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Russia

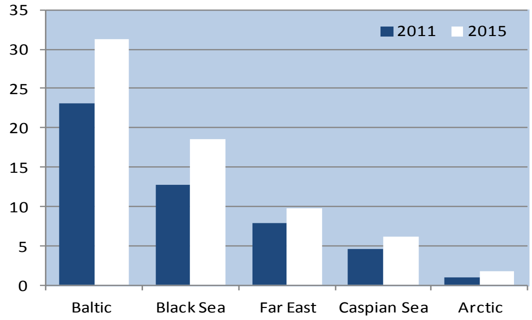
Russia moves to increase port capacity, especially in the Baltic Sea and Pacific coast. Rosmorport, a state-owned company for development of maritime transport, last week released a new version of development plans for Russian ports through 2030. The plan sees port cargo traffic rising from 540 million tons in 2011 to 700 million tons in 2015 and nearly 900 million tons by 2020.

Most Russian sea cargoes are exports that go through ports on the Baltic Sea, Black Sea or Pacific Ocean. The development plan calls for increasing sea export capacity so that Russia is less dependent on transhipment through third countries. Port expansions should increase capacity by 25 % or 200 million tons by 2015. Nearly half of new capacity is planned for Pacific coast coal and oil shipping. Far East ports should also attract westbound cargo from Asia. Port development requires massive parallel investment in transport infrastructure.

The biggest expansion is planned for Baltic sea ports, including Ust Luga. By 2015, Ust Luga's capacity is expected to more than double through e.g. expansion of terminals for oil and petroleum products and construction of a new container terminal. Furthermore, the port of St. Petersburg will add 20 million tons in new container-handling capacity. Another 30 million tons is added by 2020, when the general purpose Bronka port not far from the St. Petersburg port should be in operation.

The development plan asserts that the Baltic Sea will remain Russia's main sea route for foreign trade in coming years. Russia's Baltic ports already handle nearly half of the imports arriving by sea. About 30 % of Russia's crude oil and petroleum product exports (112 million tons) went through Baltic ports last year, and by 2015, the volume of such exports is expected to reach nearly 150 million tons.

Russian import cargo by port in 2011 and 2015 (forecast), million tons



Source: Rosmorport

Development of Russian Far East. This week saw the opening of the Asia-Pacific Economic Cooperation (APEC) summit in Vladivostok. Russia is hosting the APEC summit for the first time since the organisation was created in 1989 at an Australian initiative. Playing host gives Russia a chance to show its growing influence in the Pacific Rim.

Vladivostok is located in the Far East Federal District, which extends from Siberia to the shores of the Pacific Ocean. The area of the district amounts to over a third of the Russian Federation's land area, yet is inhabited by just 6 million people (4 % of Russia's population). While the Far East Federal District's rich natural endowments give it tremendous economic potential, it suffers from a lack of infrastructure and emigration. Between 1989 and 2010, the Federal District lost two million inhabitants – in relation to population a contraction unmatched elsewhere in Russia. The reasons for the exodus include the harsh climate, poor access to services, high living costs and remoteness from European Russia.

Russia wants to make better use of the economic opportunities in the Pacific Rim, so it is making efforts to bring the Far East Federal District into the mainstream of the Russian economy. The economic activity in populous China just across the border and its impact on the scarcely populated Federal District have increased pressure to develop the region. This spring, the government created a ministry for development of the Far East.

In anticipation of the APEC summit, the 600,000-resident city of Vladivostok has seen a massive building boom and dramatic improvements in living conditions. Vladivostok has been deluged with greenfield and modernization projects of its transport network and municipal services such as heating, water, electricity and waste management. The practically uninhabited Russky Island located just offshore is the location for construction of a state-of-the-art congress centre with world-class accommodations and infrastructure. After the summit the facilities will become the campus for the Far Eastern Federal University.

Officials hope the APEC summit will attract foreign investment to the Far East Federal District, even if observers take a more cautious view. A goal of the APEC summit is to give Vladivostok the imprimatur of a regional growth core. The government would like to see Vladivostok become an Asia-Pacific transport and shipping hub, as well as the easternmost terminal for pan-Russia rail shipping between Western Europe and Asia to provide an alternative to sea shipping via the Suez Canal. The vision includes creation of shipyard industry and other value-added industries, and would require massive infrastructure investments.

Around 680 billion rubles (€17 billion) have been spent on construction for the APEC summit. The costs are only surpassed by Russia's spending on preparations for the Sochi 2014 Winter Olympics. Funding has come from the federal budget and state enterprises, especially Gazprom. The pricy project has been criticised for failing to provide a long-term basis for growth in Vladivostok or the Far East Federal District.

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China

Mongolian pressure cuts Chinese investment in development of major ore and mineral deposits. Chalco, China's giant state-owned mining company, announced Monday (Sept. 3) it was abandoning plans for a massive Mongolian coal mine investment. The plan was unpopular among many Mongolians, who are concerned over the growth of Chinese influence in the country's mining sector. Under a new law on foreign investment passed this summer, investment in strategic sectors (including the mining sector) must first be approved by the Mongolian parliament. China has traditionally been Mongolia's biggest foreign investor, and the scrapped coal project would have been China's largest direct investment in Mongolia.

Mongolia represents just a few thousandths of China's foreign trade, but China has long eyed Mongolia as a source of raw materials. In recent years, for example, Mongolian coal has accounted for 7 % of China's total coal imports. Mongolian GDP per capita is only about half of that of China, but Mongolia has experienced a major resources boom in recent years and its economic growth has outstripped that of its southern neighbour. In 2011, Mongolian GDP grew 17 %, making it the second fastest-growing economy in the world after Qatar (18 %).

Mongolia's economic boom has largely been driven by world demand of metal ore concentrates, particularly from China. Two-thirds of Mongolian exports consist of ore concentrates or commercial minerals. Because Mongolia is landlocked, concentrates and minerals have to be transported by rail nearly 2,000 kilometres to China's Tianjin port. Even with the transport issues, investment in Mongolia's mining sector grows rapidly. Last year fixed investment accounted for nearly 70 % of Mongolian GDP.

Growth in value of Chinese imports from Mongolia, %

Source: CEIC

Yuan loans coming soon to Taiwan. This week Taiwanese and Chinese officials signed a direct clearing pact that allows Taiwanese banks to offer yuan loans to Chinese corporations in Taiwan. Implementation of the clearing mechanism still requires a decision from Taiwanese authorities on practical arrangements, but the matter is moving ahead swiftly. China's efforts to increase the use of the yuan outside China helps Chinese firms with international operations by promoting currency exchange.

Access to yuan-denominated loans has been limited for Chinese companies operating outside the mainland due to currency controls. Previously, banks operating in Hong Kong have been allowed to grant yuan loans to Chinese companies operating outside China.

Xinjiang profiled as centre of Eurasian cooperation. China's Xinjiang Uighur autonomous region is currently arranging the China-Eurasia Expo to bring together representatives of 55 countries, mainly from Asia. The Expo seeks to promote economic cooperation between China and Eurasia, as well as establish Xinjiang as a regional centre for economic cooperation. The new Expo is organised for the second time, but it builds on more modest trade exhibitions that have been running for years. The opening speech was delivered by premier Wen Jiabao, giving some idea of the importance China is placing on the event.

The China-Eurasia Expo is hoped to attract foreign investment to Xinjiang, which is located in Northwest China. Foreign investors have somewhat overlooked the Xinjiang region, despite the fact that its economic growth has recently been rapid. In the first half of this year, regional GDP grew 11 % y-o-y.

Development of the autonomous region, which covers a sixth of China's land area, is a centrepiece of China's regional development policy. To attract investment, the Korgas and Kasgar special economic zones have been created along the borders of Xinjiang's major trading partners Kazakhstan, Tajikistan and Kyrgyzstan. Firms operating in the zones enjoy tax breaks and access to cheap loans. In addition, large investments in hydropower and rail connections have been made to support development and nationwide distribution of the region's vast metal and mineral resources, including coal.

Statistics show Xinjiang's foreign trade grew 33 % last year. This year the growth has slowed; trade increased 9 % y-o-y in the first half. Officials say the slowing reflects global economic uncertainty and the launch of the Russia-Kazakhstan-Belarus free-trade area, which has eroded the price competitiveness of products from Xinjiang. There has also been some positive news, however: media report Xinjiang registered 637 foreign firms in the first half of 2012, an increase of 37 % from 1H2011.

Development and enrichment of Muslim-majority Xinjiang province brings with it the benefits of social stability. Ethnic unrest has been a hallmark of the region. The largest recent outbreak of unrest occurred in 2009, when nearly 200 people died in strife between Uighurs and China's majority Han people.

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