

Survey: Russia Gaining Attractiveness Among Foreign Investors

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Russia is gaining attractiveness among foreign investors, most of which count on the country's buoyant consumer market, a survey said Monday.

A total of 75 percent of international business leaders interviewed by Ernst & Young said Russia had an attractive domestic market, with about one-third of them calling it "very attractive," the consulting company said in the survey.

An "opportunity to manufacture consumer goods and sell them to Russia's emerging middle class," as well as an affordable work force and improving logistics add to Russia's image, as developed economies are gradually losing their attractiveness due to slower growth in the wake of the 2008 economic crisis, the survey said.

"Rapid growth in emerging economies, including that of Russia, is driving global economic expansion as developed economies lag," it said.

Russia is competing for foreign investors with its BRICS peers, with 46 percent of respondents calling China its biggest rival, while India got 14 percent of votes.

Ernst & Young interviewed senior executives in 205 companies, 132 of which have operations in Russia, in May and June.

Despite the companies' enthusiasm, Russia saw a total of \$13.8 billion in foreign direct investment last year, a 13.2 percent decline compared with 2009, according to the State Statistics Service.

The situation improved in the first half of this year, however, when foreign direct investment increased 29 percent from the first half of 2010 to reach \$7 billion, the service said on its web site.

"The trend confirms that foreign companies are interested in the Russian market," said Alexander Ivlev, Ernst & Young's managing partner for Russia. "Russia's middle class is emerging, people's purchasing power is growing, and companies acknowledge this fact," he said by phone.

Many foreign companies are targeting consumers through local firms they have acquired in recent years, he said.

Among Russia's most attractive sectors for foreign direct investment is the automotive industry and food manufacturing, Ernst & Young said.

However, most respondents — 54 percent of those interviewed — believe that Russia will continue to rely on its energy sector in the next two years, while 26 percent see growth opportunities in telecommunications.

Meanwhile, some foreign investors, which have no local presence, are still cautious to enter the market despite the government's efforts to improve the investment climate and encourage firms to spend up to \$70 billion in foreign direct investment annually.

A total of 63 surveyed firms, which have no local presence, said they had no intention of investing in Russia.

"Investors see Russia's investment climate as enticing, but risky," as poor rule of law, bureaucracy and a lack of transparency in regulating business remain among the biggest concerns for foreign companies, the survey said.

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