

Russia

Big plans for Russia's forest industries. A joint venture established this summer by the Russian state and China's sovereign investment funds recently announced their first investment will go to Russia's forest industries. The joint venture is planning to take a \$200 million stake in the Russian Forest Products (RFP) Group. RFP Group operations currently focus on export of raw timber and sawn goods, but it plans to construct a large pulp mill in Russia's Far East.

A massive pulp mill is also planned for Siberia. The Angara Paper project, under planning for several years, is hoped to get boost as the Japanese trading house, the Marubeni Corporation is planning to participate in the project. The pulp mill should become the largest in the world and focus on serving markets in Asia. If realized, the two pulp mill projects would represent the first major greenfield investments in the Russian pulp & paper industry in decades.

Investments in modernisation and expansions of existing pulp and paper facilities have, however, taken place in recent years. For example, US-based International Paper and the European Mondi Group have modernised their production facilities in Svetogorsk and Syktyvkar. The Ilim Group, which has International Paper as a strategic owner, announced that it is completing this year a five-year investment programme valued at nearly \$2 billion. The company's most recent projects included construction of a pulp line in Siberia and starting production of office and printing paper at its Arkhangelsk pulp & paper mill. Last year, the Russian Investlesprom was the first company starting production of printing paper in Russia.

Printing paper producers complained in summer to the government on the 5 % import duty on printing paper agreed in Russia's WTO accession talks. The 5 % duty was effective already before Russia's WTO accession, but the producers feel the duty is too low in light of their original profitability projections when they went ahead with their investment plans. Russia raised the import duty on printing paper to 15 % despite contradiction with its WTO commitments. Russian officials blamed the 5 % figure on a typing error in the WTO documents. The WTO is looking into the matter with Russia.

Pulp & paper production accounts for less than 1 % of Russian GDP. The sector is critical, however, for some regional economies. Two-thirds of Russia's current pulp production comes from Ilim Group facilities in Irkutsk and Arkhangelsk. Paper, containerboard and corrugated paper production is concentrated in Northwest Russia: some 60 % is produced in the Arkhangel and Leningrad regions, as well as the Karelian and Komi republics. A quarter of Russian paper and containerboard production is situated in the

Volga Federal District, mainly in the Perm and Nizhny Novgorod regions.

About a fifth of the paper and containerboard used in Russia is imported, but the aim is to replace imports with domestically produced paper and containerboard.

Russian adults rank among the best educated in the world, but learning results are below the average of developed nations. On September 11, the OECD released its latest education report ([Education at a Glance 2012: OECD Indicators](#)). The survey found that 88 % of Russian adults (25–64-year-olds) had attained at least an upper secondary education. About 54 % of adults had completed a tertiary education (e.g. university degree). In OECD countries, the average is 74 % for secondary and 31 % for tertiary education. The figures for Finland are 83 % and 38 %, respectively.

The high secondary and tertiary education levels of Russians are partly a legacy of the Soviet era. The older cohorts of Russians are better educated than most of their OECD counterparts. Also the education levels of younger Russians are well above the OECD average. A second factor is the frequency of vocational education; as much as 33 % of adults have completed vocational studies. However, a student can begin vocational training in Russia immediately upon completing primary school and the Russian definition of vocational training is looser than the OECD's. As to university studies, one reason so many Russians hold university degrees is the fact that students can study part time and complete degree work online. More than half of Russian university students receive their degrees by distance learning.

A big challenge for the Russian education system is the low spending on education given the large number of students. In 2009, Russia spent the equivalent of 5.5 % of GDP on education, or less than the OECD average of 6.3 % of GDP. The biggest financing challenges were faced in primary and secondary education; Russia spends a mere 2.4 % of GDP compared to the OECD average of 4 % of GDP. Low teacher salaries partly explain the low spending level in Russia. Spending on university and primary school education exceeds the OECD average.

The PISA scores of Russian 15-year-olds continue to lag the OECD average. In 2009, Russian pupils scored poorly in all three of PISA categories (reading skills, mathematics and natural sciences). Out of the 65 countries compared, Russia tied for 43rd with Turkey and Dubai in reading. In the natural sciences, Russia ranked 39th and in math 38th. Those performances were on par with those of Greek pupils.

The rankings of Russian universities have slid in recent years, and Russian curricula and teaching methods often remain outdated. Half of university graduates end up working in fields other than their area of study.

China

China commits to further deregulation of financial markets. Under a just-released plan for financial sector reforms to be implemented through 2015, the People's Bank of China announces it intends to continue to relax interest rate policy, reduce restrictions on capital movements and continue to move towards freer formation of the yuan's exchange rate. In addition, financial market reform includes diversification of corporate financing options through development of bond and equity markets to reduce the current dependence of businesses on bank credit.

The plan is part of the current 2011–2015 five-year plan and it does not reveal anything essentially new compared to the policy framework announced by China's monetary authorities in early 2011 ahead of the five-year plan. At the time, officials said the country would strive to make the yuan fully convertible over the next five years. While the latest announcement gives no timetable of reforms, it has no indications of possible changes in the earlier announced timetable.

The first steps towards making the yuan a widely used international currency were taken at the beginning of the last decade, but serious measures to move the project forward really started in mid-2009 when China allowed use of the yuan in foreign trade payments on a trial basis. With the success of the pilot, the programme was made permanent and rolled out throughout the country. Even if capital movements are still regulated rather strictly, there has been a distinct relaxation in rules on capital movements over the recent years.

Domestic interest-rate policy continues to evolve slowly toward a time when interest-rate policy will become the cornerstone of Chinese monetary policy. Last summer China took small steps towards freer rate-setting, when the PBoC, in conjunction with cuts in reference rates, announced it was giving commercial banks greater leeway in setting deposit and credit rates. The role of interest rates has increased also through the rapid expansion of China's informal banking sector, highlighting the need for a fundamental rethinking of the financial market regulations.

The rapid evolution of China's financial markets since 2009 has been driven by measures in mainland China and abroad. As each new measure is implemented, it creates new pressure to further deregulate China's financial markets. In mid-September, for example, the Hong Kong stock exchange launched a yuan futures market to help firms hedge their portfolios against fluctuations in the yuan exchange rate. Prior to the change, yuan futures trading was limited to the OTC market.

Evidence points to flat growth in fixed capital investment. This summer and autumn, China's leaders have been talking up the importance of fixed capital investment as a means of stimulating economic growth. For example, the influential National Development and Reform Commission (NDRC) announced that starting last May it was speeding up its permitting processes, especially for infrastructure projects. So far, figures from the National Bureau of Statistics give no indication of a pick-up in total fixed capital investment, which includes infrastructure investment. Indeed, the on-month growth numbers for July and August show a slight slowdown in total investment.

Infrastructure investment represents about 15–20 % of fixed capital investment. Although growth in infrastructure investment has modestly accelerated in recent months, growth in January-August was lower than investment overall; only 5 % y-o-y in real terms. Much of the weak growth could be attributed to a sharp decline in railway investment from 2011. However, also investments in the road system, airports and waterways have risen less on average than other investments. Investment in the telecommunications network has increased rapidly, but it only accounts for a small share of infrastructure investment.

To stimulate investment, officials have been thought to be considering lifting restrictions put in place in recent years to cool the overheated real estate sector. However, officials are still keeping the restrictions in place for the time being. Due to the falling prices, investment in construction of apartment buildings has grown slowly, but investment in other buildings and facilities has grown more rapidly. About a quarter of total investment goes to the real estate sector.

As economic growth continues to flag, China's faltering export markets have reduced the motivation of manufacturers to invest in new capacity. For example, investment in capacity for producing electrical devices and computers has increased at a pace below average. On the other hand, investment in branches devoted to serving domestic demand, e.g. foodstuffs and retail sales, remain brisk. Industrial investment represents about 44 % of total fixed capital investment. Agriculture accounts for just a few per cent of investment, but investment in the agriculture sector has risen rapidly in recent years.

The lack of growth in capital investment can also be seen in the lending of commercial banks. Medium- and long-term loans typical for investment projects have experienced clearly lower growth in 2011 and 1H2012, and the low growth has continued in recent months.

As China resorts again to fixed capital investment to revive its economy, measures may be counterproductive over the long run as the country tries to move from an investment- and export-driven model to a consumption-driven economic growth model.