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BOFIT Weekly

8 • 22.2.2013

Russia

Growth in Russian foreign trade slowed substantially in 2012. The value of goods exports increased last year slightly over 1 % and the value of goods imports grew just under 4 %. Year earlier, the value of goods imports and exports each rose about 30 %. In 2012, the value of goods exports was $530 billion and the value of goods imports was $340 billion. The trade surplus contracted slightly from 2011, but still amounted to around 9 % of GDP.

The slow growth in exports largely reflected flat growth in oil prices. The price of Urals blend averaged $110 a barrel last year, just a dollar more than in 2011. While the export volumes of certain basic commodities such as crude oil and natural gas contracted on year, crude oil, petroleum products and natural gas continued to account for about two-thirds of the total value of Russia's exports. Most other big exports were also commodities. Among these, the value of metal exports declined mainly due to lower world prices. In contrast, the value of agricultural exports rose visibly.

The slowdown in import growth reflected largely weak investment demand as about half of imports consist of machinery, equipment and transport vehicles. Chemical products and foodstuffs each represent approximately 15 %. As expected, the first few months of Russia's WTO membership have not had visible effect on Russia's total imports. Membership caused some immediate reductions in import tariffs, which might have boosted imports of particular goods towards the end of the year. In contrast, the level of passenger car imports dropped precipitously in the last four months of 2012, which has been associated to the new recycling fee imposed on imported cars. However, the impacts of the various factors are difficult to assess over the short term given the large monthly variations.

China is still Russia's largest trading partner, accounting for over 10 % of Russia's foreign trade. Imports from China last year accounted for nearly 17 % of imports. Russia's largest export market was the Netherlands (15%). About 7 % of Russia's total trade was conducted with its customs union partners Belarus and Kazakhstan. Trade with Belarus contracted substantially, while trade with Kazakhstan soared, led by rapidly growing imports.

Trade growth within Russia-Belarus-Kazakhstan customs union up slightly more than for other trading partners. Some 10 % of the total exports of the Russia-Belarus-Kazakhstan customs union last year went to other members, and 17 % of total imports originated from the customs union. Intra-union trade is most important for Belarus, whose customs union partners account for about 37 % of Belarus exports and 60 % of imports. Some 7 % of Kazakhstan's exports and 40 % of imports were exchanged within the union. The comparable shares for Russia were 8 % of total imports and 7 % of total exports. Russia dominates trade within the customs union, accounting for 65 % of the total value of trade. Kazakhstan had 25 % and Belarus 10 %.

When the customs union was launched in 2010, import duties for members were abolished, and the members imposed uniform import duties on products entering the union. Most of these duties were identical to Russian customs duties. Because the countries have different economic structures and their tariff systems were different, the impact of the new customs regime has been different on the trade flows of each member.

Generally speaking, trade flows within the customs union have increased in particular due to reduced non-tariff barriers to trade such as the elimination of customs inspections and simplification of import and payment procedures. A number of non-tariff barriers to trade still remain, however, e.g. technical, health and safety standards, as well as certification requirements. There is an effort to eventually harmonise these, too.

Before the creation of the customs union, Kazakhstan had lower import duties than the others. Membership forced it to hike about half of its import duties. For this reason, imports from inside the customs union have been able to substitute to some extent imports to Kazakhstan from outside the customs union. Kazakhstan has traditionally imported considerable amounts of food and consumer goods from China. Russia now suspects that significant amounts of Chinese products not declared to customs moved through Kazakhstan into Russia last year.

Over the past two years, Russia and Belarus have been in a squabble over exports of refined petroleum products. The countries agreed in 2010 that from the start of 2011, Belarus would be permitted to export crude oil imported from Russia exempt from export duties in the form of refined products to third countries. In exchange, Belarus would transfer to Russia all export duties that it collects on those refined products. According to the agreement, only refined energy products such as fuels are subject to export duties, leaving other products such as solvents and lubricants outside. As a result, exports of solvents and lubricants from Belarus skyrocketed in 2011, and continued to rise last year. It turned out that Belarus actually exported energy products such as gasoline under the classification of solvents and lubricants. At the end of 2012, Russia posted Belarus a $1.5 billion bill for unpaid duties. Russia also cut crude oil supplies to Belarus.

Russia and Belarus have also been at odds over agricultural exports from Belarus to Russia, which have significantly exceeded the agreed annual quotas. Russia suspects that Belarus is dumping dairy products and that some meat imported from Belarus has a third-country origin. The Eurasian Economic Commission, the custom union's highest body, has discussed the possibility of coordinating the agricultural policies of member countries even by production quotas.

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China

Yuan's role as an international payment currency still modest, but growing rapidly. The strategic goal of increasing international convertibility of the yuan can readily be seen in the sharp increase in liberalisation measures of capital movements in 2010. Since then, the pace of freeing capital movements has accelerated. Not a month goes by without announcement of higher quotas or easing of technical requirements. While fully deregulated foreign exchange and financial markets are still far off, China hopes to have deregulated most aspects of capital movement over the next 3 years.

At the beginning of February, opportunities for using the yuan outside mainland China increased after Taiwanese banks began offering banking services in yuan. Customers of banks operating in Taiwan can now make deposits, take loans or make international payments in yuan. It is also now easier for customers to engage in yuan-denominated securities trading. Use of the yuan in payment traffic with the mainland is expected to grow rapidly, especially with the recent favourable developments in economic relations between Taiwan and China. Taipei's position as a financial hub is expected to strengthen as operations earlier transacted via Hong Kong are now performed directly by banks operating in Taiwan.

Hong Kong maintains by far the largest yuan market outside mainland China, but both London and Singapore have begun to eye the opportunity of developing their own yuan markets. Standard Chartered estimates that Hong Kong currently controls about 81 %, Singapore 11 % and London 8 % of the offshore yuan market in these main centres. The Bank of England just announced it was considering a swap arrangement with the People's Bank of China to assure adequate liquidity in London's yuan market and increase the yuan's acceptance among traders.

Figures from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) show that 0.6 % of all international interbank transfers in December were made in yuan. This moved the yuan up to the 14^{th} position among most-used payment currencies. The yuan's rise has been rapid. At the start of 2012, the yuan accounted for 0.3 % of international transfers and ranked 20^{th}. The yuan is currently set to overtake the 13^{th}-ranked Russia ruble. However, while a country can break into the world's top ten payment currency with only a 1 % market share, it is premature to speculate about the yuan's challenge to the major currencies. The euro has a 40 % share, the US dollar 33 %, the British pound 9 %, and the Japanese yen 3 %.

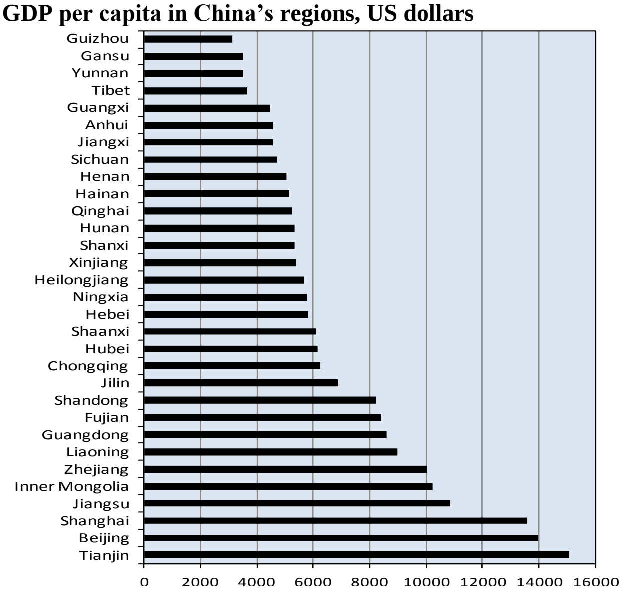
GDP growth highest in central China, provinces burdened with debt. National Bureau of Statistics reports that GDP growth slowed last year throughout the country, but the variation across provinces was striking. Growth was highest (13–14 %) in Chongqing, Sichuan, Guizhou, Shaanxi and Gansu provinces, all located in central China. Growth was lower in the wealthy east coast provinces. The exception was the harbour city of Tianjin near Beijing, which had growth similar to provinces in central China.

Provinces were heavily involved in the government's stimulus programme in 2009–2010 and many took on massive debt. At the beginning of February, international credit ratings agency Fitch voiced concerns over the high indebtedness of some provinces. Fitch noted that 13 provinces had higher debt than total yearly revenues, and that a large share of that debt is coming due this year. It seems that the provinces have little alternative to rolling over their loans.

Mainland China has 31 province-level administrative regions (including 22 provinces, 5 autonomous regions and 4 municipalities). The regions vary considerably in terms of land area, population and wealth. Much of China's population and economic activity is located in the east of the country. The Guangdong province in the southeast has the most residents (105 million) and its economy is the largest among provinces (generating about 10 % of China's GDP). Other major provinces include Jiangsu (80 million residents; over 9 % of GDP) located north of Shanghai, and further north, Shandong (96 million people; nearly 9 % of GDP).

Although the NBS streamlined its data collection last year (see [BOFIT Weekly 8/2012]), province-level GDP figures must be viewed with caution. When added together, they give a GDP figure much higher than China's national GDP figure. Among other things, provincial leaders, whose career trajectories are determined by economic performance, are under pressure to fudge the numbers. The NBS is making its own studies in the regions to verify the correctness of its national GDP assessments.

GDP per capita in China's regions, US dollars



Sources: NBS, CEIC and BOFIT

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