

# Doing Business in Emerging Markets

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## Geopolitical Risk in Russia



Aalto University  
School of Business

*Daria Kautto*

*Alexei Koveshnikov*

23.11.2023

# Expert panel today

- **Laura Solanko**, Senior Advisor, The Bank of Finland Institute for Emerging Economies (BOFIT)
- **Esko Aho**, Chairman of the Board of China Office of Finnish Industries, Former Prime Minister
- **Kirill Tervo**, Attorney-at-law, Ad Astra Attorneys
- **Elina Björklund**, CEO, Reima Group

ДАННОЕ СООБЩЕНИЕ (МАТЕРИАЛ) СОЗДАНО И (ИЛИ)  
РАСПРОСТРАНЕНО ИНОСТРАННЫМ СРЕДСТВОМ МАССОВОЙ  
ИНФОРМАЦИИ, ВЫПОЛНЯЮЩИМ ФУНКЦИИ ИНОСТРАННОГО АГЕНТА,  
И (ИЛИ) РОССИЙСКИМ ЮРИДИЧЕСКИМ ИЛИ ФИЗИЧЕСКИМ ЛИЦОМ,  
ВЫПОЛНЯЮЩИМ ФУНКЦИИ ИНОСТРАННОГО АГЕНТА.

Russian law "On Regulation of the Activities of Non-profit Organizations Performing the Functions of a Foreign Agent"  
(extended to individuals on 1.12.2022)

**February, 24<sup>th</sup> 2022**

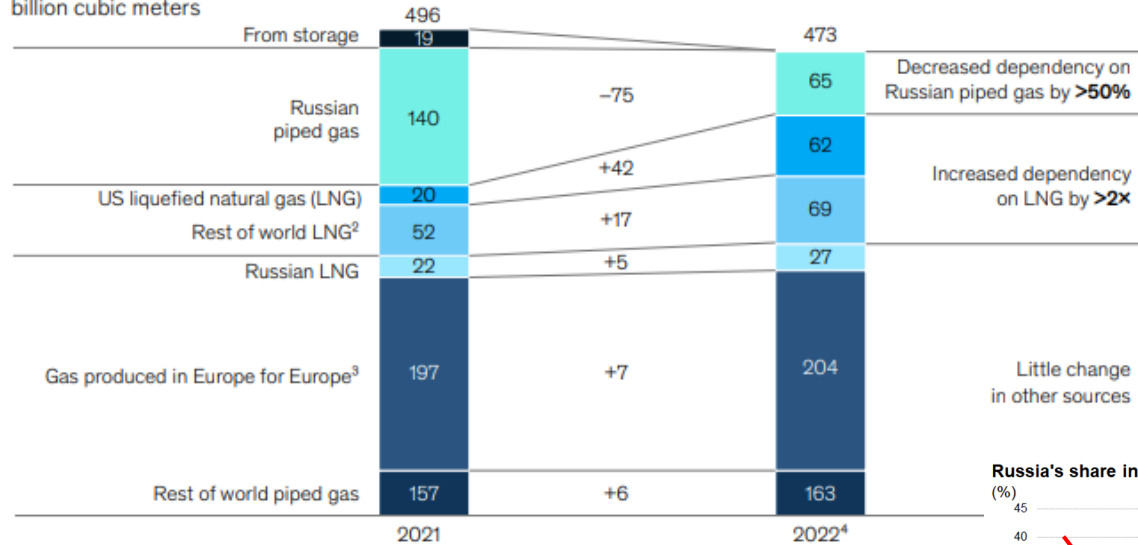
**The war has displaced the  
most refugees in Europe since  
World War II.**

**6,287,500 (The UN Refugee Agency)**

# Led to energy source diversification

## Natural gas supply in Europe,<sup>1</sup>

billion cubic meters



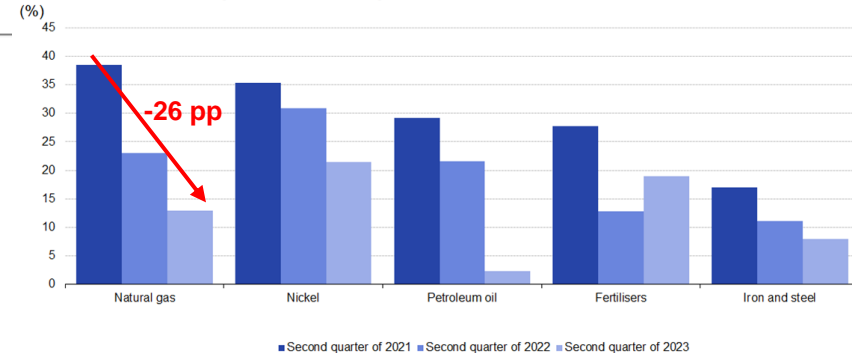
Decreased dependency on Russian piped gas by >50%

Increased dependency on LNG by >2x

Little change in other sources

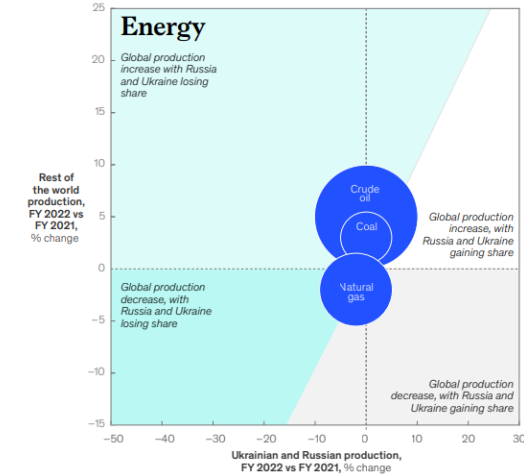
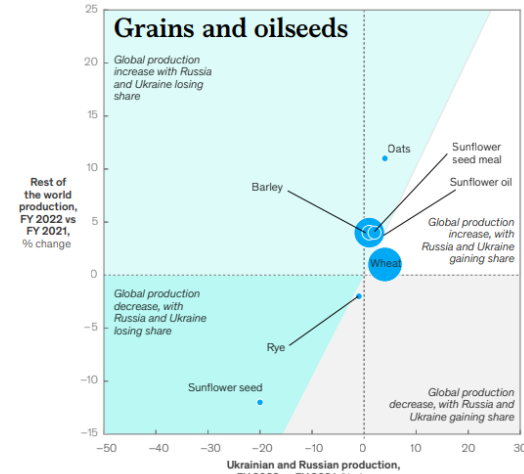
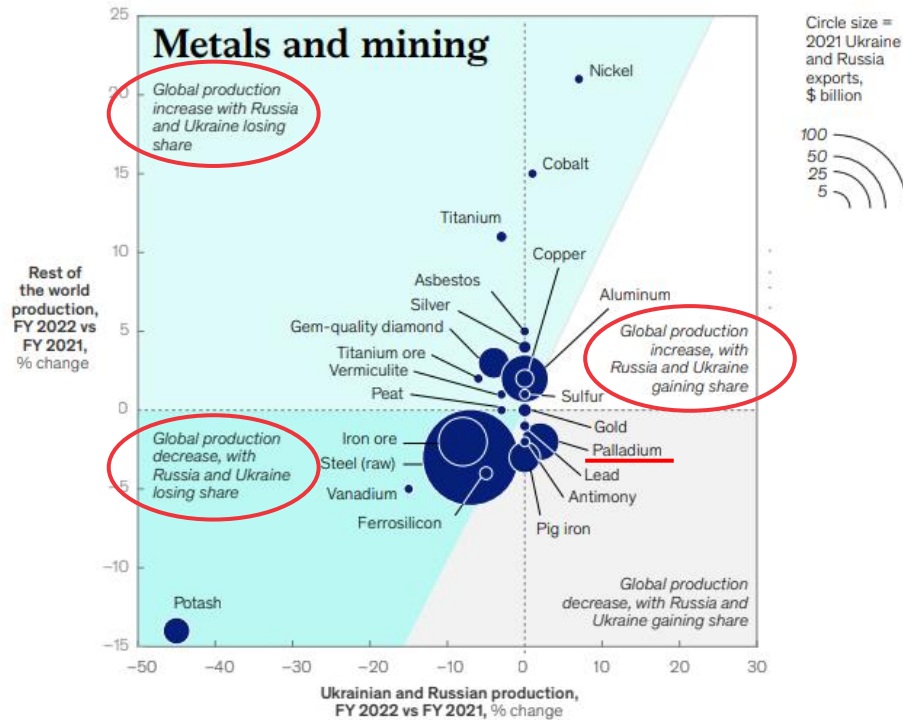
Source: McKinsey, 2023

## Russia's share in EU imports for selected products

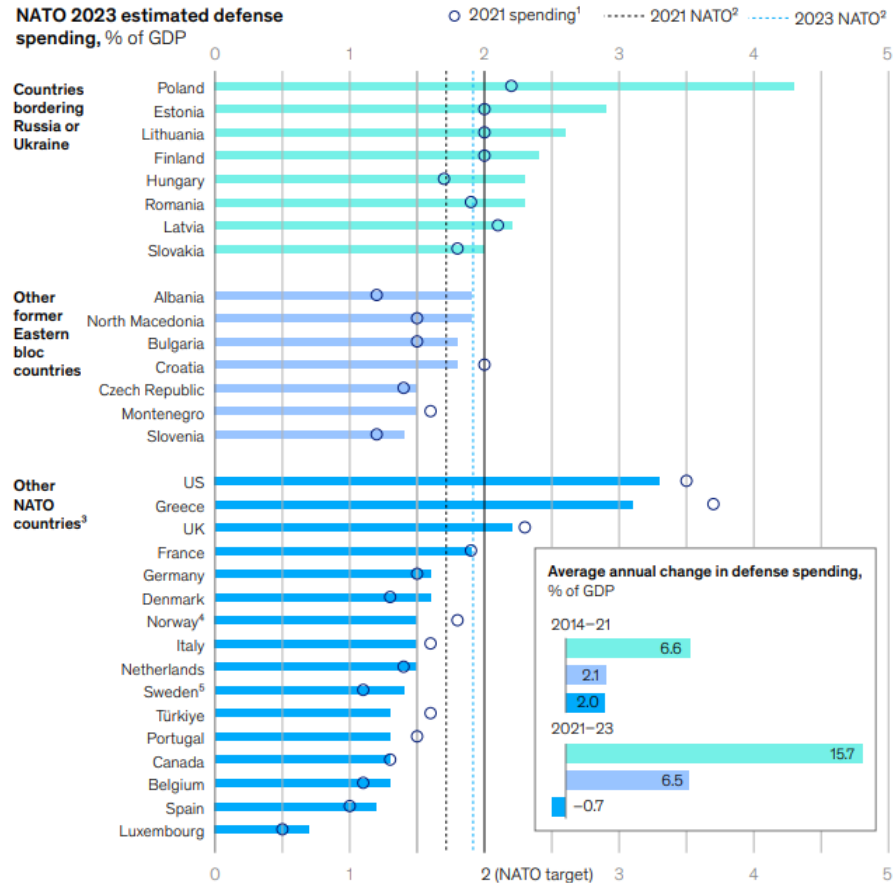


# Pushed global value chains to fill in production gaps

Selected commodities of which Russia or Ukraine is a major producer,<sup>1</sup>%



# Accelerated defense spending



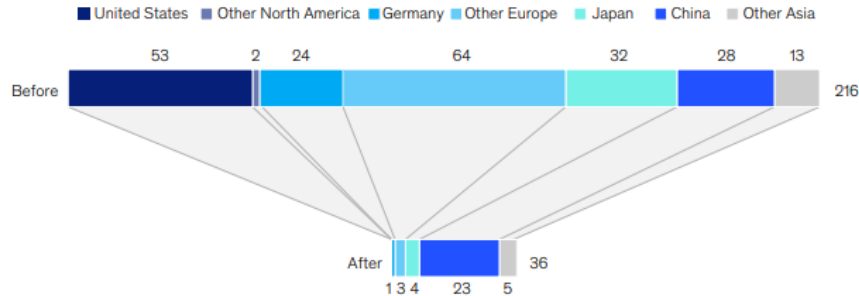


# Triggered corporate exodus from Russia

Fortune 500 company action, by country,<sup>1</sup> % of companies as of June 2023 (n = 137)



Fortune 500 companies fully active in Russia before and after the invasion, companies by country,<sup>2</sup> number (n = 216)



# Today's program

- 9:00 – 09:50**    Opening words  
Presentations by the panelists
- 09:50 – 10:10**    Coffee break
- 10:10 – 11:30**    Current situation in Russia, Q&As  
Prospects for future development, Q&As
- 11:30 – 11:45**    Concluding remarks

# **Presentations by the panelists**

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**Laura Solanko**

**Senior Advisor, The Bank of Finland Institute for Emerging Economies  
(BOFIT)**



**Aalto University  
School of Business**



# Russian economy, political risk and the effects of the war

Aalto School of Business

Laura Solanko

Bank of Finland Institute for Emerging Economies (BOFIT), Bank of Finland

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2 Oct 2023

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### EVENTS

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### BOFIT WEEKLY REVIEW

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17 Nov 2023

**Hundreds of foreign firms continue to do business in Russia despite huge risks**

10 Nov 2023

**BOFIT expects Chinese economic growth to slow in coming years**

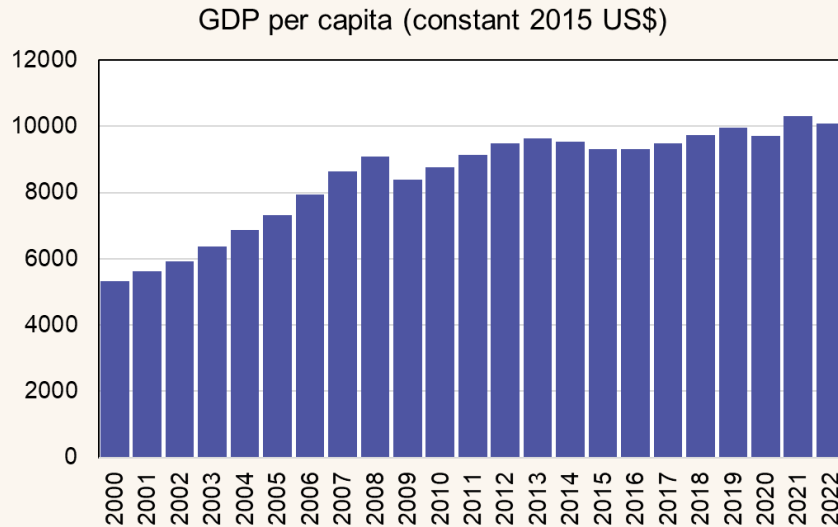
3 Nov 2023

**China's imports from Finland down sharply from highs two years ago; Chinese tourism in Finland has yet to revive**

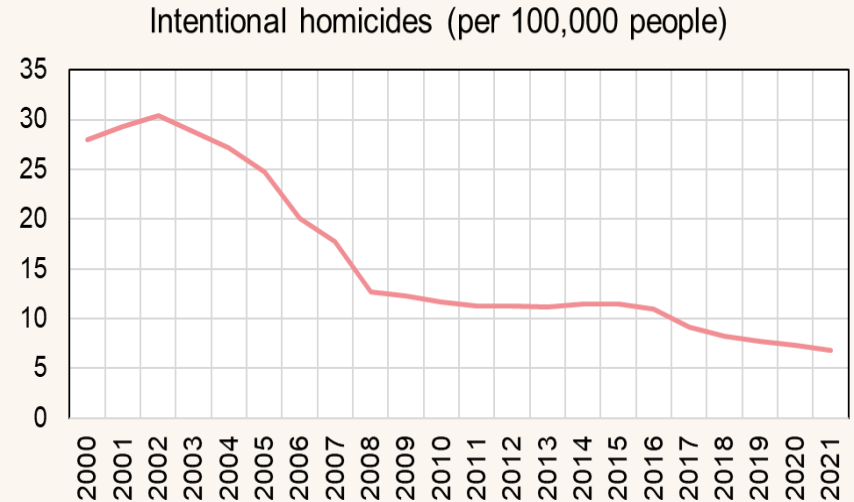
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# What has been happening with Russian economy since 2000?

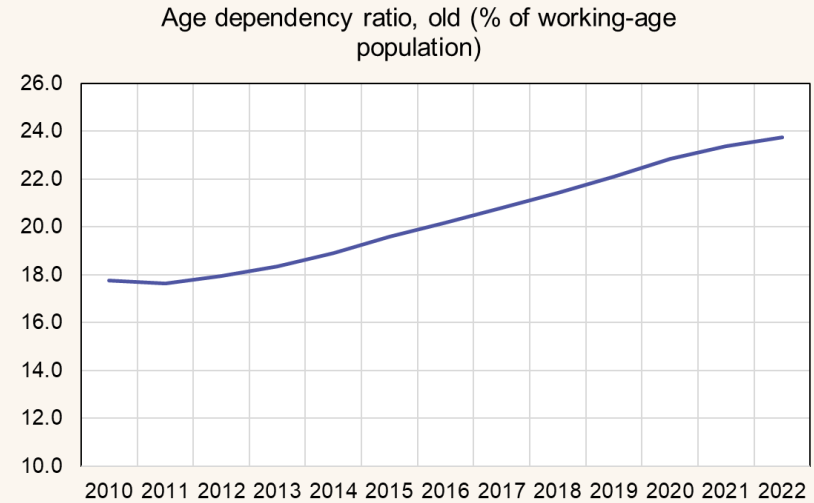
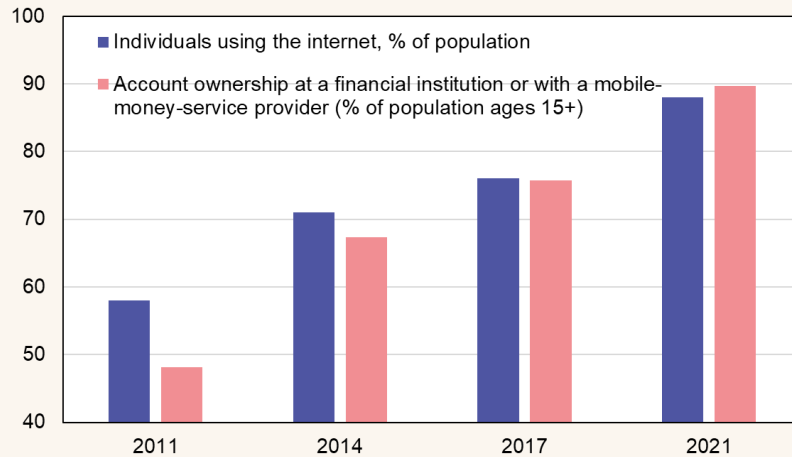
## A) Reforms and rapid growth in 2000-2010



World Bank WDI database, November 2023

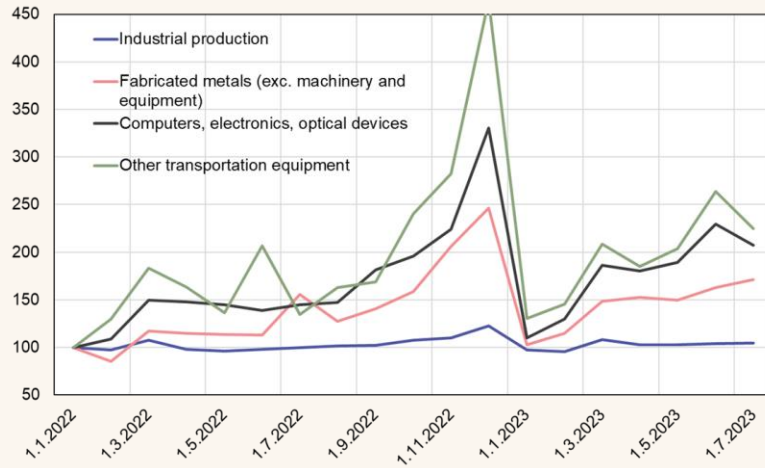


# B) Maturing of the market structures and growing isolationism 2010-2020

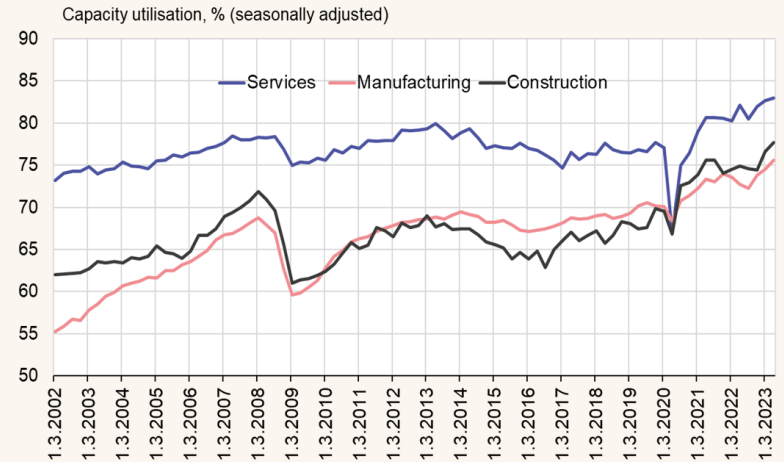


World Bank WDI database, November 2023

# C) Towards an authoritarian war economy 2020- 2030



Source: Vesala (2023): Reorientation and rocket launchers? Regional insights on Russia's wartime economy. BOFIT Policy Brief 13/2023.



Source: Central bank of Russia.



# Key economic consequences of Russia's invasion

## Short term:

- Capital controls, unequal treatment of foreign investors, nationalizations are perfect examples of political risk materializing
- War is the primary goal of current economic policies, applies to all economic actors irrespective of ownership or sector

## Long term:

- severing ties to Western financial markets, Western investors and Western academic communities
  - Smaller pool of knowledge, talent and financial resources available
- Increasingly dependent on one country – China
  - Potential source of vulnerability

# **Presentations by the panelists**

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## **Esko Aho**

**Chairman of the Board of China Office of Finnish Industries,  
Former Prime Minister**



**Aalto University  
School of Business**

# Presentations by the panelists

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**Kirill Tervo**

Attorney-at-law, Ad Astra Attorneys



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# Presentations by the panelists

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**Elina Björklund**

CEO, Reima Group



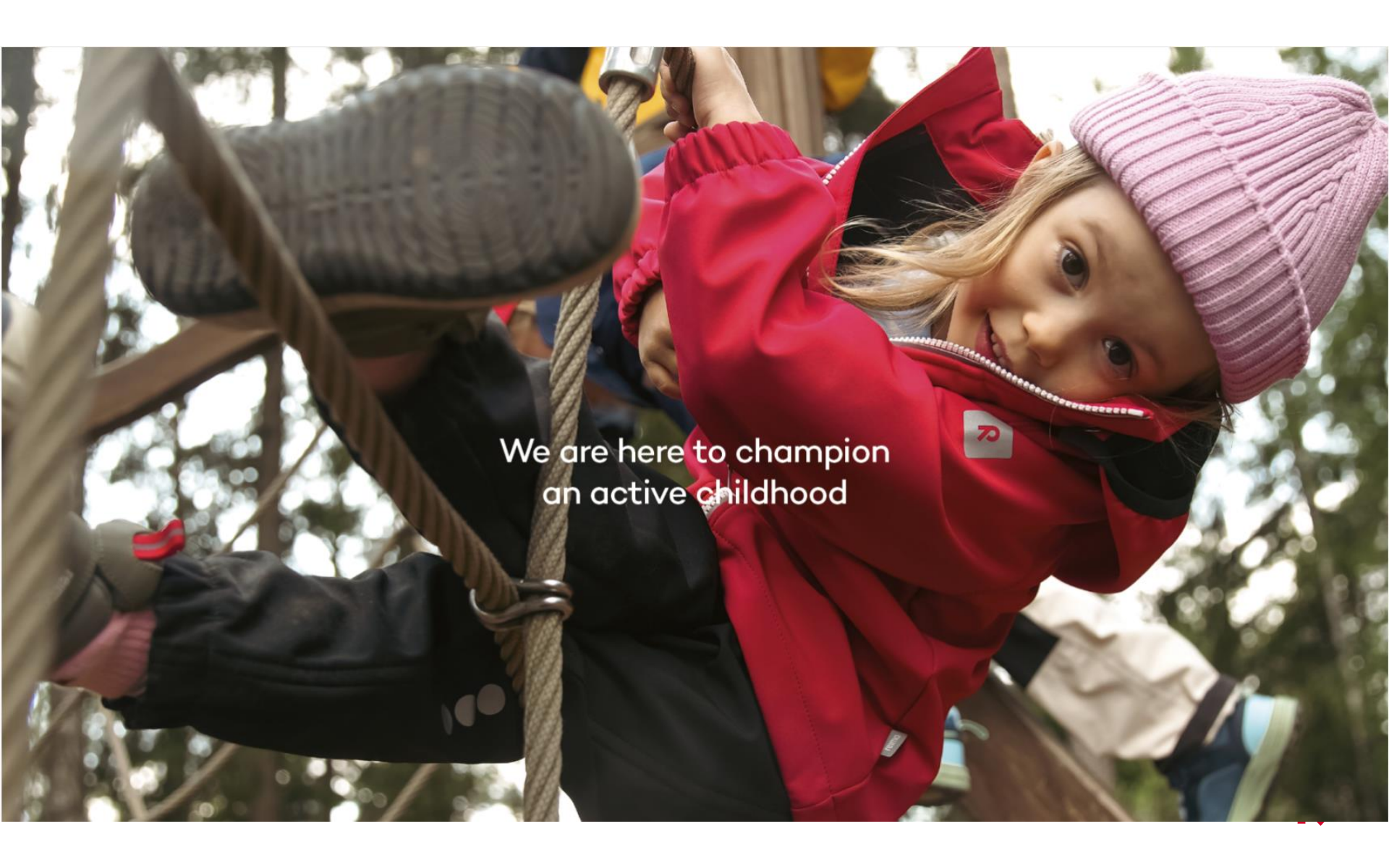
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## Reima's Exit from Russia

Elina Björklund  
November 2023

**reima**



We are here to champion  
an active childhood



We believe active kids  
are happy kids

A close-up photograph of a child wearing a bright pink raincoat and a yellow hat. The child is wearing yellow rubber gloves and is pouring water from a light blue bucket. The raincoat and gloves are wet with water droplets. The background is blurred, showing an outdoor setting.

In our clothes, kids can enjoy  
the outdoors in any weather





We know that being  
active outdoors is the key  
to happiness and health



Now more than ever,  
kids' well-being is our  
number one priority

# Year-round sustainable wardrobe

Serving everyday needs, both indoor and outdoor

## Tip-toe year-round product offering



## For all ages from 0 to 12



## Award-winning quality & safety



# Unique position globally

Reima is the only brand with global scale focusing purely on active kidswear



# Focus on millennial customers

We want to solve two universal global problems

“  
1. How do I get my kids to be more active?

2. How do I buy the right clothes when I don't have the time?

**Our products are functional, comfortable, safe and sustainable**



# Not only clothes but entire solutions

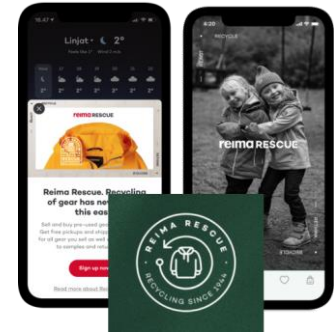
“How could I ever survive without Reima?”



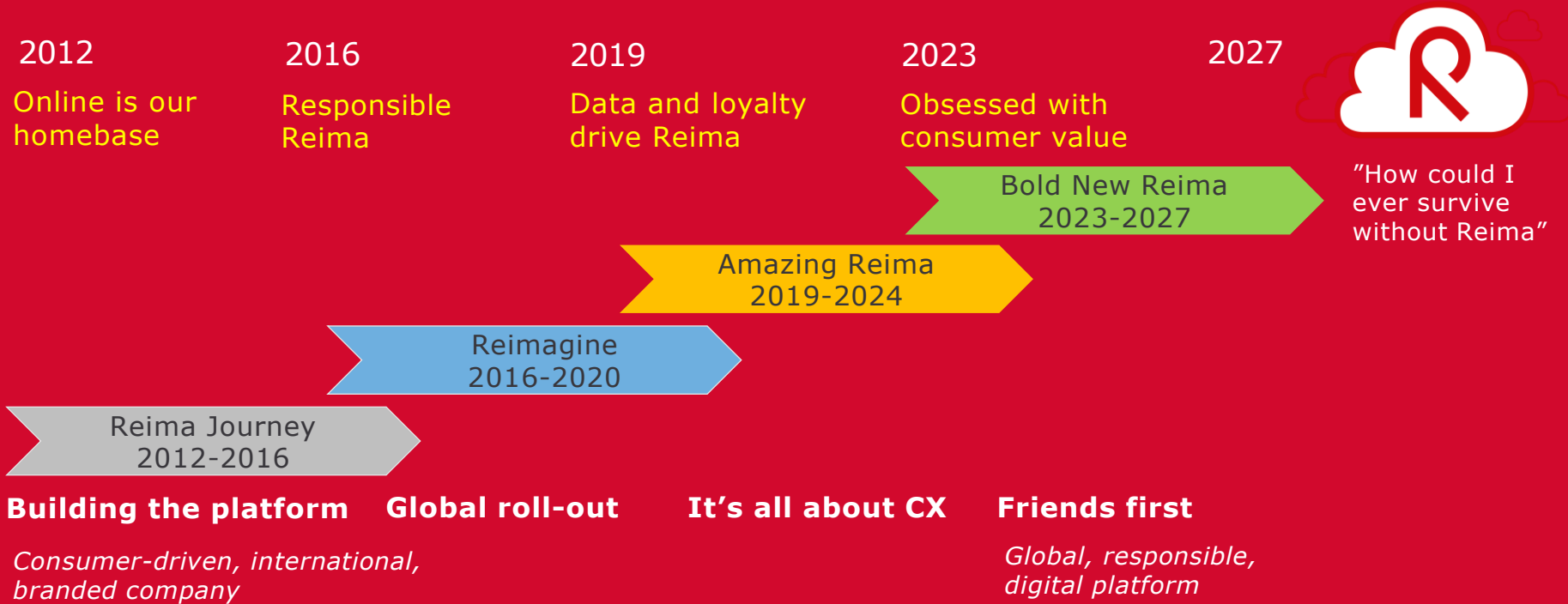
**Reima  
Baby Box:  
Newborn  
outfits**



**Reima  
Rescue:  
Preused  
outfits**



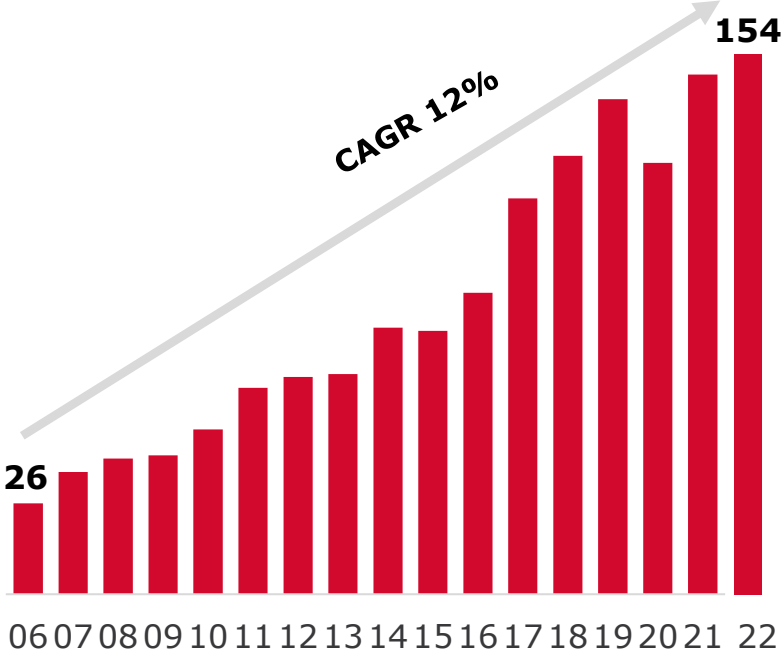
# Reima's strategic path



# Reima's strategy is paying off

60% of net sales from digital channels

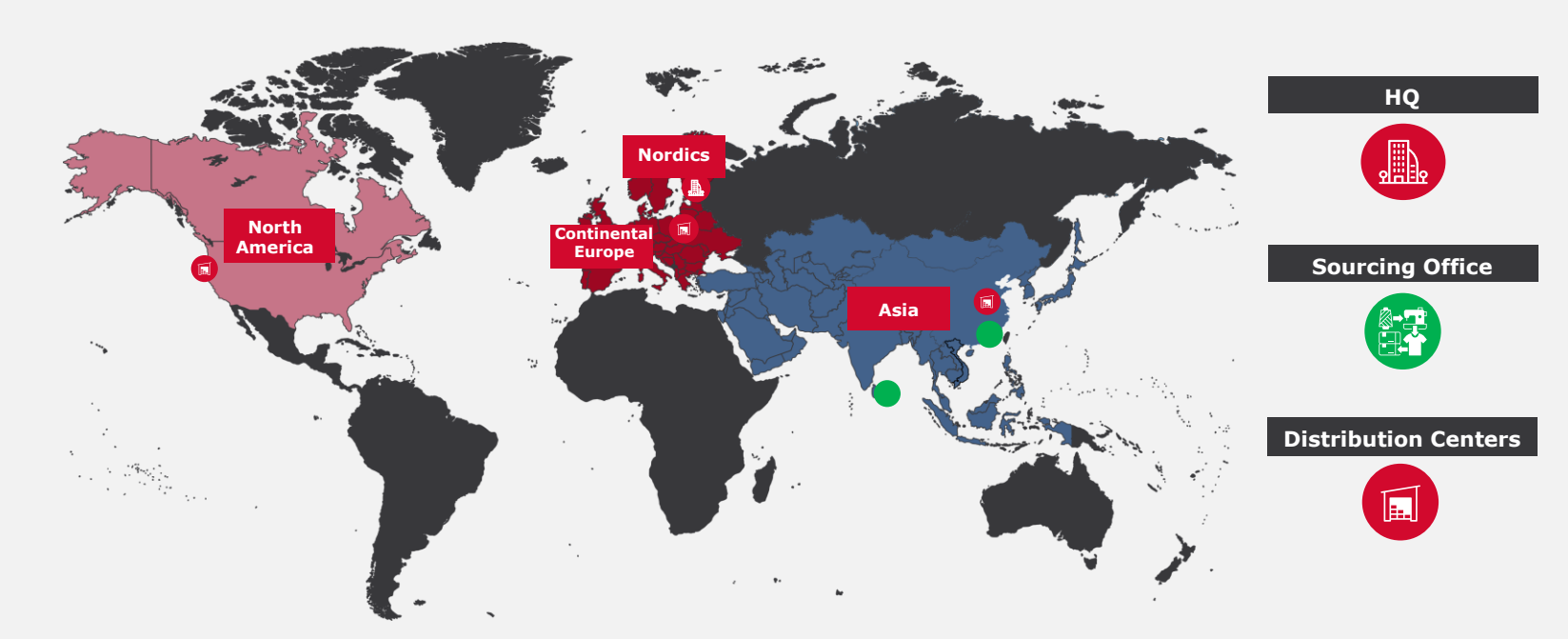
Revenue (EURm)





# A truly global brand

Over 80% of revenue from outside Finland - 400 employees globally



# Reima in Russia

- 1960s Soviet era
- 1990s Distributors
- 2010s Own direct operation
  - 80 employees
  - 10 stores + 25 franchise stores
  - Own Ecomm + strong wholesale
  - Two brands Reima and Lassie
- 24.2.2022
- 2022 Exit process starts in March  
Signing of the deal in October
- 2023 Commission approval in February





**Small changes everything**

[reima.com](https://reima.com)

# Doing Business in Emerging Markets

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## Geopolitical Risk in Russia



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School of Business

*Daria Kautto*

*Alexei Koveshnikov*

23.11.2023

# Decisions to stay or leave are complex

- **Strategic considerations**
  - The strategic importance and complexity of local operations
- **Economic considerations**
  - Incurred investments and potential financial losses
- **Legal considerations**
  - Procedures and processes lengthy & complex and contracts can be binding
- **Political considerations**
  - The presence of international sanctions, nationalization threat
- **Social considerations**
  - Local employees' wellbeing and financial security

# How does it look today?

## Stop Doing Business with Russia

Russia initiated aggression against Ukraine in 2014. On February 24, 2022, it started a full-scale military invasion to the Ukrainian territory. This brutal war and military crimes of Russian troops caused a humanitarian crisis in Ukraine with thousands civilians killed and millions becoming refugees. As a reaction to this act of aggression, many international companies decided to leave the Russian market, while some others continue doing business there as usual. We track such decisions of companies and urge them to stop funding the war.

[Why companies should leave Russia?](#)

November 20, 2023

1582+

Continue Operations

155+

Pausing Investments

392+

Scaling Back

709+

Suspension

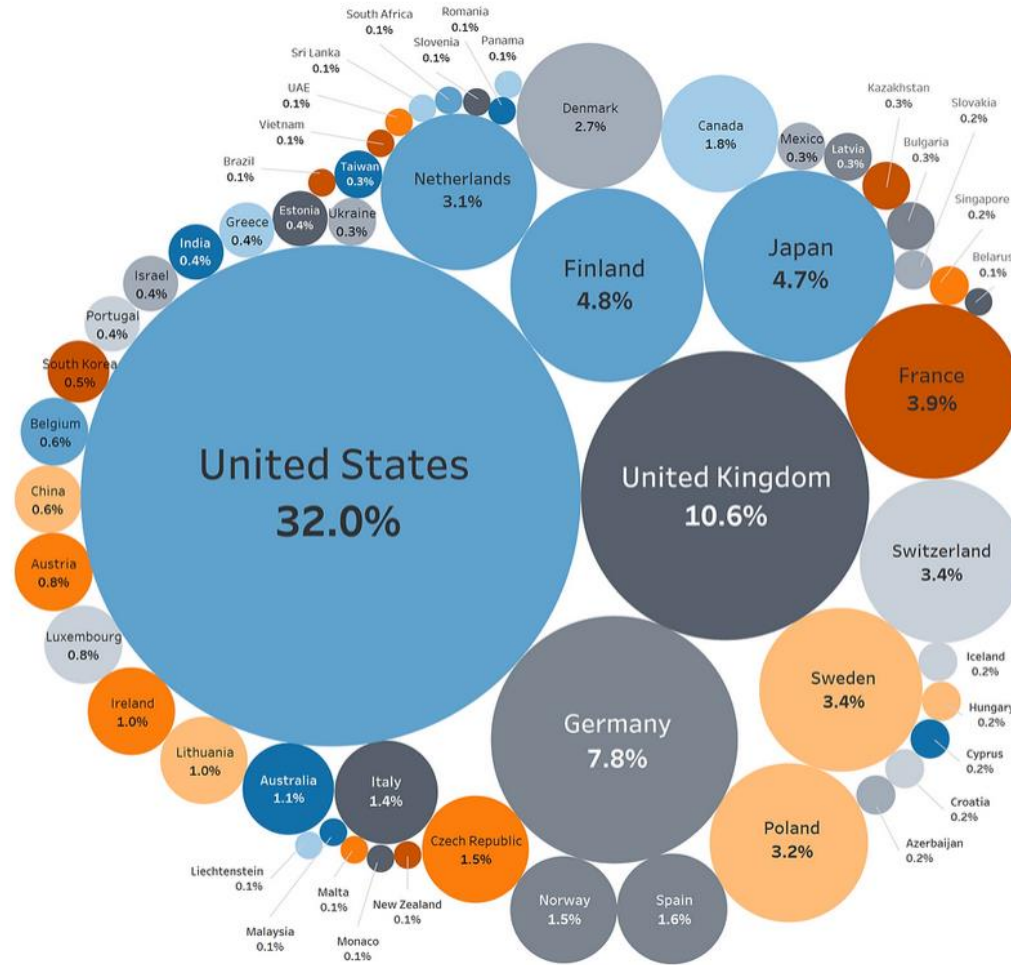
502+

Withdrawal

297+

Exit Completed

# 1,028 Companies Fully Leaving Russia By Country Breakdown



# Responses of Finnish companies

https://dontfundwar.com/directory/

Don't Fund War Directory

EN

## Full list of companies

Our database is regularly automatically synchronized with [the list](#) provided by Yale Chief Executive Leadership Institute. Therefore, we use their rubric to separate companies based on their business involvement in Russia into the following categories:

**Digging In** - companies defying demands for exit/reduction of activities.

**Buying Time** - companies postponing future planned investment, development, marketing while continuing substantive business.

**Scaling Back** - companies scaling back some business operations while continuing others.

**Suspension** - companies temporarily curtailing operations while keeping return options open.

**Withdrawal** - companies completely halting Russian engagements/exiting Russia.

Disclaimer: the list below is for informational purposes only. It is regularly compiled from multiple sources to the best of our ability and may or may not contain errors.

https://dontfundwar.com/directory/

finland

● - Operating (3) ^ (click to collapse)



Finland  
**Bang & Bonsomer**

Source

Suspend new investments but still operating in Russia

Buying Time



Finland  
**Nor-Maali**

Source

Stop further investments

Buying Time

● Operating through a subsidiary Ames; plant in Pskov; offices in 4 cities throughout Russia and several other dealers



Finland  
**SRV**

Source

Outline steps to stop procurement of building materials from Russia

Buying Time

● SRV's revenue in Russia in 2021 was approximately EUR 6.8 million, consisting mainly of revenue from the operation of shopping centres and the recognition of sales revenue from one project

● - Scaling Back (6) v (click to expand)

● - Withdrawn or suspended (42) v (click to expand)



# Russia Exit Tricky for Firms One Year After Ukraine Invasion



**Clara Hudson**  
Reporter



- BP and Veon among companies delayed from exiting
- Businesses navigate legal and contractual hurdles

Companies that pledged to leave Russia almost a year ago in response to the Ukraine invasion are wading through heightened risk and complex terrain as they gradually pull the plug on their business ties.

Companies including McDonald's Corp withdrew from Russia this past summer, citing the humanitarian crisis in Ukraine as well as the impact the war is having on its fast-food franchises. But others including BP P.L.C., Dutch mobile provider Veon Ltd. and Philip Morris International Inc. have faced a much lengthier and cumbersome process exiting Russia.

"Russia is a market where it's easier said than done to practically leave," said Daniel Tannebaum, who leads the global anti-financial crime practice at consulting firm Oliver Wyman.

EUROPE POLITICS

## For Western firms, the risk of leaving Russia could be higher than staying

PUBLISHED MON, SEP 11 2023-1:22 AM EDT

Greg Kennedy

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### KEY POINTS

- Despite heavy reputational and financial damage, the prospect of some Western companies leaving Russia is becoming harder with time.
- Among the firms still operating in Russia are Unilever, Nestle, Philip Morris, UniCredit, Raiffeisen and PepsiCo.
- Research suggests that some 500 Western firms remain in the country.



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### TRENDING NOW

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1 Open Altma than fired I



2 Biden cable



3 I've in 30,00 are th emplc across

# What are the latest developments?

Energy crisis

## Fortum wants to take action against nationalisation in Russia

COMPANIES

🕒 2023-05-05 16:52

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The Russian division's fossil power plant park totals 4,700 MW. (Image: Fortum)

ARTICLES

## Four months after nationalization: two Carlsberg managers arrested in Russia

👤 Oliver Adey 🕒 7 Days Ago 💬 0 📅 3 Mins



### Four months after nationalization Two Carlsberg managers arrested in Russia

November 16, 2023, 4:23 p.m

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In the summer, Russian President Putin signed a decree that nationalized the Baltika breweries, which belonged to the Carlsberg Group. Without the knowledge of the Danes. Now two top managers are arrested. They are said to have illegally acquired rights to the detriment of the Russian state.

# Political Risk in Russia

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## Panel discussion



Aalto University  
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# Expert panel today

- **Laura Solanko**, Senior Advisor, The Bank of Finland Institute for Emerging Economies (BOFIT)
- **Esko Aho**, Chairman of the Board of China Office of Finnish Industries, Former Prime Minister
- **Kirill Tervo**, Attorney-at-law, Ad Astra Attorneys
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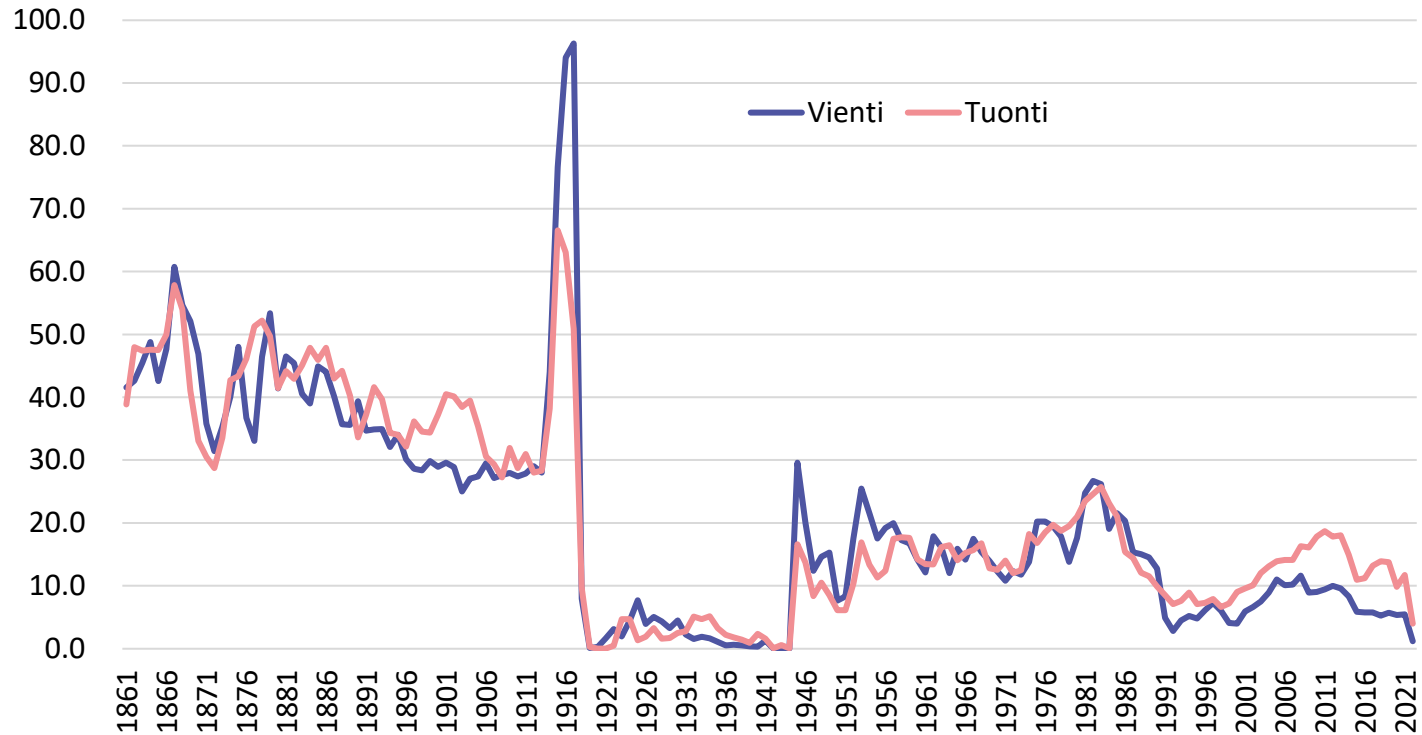
# Key take aways

- Political risk changes its meaning: from “low frequency, high severity” towards “everyone’s risk”;
- Fragmentation of global economy is to put more pressure on businesses forcing starker choices, increased jockeying over global norms, rules, and institutions, as well as picking sides with capital investments (“friend-shoring”);
- Geopolitical divides are mirrored in internal operations (HR systems, production systems, etc.);
- Political risk management is a dynamic capability.



# History of Finnish-Russian international trade

The share of Russia/USSR in Finland's foreign trade, %



# Scenarios for a postwar Russia

1. Scenario #1: Regime survival – The end of the Korean War scenario
2. Scenario #2: State collapse – Russia becoming a Potemkin state
3. Scenario #3: Civil war – Back to 1917
4. A wishful thinking scenario: “Russia’s most optimistic course imaginable would bring a postwar regime under a new leader, a peaceful and constructive approach to the [country’s] problems, easing sanctions and a market-based reentry into the global economy.”

# Closure

Kornei Chukovsky: “In Russia, one should live a long life” to see positive changes coming

Finland has one of the highest life expectancies in the world - 82.48 years...

**Thank you everyone for today!**

