SUOMEN PANKKI FINLANDS BANK
EUROJÄRJESTELMÄ
EUROSYSTEMET

BOFIT Weekly
34 • 23.8.2013

Russia

Russia's foreign trade weak in the first half. The value of goods exports fell in the first six months of 2013 by 4 % y-o-y and amounted to just over $250 billion. The contraction in exports reflected lower commodity prices; the volume of exports increased nearly 3 %.

The volume of Russia's top export, crude oil, declined slightly, while volumes of refined petroleum product exports were up sharply. The share of exports in crude oil production continued to fall, whereas a greater share of refined petroleum products went to export. The volume of gasoline exports rose 40 % y-o-y, which was also reflected in increasing domestic gasoline prices.

The trend for metal sector exports was also weak with substantial declines in both export prices and export volumes. Export volume of copper was down over 30 % y-o-y and nickel exports over 20 %. Arms exporter Rosoboronexport reported first-half exports of $6.5 billion, putting it on track to match last year's total exports of $13 billion. The company handles the vast majority of Russian exports of arms and military supplies.

The value of goods imports in January-June was $160 billion, which helped Russia sustain a large trade surplus. The value of imports was up 4 % y-o-y. The volume of imports was practically unchanged from a year earlier, while prices of imported goods from non-CIS countries rose, due in part to a weaker ruble.

Growth in imports was held back especially by a flatlining in on-year growth in imports of machinery, equipment and transport vehicles (categories that account for about half of Russia's total imports). The volume of imported passenger cars, one of the biggest import product groups, fell 12 %. Food imports, especially from CIS countries, were up sharply, while non-food imports from outside the CIS, e.g. clothing and plastic products, grew rapidly.

Russia's top export destinations were again the Netherlands and Germany. The biggest import suppliers were China and Germany. Of the CIS countries, Russia's trade with Kazakhstan continued to grow briskly in the first half, while trade with Belarus and Ukraine continued to shrink. The value of Russian exports to both countries contracted by about 25 % y-o-y.

Highlights from Russia's first year as a WTO member. Russia was admitted to the World Trade Organization on August 22, 2012. Only a few impacts of the membership on Russian imports are yet discernable, notably product groups such as pork. The impacts, however, should become gradually evident as Russia lowers import duties incrementally over the next few years.

The WTO and its member countries consider the possibility of getting Russia to adopt generally accepted international trade practices a major benefit of Russia's accession. Russia is not yet in compliance with a number of WTO principles, however. A recent example is the July announcement of Russian customs that it was halting international shipments under the TIR system in mid-August (see BOFIT Weekly 31). Faced with a strong international reaction, Russian customs have backed off and are postponing the proposed measures for at least a month.

Maxim Medvedkov, the economy ministry department head who led Russia's WTO accession negotiations, says Russia's biggest challenges in adjusting to the WTO have been psychological. Russia must overcome its traditionally defensive stance and start implementing its commitments.

WTO membership has been widely discussed in Russia, where the general attitude is still quite wary of the arrangement. Elimination of barriers to trade is seen as a threat as rising imports weaken the position of domestic producers. In contrast, the positive impacts for consumers such as access to higher quality goods at lower prices are rarely mentioned.

Russia's Civic Chamber, an organisation created in 2005 to oversee the public's interest in actions of official legislative and executive bodies, released in August its own study on the impacts of WTO membership on food prices. The study determined that, even though wholesale prices for agricultural products have fallen during the past year, there was no evidence of a decline in prices at the retail level. Observers attribute much of the phenomenon to the lack of competition in Russia's retail trade, especially outside large cities.

Ukraine-Russia exports tumble. On August 14, Russian customs introduced a policy of inspecting every goods shipment from Ukraine, backing up border traffic and seriously disrupting Ukrainian exports to Russia. Russia gave no forewarning of its plans to change its customs practices as required e.g. under WTO principles. The policy change drew swift international criticism, including a statement from the EU condemning the Russian measures. On Tuesday (Aug. 20), Russia announced it was reinstating its earlier customs inspection procedures at the Ukraine border.

Presidential advisor Sergei Glazyev explained Russia was trying out the measures in preparation for adoption of the new customs procedures needed if Ukraine signs an association and free-trade agreement with the EU. Glazyev said Russia was concerned that the adoption of the EU-Ukraine agreement could allow goods imported duty-free to Ukraine to end up on the Russian market.

Ukraine and the EU are expected to sign the association agreement in November at the EU Eastern Partnership summit to be held in Vilnius, Lithuania.

Russia would like Ukraine to join the Russia-Belarus-Kazakhstan customs union, and the Russia's measures are seen as a way to pressure Ukraine to join. At the end of July, Russian health officials banned imports from Ukraine's largest candy factory.

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

EUROJÄRJESTELMÄ
EUROSYSTEMET

BOFIT Weekly
34 • 23.8.2013

China

China continues to struggle with statistical reporting issues. Christopher Balding, of the Peking University HSBC School of Business published an article in August claiming official Chinese statistical data seriously underestimate the actual rise in housing prices and its impact on general price level. Balding estimates that Chinese annual output has been about 10 % lower than officially claimed for the last ten years and he claims openly that China's figures have been manipulated for political reasons.

China's difficulties in collecting reliable statistical data are no secret and the assertion that officials deliberately fudge their numbers is not new even if there is no consensus among academic researchers about the impacts of possible manipulation on GDP growth figures. The poor quality of housing market price data and the weighting of housing in the consumer price index as well as price trends in the overall economy are among the main problems concerning Chinese statistics. Moreover, nobody takes seriously China's official unemployment figure which as been stuck at 4 % for a decade. The true condition of the public sector economy is even a question mark for the Chinese leadership, which recently created its own taskforce to determine the extent of local administration indebtedness.

Ballooning local administration debt exemplifies how gradual changes in the system create a need for new kinds of statistical data. The development of financial markets and emergence of grey markets have forced the adoption of new concepts and methodologies, even as data collection has failed to keep pace with changing conditions. With part of the market already liberalised and some still subject to heavy regulation, interpretation of even fairly standard statistical reporting is a challenge. For example, there was a huge disparity in the figures released this spring by mainland China for its exports to Hong Kong and Hong Kong's own figures for imports from mainland China. Chinese firms are suspected of falsifying their export figures upwards as a way to circumvent currency controls when importing capital into the country.

For anyone hoping to make use of statistical data for the Chinese economy, it is important to compare available information from several perspectives in order to minimize problems related to any single data. Getting a reasonable assessment of the actual size of China's economic output, for example, has long vexed researchers. The Balding study mentioned above notes that underestimation of price inflation in certain areas such as housing leads to overestimation of the real GDP figure. On the other hand, many experts think that deficiencies in Chinese collection of output figures could mean that GDP is actually larger than the reported figure as the contribution of the service sector is understated. Indeed, the last major statistical revision, which occurred in 2005, revised Chinese GDP upwards by 17 % due to understatement of the service sector's contribution to economic output. It is a separate issue as to how these distortions in levels of GDP impact the overall figure for economic growth.

China's National Bureau of Statistics last year began to calculate GDP with data collected directly from firms to avoid provincial-level manipulation of reported data. The NBS has made a serious effort to improve its methodologies, but there is still unnecessary secrecy and lack of transparency around data collection and publication. Ongoing developments in Chinese society, markets and media all add to pressures to produce and release accurate statistical data. The need for change in this respect was highlighted last December when the Southwestern University of Finance and Economics in Chengdu published its own household survey that found disconcerting differences with official figures for income inequality and unemployment.

China turns to online shopping. The value of online retail sales in China rose over 40 % y-o-y in the first half to around $120 billion. The share of online sales in retail sales overall rose to nearly 7 %, up from 3 % in 2010. In comparison, online retail in the US currently represents about 5 % of retail sales. Many observers expect China to surpass the US as the world's largest online market this year.

China's most recent five-year plan refers to online retail as an important area for development. It supports the goal of shifting the emphasis of economic growth away from investment to domestic consumption. A report from McKinsey Global Institute claims that shopping on the web not only replaces traditional consumption, but encourages people to consume more increasing the overall consumption. This is due to such factors as the greater selection of products and services available to shoppers also in rural areas.

The Chinese firm Alibaba dominates domestic online sales. Its subsidiary Taobao, for example, controls about 90 % of all online consumer auction transactions. Western Internet entrepreneurs have failed to take market share from Alibaba and other Chinese companies. Bloomberg reports that US-based e-commerce giant Amazon's market share in China is slightly below 1 %. Furthermore, the aggressive expansion campaigns of many Western Internet companies such as eBay and Yahoo! have failed.

Although online sales have skyrocketed, there is plenty of room for growth in China. At the end of June, China had about 590 million Internet users, or 44 % of the population. As recently as five years ago, the share of Internet users was just 19 %. China had 25,000 online retailers at the end of last year and competition for customers remains stiff.

Most online trade in China still takes place between companies at the wholesale level, but the share of retail sales on the Web has increased rapidly in recent years to. About a sixth of all online transactions involved retail sales at the end of 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