

Russia

Duma approves Russia's WTO accession agreement by a narrow majority. In the Duma vote on Tuesday (July 10), United Russia representatives went 238 for WTO accession, while a coalition of A Just Russia, the Communists and the Liberal Democrats were 208 against. The upper-house Federation Council should most certainly approve the agreement at its July 18 session. After that, president Vladimir Putin will sign the ratification agreement into law. Russia's WTO membership would take effect 30 days after signing. The deadline for passage of the WTO agreement is July 23. If Russia fails to ratify its agreement in a timely fashion, it must restart accession talks from the beginning to join the WTO.

The Duma vote on the WTO agreement was originally scheduled for July 4, but delayed after 131 deputies challenged the WTO agreement in Russia's Constitutional Court on the basis that certain clauses in the agreement were in conflict with the Russian constitution. Furthermore, no official translation of the document was ever available to the Duma for formal review and the issue of membership was not discussed with the Russian regions in spite of the fact that they are affected by the membership.

In its ruling on July 9, the Constitutional Court found the agreement and the Duma approval procedure constitutionally compliant and the ratification process could continue.

Russians have been split on whether to pursue WTO membership ever since the accession process began in 1993. Economists have largely supported membership, pointing out that it should benefit the country overall in the long run by e.g. opening up domestic markets to competition and bringing Russia into conformity with international business practices. The stance of industrial branches has varied depending on whether they perceive accession as beneficial to their interests or not. Ultimately, the decision to go ahead with Russian membership and complete WTO talks was made in 2010 by then prime minister Putin.

The retail sector and industries dependent on inputs from abroad are expected to benefit from WTO membership. On the other hand, companies that operate in the domestic market (e.g. farm producers, consumer goods makers and the domestic car industry) may at least initially suffer from a flood of cheap imports. Consumers should benefit through increased competition and lower prices.

Economy minister Andrey Belousov promised the Duma assembly Tuesday (July 10) that Russia would strive to aggressively exploit the advantages of WTO membership to fight trade barriers and discrimination that many Russian-made products face abroad. In particular, Russian metal and chemical industry products face extensive discrimination. This is, however, challenging as Russia lacks expertise in dealing with the jungle of WTO rules. To overcome this,

Belousov announced training of experts into the intricacies of the WTO would soon begin.

In its spring survey of businesses in Russia's 29 largest cities, Grant Thornton consultants found that 29 % of companies expected WTO membership to have a positive impact on their business, while 17 % said they expected it to hurt their business. Among the awaited positive effects, businesses mentioned expansion of their markets and increased foreign investment.

Putin names ombudsman to represent business interests. The new business ombudsman will help shepherd company appeals through legal and administrative processes, review decisions by officials to make sure rights of entrepreneurs are upheld, participate in drafting of bills and propose measures to improve Russia's business climate. The business ombudsman reports directly to the president and is part of the presidential administration.

The initiative to create the business ombudsman post came from business representatives that say the Russian government's aspirations of improving the business climate are impossible without a reduction in levels of corruption. In June, president Putin appointed Boris Titov as the ombudsman for business. Titov previously headed up the lobby group *Delovaya Rossiya* (Business Russia), which works on behalf of industrial and service-sector firms.

Titov said his main task is to fight corruption and official abuse. He stated that the situation has deteriorated in recent years: earlier corporate take-overs were mainly carried out by competing firms with the use of corrupted officials to hamstring their target. Today officials themselves – mainly from “the power structures” such as police – are behind company take-overs. A growing body of public officials are seeking to enjoy the fruits of profitable businesses.

Another big challenge facing the ombudsman are the stiff penalties and vaguely defined provisions of financial offenses in the current criminal code. Under the law, a legitimate entrepreneur can easily be imprisoned or threatened with imprisonment. Imprisonment is often used in conjunction with corporate take-overs or as a means for blackmailing company executives.

A reform of criminal statutes was launched during the presidential term of Dmitri Medvedev. One idea was to narrow the room for arbitrariness in dealing with financial crimes. For that, the number of labels for financial crimes was reduced along with possibilities to detain for investigation individuals suspected of committing financial crimes. The result has been a sharp drop in the number of economic crime cases and trials in the system. Titov noted that new ways to bring charges, however, are being devised all the time. The broad and loosely defined term “fraud” is currently the most popular criminal charge for financial crimes.

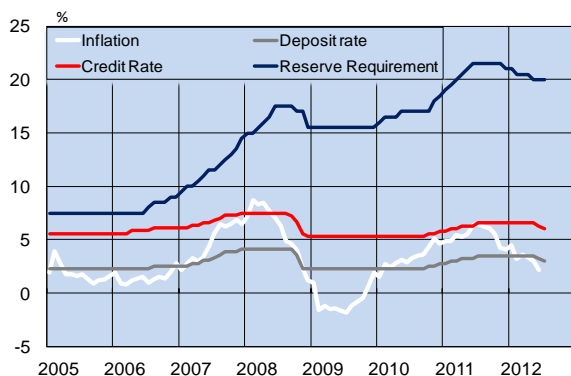
China

Inflation slowest since January 2010 – PBoC lowers reference rates for the second time in a month. Consumer price inflation fell in June to 2.2 % y-o-y, down from 3.0 % in May. Prices fell 0.6 % m-o-m, led by a 1.6 % drop in food prices while prices of other goods and services remained in June at their May levels. Producer prices declined nearly 1 % m-o-m in June, and were down 2.1 % for the last 12 months. The abating price pressures reflect an overall slowdown in the Chinese economy.

On July 6, the People's Bank of China continued to relax its monetary stance by lowering reference rates for a second time within a month. The one-year lending rate was cut from 6.31 % to 6.0 %, and the one-year deposit rate was lowered from 3.25 % to 3.0 %. Although the rate cut in early June was the first since 2008, the PBoC had relaxed monetary policy earlier this year with two reductions in the required reserve ratio. The lowering of reference rates signals that China is taking stronger measures to stimulate economic growth.

Banks were also given greater flexibility in lending. The loan rate charged by banks can now be as low as 0.7 times the reference rate. In June, the floor on the lending rate was lowered from 0.9 to 0.8 times the reference rate. At the moment, it is possible to get a 1-year loan at a rate as low as 4.2 %. The ceiling on deposit rates remained unchanged. The central bank's goal in relaxing rate restrictions is to make banking more competitive and thereby improve the function of markets.

Reserve requirement (% of deposits), one-year reference rates (% p.a.) and consumer price inflation (% change y-o-y)



Sources: PBoC and NBS

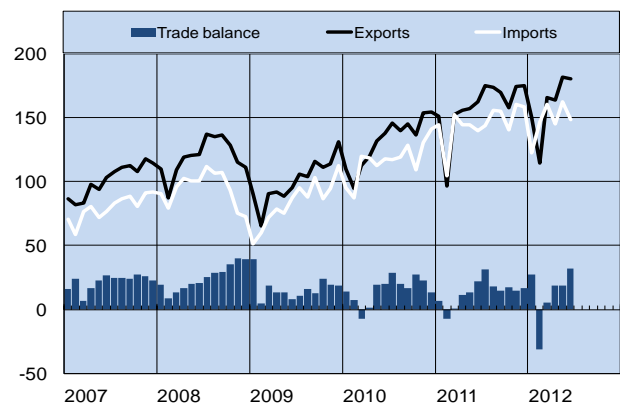
Larger-than-expected foreign trade surplus for first half of 2012. The value of China's goods exports in January-June was nearly \$1 trillion, an increase of almost 10 %

y-o-y. Exports to the US and other Asian countries grew briskly, while exports to Europe declined. China customs reports that the biggest destinations for exports were Europe and the US, each accounting for 17 % of total exports. Countries in Asia accounted for nearly half of exports, but many of China's goods exports to Asia ultimately end up in the European and North American markets.

Although growth in consumer demand has held steady, import growth was lower than expected. For 1H2012, the value of China's goods imports was up 7 % y-o-y. Lower growth in the value of goods imports partly reflects declines in world market prices for certain raw materials. Volumes of China's main raw materials' imports continued to rise.

The foreign trade surplus in the first half of 2012 was larger than expected. Earlier forecasts saw a smaller 2012 surplus than in 2011, but it now appears that the 2012 surplus will actually be larger than last year's.

China's foreign trade (USD billion)



Source: China customs

China revises household electricity pricing scheme. After two years in preparation, a modified electricity pricing mechanism was rolled out at the start of this month. Under the reform, rates for households will now be based on a multi-tier arrangement based on usage. Households that keep within the lowest tier will pay the same rate as earlier (e.g. the bottom tier rate in Beijing is about 0.5 yuan or 0.06 euro per kWh.) The top-tier rate for consumption over 400 kWh a month in Beijing adds additional 0.3 yuan per kWh to the electricity bill. Electricity rates are set at the provincial level. Under the new multi-tier scheme, most households will see no change in their monthly electricity bills.

The price of electricity is strictly regulated in China. It has been years since electricity rates were adjusted for households. In contrast, rates for industry have been hiked several times in recent years. Households consume slightly over 10 % of generated electricity, while industry consumes over 70 %.