

## Russia: Market Profile

### Major Economic Indicators

	2016	2017 (estimates)	2018 (forecast)
Population (million)	143.4	143.4	143.3
GDP (US \$ billion)	1,283	1,469	N.A.
GDP Per Capita (US\$)	9,000	10,200	N.A.
Real GDP Growth (%)	-0.2	1.7	1.6
Inflation (%)	7.0	4.2	N.A.
Unemployment (%)	5.5	5.5	N.A.
Exports (goods, US\$ billion)	282	250 (Jan-Sep)	N.A.
Growth rate (%)	-17	+26 (Jan-Sep)	N.A.
Imports (goods, US\$ billion)	192	170 (Jan-Sep)	N.A.
Growth rate (%)	-1	+25 (Jan-Sep)	N.A.
Exchange Rate: US\$1 to 58.58 Russian rubles on 29 Nov 2017			

Source: IMF, The Central Bank of the Russian Federation, Federal State Statistics Service of Russian Federation

### Recent Developments

- Russia is Hong Kong's largest trade partner in Central and Eastern Europe. Hong Kong's total exports to Russia soared by 43% to US\$2.1 billion in the first ten months of 2017, while imports from Russia surged by 63% to US\$870 million.
- To stimulate investment with an aim to diversify its economy, the Russian government is providing a wide array of incentives for investors developing new product, technology in the energy efficiency, nuclear engineering, space technology, medicine and IT industries. Major incentives include profits tax/property/VAT tax exemption, reduced social contribution rates, special customs regime and a 150% deduction of qualifying costs for companies conducting eligible R&D activities to reduce profits tax/increase deferred tax assets.
- Other key sectors for development and investment include pharmaceutical and medical, real estate, innovations and technology, infrastructure, aluminium, iron and steel, lead, platinum-group metals, precious metals, nickel, copper, zinc, coal, telecommunications, transportation, agriculture and food and gas. More information on the investment environment and the relevant regulations can be found at the [Center for Investment Promotion \(INVEST IN RUSSIA\)](#).
- The inflows of foreign direct investment (FDI) to Russia soared to US\$37.7 billion last year, with China contributing more than US\$1.3billion. As of the end of 2016, China's total stock of FDI to Russia topped US\$12.9 billion, up from US\$1.4 billion in 2007. Hong Kong, holding a FDI stock of US\$717 million in 2016, was Russia's 5th largest Asian investor, behind Singapore, South Korea, the Chinese mainland and



Japan.

- Alongside the [Air Services Income Agreement](#) effective since June 2010, Hong Kong signed a [Comprehensive Double Taxation Agreement \(CDTA\)](#) with Russia on 18 January 2016, which entered into force on 29 July 2016. To accommodate greater synergies, Hong Kong and Russia are also in the process of negotiating an Investment Promotion and Protection Agreement (IPPA).

### Current Economic Situation

After two consecutive years of GDP decline, the Russian economy has been gathering growth momentum in 2017. Rising oil prices and hopes of warmer relations with the West have underpinned Russia's economic recovery and strengthened the Russian ruble, leading to a broad-based upturn in consumer and business confidence. Meanwhile, higher oil revenues and rising economic activity have also provided a relief for the pace of fiscal consolidation. In all, the Russian economy is expected to see a 1.7% growth in 2017.

Looking forward, given a further stabilisation of oil and commodity prices, the Russian economy is forecast to register growth of similar magnitude in 2018, although the impact of sanctions on external financing costs will continue to curb credit growth and financing conditions among businesses, while monetary policy normalisation in both the US and EU will likely weigh on investment and intensify the capital flight from Russia.

### Trade Policy

The Russian business and trade regime has been liberalised considerably. In contrast to the previous tightly-controlled situation, all enterprises and individuals are now allowed to trade without special registration. They are free to import nearly all products. Import licensing and other controls only apply to a few items, including some strategic products which are of very little interest to Hong Kong.

The Russian customs tariff classification is based on the Harmonised Commodity Description and Coding System (HS). All goods carried across the country's customs border have to be declared to customs authorities of the Russia Federation. A customs declaration should be submitted within 15 days after the goods are presented to customs authorities. Customs duties, if any, should be paid to the authorities when the goods cross the Russia border.

Import and export duties are calculated as a percentage of the customs value of the goods (ad valorem) or in euros per unit of measurement of the goods, and/or as a combination of these two rates. In most cases, however, ad valorem customs duties are levied as a percentage of the customs value of the goods. For most Hong Kong-type consumer products like garments, household hardware, consumer electronics, timepieces and jewellery, current tariff rates stand at 5%-20%. On the other hand, export duties are set for a few commodities like oil products, copper, nickel and goods made of these materials. Meanwhile, anti-dumping proceedings against Hong Kong have been scarce. As at end-September 2017, Russia did not apply any AD measures on imports originated from Hong Kong.

Aside from import tariffs, most imported products, as well as services, are subject to a value-added tax (VAT). The standard VAT rate has been reduced from 20% to 18% with effect from January 2004. On the other hand, the regional sales tax has been abolished



completely. Meanwhile, a lower VAT rate of 10% applies to basic foods and children's items, while certain items and services, such as certain financial services and goods for re-exports, are exempt from the VAT.

Most imports, including consumer goods, are required to comply with appropriate Russian safety standards. The most common certificate that is required by customs border is the GOST R Certificate of Conformity (CoC) issued by the Gosstandart (GOST) of Russia Federation or its authorised agencies.

After 19 years of negotiation, Russia finally joined the *WTO* on 22 August 2012. Among other commitments, Russia is to lower its tariffs on a wide range of products, bringing the overall tariff ceiling (the "bound tariff rate" or maximum rate of tariff allowed by the *WTO* to any member state for imports from another member state) down to 7.8% from an average of 10% as from 2011. Of particular interest to Hong Kong traders, information technology products like computer hardware and peripherals, telecommunications equipment, semiconductor manufacturing equipment, certain semiconductors and electronic components, will be granted duty-free access seven years after accession.

Apart from cutting tariffs, Russia has also agreed to enhance its trading and regulatory environment, e.g. on the aspect of intellectual property rights (IPR) protection by implementing the *WTO* Agreement on trade-related aspects of intellectual property rights (TRIPs). It is also to publish – as from the date of accession – all legislation affecting trade in goods, services, or intellectual property rights, prior to their adoption and allow no less than 30 days before that, for members' comments. The move should greatly enhance the transparency and predictability of the country's regulatory regime and enforcement procedures.

As for services trade, there's a general agreement to further open Russian services markets to foreign providers. For instance, Russia will lift the foreign equity limitation of 49% on telecom companies four years after accession, while allowing foreign insurers, bankers and distributors to have better and fuller access to the 146 million-strong Russian market.

On the other hand, following the signing of a package of agreements in November 2009 to establish a *Customs Union (CU)*, Russia, Belarus and Kazakhstan began using common external tariffs (CET) in early July 2010 and launched the common economic space on 1 January 2012, enabling free movement of goods, services, capital and workforce between the three member states. A treaty aiming for the establishment of the *Eurasian Economic Union (EAEU)* was later signed on 29 May 2014 by the leaders of Belarus, Kazakhstan and Russia, and came into force on 1 January 2015. Following the signing of respective treaties aiming for Armenia's and Kyrgyzstan's accession to the *EAEU* on 9 October 2014 and 23 December 2014, Armenia entered the *EAEU* on 2 January 2015 and Kyrgyzstan acceded on 12 August 2015.

### **Hong Kong's Trade with Russia [1]**

Hong Kong's total exports to Russia soared by 43% to US\$2.1 billion in the first ten months of 2017, after a 22% growth to US\$2.0 billion in 2016. Major export items to Russia in January-October 2017 included telecommunications equipment & parts (shared 46% of the total), computers (21%), semi-conductors, electronic valves & tubes (5%), parts & accessories of office machines/computers (3%), electrical apparatus for electrical circuits (3%), jewellery (3%), pearls, precious & semi-precious stones (3%) and electric



power machinery & parts (2%).

Meanwhile, Hong Kong's total imports from Russia rocketed by 63% to US\$870 million in the first ten months of 2017, after a 9% decrease to US\$688 million in 2016. Leading import items from Russia in January-October 2017 included silver & platinum (shared 47% of the total), pearls, precious & semi-precious stones (18%), coal, not agglomerated (14%), iron & steel bars, rods, angles, shapes & sections (4%), prepared or preserved meat and edible meat offal (4%), telecommunications equipment & parts (3%) and crude animal materials (2%).

(US\$ million)	2016		Jan-Oct 2017	
	Value	% Growth	Value	% Growth
Total Exports	2,011	+22	2,103	+43
Domestic Exports	4	-5	2	-40
Re-exports	2,007	+22	2,102	+43
Imports	688	-9	870	+63
of which re-exported	436	+38	419	+15
Total Trade	2,699	+13	2,974	+48

Source: Hong Kong Trade Statistics, Census & Statistics Department

[1] Since [offshore trade](#) has not been recorded by ordinary trade figures, these numbers do not necessarily reflect the export business managed by Hong Kong companies.

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<http://emerging-markets-research.hktdc.com/business-news/article/Emerging-Europe/Russia-Market-Profile/mp/en/1/1X000000/1X0010CO.htm>

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