in 2017 became the 4th in the Russian rating of export environment. The experience of the Tomsk CCI is especially valuable because the activities aimed at export support and development started when the conditions were apparently unfavorable for the foreign economic activities. Among them are the remoteness of the region from the state border, and consequently the absence of the cross-border trade, the remoteness from the main transport arteries which makes large-scale production unprofitable, unfavorable climate conditions, etc.

However, Tomsk is the region where the wide spectrum of the high-tech products is developed and manufactured. These products require special support for the promotion in the foreign and Russian market. Since 2008 there have been practical steps in this direction. After the regional center of the “Enterprise Europe Network” and the export support center had been opened under the auspices of the CCI, the comprehensive infrastructure for the export support came into being which includes:

- the export support center itself (an element of the system which includes more than 40 centers, 54 trade missions, embassies, integrated foreign economic information portal of the Ministry of Economic Development of the Russian Federation, etc.);
- regional integrated center of the international “Enterprise Europe Network” (support for the entrepreneurship and innovations to more than 600 organizations in 54 countries);

- support and promotion of business provided by the Russian CCI (the international CCI system is active in every country, 70 business councils with foreign states);
- subcontracting center (Subcontracting and Partnership Exchange – UNIDO project);
- REC’s point of presence (created in 2017 with the goal to provide financial and non-financial support in the “single window” regime);
- system of the international certification for engineers (21 countries of the Asia-Pacific Region, 29 European countries).

This comprehensive system allowed focusing efforts and increasing the number of the regional exporters from the small and medium business fourfold from 2014 to 2018. These measures contributed to the conclusion of more than 150 export contracts for the small and medium businesses from Tomsk which made 2017 the first year demonstrating the positive dynamics of the regional export after 2013.

With the direct involvement of the Tomsk CCI, the Tomsk exporters were able to secure the financial support from the REC group for almost 100 million rubles in 2018. Furthermore, in 100 % of the cases this system works exactly for the support of the non-resource and non-energy export. It is also worth pointing out that the main markets for the above-mentioned companies are in Eurasia and mostly in the EAEU countries.

The Tomsk CCI is one of the most active structures providing export support in the Eurasian direction. Currently there is a systematic analytic monitoring of the Central Asian and Transcaucasian markets. A feedback from the business is always active. There are established contacts with foreign expert and business community. The participation in the international expert forums is expanding.

Regular surveys of the business and statistical data show that it is necessary to strengthen the advancement to the markets that are close to us, understandable for us, and mostly open. Statistical indicators for 2017 show that while the exports to the CIS states increased 1.5 times, exports to the “far abroad” decreased by 10 %. Even more interesting are the following numbers: according to the results of the last year, the growth of Tomsk export to Uzbekistan was more than by 26 million dollars and in absolute figures outpaced the growth of the export to China. Today we can conclude that the most understandable and perspective markets for the entrepreneurs are those of the EAEU, primarily Kazakhstan, Kyrgyzstan and Uzbekistan.

The Tomsk CCI with the support of the Regional Administration and the Ministry of Economic Development of the Russian Federation will continue to increase systematically its efforts in these directions, using the infrastructure created for the support of the non-resource and non-energy export. However, it is necessary to combine these efforts with a strong regional resource such as Tomsk universities which also should have coordinated tasks for the advancement into Eurasian markets and the training of high-class experts on the EAEU states and from the EAEU states.

Recommendations

What kind of conclusions can be made based on this information? What could be recommended to the Russian exporters? There can be, of course, no universal advice. However, we think it is worth considering the following:

1. Pay heed to the government's target of increasing export activities in the post-Soviet space. Given the current foreign policy conditions, these states are the least risky zone. It is necessary to get rid of the myths that these countries are poor and insolvent, with the uneducated populations.

2. Presume that the EAEU space is a kind of a "sandbox" – a territory where the conditions for the export-oriented business are the most favorable. Analyze the opportunities, benefits and instruments present in this direction. The next step is to look at the benefits appearing when entering the markets of the third countries via the EAEU states, using their traditional partnerships (via Armenia to Iran and Georgia, via Kazakhstan to Uzbekistan, and so on.). Furthermore, it is necessary to analyze what benefits arise from the EAEU free trade zone agreements. Thus, such an agreement with Vietnam opens not only South-East Asia but also China that has traditionally had strong barriers against Russian producers.

3. It is necessary to use actively the whole spectrum of the REC instruments, from the products of its analytical divisions and volumes of available statistics to the compensation of the costs for the transportation of the goods abroad, international certification and international patenting, co-financing of participation in the international fairs, etc.

4. Make use of the CCI and export support centers which possess a widely developed system of partnership contacts and the tried and tested technology of supporting the export-oriented business.