

Russia

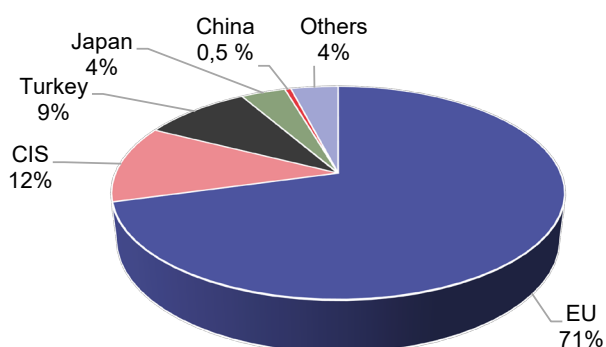
Russia commences pipeline transmission of natural gas to China. On Monday (Dec. 2), presidents Vladimir Putin and Xi Jinping celebrated the commissioning of the Power of Siberia natural gas pipeline. Gas transmission will ramp up gradually. In 2020, the volume of gas transmitted should reach 5 billion m³. Full capacity of 38 billion m³ a year should be achieved in 2024.

Russia and China reached an agreement on construction of the pipeline and gas supplies after years of talks that culminated in spring 2014. At that time, the parties signed a 30-year agreement on annual shipments of 38 billion m³ of pipeline gas per year from Russia to China. To meet the contract terms, Russia's state-majority-owned gas giant Gazprom needs to develop two new gas deposits in Eastern Siberia and build the 3,000-kilometre pipeline for transporting gas to the Chinese border.

The first leg that was now commissioned runs for 2,200 km from the newly developed Chayandinskoye field in Yakutia to the border city of Blagoveshchensk. From there, gas is piped under the Amur river to China. The pipeline is the sole transmission connection of the Chayandinskoye field and therefore gas can be exported from there only to China. By 2022, the Power of Siberia pipeline should be extended another 800 km west to connect with the Kovyktinskoye gas field that is under construction.

Russia's total natural gas exports amounted to nearly 250 billion m³ last year. About 175 billion m³ of that went to EU countries. China's share of exports was less than 1 %. The start of pipeline gas exports to China has no direct impact on Russia's gas business with EU customers. Pipeline gas exported to China comes from a newly developed gas field and that gas cannot be shipped to another foreign market.

Russian natural gas exports by region, 2018



Source: BP.

China last year imported roughly 120 billion m³ of natural gas. The International Energy Agency (IEA) expects imports to reach nearly 290 billion m³ by 2030. China's most im-

portant gas suppliers last year were Turkmenistan and Australia, each providing China with just over 30 billion m³ of gas. Russia accounted for only about 1 % of Chinese gas imports in 2018.

First highway bridge across the Amur river joining Russia and China is finally ready. China and Russia signed an initial agreement on construction of the Amur road bridge in 1995. Construction halted almost immediately due to the lack of financing. A second agreement was penned 20 years later, with construction getting underway in earnest in December 2016 with financing from a Chinese bank.

The thousand-metre bridge over the Amur links the city of Blagoveshensk in Russia's Far East with Heihe in Northeastern China. Russia and China were each responsible for building half of the bridge. China completed its portion in autumn 2018 at an estimated cost of about 5 billion rubles (70 million euros). Russia completed its section in late November this year at a price of nearly 14 billion rubles (200 million euros). The bridge is set to open to goods traffic next spring, and passenger traffic is expected to begin in mid-2021 once Russia builds border-crossing infrastructure.

China is a key economic partner for Russian Amur region. China last year accounted for over 90 % of the region's exports and nearly 75 % of its imports. The stock of Chinese FDI in the region was about 60 million dollars at the end of last year. China is the region's second-most important FDI provider after Cyprus (Russian investors often cycle investment via Cyprus). A recent BBC investigation found that at least 10 % of land under cultivation in the Amur region was controlled by Chinese entities.

Small recovery in Finnish exports to Russia. Finnish goods exports to Russia rose by 28 % y-o-y in 3Q19. Much of the growth came from gas pipeline deliveries to the Nord Stream 2 project. The pipe sections were brought from Russia to Finland for coating, meaning that they were initially recorded as imports to Finland from Russia, then treated as exports from Finland to Russia. Even when gas pipeline activity is omitted, the pace of growth in Finnish exports to Russia accelerated after the first half of the year, rising at about 7 % y-o-y in 3Q19. The fastest growth was seen in exports of foodstuffs and paper products. Russia was Finland's fourth-largest export market, accounting for nearly 6 % of Finnish exports.

The latest survey from the Finnish-Russian Chamber of Commerce suggests export growth could continue. The survey covers over 200 Finnish firms involved in trade with Russia and 40 % of respondents expected their exports to Russia to increase at least to some extent over the next six months.

The value of Finnish goods imports from Russia contracted by 9 % y-o-y in the 3Q19. The value of imports was mainly dragged down by lower oil prices, but imports contracted in all major product categories. After Germany, Russia was Finland's second most important import provider, accounting for nearly 14 % of Finland's imports.

China

New NBS census data confirms growing importance of China's service sector. The results from the census, which was conducted by the National Bureau of Statistics in 2018 and shows the situation at the end of last year, were released last month. The previous census was conducted in 2013. Over the following five years, the number of entities (mainly corporations) operating in the industrial or service sectors doubled to nearly 22 million. The number of employees rose by 7.6 % to 383 million. The survey did not cover the agriculture sector.

About 18.6 million of the organisations surveyed were corporations, up from 8.2 million in the 2013 census. Of the 18.3 million domestic firms in this group, 72,000 were state-owned enterprises (113,000 in 2013). The census found 103,000 foreign firms (106,000 in 2013) and 119,000 (97,000) firms from Hong Kong, Macao or Taiwan. The census also looked at 1.1 million state institutions, 305,000 social organisations and 1.8 million other legal entities.

38 % of the 383 million persons employed in the industrial and service branches were women. The number of industrial employees declined by 20 million from 2013 (down 10 %), while the number of employees in service branches rose by 47 million (up 29 %). The number of self-employed units rose to 63 million (33 million in 2013) and they employed 149 million persons (90 million in 2013), of which 46 % were women.

The census data have been used, among other things, to update last year's nominal GDP estimate, which was boosted 2.1 % to 91.93 trillion yuan (13.9 trillion dollars). The value of services output was adjusted up by 4.3 %, with the service sector accounting for 53.3 % of GDP and the industrial sector 39.7 %. Revised real GDP figures have yet to be released.

Number of firms and employees by branch in 2018

Thousands	Firms*	Firm's employees *	Employees of self-employed
Industry , of which	4 630	172 558	26 111
- mining	70	5 960	85
- manufacturing	3 270	104 713	16 374
- construction	1 218	58 091	9 503
Services , of which	17 159	210 677	123 201
- commerce	6 499	40 085	64 432
- hotels and restaurants	431	7 069	22 353
- IT and software	920	10 107	448
- finance	138	18 316	-
- real estate	745	12 689	1 717
- business services	2 551	22 901	2 993
- public admin. & social security	1 597	25 087	-
Total	21 789	383 236	149 312

Sources: NBS and BOFIT. *Corporations and other legal entities.

After long hiatus, Chinese government again issues euro-denominated bonds. Last month, China's finance ministry issued euro-denominated debt for the first time in 15 years. The 4-billion-euro issue carried maturities of 7, 12

and 20 years. The 7-year eurobond yields 0.2 % and the 20-year eurobond 1.1 %.

The finance ministry also issued 6 billion dollars in dollar bonds last month with yields 0.35–0.7 percentage points higher than similar yields on US treasuries. After a 13-year pause, China has issued dollar-denominated debt for the past three years. The debt issued by the Chinese government is a key benchmark for corporate foreign-currency debt.

The foreign debt of Chinese businesses at the end of June totalled about 2 trillion dollars (14 % of GDP). About half of that was debt of banks, just over 10 % of finance ministry and central bank, with the remaining 40 % of other actors. Dollar debt (55 % share) dominated foreign debt. Yuan-denominated foreign debt was 34 %, and euro-debt a mere 5 %.

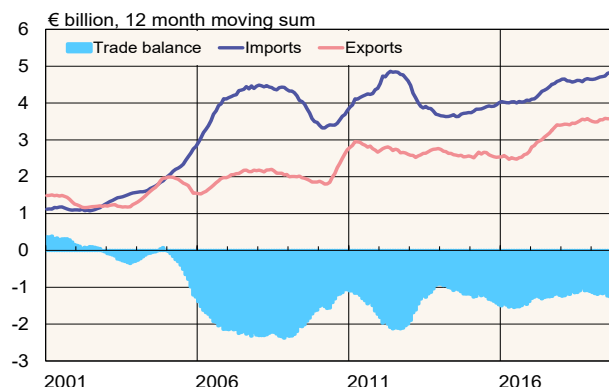
Finland's trade deficit with China rises. Finland's goods exports with China contracted in January-September by about 1 % y-o-y. Finnish imports from China grew by 7 % in the same period. On a yearly basis, Finnish exports to China amounted to 3.5 billion euros and imports 4.9 billion euros. The trade deficit in recent months widened to around 1.4 billion euros. China accounted for 5.4 % of Finnish exports and 7.4 % of imports.

The bulk (44 %) of Finnish exports to China were basic commodities. Pulp alone was 25 %. Industrial machinery, a second important export product group, constituted nearly a third of goods exports. Exports of meat products has grown quickly, even if food was still just 2 % of exports.

During the first nine months of this year, 53 % of goods imports consisted of electronics and other machinery & equipment. The remainder was other manufactured goods. Clothing had a 10 % share.

The latest services trade data are from the second quarter of this year. The 12-month period ending in June showed Finnish services exports to China were 1.6 billion euros and imports 1.0 billion euros, and thereby slightly offsetting the goods trade deficit. Licencing fees were the top services export category last year (28 % share). Tourism accounted for 16 % of services exports. Finns purchased business services (56 % share) and transport services (24 %) from China.

Finland's goods trade with China, 2001–2019



Source: Finnish customs.