EUROJÄRJESTELMÄ
EUROSYSTEMET

BOFIT Weekly

49 • 7.12.2012

Russia

Russia works to limit negative effects from joining WTO. President Vladimir Putin took up WTO issues at the November meeting of Russia's security council. Putin noted that WTO membership will help Russia in modernising its economy and give it a greater role in the international division of labour. However, the risks associated with lowering certain import duties have increased due to weakness in the global economy. The most exposed branches of Russian industry include animal husbandry, farm machinery manufacture, car manufacture, food and pharmaceuticals. Geographical regions dependent on a single major local industry could also suffer from WTO membership.

Officials noted that the contraction of EU markets in particular posed the risk that products earlier exported to the EU might be redirected to Russia. Putin tasked the labour ministry and the economy ministry with assessing the impacts of WTO membership on Russian employment and asked the ministries to submit proposals about ways to minimise the negative impacts. WTO membership will also require Russian officials to show greater competence and become more active in defending national interests in the international arena. The president asked the ministries of the economy, industry and trade, and foreign affairs to assess whether any discriminatory measures are currently directed at Russian exporters.

Officials said Russia will continue to reduce tariffs as called for under its WTO commitments, but may move ahead with other forms of support. Economy minister Andrei Belousov noted that Russia can next year implement protective tariffs on imported agricultural machinery if it can show producers are engaging in dumping practices. The Eurasian Economic Commission that deals with these kinds of questions in the customs union of Russia, Belarus and Kazakhstan, is currently studying the issue by a request from Russian farm machinery maker Rostselmash.

At the end of November, an EU representative presented concerns at the WTO council on goods trade over Russia's recent moves to apply several protectionist measures, many of which violate international trade rules. Two potential violations of WTO rules mentioned by the EU representative were the ban on importing live animals from the EU and the imposition of recycling fees on imported used cars. The EU representative also noted changes in Russia's export tariff system for crude oil. The government decided in September to alter the system of export duty reductions so that they enhance the development and exploitation of new oil deposits. The result may be higher average oil export duties that would violate Russia's WTO commitments.

At the moment, the EU has not filed any formal complaints that might initiate an official WTO enquiry. Russia and the EU are in bilateral talks on the issues.

Russia-Belarus-Kazakhstan customs union assesses trade barriers. The Eurasian Economic Commission set up at the start of this year to oversee customs union implementation has looked into trade barriers its member countries face in exporting to other countries. The most barriers have been imposed by the EU and the US, followed by Ukraine, Uzbekistan, India and China. Barriers imposed by CIS countries account for nearly 40 % of all barriers.

A significant share of trade barriers were countervailing duties to prevent dumping. Other barriers include quotas on imported goods and discriminatory excise taxes. The EU and the US have imposed protective tariffs on e.g. certain chemical and metal products. The EU was also found to restrict imports of textiles and grain, while the US had restrictions on arms imports from Russia. Ukraine has protective duties on such products as fibreboard sheet, glass and methanol. Uzbekistan imposes a discriminatory excise tax on over 400 products from customs union countries and employs a large number of administrative measures to restrict imports such as long delays in currency conversion. India and China limit imports of chemical products.

The Eurasian Economic Commission is currently assessing the size of losses suffered by member countries from export restrictions. For example, the commission calculates that restrictions imposed by Ukraine cause customs union members annual losses totalling about $200 million. The commission will next investigate the best ways to deal with export restrictions. Russia tries to get restrictions dismantled under the WTO framework.

Russia assumes G20 presidency. Russia's one-year term as president of the G20 began last Saturday (Dec. 1). The G20, which has a rotating presidency, provides an informal forum where the world's largest economies can discuss issues affecting the global economy and financial markets. The G20's mission is to coordinate political measures to achieve sustainable economic growth and promote stability of the international financial system. Participants to the meetings are G20 finance ministers and central bank governors.

Ksenia Yudaeva, a presidential adviser on economic policy charged with preparing for Russia's G20 presidency, says Russia wants to focus the agenda on capital investment, structural unemployment and public debt in addition to the standard finance, energy and trade issues. Russia will also push for reforms in the IMF voting system to give emerging economies and developing nations greater decision-making power in the organisation. Given the criticality of the employment issue, Russia is for the first time organising a common meeting of labour and finance ministers at the annual summit. The summit will be held in September in St. Petersburg.

Editor-in-Chief Seija Lainela • Email: Seija.Lainela@bof.fi

Bank of Finland • Institute for Economies in Transition, BOFIT
P.O. Box 160, FI-00101 Helsinki
Phone: +358 10 831 2268 • Web: www.bof.fi/bofit

BOFIT Weekly
49 • 7.12.2012

China

Profitability of industrial firms up 20 % in October from last year. A small spike in corporate performance of a year of otherwise flat earnings has provided a ray of hope midst a year of generally declining share prices (e.g. the Shanghai Composite Index is down 17 % for the year). Despite the good numbers for October, cumulative profits in January-October were about the same as year ago. Privately held firms, however, witnessed profitability growth of about 20 % y-o-y in October, while profits of state-owned firms were down nearly 10 % y-o-y.

Declining share prices have reduced the market capitalisations of China's biggest listed companies. China currently has nine companies with market capitalisations that put them among the world's 100 largest corporations, as well as 23 firms in the Bloomberg Top 500 index of global firms. The giant Chinese enterprises in the Bloomberg ranking operate in the energy sector or financial services. Despite exchange listing, the state retains the voting majority in all of these listed Chinese firms.

Chinese firms in the Bloomberg Top 500 index

Name	Market cap US$ billion	Ranking
PetroChina	248	3
Industrial & Commercial Bank of China	220	9
China Construction Bank	188	20
Agricultural Bank of China	136	33
Bank of China	121	38
CNOOC Ltd	94	66
China Petroleum	86	75
China Life Insurance	81	83
China Shenhua Energy	70	92

Source: Bloomberg

IEA predicts rapid growth in Chinese energy use ahead. The International Energy Agency's (IEA) World Energy Outlook, released in mid-November, forecasts several notable trends in global energy consumption patterns out to 2035. The Paris-based IEA predicts that energy demand will continue to rise rapidly even if governments that have committed to reducing national energy use actually make good on their promises. Most of the increase in energy use is caused by population growth and wealth gains in emerging economies. Energy use in OECD countries, in contrast, is expected to level off. The bulk of energy production will come from coal, crude oil and natural gas. The use of various forms of renewable energy will increase just a few percentage points.

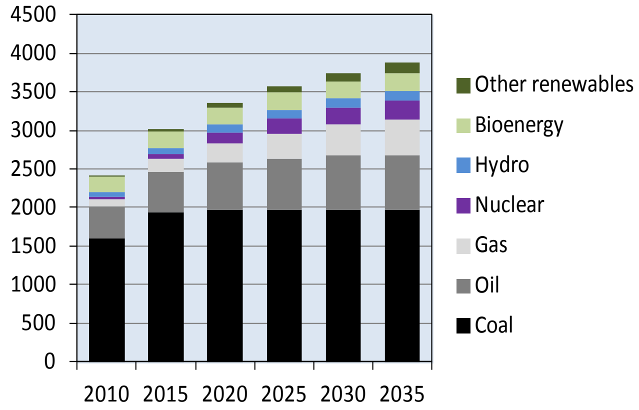
The IEA predicts that even if China achieves the energy saving targets it has set for itself, in the period 2010–2035 China will account for one-third of growth in global energy consumption and half of the growth in crude oil consumption. At the same time, China will strengthen its dominance as the world's biggest energy consumer. By 2035, the IEA claims, China's energy consumption will be about 80 % greater than US consumption. Per capita consumption at that point will rise to about half the American level. Energy consumption should also soar in India.

China will continue to meet the bulk of its energy needs with coal, even if coal use is expected to level off after 2015 (see chart). The IEA sees most of the growth in energy use in 2015–2035 covered by other forms of energy, particularly natural gas, nuclear, hydropower, wind and solar power.

China has managed to meet part of its growing energy demand through large energy efficiency gains over the last three decades. In 1980, China used about four times more energy per unit of GDP than in 2010. Despite its progress in energy efficiency, there is still plenty of room for improvement. The only parts of the world where greater energy waste is found are in certain countries in Africa, Eastern Europe and Central Asia. China's two most recent five-year plans have included energy efficiency goals to be achieved through such measures as tax incentives.

The IEA estimates that China currently has an energy self-sufficiency level of about 90 %. This high degree of energy self-sufficiency reflects China's massive coal reserves, domestic oil and gas production and large rivers for producing hydropower. In coming years, China, however, will become increasingly dependent on foreign energy supplies.

Chinese energy use outlook, million tons oil equivalent (Mtoe)



Source: IEA World Energy Outlook 2012

Bank of Finland • Institute for Economies in Transition, BOFIT
P.O. Box 160, FI-00101 Helsinki
Phone: +358 10 831 2268 • Web: www.bof.fi/bofit

Editor-in-Chief Seija Lainela • Email: Seija.Lainela@bof.fi