

Russia

Slight hike in inflation forecast for this year. After revising upwards their inflation forecasts, the Central Bank of Russia and the economy ministry now expect consumer price growth to approach 7 % y-o-y by year's end. The revised numbers add nearly a percentage point to inflation compared to last year. Earlier 2012 forecasts saw inflation falling from 2011. The new inflation estimate reflects the recent spike in food prices after poor harvests.

The CBR's inflation target announced in its monetary policy guidelines for 2013 is 5–6 %.

Russia wants to quintuple its shipbuilding output by 2030. The government last week approved a long-term development programme geared to reviving Russia's shipbuilding industry. Shipbuilding fell on hard times after the collapse of the Soviet Union and lags far behind global shipbuilders in terms of technology and skills. Under the programme, Russia would account by 2030 for 2 % of the world's ships built for civil shipping purposes.

A major issue for Russia's shipbuilders is that as a legacy of the Soviet era its shipyards are mainly engineered for building military vessels. Russia has very few civil shipyards that boast modern production technologies. Expertise and production skills in shipbuilding, particularly civil shipbuilding, have been lost with the decades-long slump in production. Most of Russia's current shipbuilding capacity is focused on building hulls, and more demanding technology and equipment must be imported.

The programme calls for a substantial amount of state funding. In 2013 and 2014, over 50 billion rubles (€1.25 billion) a year will be allocated directly from the federal budget for civilian shipbuilding. Over the following ten years, annual budget funding would amount to some 115 billion rubles. The development programme also covers military shipbuilding, but no details have been released. The programme emphasises that all proposed methods of subsidy will conform to WTO rules.

According to industry and trade minister Denis Manturov, the priorities of the shipbuilding industry programme will be military vessels, fishing vessels, ships for navigating the icy waters of the Northeast passage and exploiting the continental shelf, as well as river-going vessels. Minister Manturov noted that it would be pointless for Russia to try and compete with China, Japan and Korea in serial-produced ships beyond those for domestic use.

Measures to boost domestic demand for ships include promoting leasing arrangements for fishing vessels and river boats, as well as creating incentive systems for decommissioning old ships. Manturov observed that 85 % of Russia's stocks of commercial fishing and river vessels are outdated.

Modern technology and methods would be developed for Russian shipbuilding. Following the examples of Korea and China, Russia would form special economic zones for construction of vessels, in particular fishing and river boats. The first such zone is being established in the Astrakhan region on the shores of the Caspian Sea.

The programme divides the shipbuilding industry into three clusters. The Southern Russia Cluster would concentrate on shipbuilding in special economic zones, the Far East would be built up around an ultramodern shipyard complex, and Northwest Russia's historically robust shipbuilding complex would be modernised and optimised.

Russian's shifting position in global energy markets.

The latest annual outlook from the International Energy Agency (IEA), [World Energy Outlook 2012](#), examines trends in global energy markets through 2035.

The new WEO states that one of the biggest changes in world energy markets comes from the recent boom in unconventional gas production, especially in the United States. The change has already hit Russian gas exports. The rise in shale gas production means the US will become a net gas exporter by 2020. The US has reduced its dependence on gas imports, which has increased gas supply to Europe and decreased Europe's reliance on more expensive Russian gas. The situation is new for Gazprom, which until now has provided about a third of EU gas imports.

Russian natural gas production has risen throughout the 2000s, although it has recently been curtailed somewhat by reduced demand from international customers. In 2010, Russia accounted for nearly 20 % of the world's natural gas output. The IEA expects Russian production to rise in coming years. Even if the US has dethroned Russia as the world's top gas producer, Russia will remain the world's biggest gas exporter.

Russia and Saudi Arabia have jockeyed for the top oil producer spot in recent years. Last year, Saudi Arabia regained its position over Russia. Russia's crude oil production is expected to remain at its current level over the next two years and then contract at a rate of around a half per cent a year. The IEA estimates that in the 2020s, the US will surpass both Saudi Arabia and Russia as the world's largest oil producer.

Russia will remain the world's fourth largest energy consumer through 2035, after the world's biggest energy users (China, the US and India). Russia is one of the world's largest energy consumers in per capita terms, a reflection of the country's harsh climate, long travel distances and energy-intensive production structure. In addition, Russia's hefty energy consumption is due to significant inefficiencies in both energy production and consumption. If Russia raised its energy efficiency to the average of comparable OECD countries, its annual primary energy consumption could, according to the IEA, be cut by a third.

China

Xi Jinping takes the helm; leadership change holds few surprises. Xi Jinping this week took the reins from Hu Jintao and was officially declared the new General Secretary of the Communist Party and head of the People's Army. At next spring's People's Congress, Xi will be named China's president. In his post-appointment speech, the new general secretary promised to continue with economic reform and redouble efforts fighting corruption. Even though the leadership has changed, China's direction overall is expected to stay broadly the same. As vice president for the past five years, Xi was involved in high-level decision-making and the drafting of the current five-year plan that goes to 2015.

The number of members on the Politburo's Standing Committee was reduced from nine to seven. Xi will be joined on the Committee by six other men: Li Keqiang, the presumptive premier and top economic official; Vice Premier Zhang Dejiang, Shanghai party secretary Yu Zhengsheng; party propaganda chief Liu Yushan; Tianjin party secretary Zhang Gaoli; and Vice Premier Wang Qishan, who will head the party's internal watchdog panel on fighting corruption. Selections do not contain any surprises.

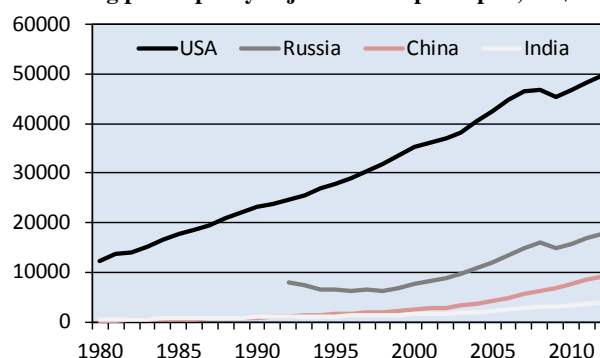
The Politburo leads the 205-member Central Committee, which also saw a member reshuffle. Notable retirements from the Central Committee included Zhou Xiaochuan, who has headed the People's Bank of China for the past ten years; Zhang Ping, head of the National Development and Reform Commission (NDRC); finance minister Xie Xuren, and foreign trade minister Chen Deming. All four seem destined for retirement from their official posts soon.

China's economic growth beat official targets throughout the Hu Jintao era. During the two five-year terms of China's outgoing administration, GDP climbed at a sizzling average of 10 % a year, or three percentage points above the official five-year plan projections. More impressive perhaps is that this high growth was achieved even as the world economy struggled with its deepest slump in eight decades. During the Hu Jintao era, China emerged as Asia's largest economy and the world's number-two economy after the US. China rose from 116th to 92nd place in living standards, which moved it into the group of middle-income countries based on purchasing power parity adjusted GDP per capita.

China had just joined the WTO at the start of Hu Jintao's administration in 2002. Strong business competitiveness and government support fuelled China's rise to the apex of world trade. China today is the world's biggest exporter, accounting for 10 % of global trade, as well as the world's second largest importer after the US. China's foreign trade surplus and its foreign currency reserves are at record levels.

China is today a major participant in international debt markets and investment projects in developing countries. China's investment policies have provoked backlashes in some countries on fears of growing Chinese influence. Success in foreign trade has also brought with it charges of currency manipulation and numerous trade disputes.

Purchasing power parity adjusted GDP per capita, US\$



Source: IMF WEO

Increased income disparities and environmental damage are the dark side of China's economic miracle. Hu Jintao's administration actively pursued development of China's central and western provinces, along with bolstering of the social security safety net. Government credibility, however, has been eroded by rising income disparity between the rural poor and the urban rich, and corruption. The government has tightened environmental regulations and encouraged development of clean alternative energy sources, but government efforts as yet are insufficient to make much difference in the average person's life. Many Chinese suffer from poor air quality, polluted water and scandals in the food industry. By international standards, Chinese firms are profligate energy wasters. Most of China's energy production is still based on coal combustion, and as a result, China accounts for a quarter of all global greenhouse emissions.

While financial markets and currency controls have been gradually liberalised, monetary policy still relies on window guidance of bank lending rather than interest rates as in advanced economies. Hu Jintao's administration has also been criticised for favouring state firms over private firms. Four out of five listed Chinese firms are state run. Many private companies feel caught between strong state firms and the banks that give preferential treatment to state firms.

Administrative reform has been slow at best. China has made little progress in free speech or democracy. Maintaining social stability still involves rounding up dissidents.

Perhaps the two biggest achievements of Hu Jintao's administration have been sustained high economic growth and a vast expansion of foreign trade. Hu leaves without taking on tough structural and environmental problems, or administrative system reforms.