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Russia

Post-election economic policies take shape. Vladimir Putin walked away with Sunday's (Mar. 4) presidential election, garnering 64 % of the vote. Putin officially returns to the president's job on May 7, when he will begin to assemble his new cabinet. Observers see many ministerial changes ahead. The prime minister's job is expected to go to incumbent president Dmitri Medvedev. As in his two earlier terms as president, Putin is expected to be personally engaged in economic matters.

The new government's policy has been under preparation for a while. A cornerstone is the "Strategy 2020" programme, which outlines policy choices over the coming decade. About a year ago, prime minister Putin commissioned a group of Russia's leading liberal economists to come up with a strategy for the next presidential term.

The strategy outlines preconditions for a new type of economic growth to replace Russia's resource-based economy. The proposals are quite radical, calling across-the-board liberalisation to allow markets to function normally. Another important area of emphasis is retaining and developing human capital, an area where experts say Russia significantly lags most advanced countries. For example, the healthcare system, as well as social, housing and environmental policy must be reformed to meet the needs of modern society. The emergence of an in-the-know middle class is adding to the pressure on the leadership to act.

The concrete proposals of the Strategy 2020 may not be implemented as such, but they can have an impact on policy formation.

Putin's earlier two terms were characterised by high economic growth, which is not likely to repeat. In his third term, oil production should remain almost flat and the huge increases in oil prices of the 2000s are unlikely to be repeated.

The next term will also see tighter state finances. The explosion in budget spending of recent years has driven the break-even price for crude oil up to a level of $110–115 a barrel. In other words, the soaring increased in real incomes seen during the 2000s, especially in public sector wages and through social entitlement programmes (e.g. pensions) is over, which could hurt the popularity of the president.

Rise in export prices pushed Russian foreign trade to record levels in 2011. The value of goods exports last year was $520 billion and goods imports $320 billion. Both imports and exports of goods were up 30 % y-o-y, and Russia posted a record trade surplus of $200 billion (14 % of GDP). Russia's main export markets were the Netherlands, China and Italy. The biggest suppliers of imports were China, Germany and Japan.

The growth in the value of exports was lifted by rising commodity prices; export volumes actually fell slightly. Russian exports mainly consisted of oil, gas, metals and other raw materials. The only volume increase of these main product groups was in natural gas. Exports of crude oil, petroleum products and metals contracted, even if production levels were up. The increase in output went to a growing domestic market.

Most of Russia's imports were in the form of consumer goods or investment goods. Machinery, equipment and transport vehicles accounted for nearly half of all imports, and witnessed on-year growth of about a third. The largest single product group was passenger cars. Despite 50 % growth, the volume of car imports was just over half of the peak year 2008.

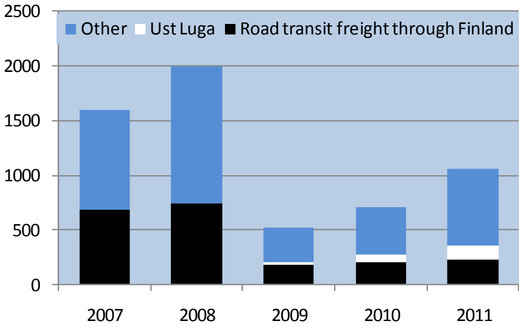
Spotty recovery in Finnish exports to Russia. Although Finnish exports to Russia climbed 13 % last year and amounted to €5.3 billion, they were still far below pre-crisis levels. The trend partly reflects a slow recovery in Finnish re-export activity (i.e. goods that are first imported into Finland and then exported on to Russia). Customs Finland reports that re-exports continue to represent a decreasing share of exports overall (only about 13–14 % of Finnish exports to Russian measured by value).

A third of exports consisted of machinery & equipment. Russia accounts for about 9 % of Finnish exports, making it Finland's third largest export market after Sweden and Germany. As much as 20–25 % of Finnish exports of foodstuffs, textiles and chemical products went to Russia last year.

The value of road freight transported through Finland to Russia reached €21 billion last year. The share of Russian imports coming in via Finland has shrunk considerably. For example, passenger cars are down significantly as cargo handling at the Russian port of Ust-Luga has ramped up. Last year the amount of cargo handled at Ust-Luga doubled to over 23 million tons. In comparison, about 16 million tons of cargo passed through Finland's busiest port Kotka-Hamina last year.

The value of Finland's imports from Russia reached a record €11 billion due to high commodity prices. Russia was Finland's largest source of imports, accounting for nearly 19 % of Finland's total imports.

Russian car imports by entry route (in thousands)



Sources: Customs Finland, Rosstat, Port of Ust-Luga

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China

National People's Congress convenes to discuss economic plans for the year ahead. Since its start on Monday (Mar. 5), this year's agenda has included a review of China's fiscal status and long-term growth targets, as well as a tribute to the current administration's achievements ahead of leadership change at the end of this year. Some new environmental initiatives are also under consideration.

The government continues to stress boosting consumer demand as the biggest economic challenge. The leadership aims to continue with measures to boost household incomes and reduce the need to save. Notably, raising incomes of China's large rural population would promote the role of consumer demand and more equal income distribution.

The GDP growth target for 2012 was cut to 7.5 % and investment growth lowered to 16 %. Adjustments are relatively small and reflect the slowing global economy and a structural shift from investment-driven growth to consumer-driven growth. They are not forecasts but rather a means to communicate that the whole society should prepare for changes in the economic environment.

The planned budget shortfall this year is 1.5 % of GDP, up from the realised 2011 deficit of 1.3 %. The realised budget deficit is typically smaller than the forecast, even if it is difficult to get an accurate picture of the public sector economy. Leaders at the People's Congress are again pushing local administrations to timely service their debts.

In the monetary policy sphere, the government set a money supply (M2) growth target of 14 % for this year (about the same as the realised figure for 2011) already before the NPC convened. This year's inflation target has been raised to 4 %, which gives some leeway to economic stimulus measures. A relatively high inflation target may also relate to pressures to increase energy prices. China still regulates prices of coal and key transportation fuels, making them cheap by European standards, e.g. gasoline costs typically 80–90 eurocents a litre (although \$4.00−\$4.50 per gallon is on par with current US prices). Despite last month's hikes, consumer fuel prices have lagged the rise in global prices, significantly eroding the profitability of oil companies.

Higher retail fuel prices should help China meet its goals of reducing environmental pollution. Last year's targets went largely unmet: Greenhouse gas emission exceeded targets, while efforts to improve water quality failed. The leadership confirmed China's plans to increasingly rely on nuclear power. The country currently has 15 functioning nuclear reactors and has another 26 under construction. Nuclear reactors today only produce about 2 % of China's electricity. Despite the pull-back from nuclear power in the wake of Japan's Fukushima disaster, renewed nuclear ambitions indicate China's policymakers see few alternatives.

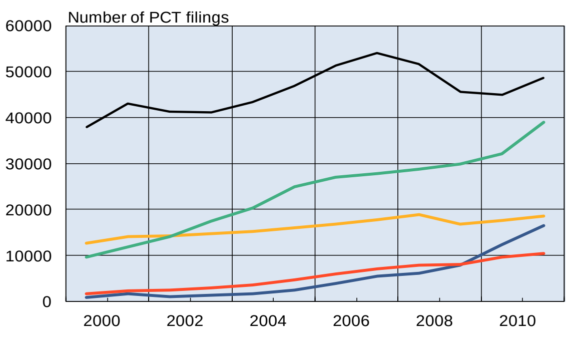
Chinese international patent activity on robust rise. WIPO (The World Intellectual Property Organization) this week released preliminary figures for patent applications filed globally last year under the Patent Cooperation Treaty (PCT). Despite a weak economy, the number of PCT patent filing globally rose by 10 % to nearly 182,000 applications. With a 27 % share of all PCT patent applications, the United States is the leading international patent-seeker. Japan's share of total PCT applications was 21 % and Germany's 10 %. The number of Japanese filings, however, grew much faster than from any other top-three country.

China's performance enhances the role of Asia in technological innovation. In 2010, China surpassed Korea as the world's fourth most active seeker of PCT patents, and last year applications of Chinese firms rose by a third to 16,400 applications. At the current pace, China should exceed Germany in patent activity by next year.

The dynamism of Chinese firms can be seen in telecom giants ZTE and Huawei. Globally, they ranked #1 and #3, respectively, in PCT applications (with the #2 spot going to the Japanese Panasonic). Only one other Chinese firm, however, made it into the top 100 PCT firms in 2011. While these three Chinese companies together accounted for nearly a third of China's PCT activity, there is a large number of other Chinese companies active in the field of innovation. The growth of China's PCT filings is due mainly to companies not in the top 100.

China is far more active in patent-seeking than India or Russia, although PCT filings increased also in the latter countries. India last year submitted slightly over 1,400 applications, while the number of applications from Russia was still fewer than 1,000. In comparison, tiny Finland submitted about 2,000 international patent applications, conferring a ranking of 13th on the PCT list. Nokia accounted for about a third of Finnish PCT filings.

International patent applications (PCT) by top 5 countries



Source: www.wipo.int

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