

Arnold Schuh

Doing business in CEE in uncertain times



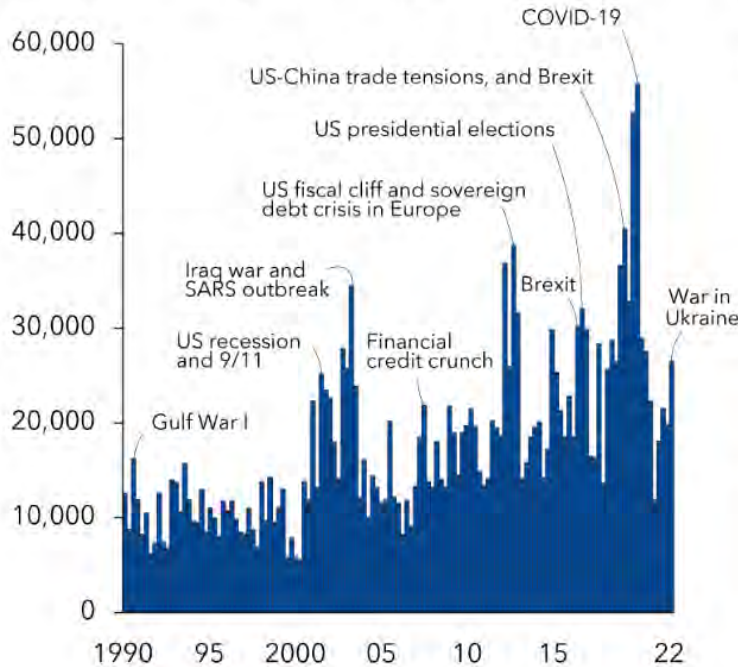
13. GROW EAST CONGRESS

21 NOVEMBER, 2022

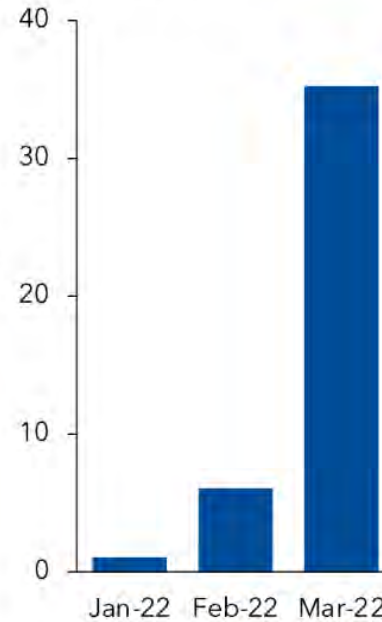


The war in Ukraine has added a new layer of uncertainty to management decisions

Overall uncertainty
 (Index, GDP weighted average)



Uncertainty related to the war in Ukraine as a share of overall uncertainty



IMF Blog,
 15.4.2022

Each crisis is different

Global financial
crisis
(2009)

Global financial
markets & banking
crisis

Covid-19
outbreak
(2020)

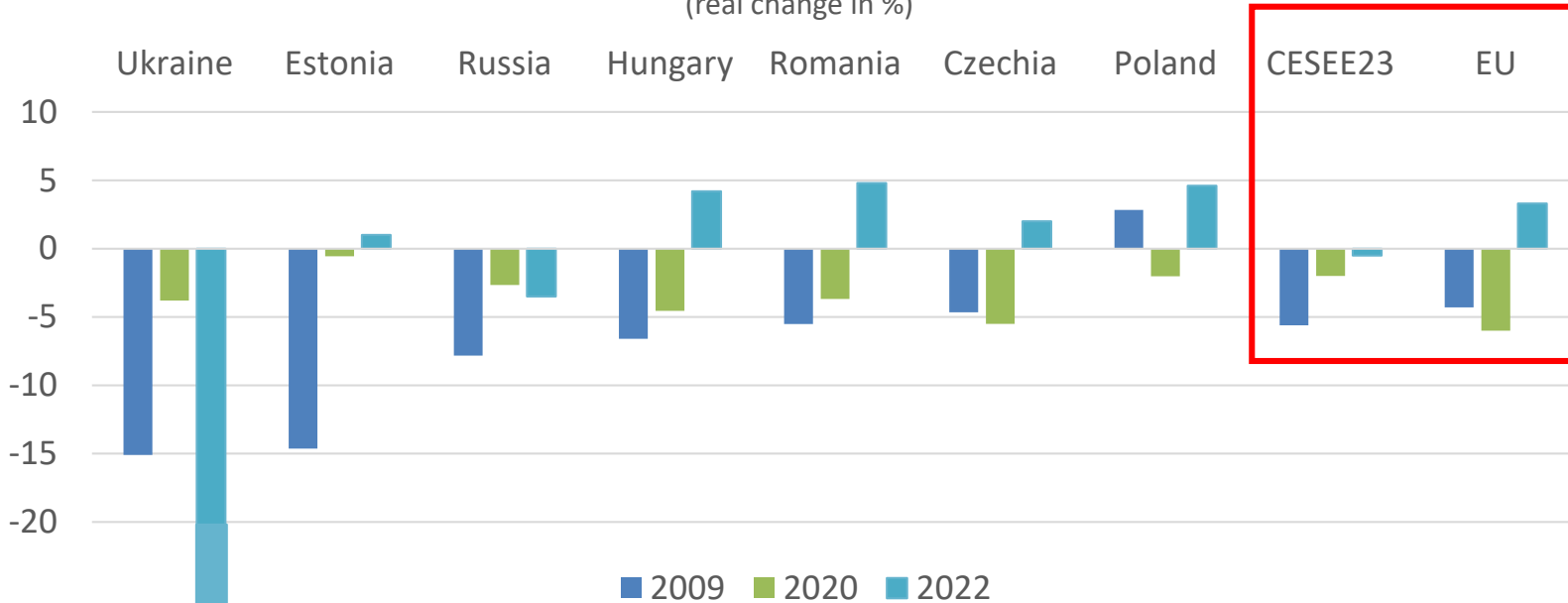
Public health,
supply chain +
economic crisis on
a global scale

Further Russian
invasion of UA
(2022)

Regional military
conflict with
repercussions on global
energy & food markets

The global financial crisis of 2009 has had the biggest impact so far

Change of GDP in three years of crisis in CEE
 (real change in %)



wiiw + World Bank, 2022

Putin's war on Ukraine brought CEE back into the focus



8 Central and Southeast European countries border Ukraine, Russia or Belarus (or more of them)

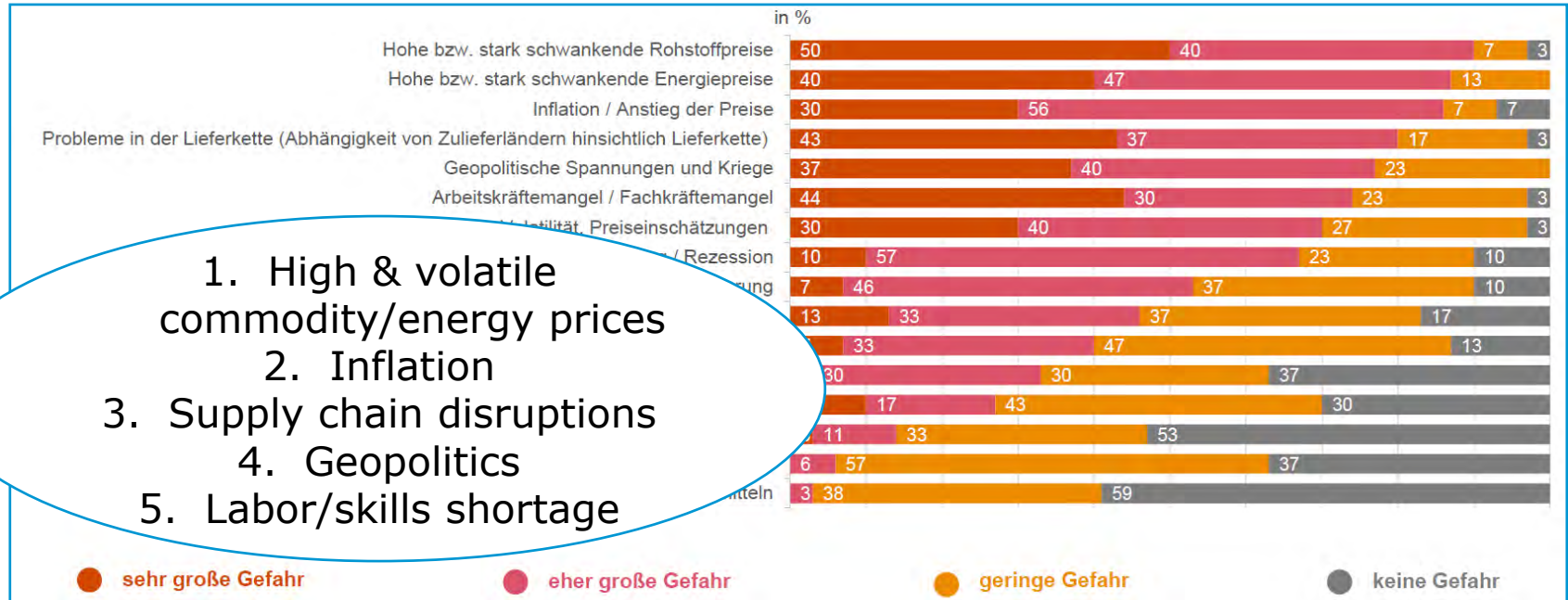
Putin's war on Ukraine triggered a multitude of effects

- **Human toll** and destruction of **infrastructure** in UA
- Loss of **markets** & **sourcing** in UA/RU due to war and Western sanctions
- Halted **Russian gas deliveries** caused turmoil in European energy markets
- Disruptions in **regional/global supply chains**
- **Higher prices** and tightening **financial conditions** put pressure on households and businesses in Europe
- **Withdrawal** of Western firms from RU
- Inflow of **refugees** from Ukraine into Europe



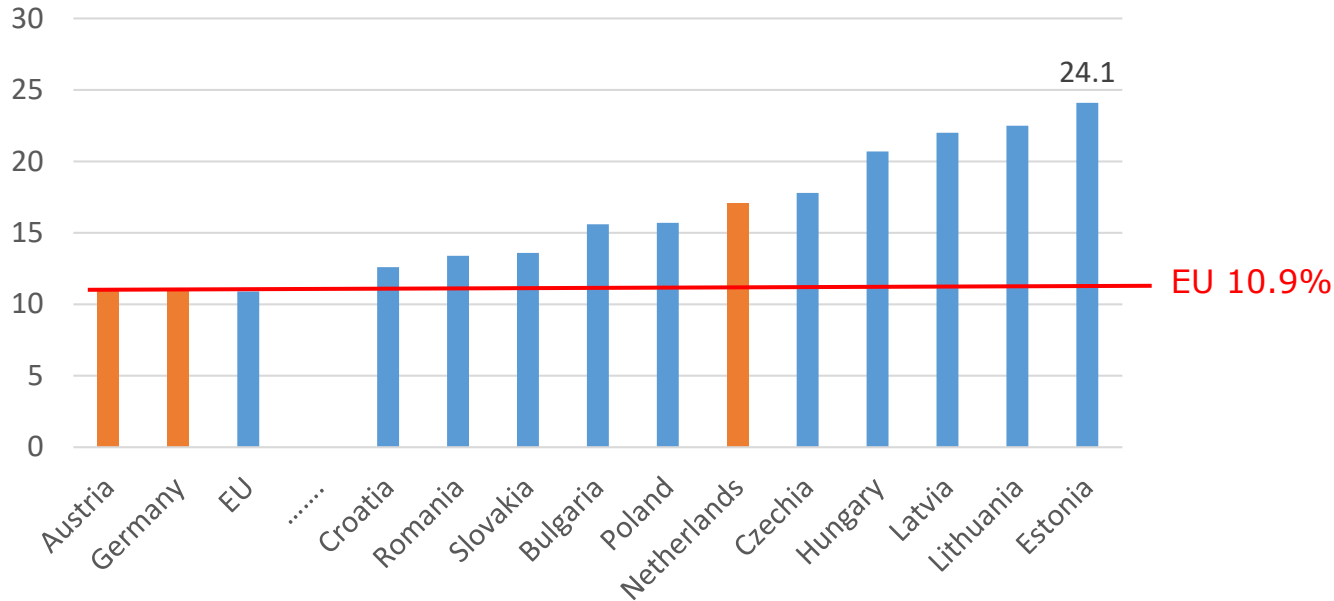
Austrian firms see the biggest threats in rising prices, supply chain disruptions & geopolitics

What are the biggest threats for the development of your firm?



Runaway inflation due to rise in food and energy prices hurts real incomes

Annual inflation rate
(in %, September 2022)



In September 10 out of the top-11 EU economies with the highest inflation rates came from CEE

Western firms active in Russia face a big dilemma: Stay or leave?

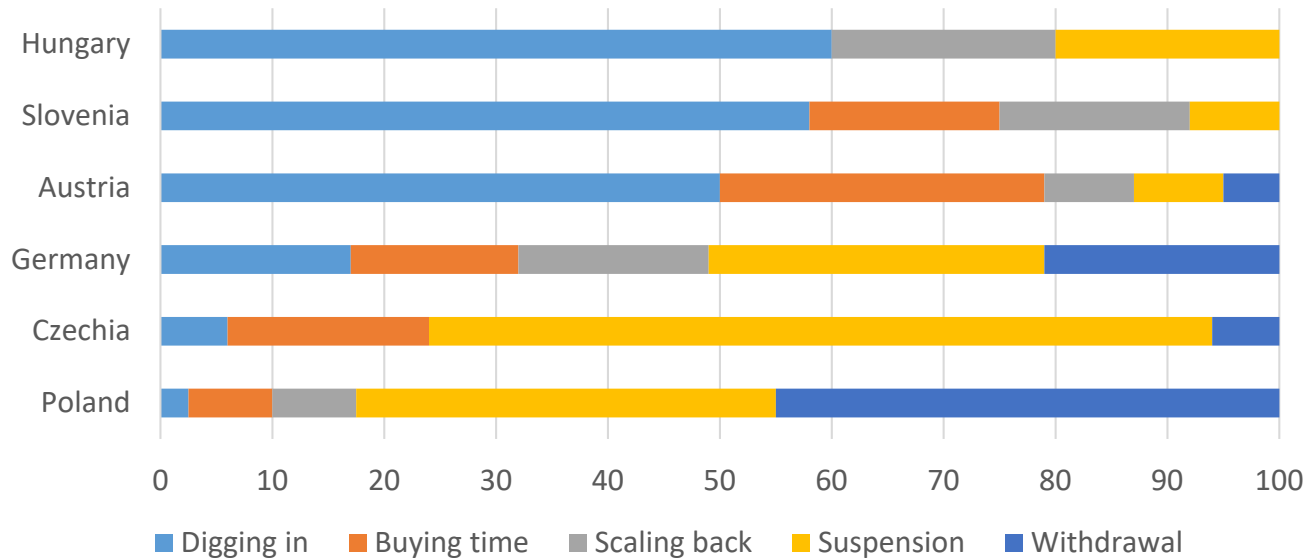
Yale School of Management tracks foreign multinationals operating in Russia and categorizes them by their **commitment to Russia**:

- **“Digging in”**: Companies that are just continuing business-as-usual in Russia (e.g., Alibaba, Benetton, Gorenje, MOL)
- **“Buying time”**: Companies postponing future planned investment/business development/marketing while continuing substantive business (e.g., AstraZeneca, Barilla, Nestle, P&G, Red Bull, Toshiba)
- **“Scaling back”**: Companies that are scaling back some significant business operations but continuing some others (e.g., ABB, Allianz, Caterpillar, Ferrero, Hilti, Microsoft)
- **“Suspension”**: Companies temporarily curtailing most or nearly all operations while keeping return options open (e.g., 3M, Adidas, Apple, BMW, L’Oreal)
- **“Withdrawal”**: Companies totally halting Russian engagements or completely exiting Russia (e.g., BASF, BP, Carlsberg, IKEA, McDonald’s, Renault, STRABAG, Wienerberger).

Yale CELI,
11.11.2022

Different stances towards commitment to Russia by country of origin

Distribution of firms from selected countries
by commitment to Russia
(Yale CELI, 11.11.2022)



Yale CELI,
11.11.2022

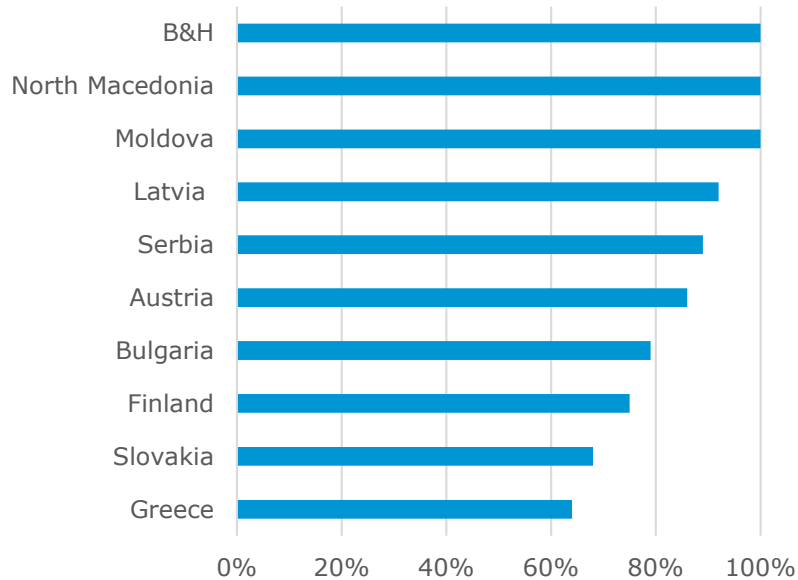
The current crisis highlights the weaknesses of European business

- **Dependence** on supplies of critical commodities from RU/UA
- **Competitiveness** of German manufacturing industry was based on „cheap energy“
- Negligence of **(geo)political risks** by multinational firms
- Missing preparation for **exiting** a large and promising foreign market

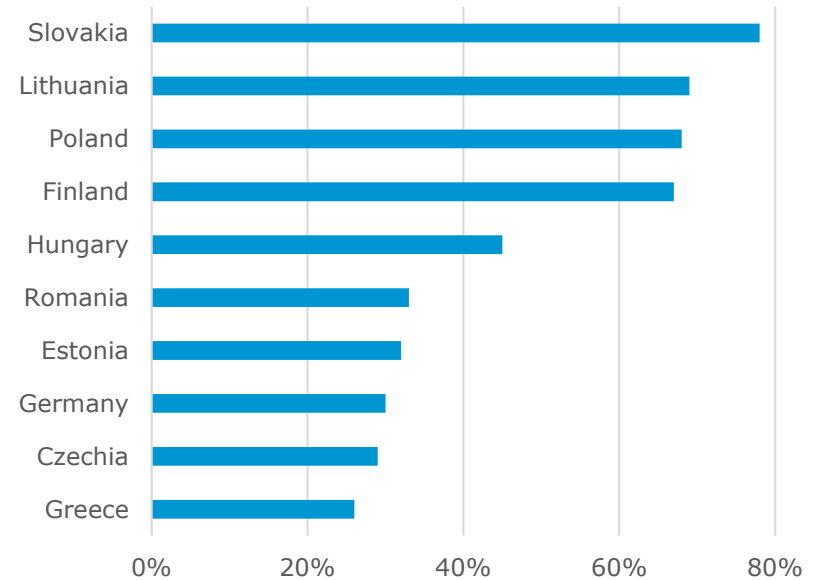


Reducing the energy dependence from Russia is costly and hits CEE most

Share of gas supply from Russia (2021)



Share of oil imports from Russia (2020)

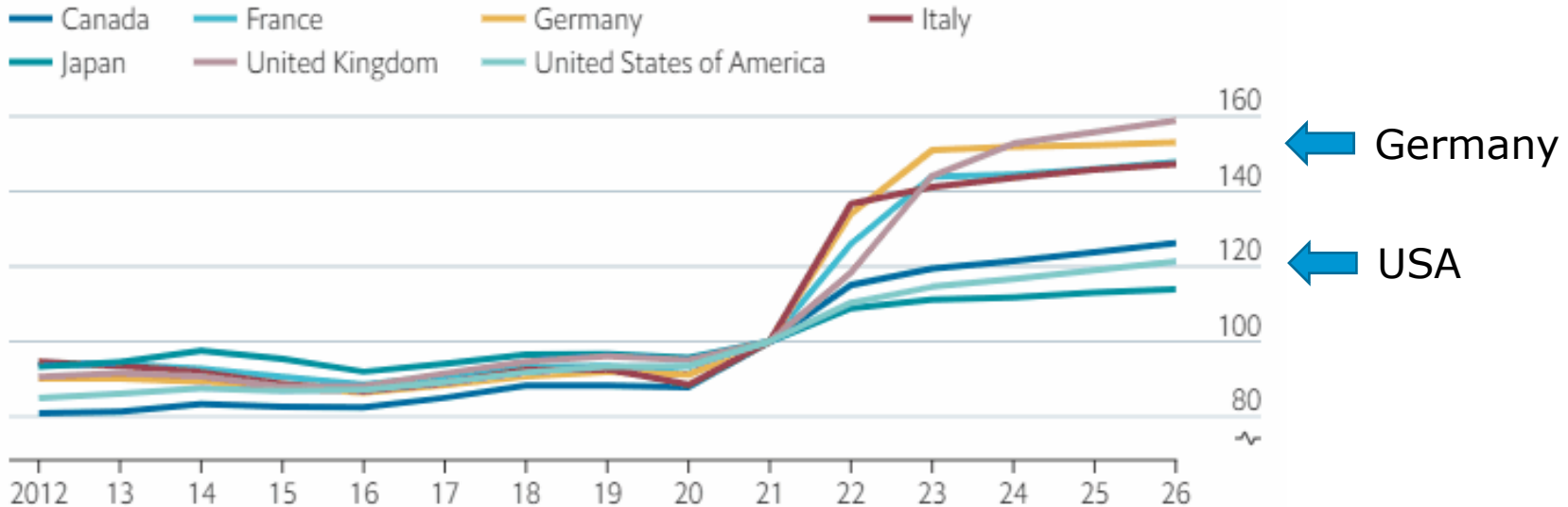


The competitiveness of the German industry is threatened – and with it CEE's industry too



Increases in European input costs outpace other advanced economies

Producer price index (2021 = 100)



Source: EIU.

From a single market-related political risk management to a geopolitical view

Animosity between govt. + multinationals in CEE

- Resistance against selling out to foreigners in 1990s' privatization
- Rise of nationalist-populist governments challenged MNCs



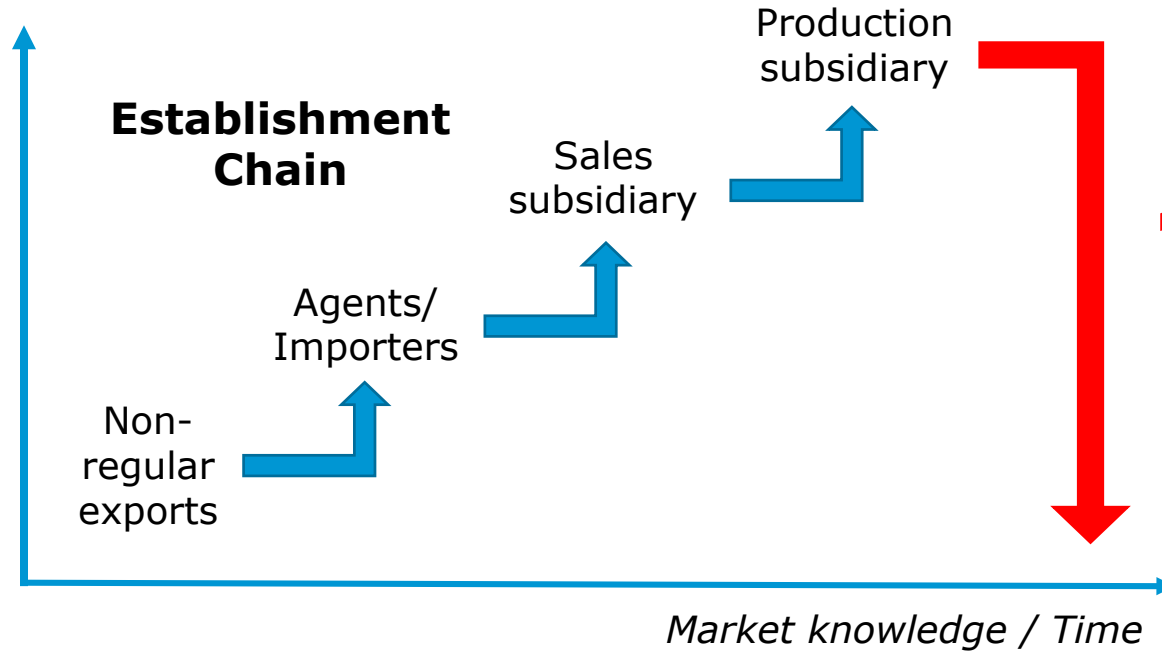
„Decoupling“ of Russia (+China)

Severing the finance, trade, investment, information and people flows and ties with „non-friendly/allied“ countries

What does such a decoupling mean for the regional **presence**, **organizational structure** and **strategy**?

De-internationalization: not really intended and not well researched

Market
commitment



?

How to
withdraw
from
Russia?

Conclusion: Multinationals have to rethink their presence and strategy for CEE

- **Strategy reviews** have to address the **vulnerabilities** of economies and businesses
- **Cheap energy** as a pillar of the competitiveness of the German and CEE manufacturing industry is gone - will this lead to closures and relocations?
- **Efficiency** as a design principle of global supply chains will be partly replaced by **robustness & resilience**
- **Big dilemma** for firms with operations in Russia: Stay or withdraw?
- **Geopolitics** will play a bigger role in internationalization decisions
- Management has to pay more attention to **country/regional specifics** and **non-market/political strategies**



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