

2013 Survey on Business Conditions of Japanese Companies in Russia

March 2014

**Japan External Trade Organization (JETRO)
Europe, Russia and CIS Division,
Overseas Research Department**

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● Questionnaire ●
Survey Report: 2013 Survey on Business Conditions of Japanese Companies in Russia

We would like to ask for your feedback on this survey report. This information will be used as reference for considering future survey themes.

■ Question 1: How did you feel about the contents of this survey report? (Circle one)

4: Helpful 3: Somewhat helpful 2: Not very helpful 1: Not helpful

■ Question 2: Please fill in the frame below with your: (1) Intended use and purpose, (2) Reasons for reaching the conclusion that you did above, and (3) Other impression regarding this report.

■ Question 3: Please fill in the frame below with your requests for future JETRO survey themes.

■ Please list the name of your company and so on (optional).

Affiliation	<input type="checkbox"/> Company/ organization	Name of company/organization
		Position name
	<input type="checkbox"/> Individual	Name of company/organization
		Position name

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Thank you for your cooperation

Preface

JETRO carried out a questionnaire survey from October to November 2013 concerning business conditions aimed at Japanese companies that are operating in Russia. It is the first time that this survey focusing on Japanese companies operating in Russia has been carried out.

A number of organizations lent their cooperation for this report, primarily the office of the Moscow Japan Club (Japanese business association in Moscow) and its member companies, as well as other Japanese companies operating in Russia. We would like to express our gratitude to all of them.

We hope that this report helps the parties interested in business development in Russia.

March, 2014
Overseas Research Department
Europe, Russia and CIS Division
Japan External Trade Organization (JETRO)

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Executive Summary

- (1) In 2013, 55.6% of companies reported an operating profit and forecasted that they would improve upon or maintain their performance in 2014

The most common forecast for operating profit in 2013 was for a “Profit” (55.6% of respondents, the same hereafter), followed by “Loss” (30.2%) and then “Breakeven” (14.3%). Compared to their performance from the previous year, 39.7% forecasted it would “Increase” while 30.2% said it would “Remain the same” and the same percentage said it would “Decrease.”

The most frequently cited reason for the increase in operating profits was “Sales increase in local market” (84.0%). Reasons given for its decrease included “Sales decrease in local market” (78.9%), “Exchange rate fluctuations” (47.4%), “Rise in labor costs,” (36.8%), and “Costs insufficiently passed along in sales prices” (36.8%).

Most of the firms replied with the forecast that their 2014 operating profits would “Increase” compared to 2013 (55.6%), with none of them responding that they would “Decrease.”

- (2) For their business outlook for the next one or two years, roughly 80% of companies are forecasting an expansion

The companies replying with a forecast of “Expansion” for their business for the next one or two years came to 77.8%, while 20.6% forecasted “Remaining the same” and 1.6% forecasted a “Reduction.”

The most commonly cited reason for expansion was an “Increase in sales” (85.7%). The next most common response was “High growth potential” (79.6%), which reflects an acknowledgement of the potential for growth in the Russian market.

- (3) There are high hopes for market growth, but companies view the complexity of administrative procedures, soaring labor costs, and outbreaks of terrorism as risks

The most commonly cited response in regards to the advantages of investing in Russia was “Market scale/growth potential” (91.9%).

Conversely, the most commonly cited risks in terms of the investment environment were “Complexity of administrative procedures (permits and licenses, etc.),” “Complexity of the tax system and tax procedures” (both of which were 79.0%), and “Soaring labor costs” (67.7%). The most commonly cited risks in terms of safety were “Public security and terrorism” (88.7%) and “Discord or ethnic/religious conflicts” (61.3%).

The most frequently cited challenge for local production was “Difficulty in quality control” (46.2%). Aside from this, challenges in terms of procurement were also frequently cited, such as “Rising procurement costs” and “Difficulty in local procurement of materials and parts” (both at 38.5%).

- (4) 20% of the companies realize the advantages of joining the WTO

When asked whether there are advantages to Russia’s accession to the World Trade Organization (WTO) in August 2012, only 22.6% replied with “Yes,” meaning that nearly 80% of the companies do not realize the advantages of its becoming a member. The contributing factors behind this are thought to be because the lowering of customs duties and other market liberalization will be implemented in a step-wise fashion over a certain number of years after it becomes a member.

In terms of the advantages of joining the WTO, the majority of responses viewed “Reduction of customs tariff” (71.4%) as an advantage, while “Simplification of customs procedures” and “Deregulation concerning foreign investment” were each cited by 14.3%, respectively.

1. Overview of the Survey's Purpose and Implementation

1-1. Purpose of the survey

This survey researches, collects data on, and analyzes the activities of Japanese companies operating in Russia via a questionnaire format to make clear their business status and other matters directly impacting their business performance, for the purpose of assisting the implementation of strategic overseas business planning at Japanese enterprises and policy planning at related agencies.

1-2. Targets of the survey

The survey subjects consisted of Japanese affiliates or their branches operating in Russia for which the Japanese direct or indirect investment ratio is 10% or more. This includes companies established by Japanese affiliates operating in Russia or third-party countries (i.e., lower-tier affiliates). Its subjects do not include representative offices or companies set up by Japanese persons locally.

1-3. Method of conducting the survey

The format was a questionnaire administered via a website. The survey was conducted by sending an Internet link (URL) to the online questionnaire form to the respondents and by asking them to reply directly on this page.

1-4. Period of the survey

October 23 through November 13, 2013

1-5. Response status

Of the 117 Japanese enterprises in Russia to which we sent questionnaires, we received responses from 63 companies (response rate of 53.8%).

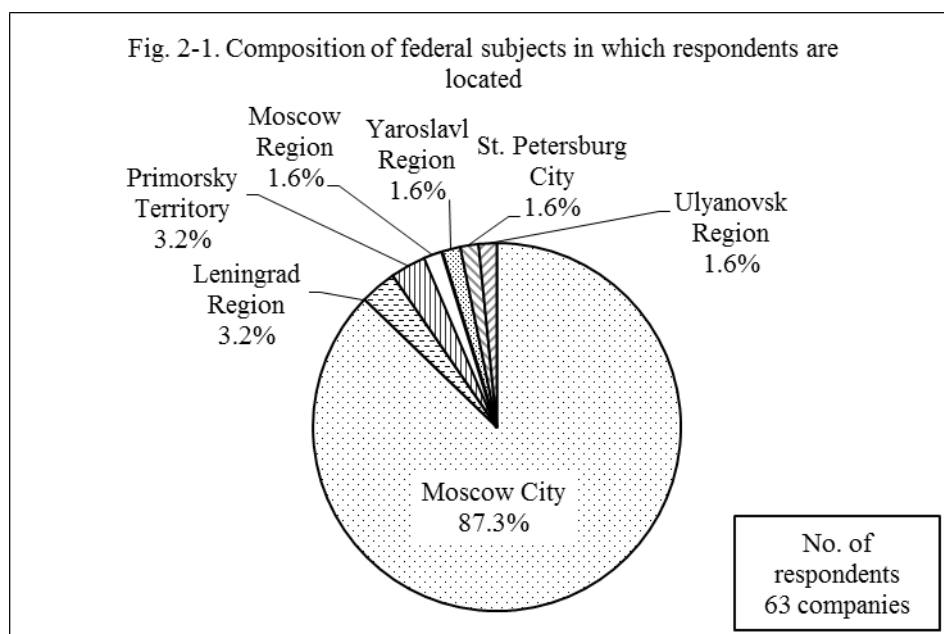
1-6. Notes on the survey results

- Not all the respondents answered every question.
- The total for the response rate for questions with multiple answers does not add up to 100%.
- The questionnaire survey was primarily carried out through the cooperation of member companies of the Moscow Japan Club. Therefore, the number of companies the questionnaire was sent to was 117, and is not representative of the number of Japanese companies operating in Russia.
- From among the industry types and answers where the number of respondents for each answer was less than five companies, those that could potentially be used to identify individual companies were not provided on this report.

2. Profile of the respondents

2-1. Respondents' locations

Those companies from among the respondents that are located in Moscow city made up the vast majority at 87.3% (55 companies).



The numbers of respondents by location and by type of industry are shown in the table below. In terms of the scale of the respondents' main offices back in Japan, 54 were large-scale companies while nine were small to medium-sized enterprises (SMEs).

	Total	Valid responses	Moscow City	Moscow Region	Yaroslavl Region	St. Petersburg City	Leningrad Region	Ulyanovsk Region	Primorsky Territory	Unknown
Total number	63	63	55	1	1	1	2	1	2	-
	100.0	100.0	87.3	1.6	1.6	1.6	3.2	1.6	3.2	-
Type of industry	Manufacturing	13	9	1	1	-	1	1	-	-
		100.0	69.2	7.7	7.7	-	7.7	7.7	-	-
	Non-manufacturing	50	50	46	-	-	1	1	2	-
	100.0	100.0	92.0	-	-	2.0	2.0	4.0	-	
Unknown	-	-	-	-	-	-	-	-	-	-
Company size	Large-scale companies	54	50	-	-	-	2	1	1	-
		100.0	92.6	-	-	-	3.7	1.9	1.9	-
	Small-and-Medium-sized companies	9	9	5	1	1	-	-	1	-
	100.0	100.0	55.6	11.1	11.1	11.1	-	-	11.1	-
Unknown	-	-	-	-	-	-	-	-	-	-

2-2. Percentage of respondents by type of industry

Of the respondents, 20.6% are in manufacturing industries and 79.4% are in non-manufacturing industries.

Fig. 2-2: Share of respondents in manufacturing industries versus non-manufacturing industries

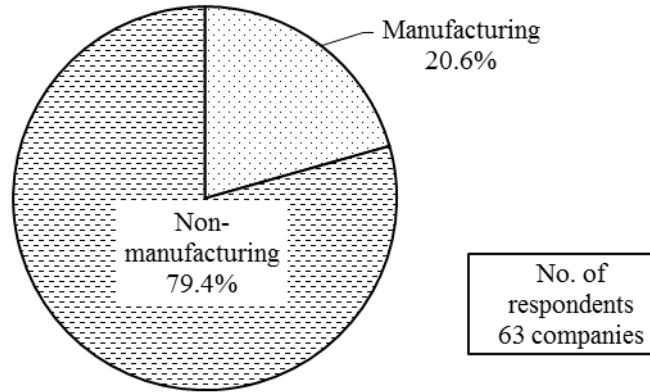
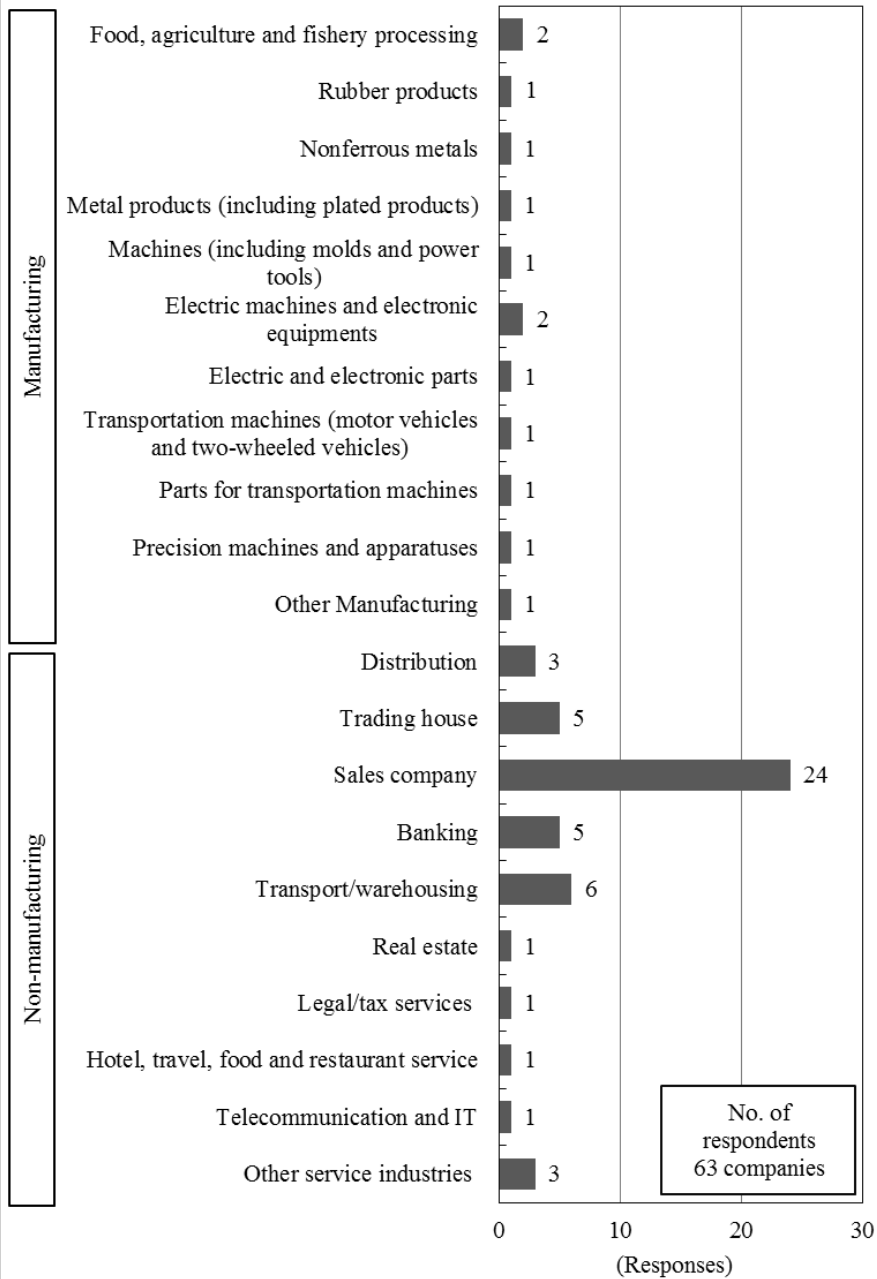
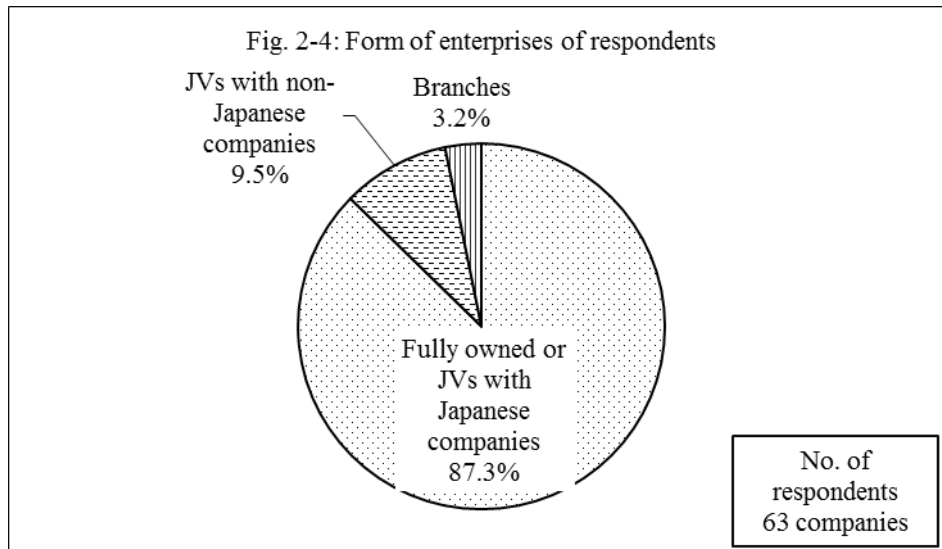


Fig. 2-3: No. of respondents by type of industry



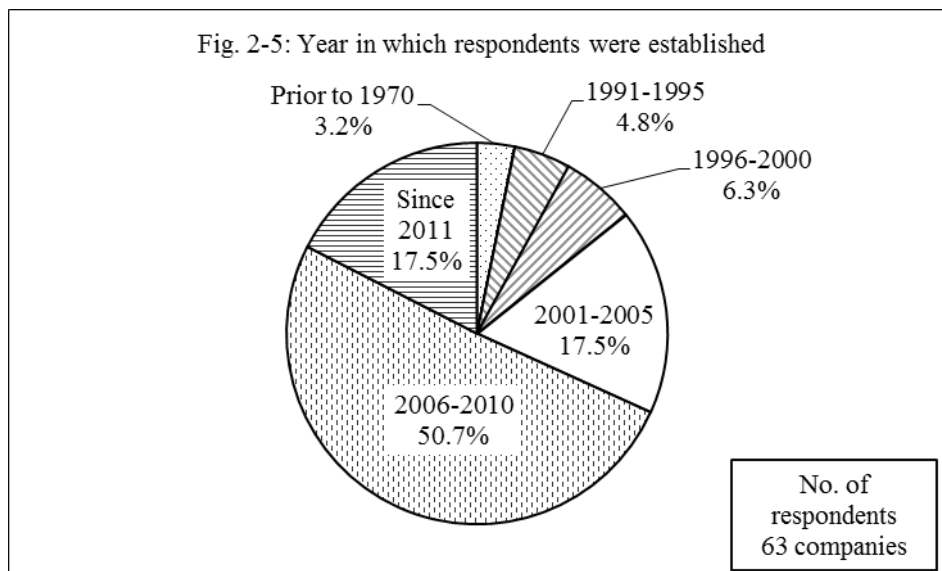
2-3. Form of enterprises of respondents

Companies that were either fully owned or jointly established with Japanese companies accounted for 87.3% of the respondents (55 companies). The percentage of so-called legal entities, which include Joint Ventures with non-Japanese companies, came to 96.8% of the total (61 companies).



2-4. Year in which respondents were established

Respondents that were established in the year 2001 or later account for 85.7% of the total (54 companies). There were no respondents that were established between 1971 and 1990.



2-5. Respondents' number of employees

The majority of the companies among the respondents (all industries) had "11 – 50 people" for their number of employees (28.6%, 18 companies). For the manufacturing industries the most common responses were "101 – 300 people" and "301 – 1,000 people" (both at 23.1%), while for non-manufacturing industries the most common response was "11 – 50 people."

Fig. 2-6: Respondent's number of employees

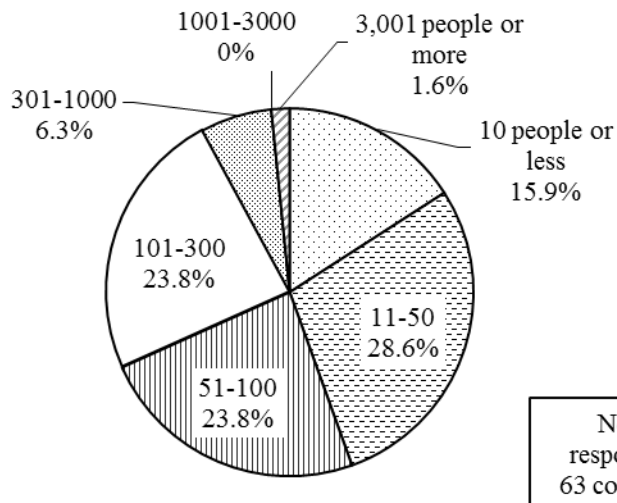
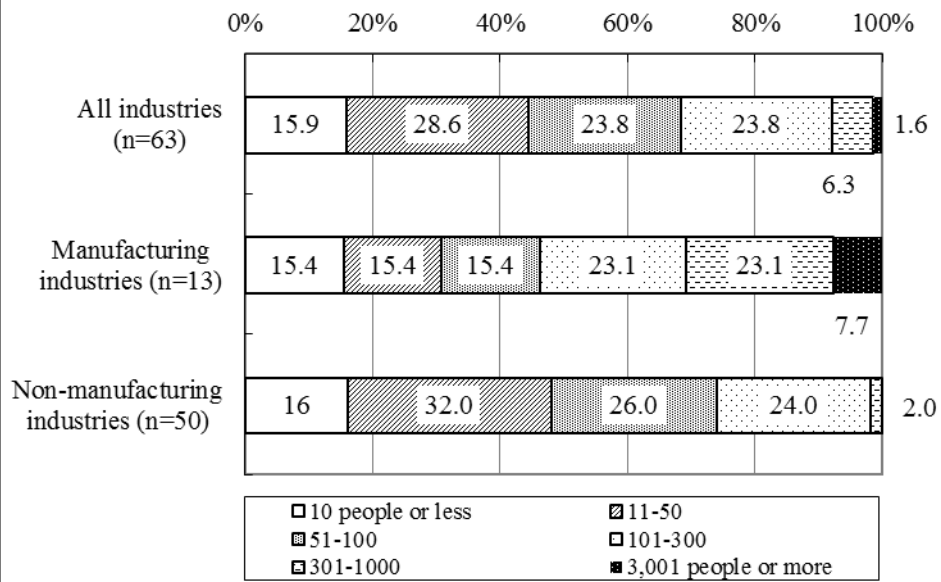


Fig. 2-7: Respondents' number of employees (manufacturing/non-manufacturing industries)

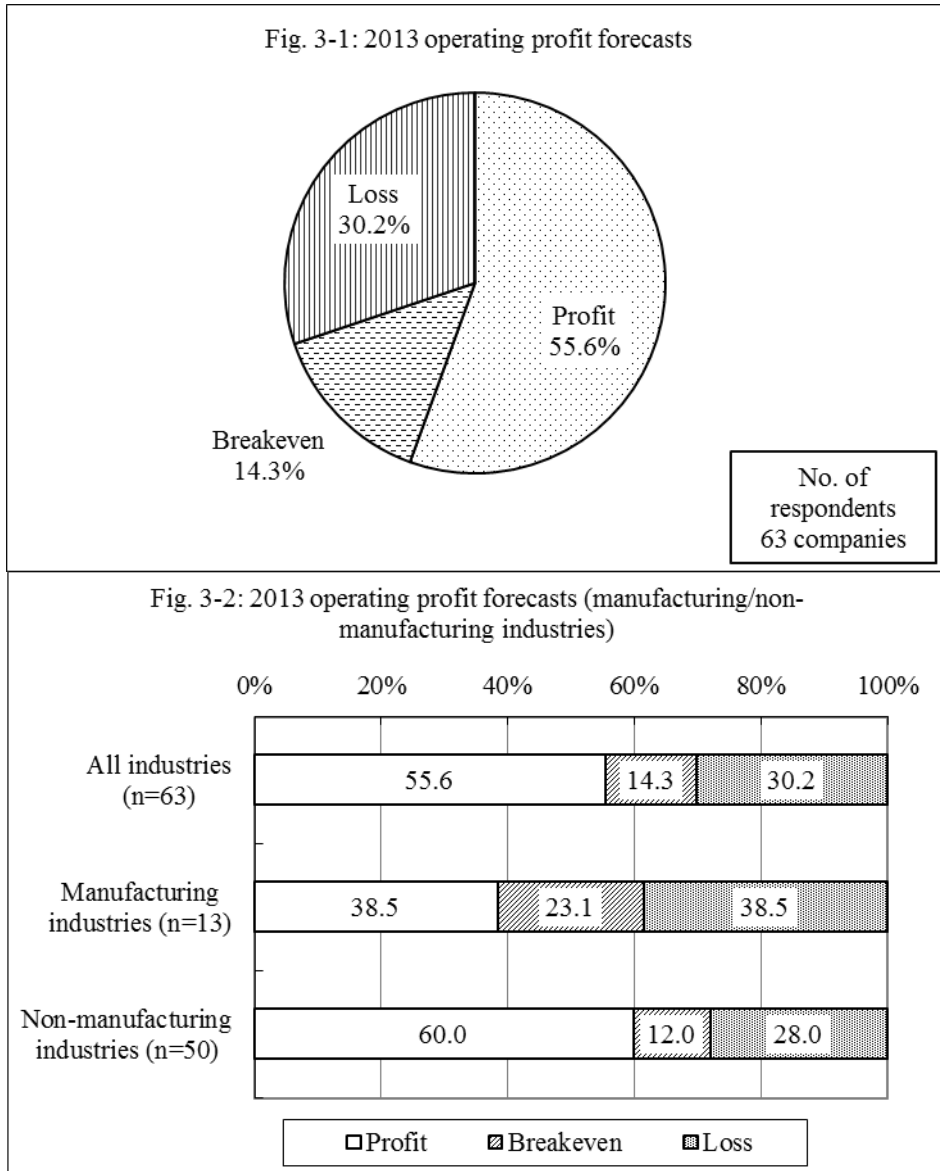


3. Survey results

3-1. Business forecasts

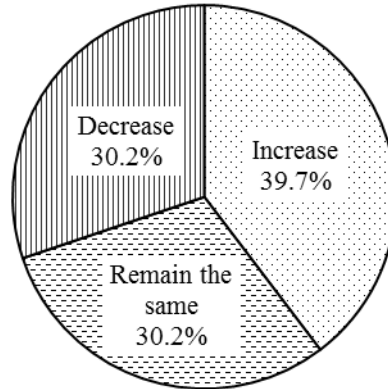
3-1-1. 2013 operating profits

More than half of the respondents at 55.6% replied that they had had a “Profit.” When viewed by type of industry the percentage of non-manufacturing companies reporting a profit (60.0%) was high relative to that from manufacturing industries.



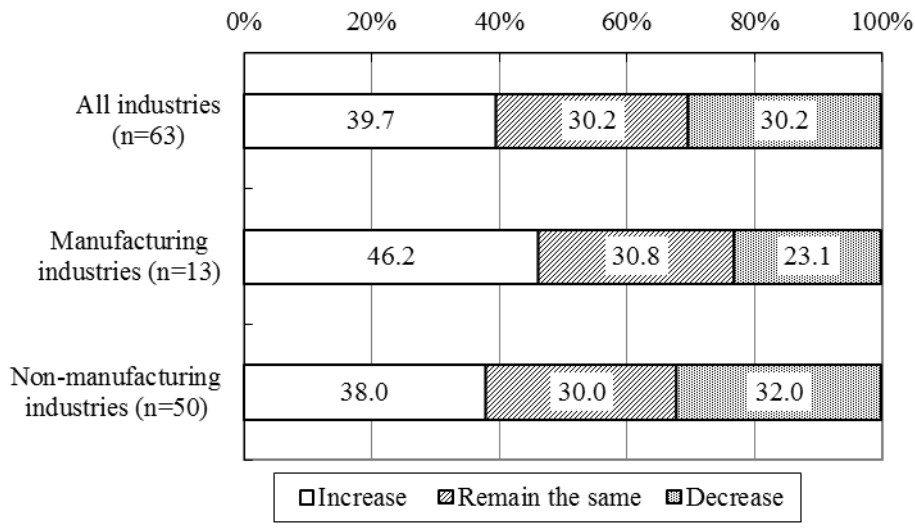
Compared to 2012 operating profits, 39.7% of the companies replied that their profits had seen an “Increase.” When viewed by type of industry, the manufacturing industries had a higher percentage of companies reporting an “Increase” (46.2%).

Fig. 3-3: Changes in 2013 operating profit forecasts compared to 2012 performance

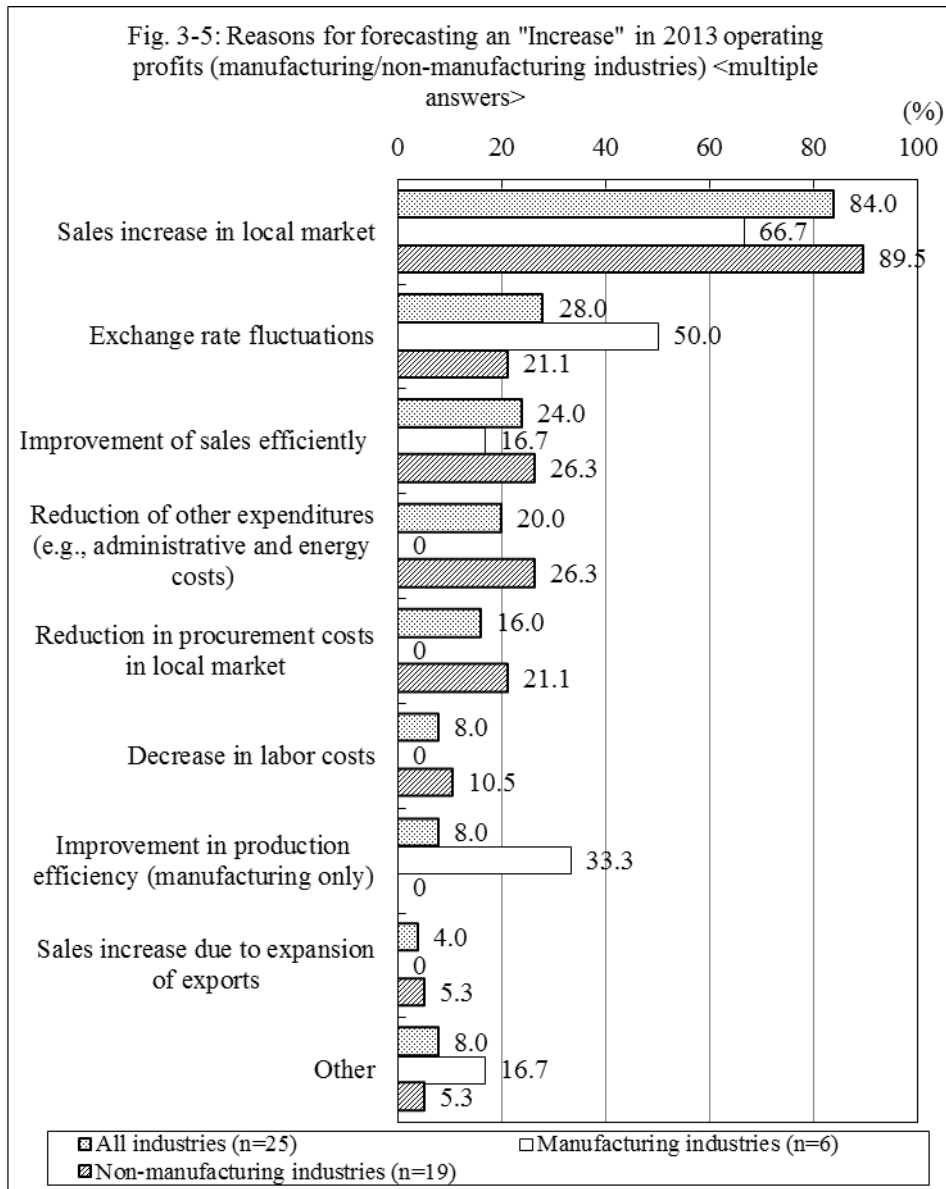


No. of respondents
63 companies

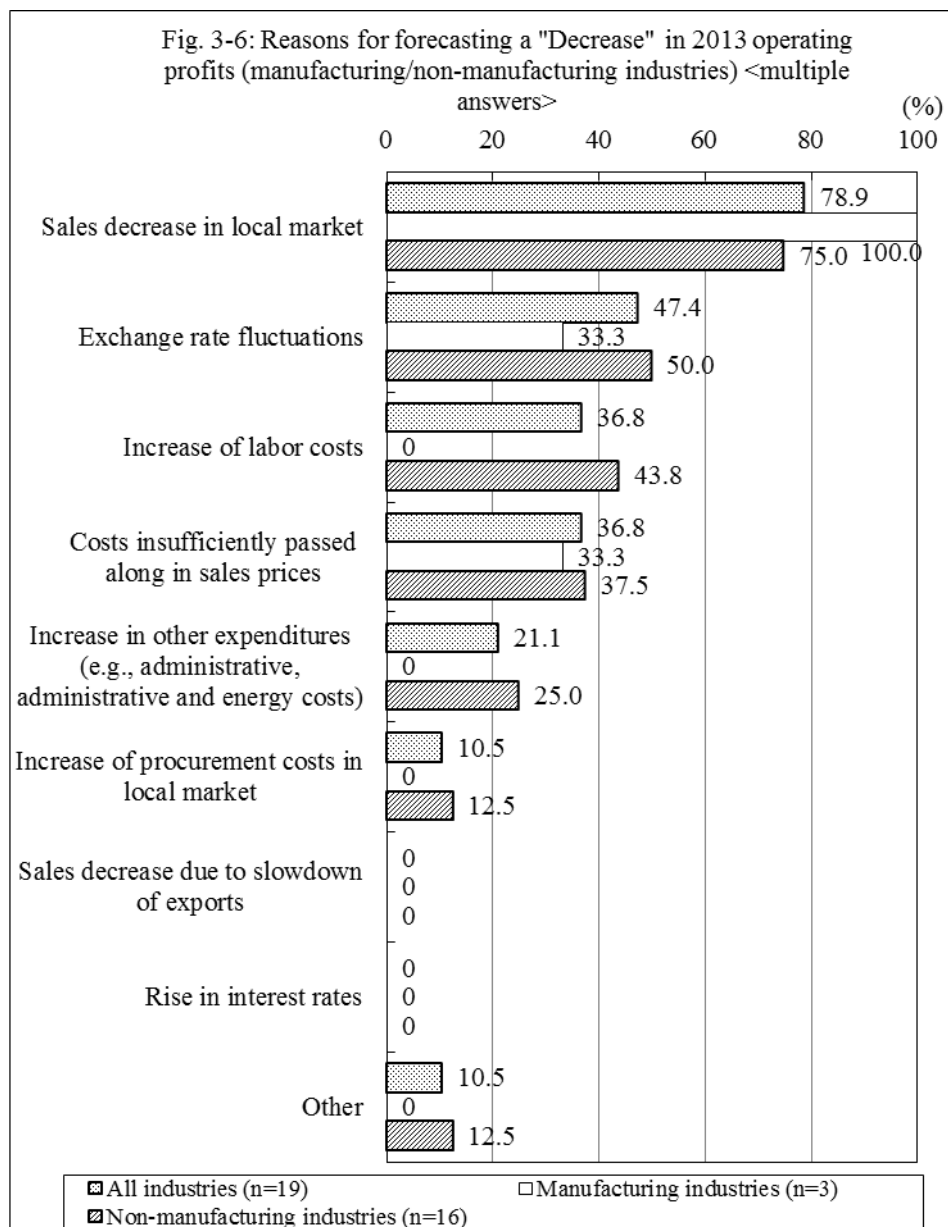
Fig. 3-4: Changes in 2013 operating profit forecasts compared to 2012 performance (manufacturing/non-manufacturing industries)



When those companies reporting an “Increase” in their 2013 operating profits relative to the previous year were asked about the reasons for this increase, the most common response was “Sales increase in local market” (84.0%). Other than that, for manufacturing industries the most commonly cited reasons for an increase were “Exchange rate fluctuations” (50.0%) and “Improvement of production efficiency” (33.3%). As for other reasons, two companies (one in food, agriculture, and fishery processing and one sales company) cited hikes in their sales prices.

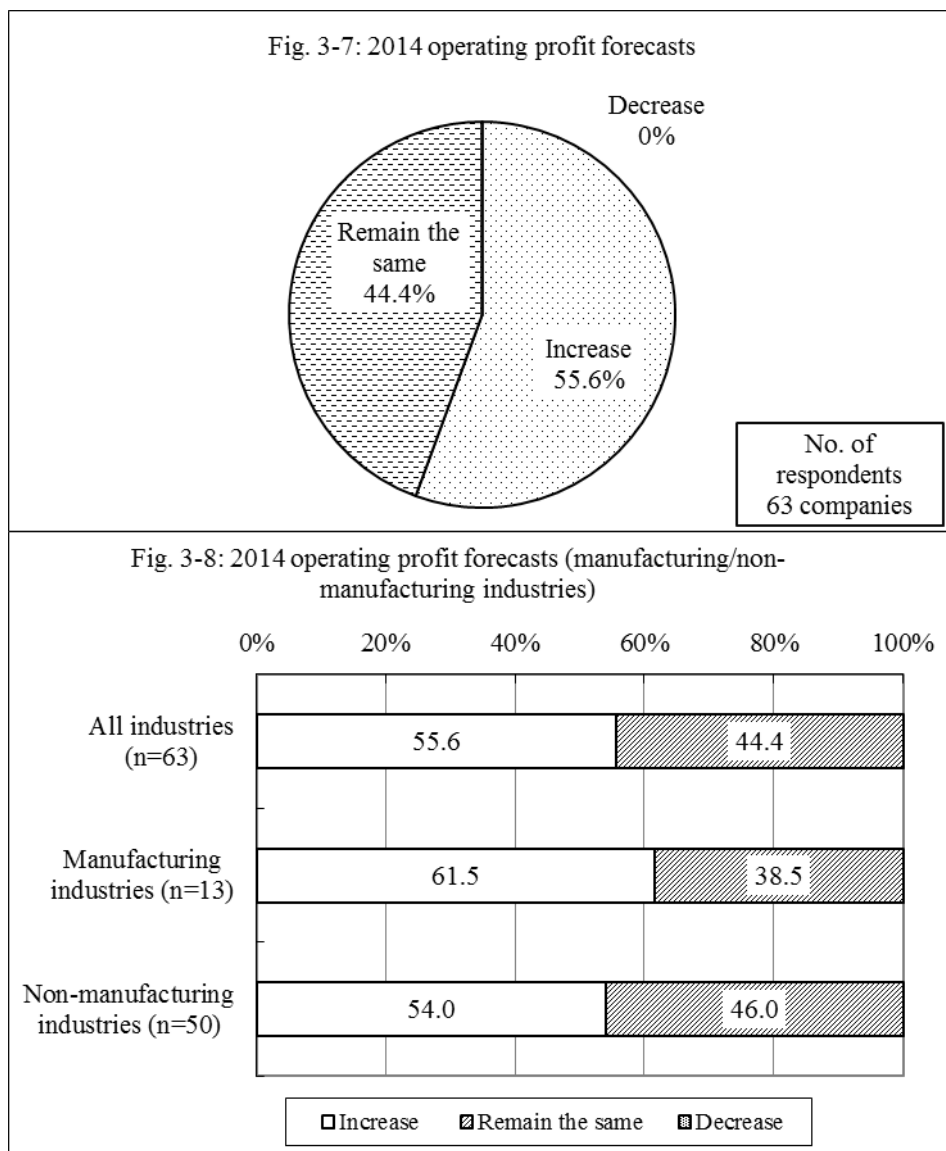


When those companies reporting a "Decrease" in their 2013 operating profits relative to the previous year were asked about the reasons for this decrease, the most common response was "Sales decrease in local market" (78.9%). Other than that, for non-manufacturing industries the most commonly cited reasons for a decrease were "Exchange rate fluctuations" (50.0%) and "Increase of labor costs" (43.8%).

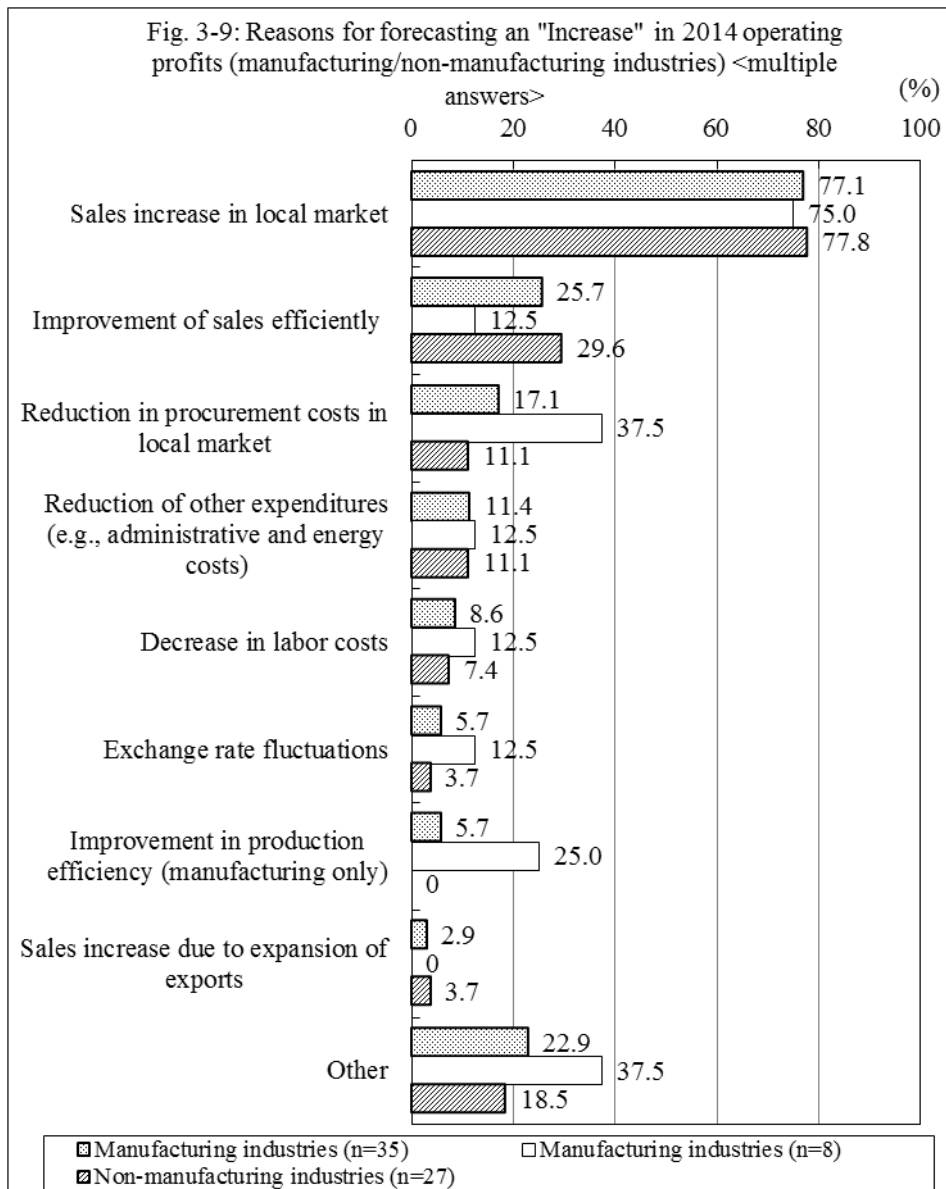


3-1-2. 2014 operating profits

The percentage of companies forecasting an "Increase" in their 2014 operating profits relative to 2013 came to 55.6%. The remaining companies forecasted these would "Remain the same," with no companies forecasting a "Decrease."



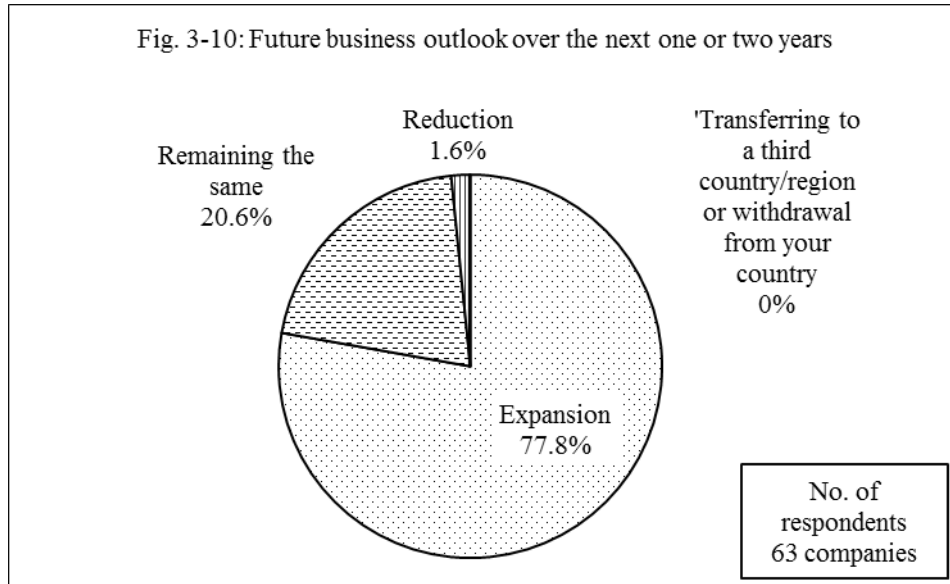
The most commonly cited reason for an increase given by companies forecasting an “Increase” in their 2014 operating profits compared to the previous year was a “Sales increase in local market” (77.1%). Other reasons that were frequently cited for manufacturing industries were “Reduction in procurement costs” (37.5%) and “Improvement of production efficiency” (25.0%), while for non-manufacturing industries these included “Improvement of sales efficiency” (29.6%). Other reasons for an increase include “Hike in sales prices” (foods, processed agricultural or marine products), “Release of new products” (distribution), and “Expansion of distribution” (distribution).



3-1-3. Future business outlook

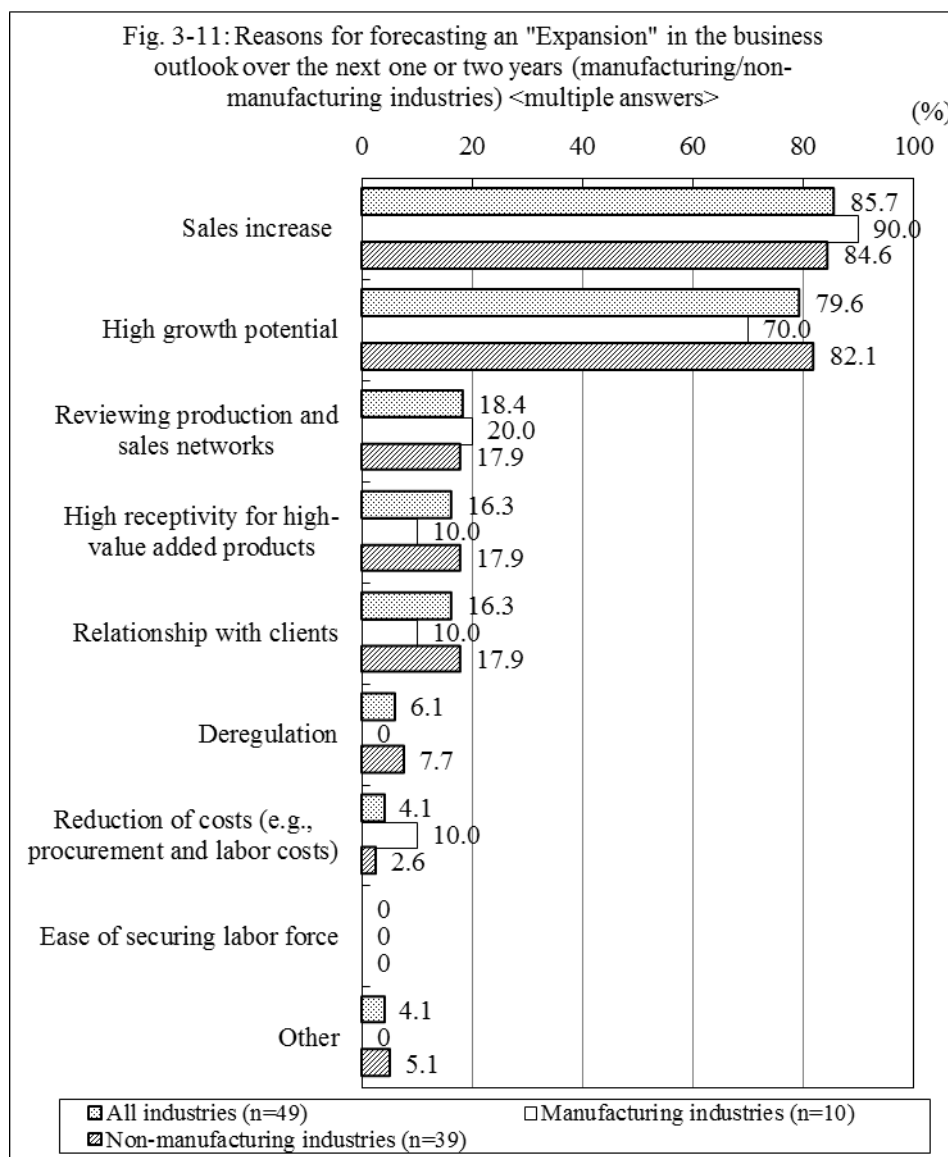
The percentage of companies which are supposed to do "Expansion" in their business over the next one or two years came to 77.8%.

Fig. 3-10: Future business outlook over the next one or two years

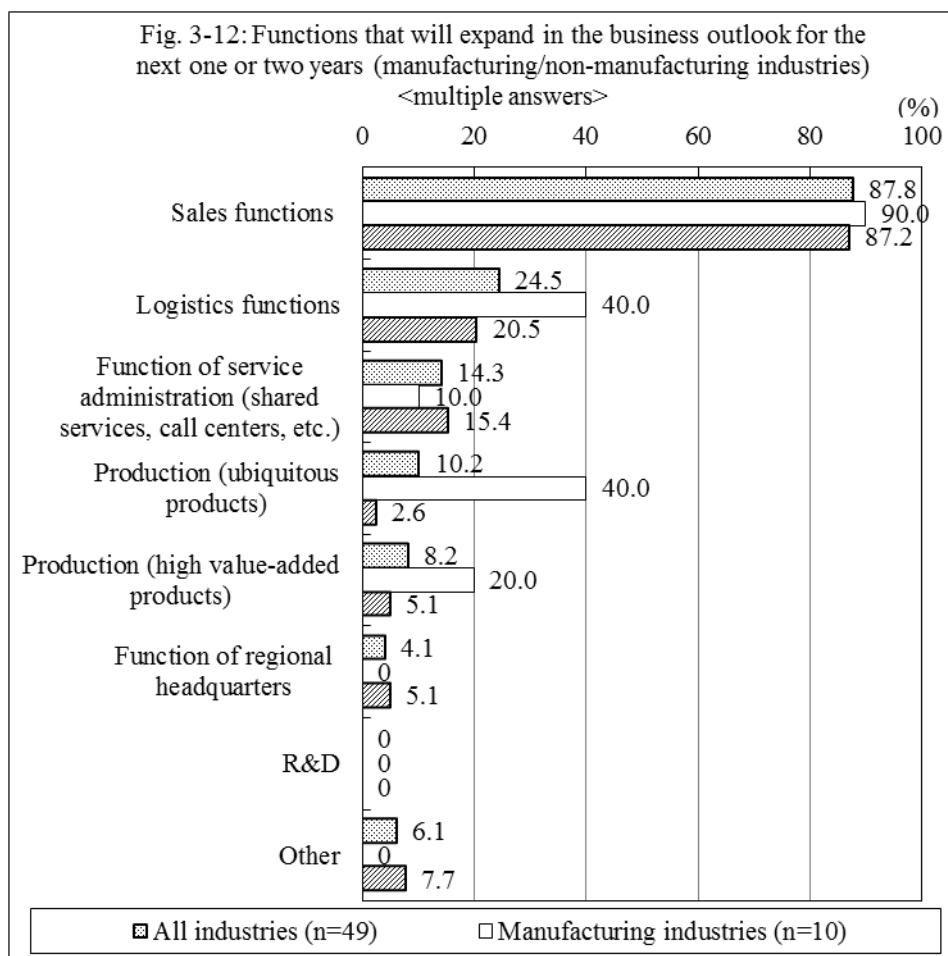


The two most commonly cited reasons for an expansion of business for the next one or two years were “Sales increase” (85.7%) and “High growth potential” (79.6%). These two factors were the highest for both manufacturing industries and non-manufacturing industries. Similarly, in a questionnaire survey “Strategies and Prospects of European Companies in Russia” (conducted from March – April 2013) by the Association of European Businesses (AEB) in Russia, which is mainly comprised of European companies operating in Russia, reasons that were cited for advancing into the Russian market included “high potential” (95%) and also “big size” and “positive dynamics” (both at 89%). This indicates a similar viewpoint to the results of this survey.

Only one company (1.6%) replied forecasting a “Reduction” for their business outlook.



The most commonly cited function that will expand given by companies forecasting an "Expansion" in their future business outlook was "Sales functions" (87.8%), which was followed by "Logistics functions" (24.5%). Aside from these, "Production (ubiquitous products)" (40.0%) was high for the manufacturing industry, on top of which "Production (high value-added products)" came in at over 20 points. As other functions, which is to be expanded, diversification of services is cited by other service industries, communications/software companies.

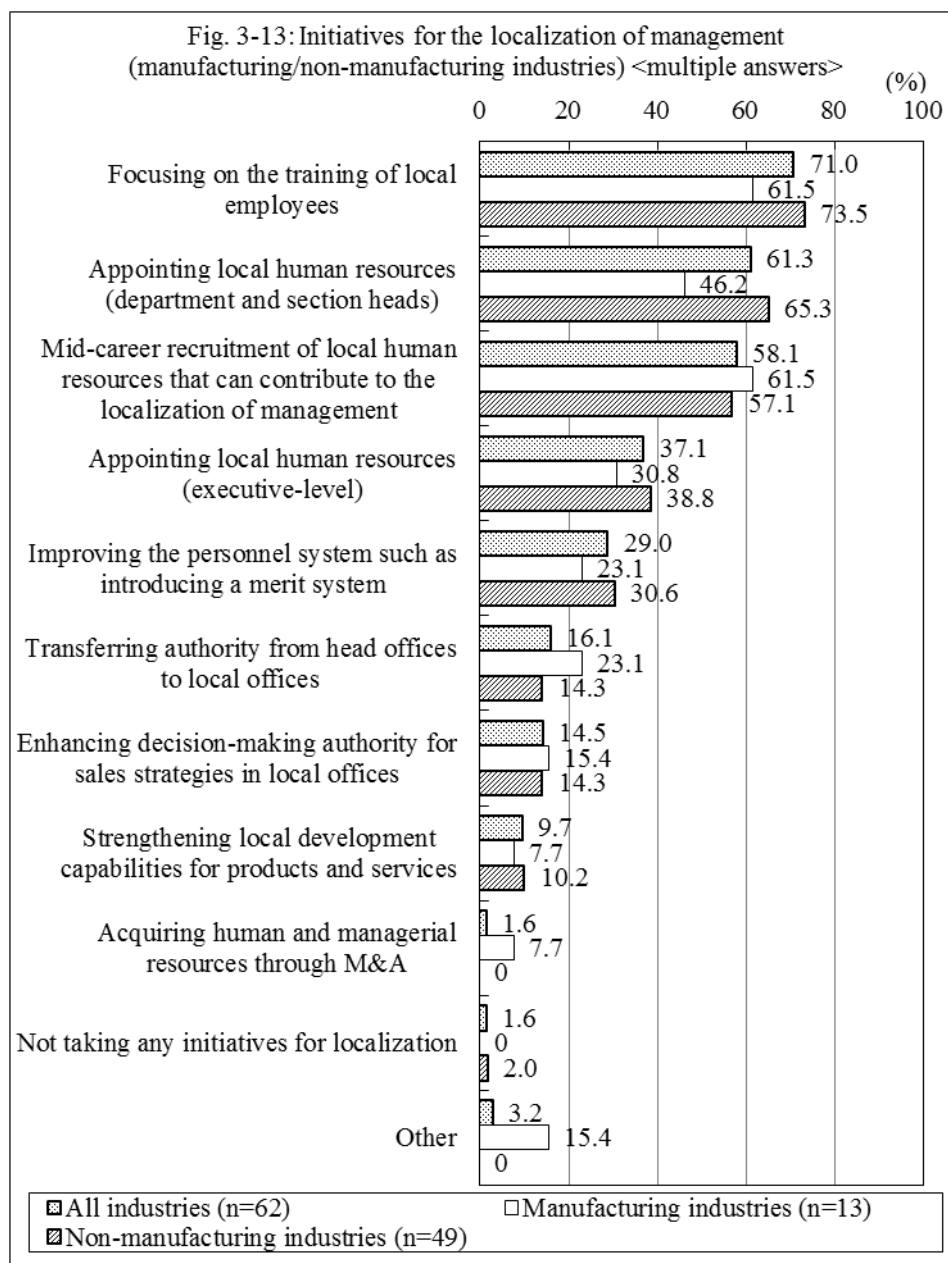


The one company (in a non-manufacturing industry) that forecasted a “Reduction” in its business outlook cited “Sales decrease” as its reason.

3-1-4. Initiatives for the localization of management

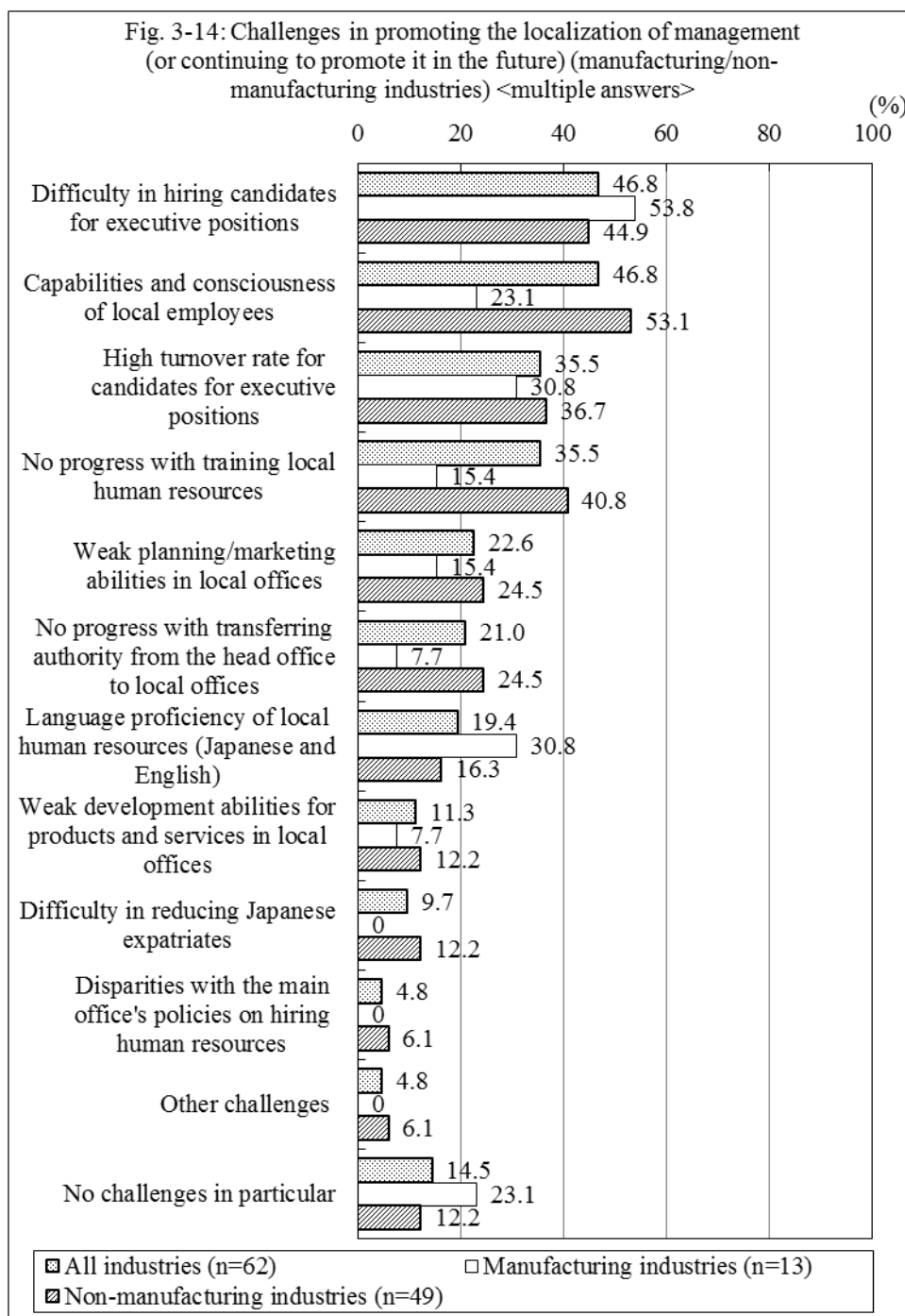
The most commonly cited initiatives for promoting the localization of management were “Focusing on the training of local employees” (71.0%), “Appointing local human resources (department and section heads)” (61.3%), and “Mid-career recruitment of local human resources that can contribute to the localization of management” (58.1%).

As far as other initiatives go, comments like “Our company does not get hung up about the nationality of our managers, so we are not working to address the ‘Localization of management.’ We emphasize ability, not nationality. We strive to foster human resources who can thrive globally without concern for their nationality in Russia as well” (a company of food, agriculture, and fishery processing) and “Licensing of technology to joint ventures” (a nonferrous metals and products company) were also cited.



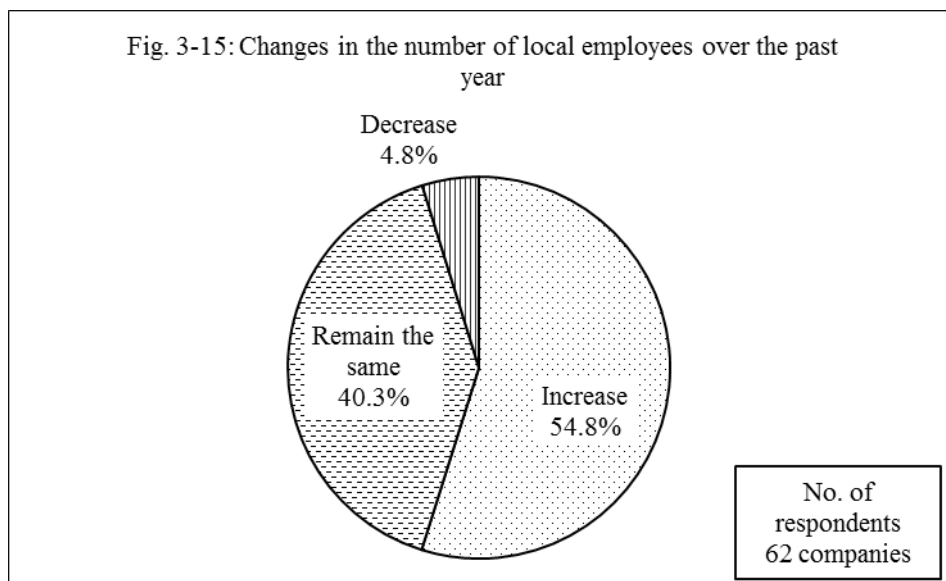
The most commonly cited challenges in promoting the localization of management (or going to promote it in the future) in all industries were “Difficulty in hiring candidates for executive positions” and “Capabilities and consciousness on the part of local human resources” (both at 46.8%). Aside from these, the most commonly cited challenges given by manufacturing industries were “High turnover rate for candidates for executive positions” and “Language proficiency of local human resources (Japanese and English)” (both at 30.8%). Those most commonly cited by non-manufacturing industries were “No progress with educating local human resources” (40.8%) and “High turnover rate for candidates for executive positions” (36.7%).

Other challenges that were cited included “Insufficient understanding of the current conditions by our head office” and “Lack of awareness of compliance.”

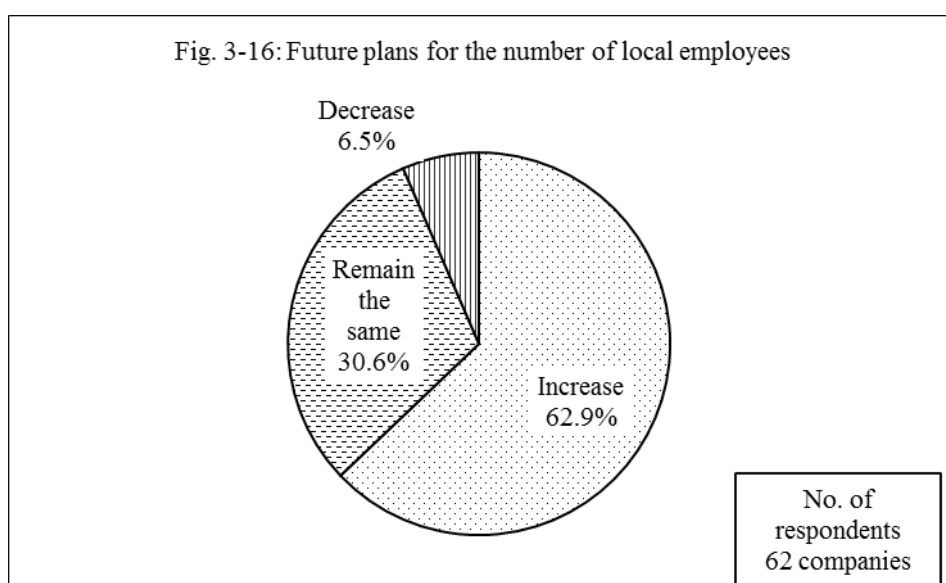


3-1-5. Current and prospective number of employees

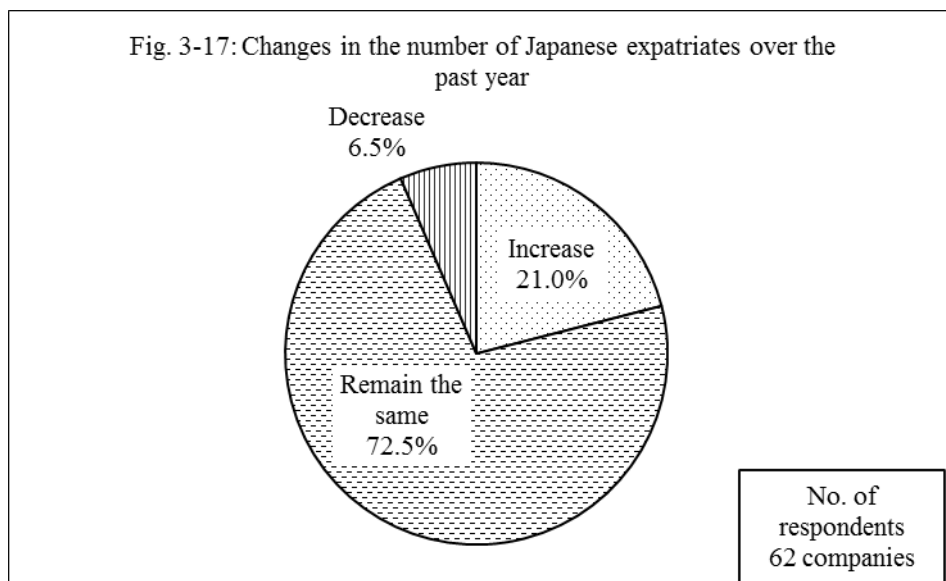
With regard to changes in the number of local employees over the past year, more than half of the companies (54.8%) replied that they had an “Increase,” with only 4.8% of them reporting a “Decrease.”



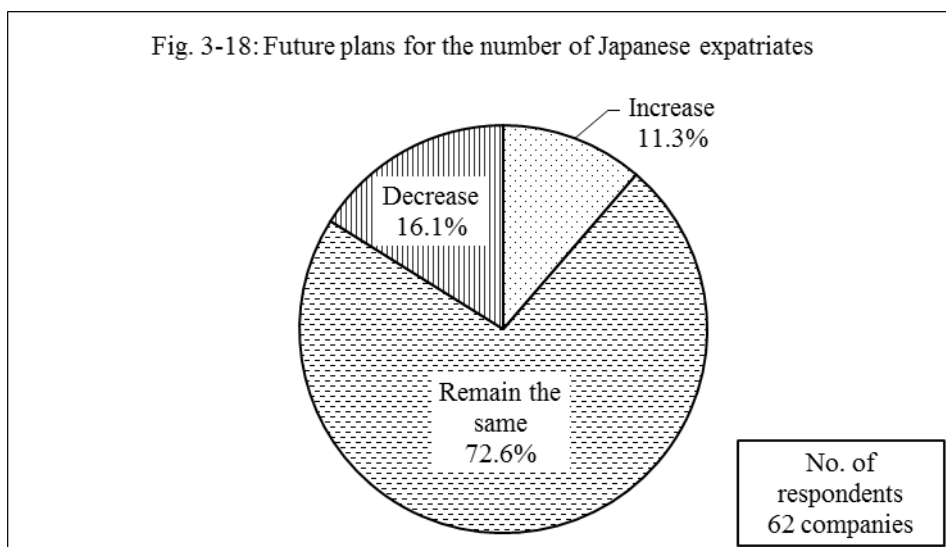
As for future plans for the number of local employees, 62.9% of the companies replied that this would “Increase.” Compared to the trends over the past year for the previous question, this was 8.1 points higher, with the number of local employees demonstrating a basic trend towards expansion together with the business outlook. Conversely, responses reporting a “Decrease” in the number of local employees also rose by 1.7 points compared to the changes over the past year.



As for changes in the number of Japanese expatriates over the past year, 72.5% of the companies responded with “Remain the same” for this.



As for future plans for the number of Japanese expatriates, 72.6% of the companies replied that this would “Remain the same.” This result is almost completely unchanged compared to the trends for the previous question over the past year. Moreover, those replies for a “Decrease” compared to the previous question were 9.6 points higher. The fact that many companies are increasing their number of local employees without increasing the number of their Japanese expatriates can be seen as an indication of their intention to promote the localization of management.

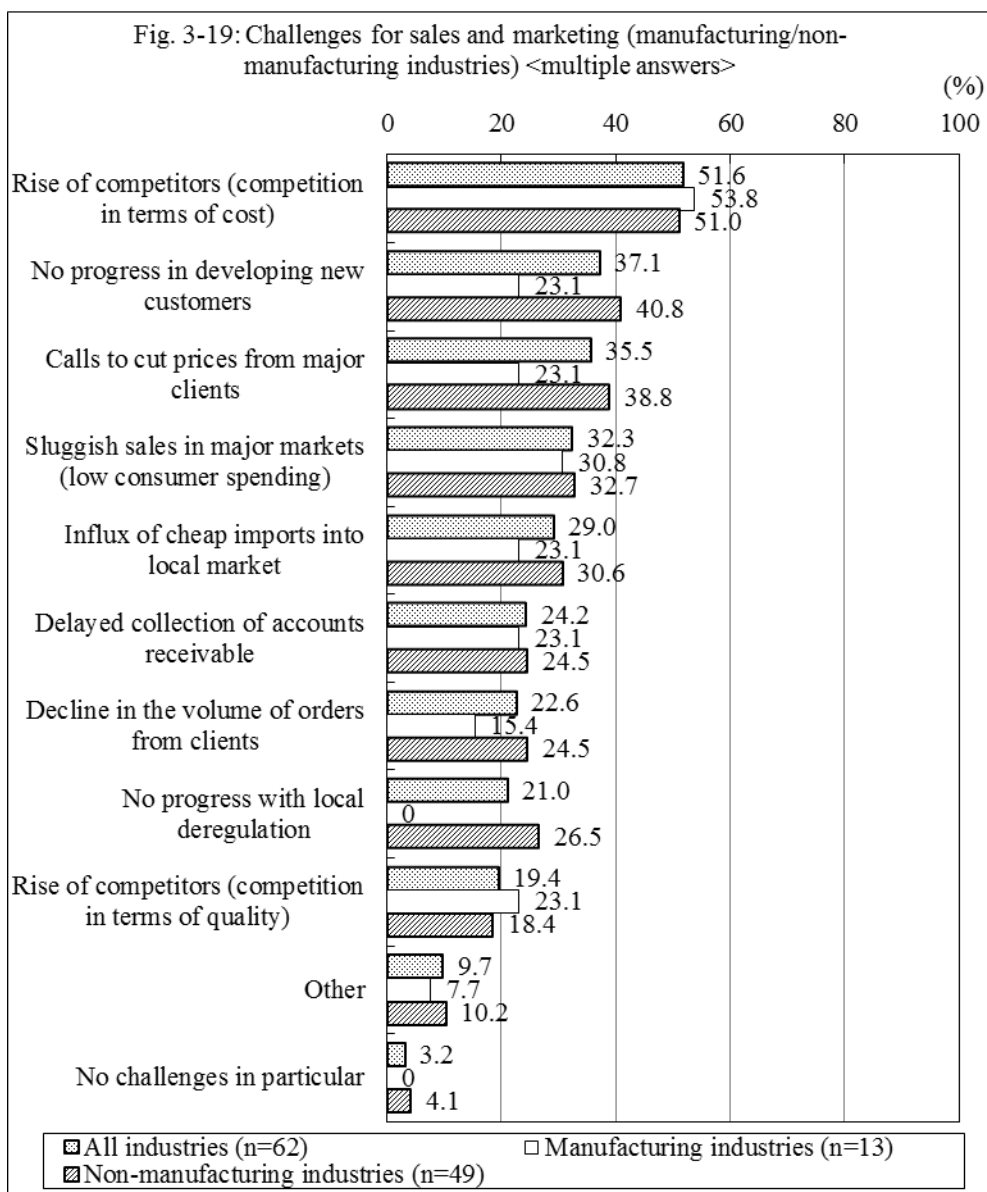


3-2. Challenges in management

3-2-1. Sales and marketing

“Rise of competitors (competition in terms of cost)” was cited by 51.6% of the respondents. Aside from this, challenges that were frequently cited by manufacturing industries included “Slowdown in the primary sales market (sluggish consumption)” (30.8%), and for non-manufacturing industries “No progress in developing new customers” (40.8%) and “Calls to cut prices from major clients” (38.8%).

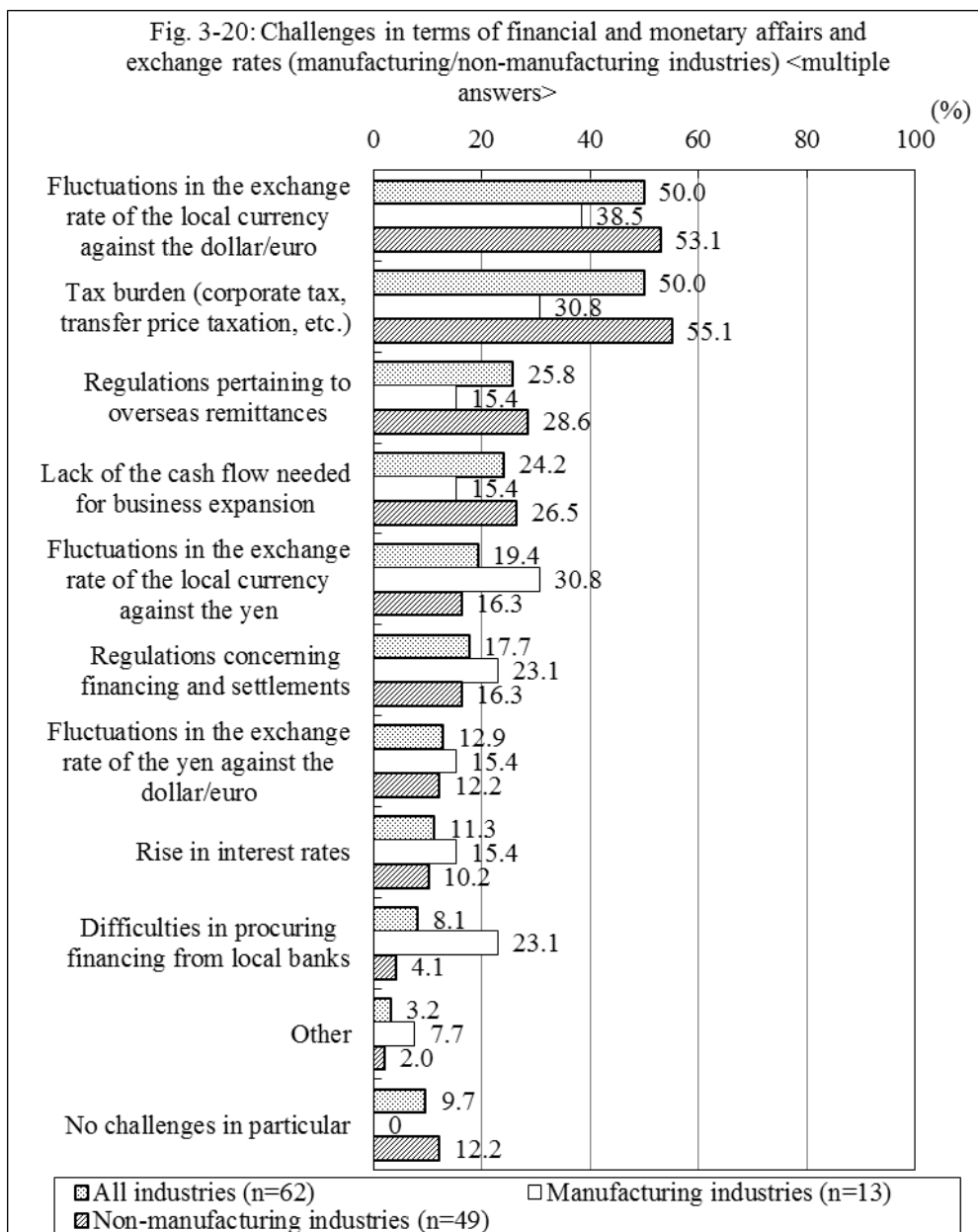
Other challenges in terms of sales and marketing that were cited included “Insufficient lines of goods (the number of brands)” (a respondent of distribution), “Need to enhance an administrative division due to local regulations leading to increased costs” (trading company), and “Rising store rent, cost of foodstuffs” (a respondent of hotel, travel, food and restaurant service).



3-2-2. Financial and monetary affairs and foreign exchange

Challenges that were cited by 50.0% of the companies included “Fluctuations in the exchange rate of the local currency against the dollar/euro” and “Tax burden (corporate tax, transfer price taxation, etc.)” Other challenges aside from these that were frequently cited by manufacturing industries included “Fluctuations in the exchange rate of the local currency against the yen” (30.8%) and “Difficulties in procuring financing from local banks” (23.1%).

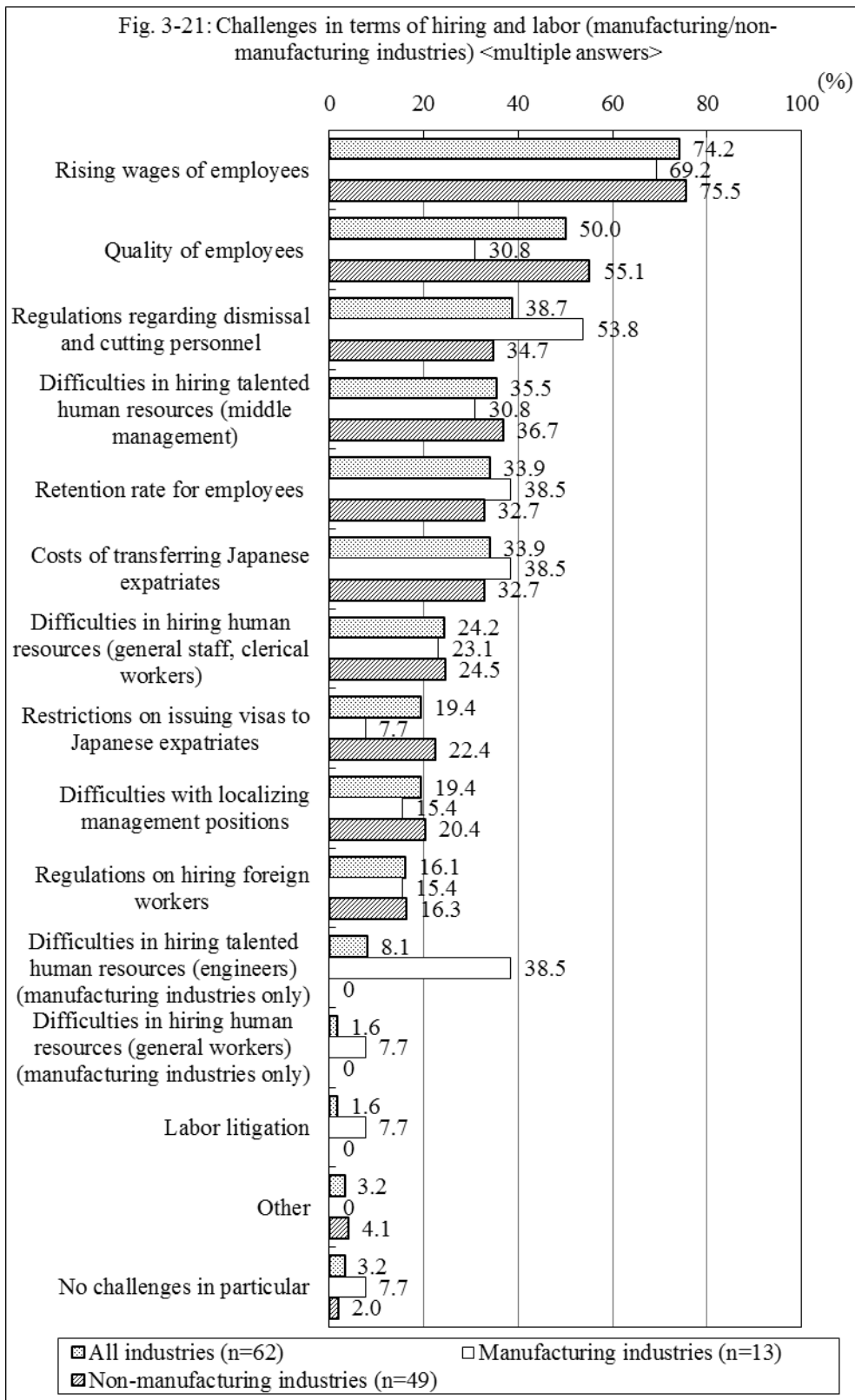
Other challenges in terms of financial and monetary affairs, foreign exchange that were given include “There are no arrangements for automatically withdrawing from personal accounts” (a respondent of banking).



3-2-3. Hiring and labor

Across all industries, 74.2% of companies cited “Rising wages of employees.” The most commonly cited challenge for both manufacturing and non-manufacturing industries was “Rising wages of employees” (at 69.2% and 75.5%, respectively). Other than this, frequently cited challenges for manufacturing industries included “Regulations regarding dismissal and cutting personnel” (53.8%) and “Difficulties in hiring talented human resources (engineers)” (38.5%). Frequently cited challenges for non-manufacturing industries included “Quality of employees” (55.1%) and “Difficulties in hiring talented human resources (middle management)” (36.7%).

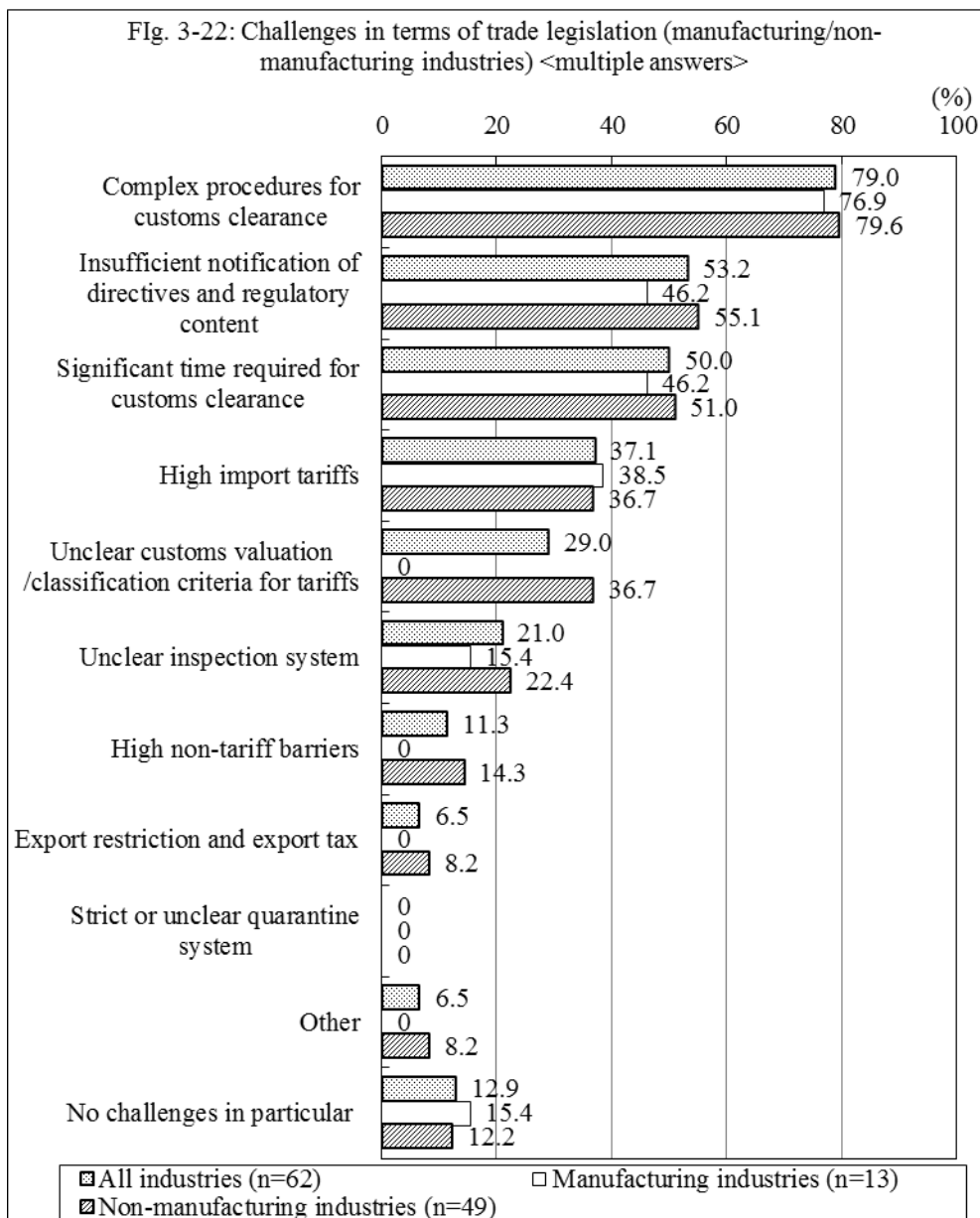
Other challenges that were listed in terms of employment and labor included “Childbirth and maternity leave for women who could potentially give birth over the next four and a half years” (sales company) and “The social insurance premiums paid by companies are expensive” (sales company).



3-2-4. Foreing trade legislation

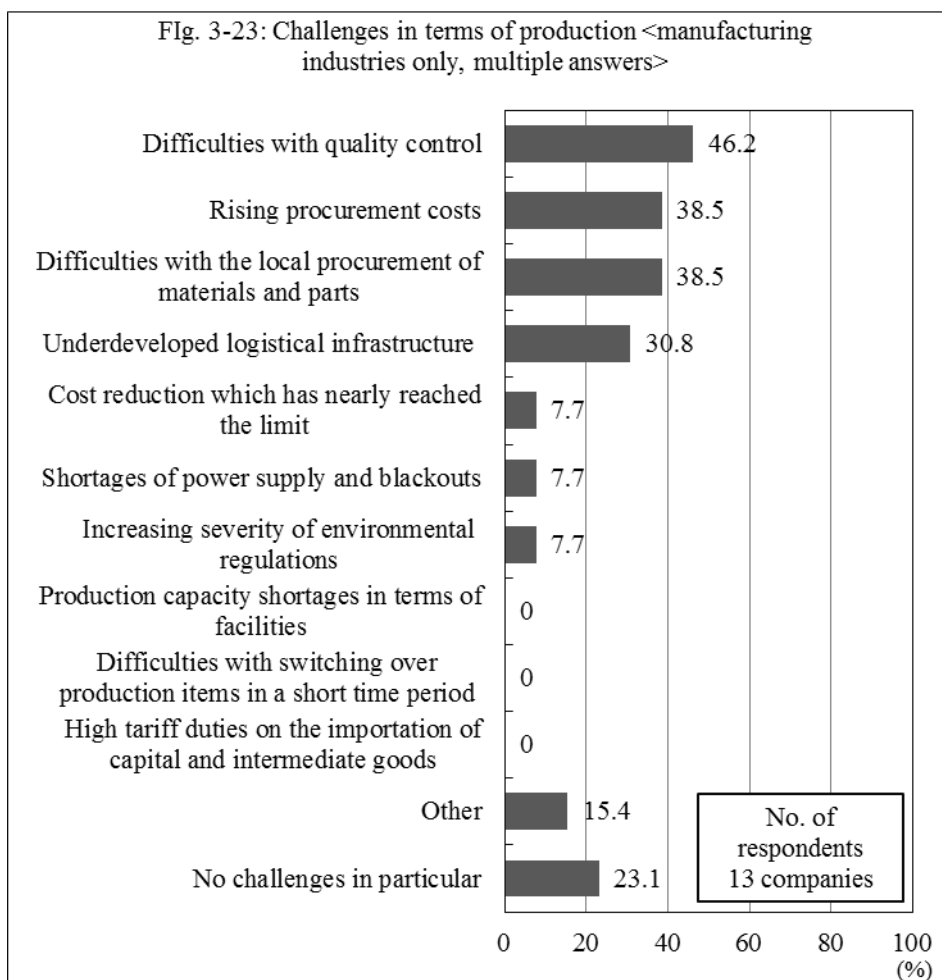
Across all industries, 79.0% of companies cited that “Complex procedures for customs clearance.” The next most frequently cited challenges were “Insufficient notification of directives and regulatory content” (53.2%) and “Significant time required for customs clearance” (50.0%). The trends were the same across both manufacturing industries and non-manufacturing industries.

Other challenges that were pointed out for trade legislation were “Lack of a customs union with Ukraine” (sales company) and “Absence of temporary export / re-import systems that do not involve customs duties on repaired items” (sales company), with one comment that “Non-transparent mechanisms such as ‘grey customs clearance’ (where companies that carry out their own import customs clearance in an honest manner suffer losses) are widespread, and advanced payment of VAT are required when importing goods” (sales company).



3-2-5. Production

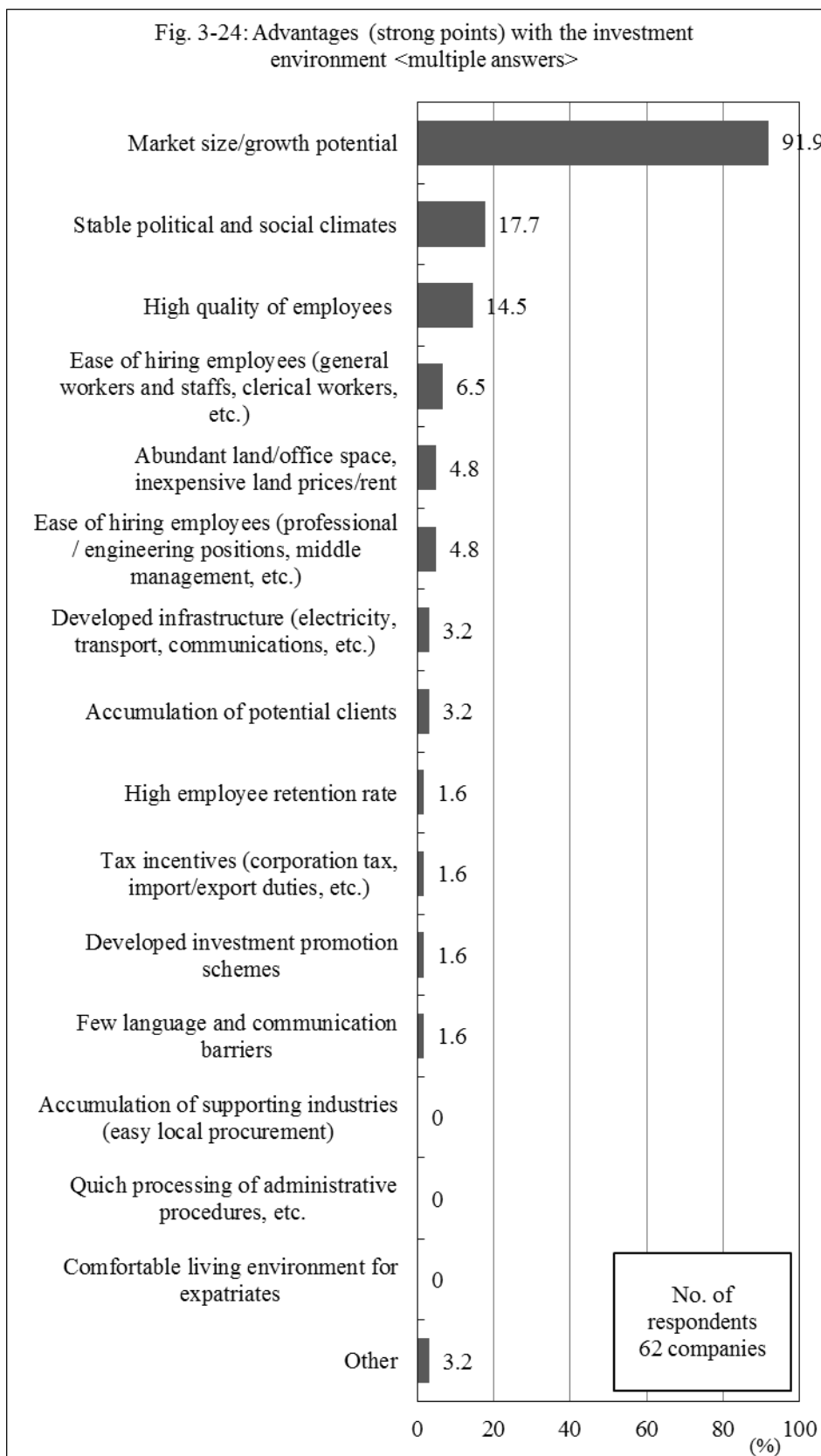
When those companies in manufacturing industries from among the respondents were asked about such challenges, their most commonly cited response was “Difficulties with quality control” (46.2%). The next most cited challenges were “Rising procurement costs” and “Difficulties with the local procurement of raw materials and parts” (which were both at 38.5%).



3-3. Advantages and risks in terms of the investment environment

3-3-1. Advantages (merits) in terms of the investment environment

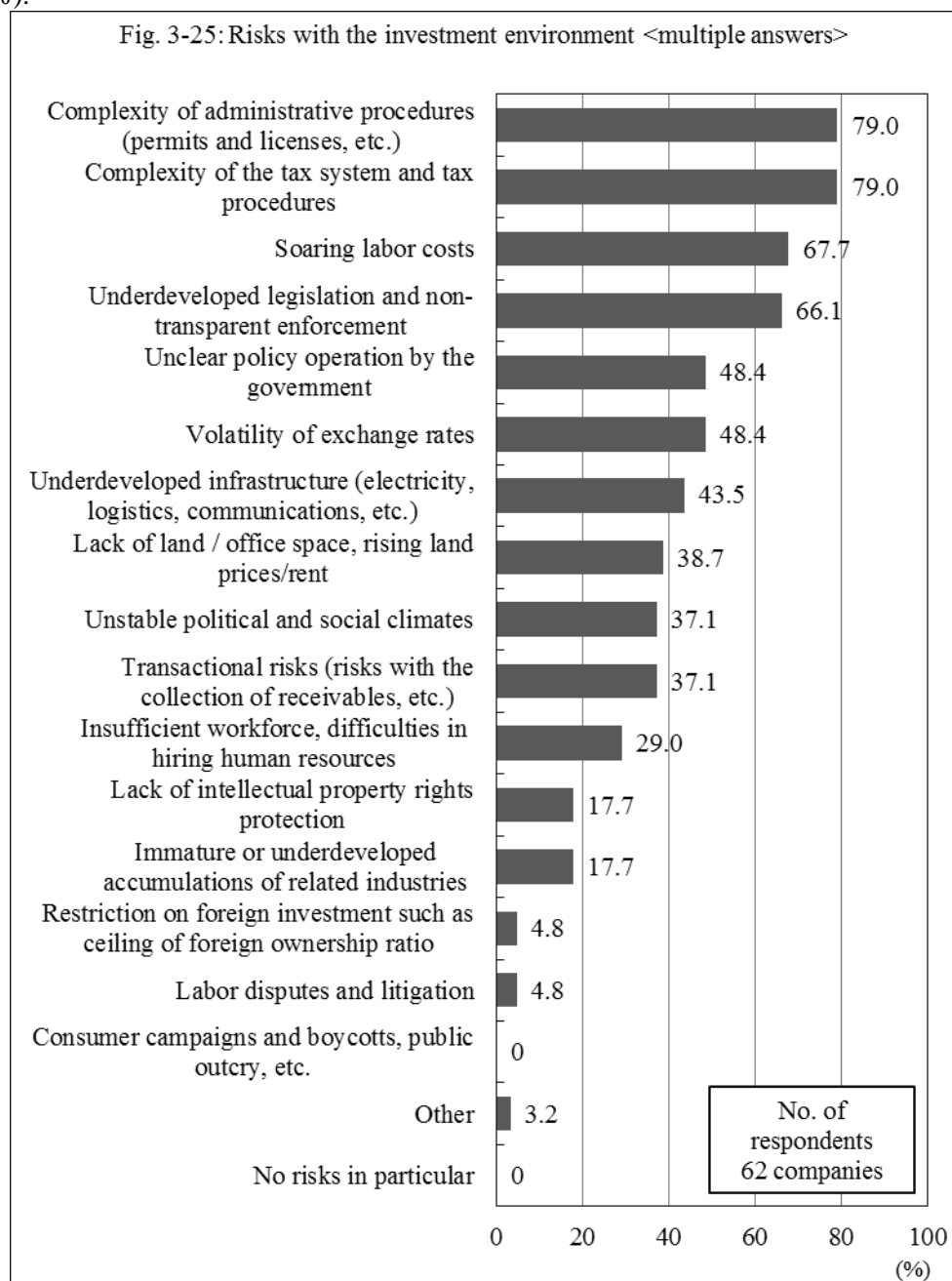
The most commonly cited advantage was “Market size/growth potential” (91.9%). Responses that were not cited as advantages included “Accumulation of supporting industries,” “Quick processing of administrative procedures, etc.,” and “Comfortable living environment for expatriates.”



3-3-2. Risks in terms of the investment environment

The most commonly cited factors related to procedures for administrative authorities were “Complexity of administrative procedures (permits and licenses, etc.)” and “Complexity of the tax system and tax procedures” (both of which were 79.0%). One risk that was frequently pointed out in connection with this was “Underdevelopment and non-transparent application of the legal

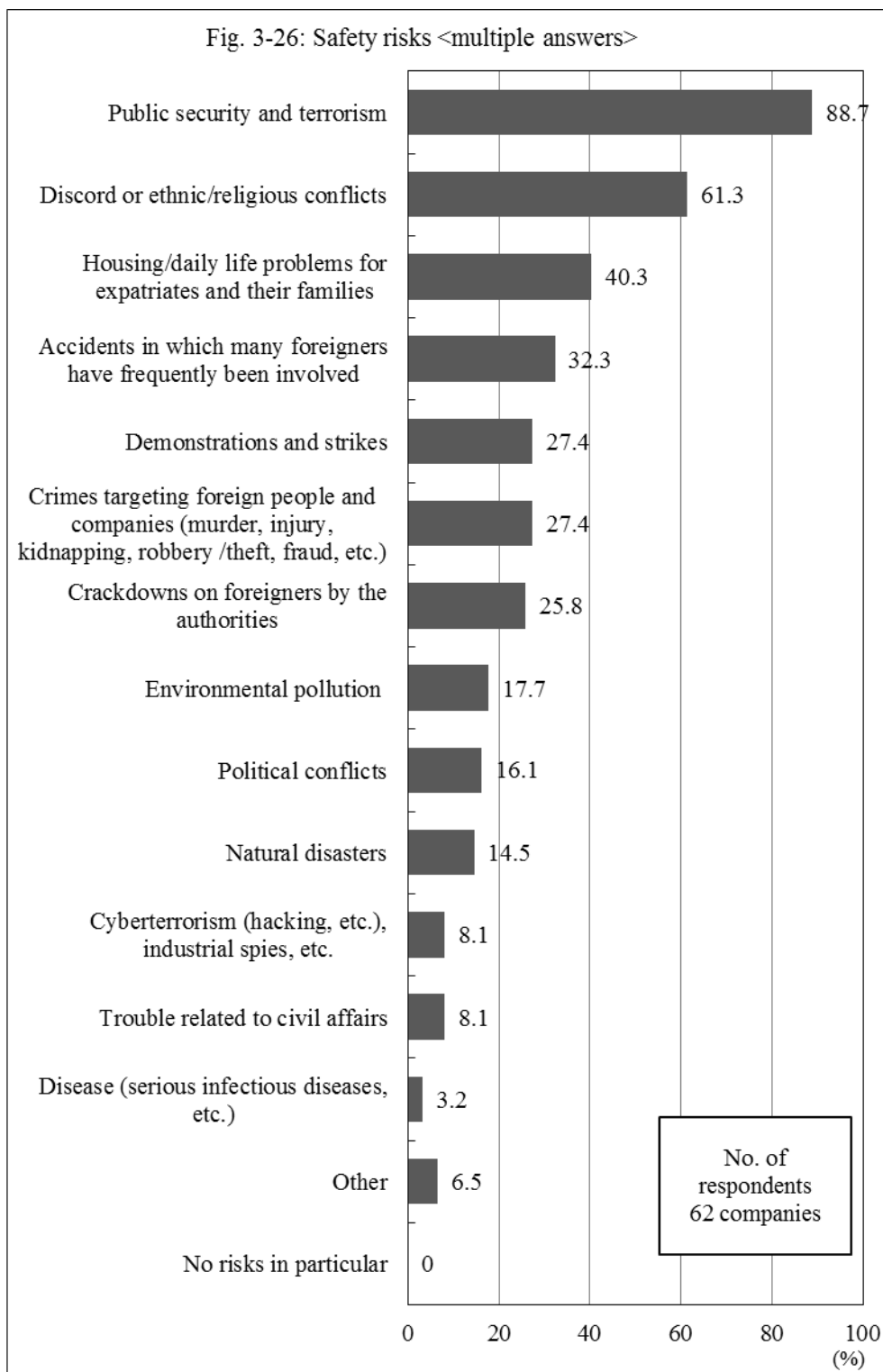
system” (66.1%). In addition, “Soaring labor costs” (67.7%) were also frequently cited. “Investment regulations such as restrictions on capital contribution ratios” and “Labor disputes and litigation” were hardly cited as risks with the investment environment at all (both were at 4.8%).



3-3-3. Safety risks

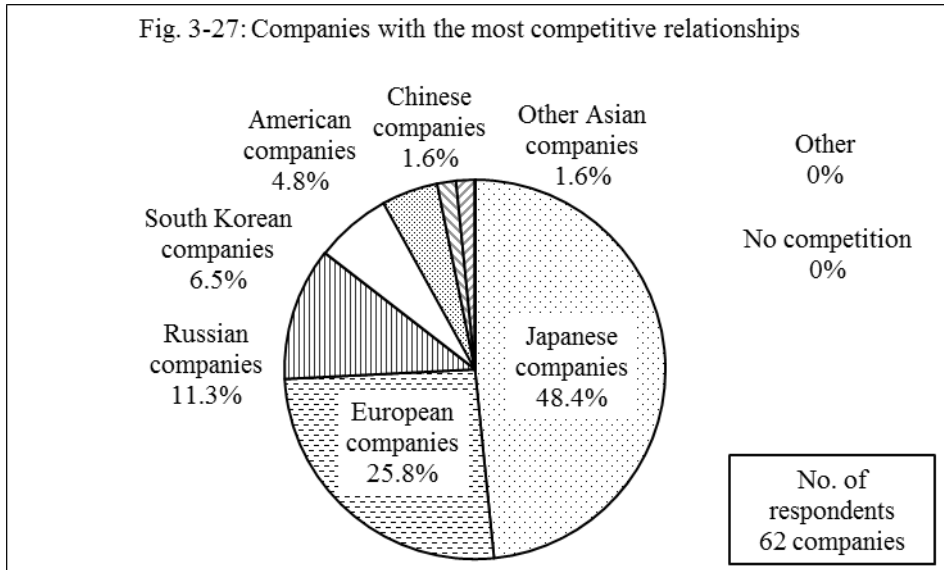
The most commonly cited safety risk was “Public security and terrorism” (88.7%). The next most frequently cited was “Discord or ethnic/religious conflicts” (61.3%) which could potentially cause this. “Disease (serious infectious diseases, etc.)” (3.2%) were rarely cited as safety risks.

Other safety risks that were cited include “Safe and reliable hospitals” (a respondent of distribution) and “Temperature differences of nearly 50°C in a year” (trading company).

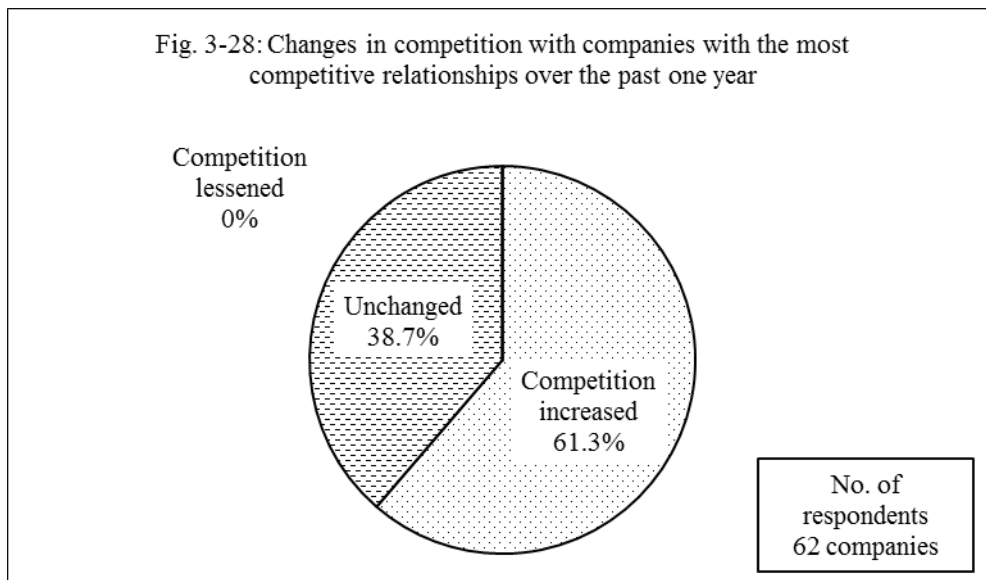


3-3-4. Competitive relationships

Japanese companies were the most commonly cited competitors for the respondents in the Russian market (48.4%), with these followed by mentions of European companies (25.8%).

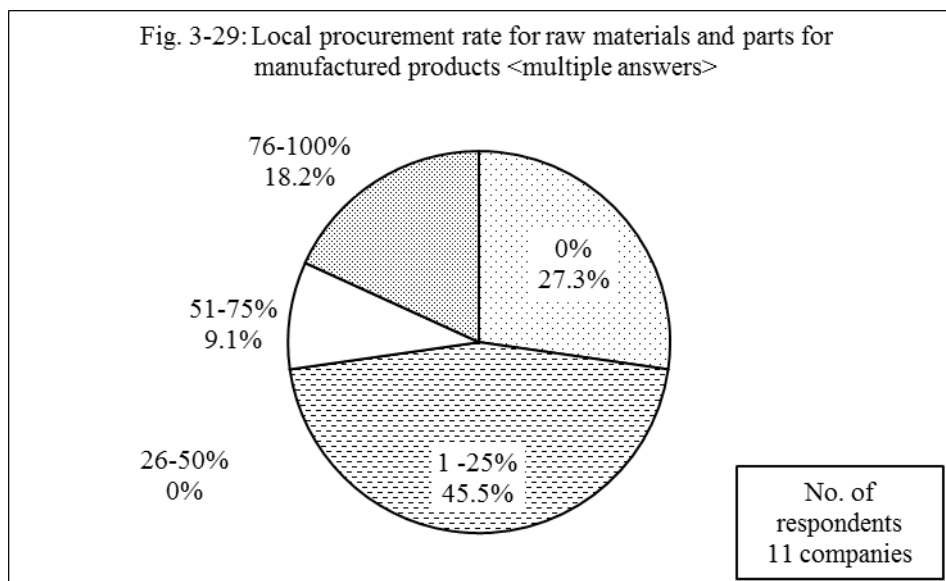


In terms of the competitive status in the Russian market, 61.3% of companies replied that “Competition increased,” with none of them replying that “Competition lessened.”

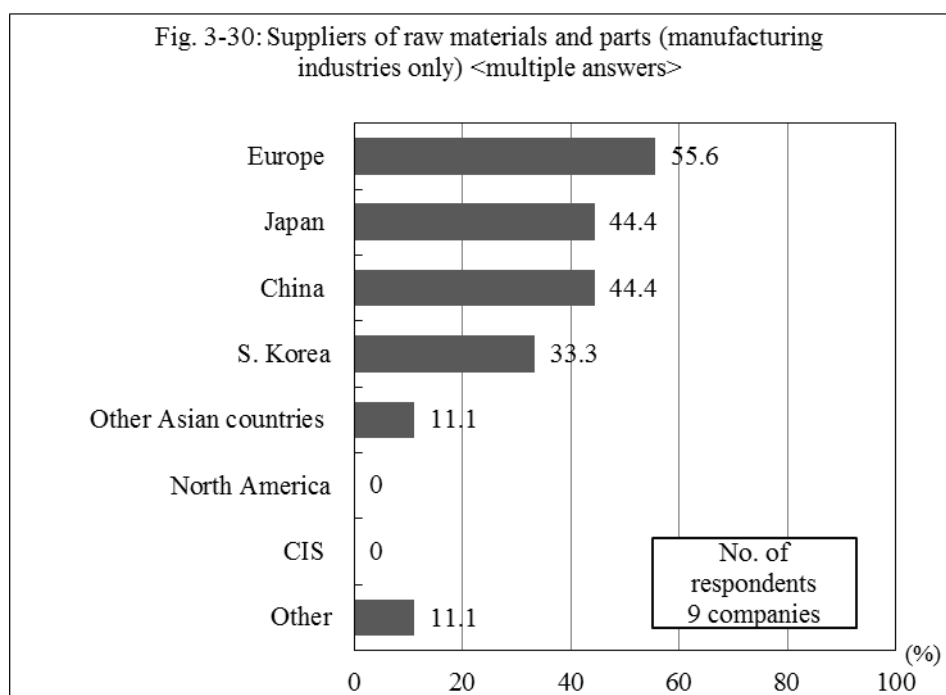


3-4. Procurement status for raw materials and parts in the local area

When those companies in manufacturing industries from among the respondents were asked about their local procurement rate for raw materials and parts, all together those replying that this was 25% or less came to 72.7%. On the other hand, 18.2% of the companies had a local procurement rate of 76 – 100%.



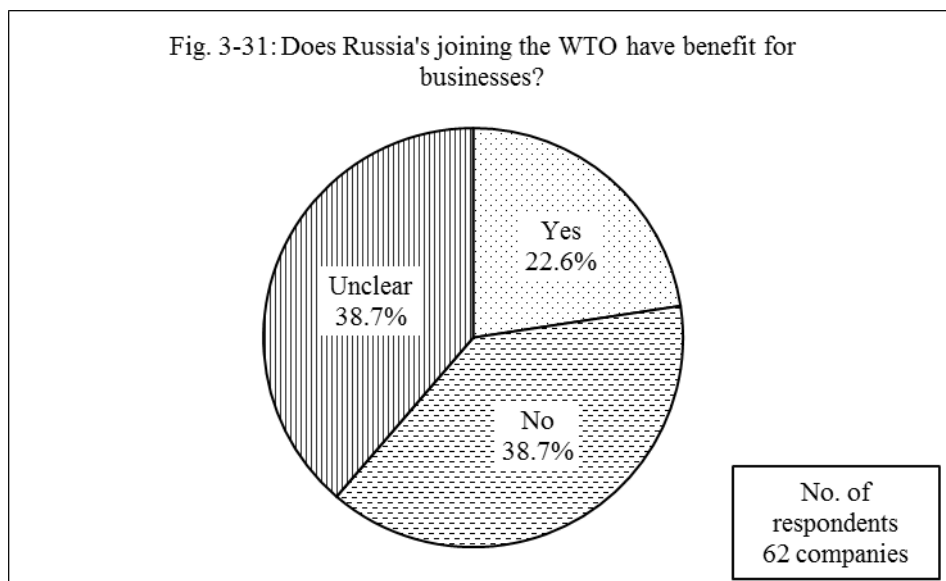
Europe was the most commonly cited supplier for raw materials and parts (55.6%), followed by Japan and China (both at 44.4%).



3-5. Effects of Russia's accession to WTO and Free Trade Agreements

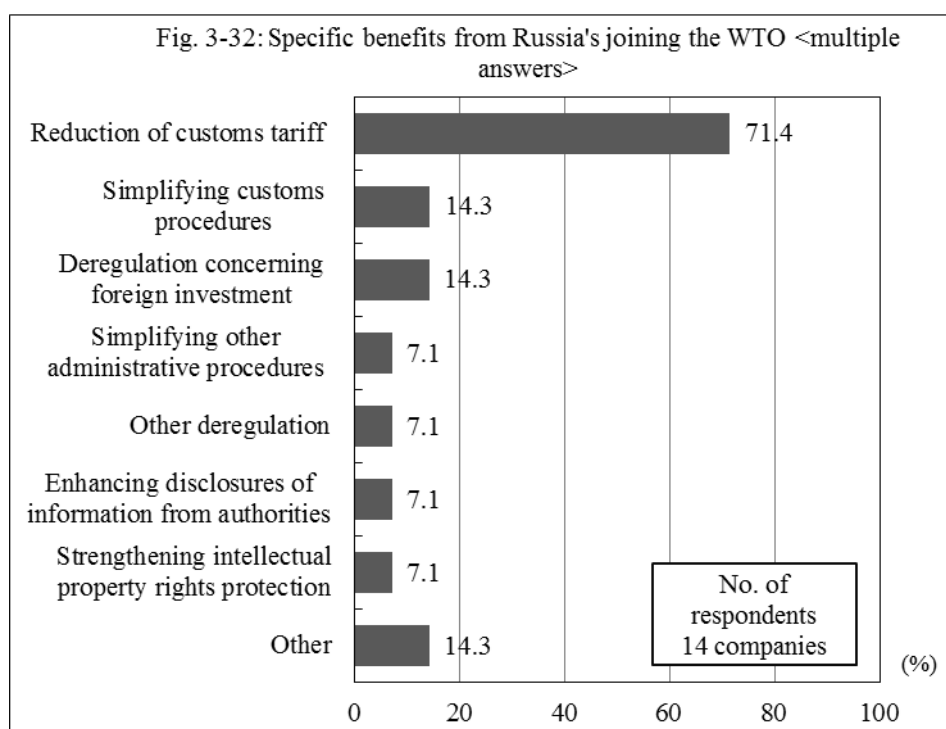
3-5-1. Impact of joining the WTO

When asked if Russia's joining the WTO, which was taken place in August 2012, had benefit for businesses, only 22.6% of the companies responded with "Yes."



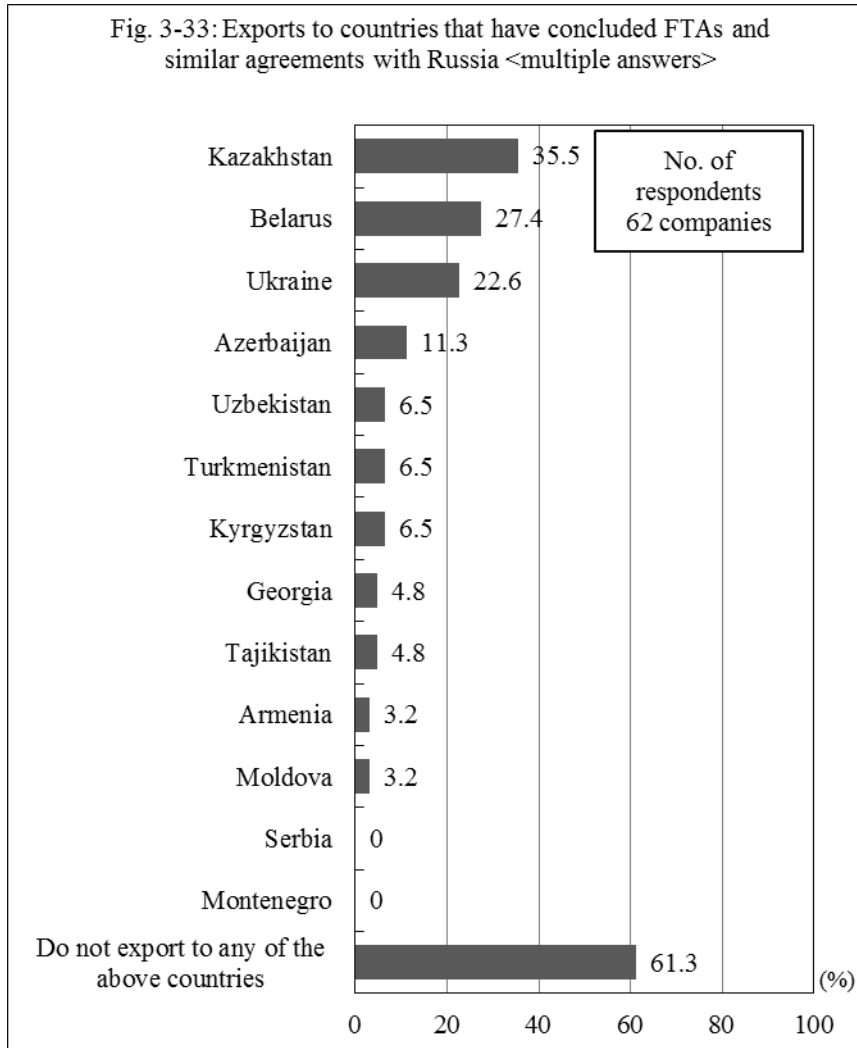
The most commonly cited specific benefit given by respondents who said “Yes” was “Reduction of customs tariff” (71.4%).

As other advantages, some respondents pointed out “It would increase Japanese companies operating in Russia through expectations that the investment environment would improve” (banking) and “New customer acquisition” (sales company).



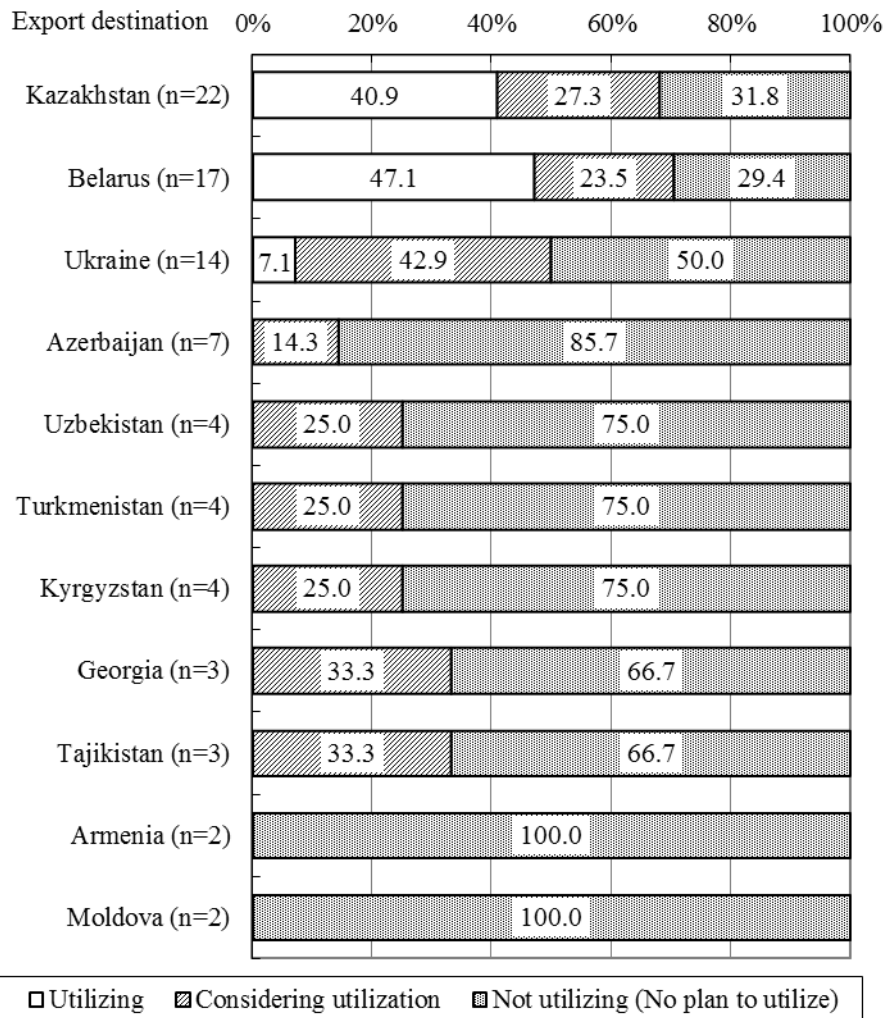
3-5-2. Use of bilateral/multilateral FTAs

Of the countries that have formed customs unions and concluded FTAs with Russia, Kazakhstan is the most commonly cited export destination for Japanese companies operating in Russia (35.5%), followed by Belarus (27.4%). These two countries have formed a customs union with Russia.



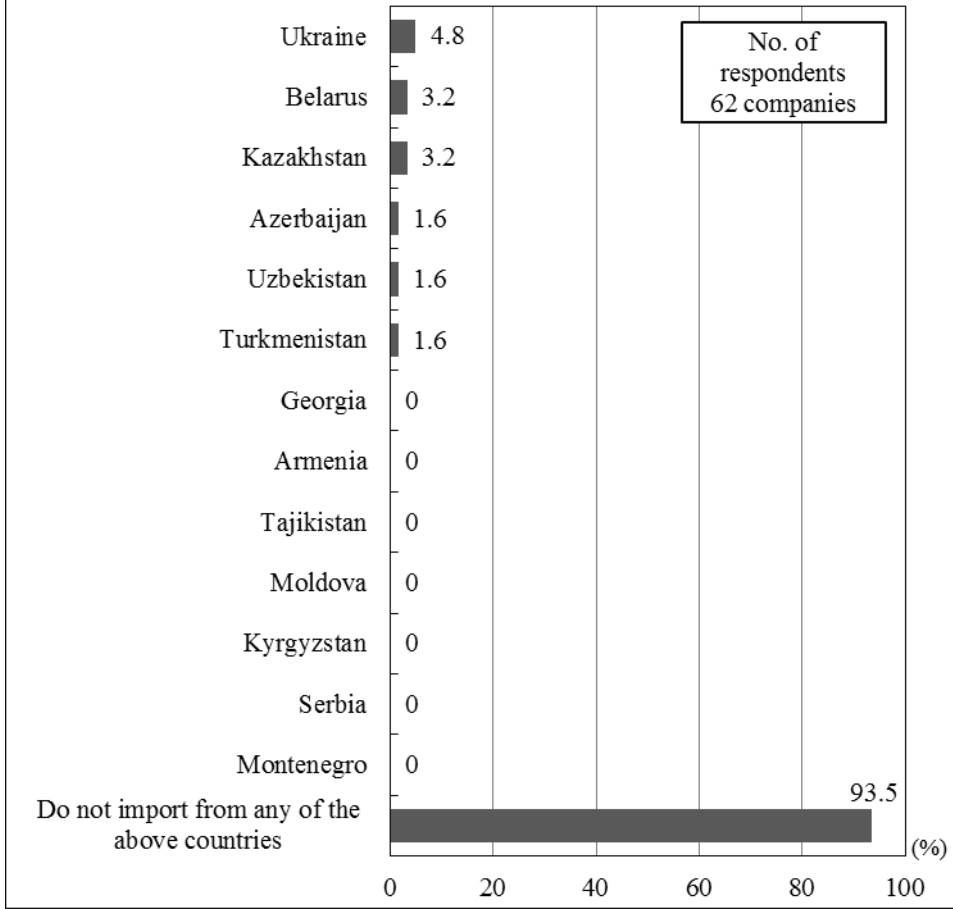
Of the Japanese companies that export to Kazakhstan, 40.9% of them replied “Yes” when asked if they use preferential tax rates from an FTA when exporting. For exports to Belarus, 47.1% of the companies use preferential tax rates from an FTA.

Fig. 3-34: Use of preferential tax rates from FTAs or similar agreements when exporting



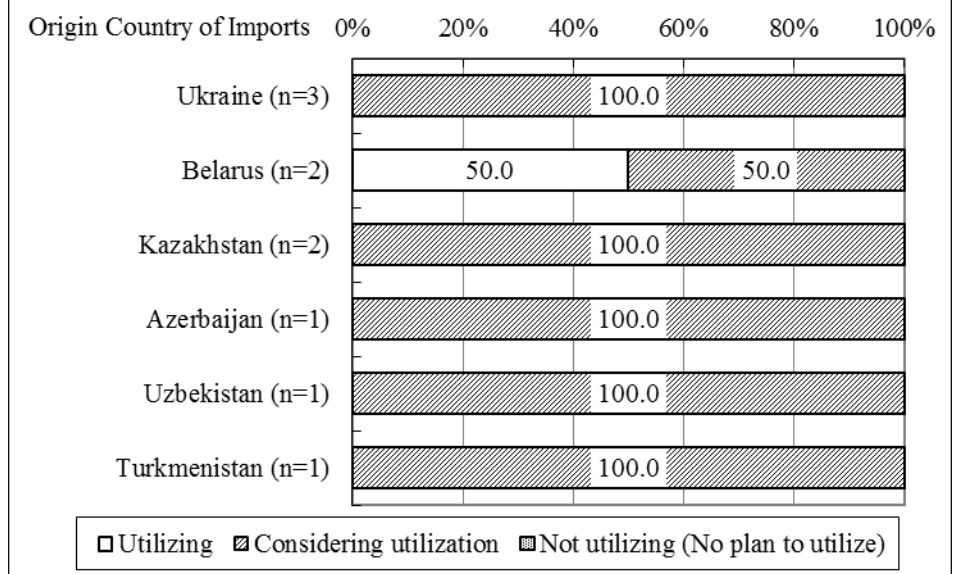
Almost none of the Japanese companies in Russia import goods from countries with which Russia has formed a customs union or concluded an FTA, with 93.5% of them replying “No” when asked if they import.

Fig. 3-35: Imports from countries that have concluded FTAs and similar agreements with Russia <multiple answers>



Only one company that imports from Belarus had been using the preferential tax rates from an FTA.

Fig. 3-36: Use of preferential tax rates from FTAs and similar agreements when importing



3-6. Other challenges for developing business in Russia

When the respondents were asked about challenges in developing their businesses in Russia in a free writing format, they offered the following sorts of comments.

One challenge that was commonly pointed out was that the image that Russia has in Japan and overseas is not a positive one and such places lack a deep understanding of Russia, which makes it difficult to gain understanding and support for business in Russia from head offices in Japan. In addition, as was pointed out in previous questions, other challenges that were cited concerned the costs and institutions involved in hiring people and the high costs related to business, as well as challenges concerning logistics that are unique to Russia, which has a vast national territory.

<Manufacturing>

Type of industry	Comments
Non-ferrous metals	The sentiment is that Russia's economy is currently slowing down, and there is a severe slump in the communications market in which our company is involved. In order for us to continue expanding our business from the following year onwards, it will be crucial for the economic condition to get better across all of Russia.
Electric machines and electronic equipments	Those human resources who lived through the former Soviet Union era and the perestroika era have a limited ethical awareness, and there is a gap in this awareness between them and the current young generation. This serves as an impediment to the management of the company.
Electric and electronic parts	The negative image of Russia in Japan is too overpowering, and so the potential in the Russian market is not properly recognized.

<Non-manufacturing>

Type of industry	Comments
Distribution	Future relations between Ukraine and Russia (Ukraine's participation or nonparticipation in the customs union). Ukraine will be a promising market for our company in the future.
Distribution	Unstable exchange rates and tax system and government regulations.
Trading house	There is insufficient development of the legal and judicial system, as well as problems with protection of account receivables.
Sales company	Japanese head office cannot seem to fully recognize the fact that European countries are not sufficiently aware of or understanding the circumstances in Russia.
Sales company	As a subsidiary with a head office in Japan, trying to avoid the backroom deals that exist as a reality of business here causes our costs to pile up.
Sales company	Expansion of business area of the Russian subsidiary to the other CIS countries. As a result of inconsistencies in the systems of each country (sales channels, taxes, legal systems, etc.) and their logistics networks, there are more unclear points than there are advantages, and currently we have not been taken in.
Sales company	As far as business in Moscow, it requires enormous tangible and intangible costs, compared to that in the other emerging countries, because of the surprisingly costly personnel costs and labor law system that is overly protective of workers (steep rise in retirement allowance, difficulty in dismissing workers, etc.) and the unclear commercial practices (particularly related to trade, shipping, and customs clearance) as well as the astoundingly expensive office rental fees and social insurance premiums. Not only for our company, but since this fact is not commonly understood throughout Japan, it would take quite some effort to explain about profitability of Russian business (including such background circumstances). In addition to the poor public order and language problems, Russia is by no means an easy place for Japanese people to live (examples: unclean city streets, poor manners, low standards of medical care services, not many variety of foodstuffs, etc.), which are not understood on the Japanese side. As a result, there is only a weak effort of the head office to provide back-up support for the lives of expatriates in Russia.
Banking	The banking regulations and the procedures to clear them, which require labor time and costs, additional personnel, securing flexibility. And its impact on our business' profitability.
Banking	Needed easing of the lending limit for single group companies. And also it is necessary to reduce or abolish the withholding taxes on dividends and interest payments between Japan and Russia.
Transport/ warehousing	High shipping costs within Russia
Transport/ warehousing	Language
Other service industries	The biggest problems are the lack of human resources and industry infrastructure, the shortage of skilled personnels, and the shortage of management-level human resources. Another major detriment to the growth of industry is the poor recognition of intellectual labor (intellectual added value; meaning the low recognition of the compensation for intellectual labor).

2013 Survey on Business Conditions of Japanese Companies in Russia

Issued in March 2014

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