

Asia and Europe

POTENTIAL INVESTORS OUTLOOK ON MOSCOW

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Attracting foreign investment is important for economic development. In addition to direct results such as asset growth, foreign investment leads to the transfer of new technologies and approaches to business management, which ultimately also contributes to increasing labor productivity and improving welfare.

On the other hand, foreign investment is an indicator of investment attractiveness and the economy's "health". Efforts to attract it help enhance competitiveness (especially when it comes to regulation and the quality of the business environment). A high share of foreign investments is a fair sign of a successful investment policy and can serve as a marketing tool for attracting new investments.

The task in question becomes even more challenging in the context of the ongoing pandemic and the difficult economic situation. Standard factors of investment attractiveness (infrastructure availability, tax and customs privileges, acceleration of procedures, quality of life) remain necessary, but not always sufficient for success.

In this situation, the quality of marketing to potential investors becomes important. To increase its effectiveness, it is necessary to make a clear investment proposal, choose adequate communication channels, consider the level of decision-making in international corporations, understand the role of foreign authorities in these processes and focus on the preferences of particular groups of foreign investors. It's important to work with specific target groups, not just the global investment community in general.

In this report, we have attempted to give a systematic description of the approaches and procedures used by different groups of foreign investors when making respective decisions. We have also reviewed potential communication channels for getting in touch with these investors, indicating the country and group specifics.

We considered two rather contrasting territories: Asia and Europe. The countries of these microregions are geographically the closest to Russia, which contributes to the development of economic ties. They have a powerful investment potential. At the same time, Asian and European countries have significant differences which help demonstrate the importance of a targeted approach to different categories of foreign investors.

If we are to discuss the situation with attracting investment to Russia in the context of a specific region, Moscow would be the most interesting example to study. The city offers rather significant economic diversification by industry, adequate logistical accessibility for potential investors from different countries and a high supply of basic resources (human, infrastructural, budgetary, etc.). Moscow also

provides fertile ground for vigorous and extensive work on attracting foreign investment.

At the same time, the outlined approaches, conclusions and recommendations can to a certain extent be applied to other Russian regions as well. They will definitely have different priority industries, a smaller pool of potential investors, relatively limited communication channels and promotion budgets. But the targeted approach based on target groups of investors can actually prove to be even more relevant for those regions as it allows them to use their scarce resources rationally.

We tried to make this report useful not only for representatives of relevant authorities but also for Russian businesses interested in attracting foreign partners and foreign investors themselves.

Based on the specified factors, Moscow is a clear leader in attracting foreign investment among Russian cities.

Investment climate

Moscow has the largest economy of all federal subjects of the Russian Federation in terms of gross regional product: the Russian capital accounts for one-fifth of the country's total GDP. Moscow's GRP has grown by 11% since 2010. In 2018, the city's gross regional product per capita amounted to 1.4 million roubles—almost 2.5 times higher than the Russian average. Here Moscow is only outpaced by resource-extracting regions with a relatively small population (Tyumen Region, Sakhalin Region, Chukotka Autonomous District).

Federal ratings confirm Moscow's favorable investment climate. The Russian capital is number one in the National Investment Climate Rating (ASI); the city has also held the leading position in the rating of the Ministry of Economic Development—"Development of Public-Private Partnerships in the Federal Subjects of the Russian Federation", for four years. In 2019, Russia moved up to the 28th position in the Doing Business ranking, and the share of Moscow's values when calculating the country's score is 70%. According to the RAEX rating of investment attractiveness, Moscow's investment climate rating is 1A (maximum potential—minimal risks).

The Moscow Government is actively working to attract investment in the city's economy. Moscow's Complex of Economic Policy and Property and Land Relations (first of all, the Department of Investment and Industrial Policy, the Department of Economic Policy and Development and the Moscow City Investment Agency) plays the key role here.

These bodies ensure the development of a uniform investment policy, prepare and implement proposals for providing support to investors, launch PPP projects, monitor the fulfilment of obligations under investment contracts, conduct presentations of priority projects, interact with business associations, etc.

Target groups of foreign investors

The efforts to attract investment have to be somewhat targeted to be effective. It's simply impossible to give adequate attention to all the companies out there, especially foreign ones. Moreover, an important and positive gesture is when a potential investor receives at least a slightly customized message, not a generic one. Ideally, that message should be received via the most comfortable

communication channel that the specific company considers trustworthy.

Therefore, it makes sense to create target groups of potential investors in advance and focus your resources on working with those, with due regard to their specifics.

When identifying target groups of potential investors, we used formal indicators, information from open sources, interviews with representatives of real business and business associations conducted in November–December 2020, as well as expert opinions.

Based on the analysis, the following groups of investors have been formed for further targeting:

The key groups of foreign investors for Moscow.

Region	Investor type	Preferred industries	Investment decision-making method	Access channels	Potential project types
Japan	Large diversified trade and investment companies	Engineering, transport, energy infrastructure, development, manufacturing, information and communications technology (ICT)	<ul style="list-style-type: none"> – The decision-making role is shifted towards the head office. Regional offices may have a say in decision-making, but their role is limited – The government's policy plays an important role. Projects are often based on cross-country agreements (the Putin-Abe programme, etc.) – The decision-making process takes a long time 	<ul style="list-style-type: none"> – Targeted financial roadshows with the participation of top managers and subsequent negotiations – Government interaction – Presentations on the level of regional associations in Russia (for informational purposes only) 	<ul style="list-style-type: none"> – Large-scale infrastructure projects, including the PPP format – Large-scale development projects – Manufacturing localization – Cooperation with Russian companies in the ICT field or establishing local development centers
Japan	Large industry companies	Mechanical engineering (including production of wheeled vehicles, medical equipment, etc.), production of pharmaceuticals, production of vehicle components, electronic components and related goods, retail	<ul style="list-style-type: none"> – The decision-making role is shifted towards the head office. Regional offices may have a say in decision-making, but their role is limited – The government's policy plays an important role. Projects are often based on cross-country agreements (the Putin-Abe programme, etc.) – The decision-making process takes a long time 	<ul style="list-style-type: none"> – Targeted financial roadshows with the participation of top managers and subsequent negotiations – Government interaction – Presentations on the level of regional associations in Russia (for informational purposes only) 	<ul style="list-style-type: none"> – Large-scale industry projects

Region	Investor type	Preferred industries	Investment decision-making method	Access channels	Potential project types
Japan	Medium-sized business	Food industry, electrical engineering, high-tech agriculture, education, retail (convenience stores, vending machines), tourism	<ul style="list-style-type: none"> – Decisions are made by the head office. There are often no regional offices – The government's policy plays an important role. Projects are often based on cross-country agreements (the Putin-Abe programme, etc.) – The decision-making process takes a long time, but decisions are made noticeably faster than with large conglomerates 	<ul style="list-style-type: none"> – Government interaction – Presentations on the level of regional associations in Russia (for informational purposes only) 	Local, often export-oriented projects
Korea	Large manufacturing and construction companies	Mechanical engineering, automotive industry, food industry, development, production of electrical products and electronic components	The head office plays an important role but if there is a regional office—a significant portion of duties is delegated to local teams	Targeted financial roadshows with the participation of top managers and subsequent negotiations	Large-scale production and development projects
Korea	Large service companies	Hotels, retail, entertainment, airport management	The head office plays the key role because the majority of these companies do not have any established offices in Moscow yet	<ul style="list-style-type: none"> – Targeted financial roadshows – Participation in industry exhibitions in Asian countries 	<ul style="list-style-type: none"> – Creating and managing retail and hotel chains, entertainment infrastructure facilities (e.g. theme parks) – Airport management

Region	Investor type	Preferred industries	Investment decision-making method	Access channels	Potential project types
China	Large manufacturing and technology companies	Mechanical engineering, electronics, information technology, biotechnology, light industry	<ul style="list-style-type: none"> – Decisions are made almost exclusively by the head office – The government's policy plays a critical role. Investment decisions are subject to government approvals. Decisions may be motivated by government plans rather than economic feasibility 	<ul style="list-style-type: none"> – Government interaction – Working with the diaspora – Presentations on the level of regional associations in Russia (for informational purposes only) 	<ul style="list-style-type: none"> – Large and medium-sized industrial facilities – Research centers
China	Leading construction and real estate companies	Construction and property management	<ul style="list-style-type: none"> – Decisions are made by the head office – The political component is relatively low in this sector 	<ul style="list-style-type: none"> – Targeted financial roadshows – Participation in thematic exhibitions – Direct project proposals 	<ul style="list-style-type: none"> – Large-scale infrastructure projects, including the PPP format – Large-scale development projects
China	Large service companies	Hotels, catering industry	<ul style="list-style-type: none"> – Decisions are made by the head office – Government policy is less important than with manufacturing corporations 	<ul style="list-style-type: none"> – Working with the diaspora – Government interaction – 	Chain projects
Vietnam	Large companies	Food industry, development	<ul style="list-style-type: none"> – Decisions are mainly made by the head office – The government's policy is important 	<ul style="list-style-type: none"> – Government interaction (particularly, the Russian-Vietnamese priority investment projects working group) 	Large and medium-sized projects aimed at the Russian market

Region	Investor type	Preferred industries	Investment decision-making method	Access channels	Potential project types
India	Large companies	Mechanical engineering (including medical equipment), electronics, information technology, production of pharmaceuticals, textile industry	<ul style="list-style-type: none"> – Initial decisions are made by the head office; if there is a regional office, the decision-making right can be delegated – Political matters do not usually play a significant role except in certain sectors such as the defense industry 	<ul style="list-style-type: none"> – Working with the diaspora – Posting information on field-specific Internet resources of the Indian government – Targeted financial roadshows 	Industrial and technological projects intended for the Russian market and for export
Germany	Large companies	Mechanical engineering, pharmaceuticals, food industry, construction and real estate, infrastructure	<ul style="list-style-type: none"> – Decisions are made by the head office, but the regional office plays an important role (if there is one) – The company's successful history in the Russian market is an important factor – Focus on projected business performance and market size (the most pragmatic approach possible) 	<ul style="list-style-type: none"> – Participation in forums and exhibitions in Germany – Targeted financial roadshows (special attention to Munich, Frankfurt, Cologne, Düsseldorf and Hamburg, because local corporations create more subsidiaries abroad than companies from other regions of the country) 	Manufacturing localization, investment in real estate and infrastructure
Germany	Medium-sized business	Food industry, electrical products, construction	<ul style="list-style-type: none"> – Decisions are made by the head office 	<ul style="list-style-type: none"> – The Russian-German Chamber of Commerce 	Manufacturing localization, especially for production with

Region	Investor type	Preferred industries	Investment decision-making method	Access channels	Potential project types
		materials, medical industry, high technology (electronics, biotech, IT, etc.)	<ul style="list-style-type: none"> – The presence of larger German partner companies in the Russian market, whose opinions are rather significant, is an important factor 	<ul style="list-style-type: none"> – Participation in forums and exhibitions in Germany 	sanctions, import duties or cheap Russian raw materials. Clinics. Implementation centers based on German technologies
Great Britain	Large companies	Food industry, pharmaceuticals, high technology	<ul style="list-style-type: none"> – The decision is prepared by the Russian office but the head office has the last say – The general political situation between the two countries is quite important 	<ul style="list-style-type: none"> – The Russian-British Chamber of Commerce – Targeted financial roadshows 	Manufacturing localization. Implementation or research centers
Great Britain	Investment funds (real estate, direct investment, family trusts, venture funds, etc.)	Construction and real estate, infrastructure, high technology	<ul style="list-style-type: none"> – Decisions are made by the head office, but sometimes there is a local office or a representative (primarily in real estate) – In most cases, the presence and a positive perception of a Russian partner (co-owner) and a team is important 	<ul style="list-style-type: none"> – Participation in forums and exhibitions in Great Britain and the Russian-British RussiaTALK Investment Forum – Targeted financial roadshows – Sending out direct proposals 	Investment in real estate (including modern logistics complexes), infrastructure PPP projects, investment in Russian technology startups and medium-sized companies with a high potential
France	Large manufacturing companies	Food industry, mechanical engineering, electrical	<ul style="list-style-type: none"> – The decision is prepared by the Russian office but the head office has the last say – Having a big Russian partner (client, etc.) is an important 	<ul style="list-style-type: none"> – Targeted financial roadshows – Interaction with the largest Russian 	Manufacturing localization, especially for production with sanctions, import duties, cheap Russian raw materials and

Region	Investor type	Preferred industries	Investment decision-making method	Access channels	Potential project types
		products and electronics	factor for making a positive decision	corporations—partners of French companies – The Franco-Russian Chamber of Commerce and Industry	prospects for export to third countries Implementation or research centers, investment in startups
France	Large retailers	Trade (from hypermarkets to convenience shops), real estate	<ul style="list-style-type: none"> – Decisions are made by the head office, but if there is a Russian office or a representative office, its opinion is quite important – The key factor is the assessment of the competitive environment and the possibility of sufficient chain expansion 	<ul style="list-style-type: none"> – Sending out direct proposals – Targeted financial roadshows 	Establishment or acquisition of retail chains
France	Medium-sized business	Food industry, light industry, construction materials, high technology	<ul style="list-style-type: none"> – Decisions are made by the head office – The presence of other companies from the corresponding French territorial and industrial cluster in Russia is important 	<ul style="list-style-type: none"> – Presentation trips to regional clusters with companies that are operating in Russia successfully – The Franco-Russian Chamber of Commerce and Industry – Specialized business associations – Participation in forums and exhibitions in France 	<p>Manufacturing localization, especially for production with sanctions, import duties, cheap Russian raw materials and prospects for export to third countries</p> <p>Investment into tech startups</p> <p>Restaurants</p>

Region	Investor type	Preferred industries	Investment decision-making method	Access channels	Potential project types
Italy	Large manufacturing companies	Food production, pharmaceuticals and medical equipment	<ul style="list-style-type: none"> – Decisions are made by the head office, but the regional office plays an important role (if there is one) – Insignificant attention to political aspects 	<ul style="list-style-type: none"> – Participation in forums and exhibitions in Italy – The Italian-Russian Chamber of Commerce – Sending out direct proposals 	<ul style="list-style-type: none"> – Manufacturing localization, acquisition of Russian enterprises
Italy	Medium-sized business	Light industry and fashion industry, electrical products, food industry, catering, construction materials	<ul style="list-style-type: none"> – Decisions are made by the head office – The presence of other companies from the corresponding Italian territorial and industrial cluster in Russia is very important 	<ul style="list-style-type: none"> – Presentation trips to regional clusters with companies that are operating in Russia successfully. – The Italian-Russian Chamber of Commerce – Specialized business associations 	<ul style="list-style-type: none"> – Manufacturing localization, especially for production with sanctions, import duties, cheap Russian raw materials or low-cost labor – Restaurants
Finland	Large companies	Food industry, IT, electronics and electrical engineering, construction materials, hotel industry	<ul style="list-style-type: none"> – Decisions are made by the home office; materials are prepared by the company's local representative – Relatively high susceptibility to sanctions 	<ul style="list-style-type: none"> – The Finnish-Russian Chamber of Commerce – Sending out direct proposals 	<ul style="list-style-type: none"> – Manufacturing localization, especially for production with sanctions, import duties, cheap Russian raw materials or low-cost labor – Acquisition of Russian startups or establishing implementation (research) centers – Hotels

- Moscow will remain the key region for entering the Russian market for the foreseeable future. Even when investing in a different federal subject, the Russian headquarters of a foreign corporation is usually based in Moscow, which comes with creating new jobs.
- Moscow's advantage for investors is not only its status as a capital city. The city holds a leading position in the key ratings of Russian regions and has a rather powerful and effective system for attracting and supporting investment. Apart from organizational structures within the Moscow Government and a set of benefits for businesses, the system also includes a specialized multilingual portal investmoscow.ru.
- In terms of quality of life, Moscow is the most attractive region for foreign investors. A comfortable urban environment, transport accessibility, rich cultural life and an acceptable level of security make it easier to send qualified employees from abroad to work in the Russian capital. Remuneration requirements are decreasing, as well as additional budgets for personal transport due to the development of mobile taxi services and car sharing.
- In terms of the quality and availability of the necessary infrastructure and resources, Moscow is the best place in the Russian Federation for high-tech production and services.
- Industry preferences of foreign investors do not always coincide with Moscow's strategic priorities. At the same time, the main factors for their choice include available market size, growth expectations, export opportunities and comfortable industry regulations. Therefore, some of the most promising sectors for attracting foreign investment in Moscow include development, food industry, tourism, production of construction materials, IT, healthcare, pharmaceuticals and biochemistry, electronics and production of electrical equipment, medical devices and other high-tech products.
- Moscow's fiscal capacity and creditworthiness allow the city to provide significant support to investors through incentives, infrastructure support, offset contracts, etc. In addition, there are opportunities to create large and attractive PPP projects in different sectors of the city's economy.
- Decisions on the launch of investment projects have been postponed due to the COVID-19 pandemic. On the other hand, investment projects where decisions have already been made are normally not paused.

- Despite the overall depressing effect of the pandemic on the economy, certain industries received a boost as a result of changes in the business environment (primarily, IT).
- Companies from different countries and even different groups of investors within the same country can have significant differences in the levels of centralization in decision-making, the need for political approval, preferred communication channels for investment proposals, etc. For instance, most Asian companies are influenced by the government's position way more than European corporations. At the same time, companies from Europe and South Korea assign the role of making investment decisions largely to local offices, while in other countries centralization levels are much higher. Another important point is that medium-sized businesses are less focused on political trends and more on the presence of their partners in Russia and their opinion of that experience.
- International business associations, especially bilateral chambers of commerce and similar organizations, are an important channel for attracting foreign investors. One of Moscow's advantages is the fact that offices of such key business associations are based in the city.

Key recommendations:

- When organizing communication with potential foreign investors, it's best to consider their country specifics and decision-making algorithms as much as possible. This also applies to preparing informative messages, holding presentations and negotiating.
- The most effective method is not to work with the widest possible range of foreign companies but focus your efforts on selected target groups of potential investors. This allows you to not only save your resources but also to create a better quality customized proposal and choose the most suitable channel for delivering information.
- Participation in forums and exhibitions is still an important method of attracting investment for both regional authorities and businesses. At the same time, you should not focus only on the largest events, because quite often the maximum effect can be achieved at smaller but more specialized forums and exhibitions. The COVID-19 pandemic has obviously drastically shifted such events towards the online format, but once it ends, we can expect a significant backward movement towards the offline which provides much better opportunities for face-to-face contacts.

- When it comes to attracting investment in the innovation industry, it is recommended to pay equal attention to interaction with large high-tech corporations and foreign venture funds and forums (especially European ones). As for creating attractive investment proposals, it is important to develop an acceleration system for Russian startups.
- In addition to participating in forums and exhibitions and using specialized online platforms, it seems reasonable to use the roadshow model more widely (taking the above recommendations into account). This recommendation is actually applicable for both specialized authorities and for Russian companies willing to attract foreign partners.
- To increase the efficiency of information exchange, it makes sense to consider the possibility of creating a Moscow Council for Interaction with Foreign Investors (under the Moscow Government).
- It would be helpful to create a system of "mentors" for new investors. This kind of mechanism can be created in every administrative district of Moscow. Such employees could assist in providing information support to new investors, diagnosing the progress of the project, helping establish uninterrupted and effective interaction with representatives of Moscow authorities. Alternatively, such specialists can be part of the Moscow Investor system announced by the Moscow Government.
- To ensure effective communication (including on the previous 2 points), a dedicated mobile application for investors is something worth considering.
- Attracting representatives of medium-sized foreign businesses to Moscow is another point to consider. The potential of this idea is still underestimated. This implies not only targeted work on informing such business categories but also creating collective investment sites they require (industrial parks, tech parks, etc.), as well as organizing effective channels for communication with authorities.
- When preparing investment projects for attracting European companies, the prospects of "green investment" should be outlined when possible. Moscow's high levels of technology and the tough environmental requirements of a large city create an increased potential for the development of this topic in the capital of Russia.
- When it comes to Russian regions (other than Moscow), it would make sense for them to also identify the most promising industries for attracting foreign investment. Following that,

they should identify several target groups of potential investors and organize communications based on their specifics. Multiple statements from this report concerning country specifics and preferred forms of interaction are rather universal.

- Russian companies willing to attract foreign partners should not only illustrate the economic efficiency of their own enterprise or project but also try to thoroughly explain why their region is attractive.