

Russia and the UK: trading up

INTERVIEW WITH LORD GREEN OF HURSTPIERPOINT

MINISTER OF STATE FOR TRADE AND INVESTMENT



STEPHEN GREEN began his career with the British Government's Ministry of Overseas Development before joining management consulting firm McKinsey & Co in 1977. He joined The Hongkong and Shanghai Banking Corporation Ltd in 1982 with responsibility for corporate planning activities and in 1985 was put in charge of the bank's global treasury operations. He went on to hold a number of senior posts within the HSBC Group, including Group Chief Executive and Group Chairman, and was appointed Minister of State for Trade and Investment on 11 January 2011.

You represented Her Majesty's Government at the St Petersburg International Economic Forum (SPIEF) in June of this year, your first trip to Russia since becoming Trade Minister. How successful was the trip from your point of view?

It was an excellent first trip to Russia. Both in terms of an opportunity to support British businesses exporting to, and manufacturing in, the St Petersburg area, and also to participate in an international conference of growing importance. I was pleased to see UK business well represented, with blue chips like AstraZeneca in attendance.

Diplomatic relations between the UK and Russia have been somewhat strained in recent years. How has this affected the commercial relationship between the two countries?

I think the overall trade relationship at the Government to Government level has not been particularly affected but yes, of course we have our differences of opinion on various matters and we will fight our corner robustly but there are plenty of areas where the two countries have a shared interest in working together, and one of them is obviously trade and investment. Around a

quarter of the listings on the London Stock Exchange are Russian companies, which shows the importance of the Russian relationship in the UK capital markets.

As I mentioned, we are the largest foreign direct investor in Russia, not least because of the energy investments that Shell and BP have made, and of course the BP investment has had some difficult times, but that's a commercial matter between BP and its Russian counterparts. But it would be wrong to think of the relationship as only about energy. Indeed, what's interesting to me is that the main British law firms have major businesses in Russia and for a number of them Russia is their biggest foreign business. I think that's a good example of the breadth of what Britain can offer in terms of the trade and investment relationship between our two countries.

To what extent do you think the relationship is living up to its potential, and where do you see areas for improvement?

Well, obviously improvements could be made on both sides and we could trade more together. As I mentioned, both imports and exports fell off quite sharply in the wake of the crisis, but there's been a rebound in British exports



UK Foreign Secretary William Hague shares a podium with Russia's Minister of Foreign Affairs Sergey Lavrov

to Russia in 2010 and as far as I'm concerned there's a lot more we can do as Russia modernises its economy.

All the signs are that the Russian economy is a very open one in terms of consumer appetite – the appetite for imports of various kinds. This is not an economy, unlike some, where imports are predominantly either resources or capital goods; on the contrary, this is a country where for obvious reasons it doesn't need resource imports, since it's the best-endowed country in the world in terms of resources, but it does need capital goods imports. There is also a very robust appetite for consumer goods and again, it's not at all surprising to see companies like Marks & Spencer, Kingfisher and Monsoon all investing in Russia.

Where do you see the next wave of opportunities for UK plc in Russia?

I would like to see more engagement by British SMEs in Russia; I think that that's an important challenge for Britain, to get more SMEs engaged in international trade and to get those that are already engaged to spread their wings to more countries.

We have world-class SMEs from all parts of the country across a range of sectors: from technology through traditional retail and food businesses to creative industries, and of course professional services, where greater engagement with Russia offers them some very promising opportunities.

I think all of Russia's friends would acknowledge that there's a challenge in enhancing governance and transparency towards greater openness in the way business is done in Russia. But at the same time, I think that President Medvedev's aspiration to create an international financial services centre in Moscow is an entirely realistic ambition. That's not to say there isn't work to be done to realise it but it's an entirely realistic notion for a large economy like Russia, with a strong regional influence, both commercially and economically, to aspire to have in Moscow an important regional and international financial hub.

If you think about the way the world is globalising and how the centre of gravity is shifting from west to east, what that will mean in terms of the global capital markets is they will become more and more connected. And as more and more of the capital is generated in centres other than the West, it means that there will be a network of international financial

centres of which London, I believe, will be the leading one for the foreseeable future. But alongside the developments that we're seeing in the Far East – the rise of Hong Kong, Shanghai, Singapore and so on – you will also see in the 'middle' time zones the rise of financial centres in places like Istanbul, Moscow and Dubai, which of course is already an established financial centre. Obviously, there are lots of things that need to be done in order for them to become successful: putting in place high quality regulation is critical; transparency and liquidity in the markets is also key, as is investment in physical infrastructure, so I think there's a lot of experience that London can share with Moscow in that regard.

You participated in the SPIEF panel session on the new Russian Direct Investment Fund. What were the main outcomes of the session and what can you tell us about the fund and the potential opportunities it might offer for UK and other international investors?

We had a very productive session on how the fund will support inward investors. However, it was also a broader discussion on how the fund is just one element that creates the right climate for inward investors – addressing the business environment and rule of law are other elements where Russia needs to improve, and at the moment is improving. I welcome the Russian Government's recent actions in these areas.

The fund will be important in attracting the right kind of investment: Russia does not need any more fickle flows of short-term investment. The governance

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Prime Minister David Cameron in discussion with President Dmitry Medvedev



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Russian companies account of nearly a quarter of all foreign IPOs on the London Stock Exchange

of the fund looks strong, which will be important to credible international investors.

The other interesting project that has come up the last couple of years is the 'Innograd' being developed at Skolkovo, outside Moscow. What is your impression of its progress to date, and what does it tell us about the business environment in the rest of the country?

Well, there are plenty of countries in the world that have in effect set up special economic zones of one sort or another so I don't think it says anything in particular about Russia. In the early stages of China's development it set up special economic zones and they were the pathfinders for the development of China. The Koreans have also been building what they call 'eco cities', and even the UK is talking about developing new centres of economic activity in the Atlantic Gateway, for instance, so I don't regard it as unique at all. Indeed, I think it makes a great deal of sense to have special hubs where you create the conditions for successful investment and a momentum of creativity because practically every country in the world is looking at the 21st century and reaching the same conclusions.

Part and parcel of the concept as I understand it is to have a university and other academic institutions that will specialise in fostering innovation and entrepreneurship. Do you see a role for UK academic institutions in that regard?

It is clear that British universities are one of the strong points of what Britain has to offer on the world stage, and it's important to make sure that they look at the

opportunities for engagement in Russia.

We have a tendency to look at the world and say the British glass is half empty when in reality it's at least half full, and one of the evidences of that is the fact that four of the world's top ten universities are in our country. And yes, we need to make sure that they are looking at the opportunities in the international front like any other business. After all, they've got turnover, they've got costs, they've got employees, and they've got a business model which they need to ensure is successful. So, just as businesses need to look at the international domain in the 21st century so do the universities.

And the real value of education, like sports, is not even primarily in the foreign exchange earnings – it is in the development of long-term relationships which can literally last a lifetime.

So, I think as part of their international strategy UK academic institutions need to be looking at Russia for the same sorts of reasons that businesses need to be looking at Russia: it's a big country, it's resource rich, it's going to have a relatively strong growth performance and there are a lot of large Russian businesses that have an international outlook.

The Foreign & Commonwealth Office recently drew up a Charter for Business. What are the main tenets of this, and how has it shaped your approach to your new role?

I think the simplest way of putting it is that the diplomatic forces of the Foreign Office have a very important role to play in showcasing Britain's trade and inward investment opportunities, working hand-in-glove with UK Trade & Investment (UKTI) and the Export Credit Guarantee Department (ECGD), who provide financing support for companies that are engaged in export in the international domain.

The role of the Foreign Office posts around the world is to support British businesses, both large and small, with whatever contracts they are striving to win; bringing to their attention business opportunities in the shape of major projects that they might want to compete for; working on market access issues and feeding briefs, if you will, to Ministers.

One of the areas in which I think we probably have not done systematically as good a job as we could have is ensuring that when Ministers travel, whatever the primary purpose of their trip, they carry a brief for the key British trade and investment issues in respect of the particular country that they're visiting. And clearly Ambassadors, High Commissioners, and Heads of Posts around the world have an important role to play in pulling that together and crystallising it. So all the other government departments when they get engaged internationally can have an equally important role to play in promoting British trade performance. **F**

