

Russia

Corporate profits in Russia decline to more conventional levels. Based on its recurring business survey, Rosstat reports that net profits of companies in its pool of 48,000 firms were down by 10 % in the first half from 1H16. In 2015 and 2016, net profits had soared, propelled largely by higher profits of export firms profiting from the ruble exchange rate's relative weakness. On the other hand, net profits relative to the amount of business activity in the first half of 2017 largely matched the also good levels of earlier years.

Declining corporate profits have aroused assessments of the possible depressive effects on investment. This view is supported by the fact that Russian companies typically finance roughly half of their investment out of pocket. Rosstat's investment survey also shows that insufficiency of a firm's own funds to finance investment is a significant barrier for firms to make investments. Lack of cash on hand is not a decisive factor constraining investment, however. In listing other factors that may depress investment, survey respondents also cited economic uncertainty in Russia as one of the significant problems. The reduction in profits this year has also been relatively mild and firms still hold considerable funds in domestic banks. Profits are largest in firms involved in energy or metals, and such firms typically have easier access to credit than other businesses.

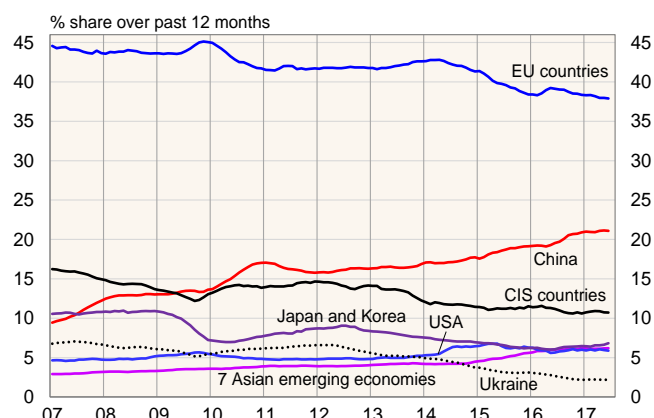
Changes in area and country structure of Russian goods imports show some stabilisation. Russian customs figures show that the share of imports from EU countries inched down to 38 % in the first half of this year, a slight drop from 1H15 and 1H16. The share of imports from China and other emerging economies in southern and south-eastern Asia rose to more than 26 %, with China accounting for about 20 % of imports to Russia and these emerging economies exceeding 6 %, largely on growth in imports from Vietnam, Indonesia and India. South Korea's and Japan's share rose to 7 % as South Korea's share of imports increased. The US remained almost unchanged with less than 6 % of imports. CIS countries held on to an 11 % stake as e.g. the decline in Ukraine's share eased. The relative shares shown in Russian import figures should be taken with a recall that the corresponding export figures of trading partners give a partly different picture. For example, the export figures compiled by international agencies suggest that the share of EU countries is clearly larger in Russian imports than indicated by Russia's import figures.

The country structure of Russian imports has seen tangible changes in recent years. The decline of the share of EU countries in imports to Russia in 2014–16 mainly came from the machinery, equipment & transport vehicle category. The same applies to the shares of Japan and South Korea. At the same time, most of the growth in the shares of China and other Asian emerging economies in Russia's imports was due

to the machinery, equipment & vehicle category. This category, which includes both investment goods and consumer durables, has been affected, besides the sharp drop in the ruble's exchange rate, by a strong fall in fixed investment and consumption with their accompanying structural changes in Russia, globalisation of production chains for finished products and factors affecting the competitiveness of suppliers.

The rest of the tapering off of the EU countries' share in Russia's imports mainly reflects the impact of Russian counter-sanctions that were imposed in 2014. The restrictions focus on imports of agricultural products and foodstuffs. The restrictions for their part have helped Asia's emerging economies and China increase their market shares and have also propelled a notable increase in Belarus' share of Russia's imports.

Share of select country groups and countries in Russian imports in 2007–17



Source: Russian customs.

Rapid growth in Finland-Russia trade. The value of Finnish goods exports to Russia in the second quarter rose 13 % y-o-y. Export growth faded in the spring, but picked up steam in May and June. For the first half of 2017, goods exports jumped by nearly 20 % y-o-y. Export gains were seen in almost all of major goods categories, but highest growth was seen in exports of machinery and equipment. Exports were still well off their peak levels of recent years. Russia accounts for just over 5 % of Finland's goods exports.

After falling for several years in a row, services exports to Russia have also begun to recover this year. The value of services exports was up by nearly 9 % y-o-y in 1Q17. Growth of travel service exports seems to have continued also in the second quarter, with overnight stays of Russians in Finnish inns and hotels up by over 20 %.

The value of goods imports from Russia rose by 27 % y-o-y in the second quarter. The increase largely reflected higher oil prices. Import growth slowed down notably from the exceptional peak at the start of the year which was largely due to a one-time delivery of gas pipelines. In 1H17, Russia was Finland's second-largest import market after Germany, with an over 14 % share.

China

China's key party congress set to kick off on October.

At the end of August, government officials announced that the 19th National People's Congress of the Communist Party of China (NPC) will begin on October 18. The NPC, which convenes every five years, will be attended by roughly 2,300 delegates tasked with choosing a new Central Committee, which in turn installs the party leadership, politburo and the politburo's 7-member standing committee. President Xi Jinping's selection as party leader for a new five-year term and a reshuffling of people in key party posts should help Xi consolidate his power base.

Economic policy has recently focused on supporting growth and preventative measures to deal with emerging problems in order to secure stable conditions across the board going into the NPC. The economic policies that emerge from the conference are of key interest to China and the world. While Xi has spoken on many occasions about the importance of market reforms and getting China's debt problems under control, the government has cracked down with e.g. increased censorship and increased exercise of party power that bode poorly for market reforms.

Finland-China trade soared in the first half. Finnish Customs reports the goods trade between Finland and China grew by 20 % y-o-y in the first half of this year. Growth exceeded that of Finnish foreign trade overall (up 15 %). Finland's imports from China swelled by 13 %, in line with overall import growth of 14 %. Exports to China rose by 31 % from the previous year (total exports up 15 %). Finland's trade deficit with China contracted in the first six months of the year to 470 million euros (630 million euros in 1H16). Trade with Hong Kong also grew by about 20 %.

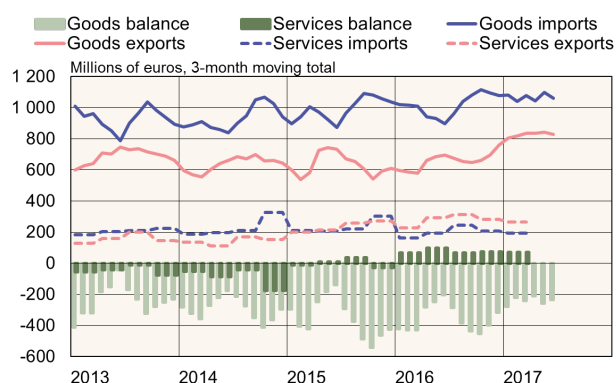
Exports of raw materials (up 39 %) as well as machinery, equipment & transport vehicles (27 %) surged. Both categories remained the top two most important categories for Finnish exports to China. Pulp continued to constitute about a fifth of Finnish exports to China. Nickel exports skyrocketed to over 6 % of total Finnish exports to China. Furs and pelts remained at around 4 % of China exports. About half of the goods that Finland imports from China fall into the machinery, equipment & vehicles category. Such imports were up 20 % from the same period a year earlier.

China surpassed Russia in goods trade during the first half, making it Finland's fifth-most important export destination. China now accounts for about 6 % of Finland's total exports. China was Finland's fourth-most important import provider, accounting for 7 % of imports.

Statistics Finland reports that trade in services between Finland and China rose by 17 % y-o-y in 1Q17 (exports up 16 %, imports 19 %). The value of services exports last year reached 1.1 billion euros, or about 30 % of Finland's total China exports. In this year's first quarter the share dropped to less than 25 %.

Statistics Finland reports that the number of Chinese travellers spending at least one night in Finland increased by about 50 % y-o-y in the first half. The Chinese accounted for 5 % of all overnight stays of foreign visitors to Finland.

Finnish goods and services trade with China



Sources: Finnish Customs, Statistics Finland.

Trade with North Korea has little economic significance for China and Russia.

US president Donald Trump last weekend threatened to cut trade relations with countries that do business with North Korea. According to the Comtrade database maintained by the UN, China is essentially North Korea's sole trading partner, with China accounted for about 90 % of all of North Korean goods exports and imports in 2016. Russia's share of North Korean imports was 2 % and exports even less.

With goods exports to North Korea valued at just 2.8 billion dollars last year, the country has only minor economic significance to China (0.1 % of China's total exports in 2016). Imports were valued at 2.5 billion dollars (less than 0.2 % of total imports). Broken down by category, China's exports to North Korea were quite diverse. The leading categories of goods exports in 2016 were machinery & equipment (27 % share of exports), textiles (17 %), various food products (7 %), clothing (6 %) as well as oil and refined oil products (4 %). Imports were dominated by coal (47 % of imports), clothing (22 %), ores (9 %) and shellfish (7 %). Due to the sanctions agreed with the UN, China last month banned imports of coal, iron ore, iron, lead, fish and shellfish from North Korea.

Russian goods trade with North Korea is also quite modest. Only 0.02 % of Russian exports (68 million dollars in 2016) went to North Korea. Imports were just 9 million dollars, or practically non-existent. Oil and oil products constituted 80 % of Russian exports to North Korea. While the emphasis had been on refined products in recent years, North Korea this year boosted its orders for crude oil. Other exports consisted mainly of grain products, fish and transport vehicles. The biggest import goods category was fish, which accounted for about a third of imports.

Figures on North Korean foreign trade vary depending on the source. The country itself releases no statistical data. A big part of business activities is likely never recorded.