

Russia

Russia's large consumer markets. Although growth in private consumption slowed slightly this year, it was still up 7 % y-o-y in the first half. The volume of retail sales managed to increase 4–5 % still in the third quarter. While growth in food sales clearly slowed, there were no signs of a let-up in the boom in sales of non-food goods (up 8 % y-o-y in July-September). Sales of cars and home electronics remained robust. Consumption growth is widely forecast to remain rather strong in coming years.

The volume of consumption growth coupled with rising prices and slight ruble appreciation have contributed to the rapid expansion of Russia's consumer markets. Over the last four quarters, the total value of retail sales in Russia exceeded €500 billion. If passenger car and gasoline sales are omitted, the amount was about €450 billion, almost the same as in Germany. Retail sales are largely concentrated on Russia's European side; combined retail sales for the four major Federal Districts (the Central, Northwest, Volga and Southern Federal Districts) amounted to about €350 billion (excluding cars and gasoline). In the Central and Northwest Federal Districts, the amount exceeded €200 billion, nearly matching the level of retail sales in Spain. Moscow and the surrounding Moscow region generated over €100 billion in retail sales, about the same as in the Netherlands.

The rapid growth in retail sales has created a very strong increase in imports of consumer goods. The Central Bank of Russia estimates that consumer goods imports reached about €85 billion in 2011. Consumer spending on services in Russia has also risen briskly. Rosstat notes that spending on services over the past four quarters amounted to nearly €170 billion (including about €40 billion in household spending on energy and housing maintenance).

Key categories for Russian consumer markets, total for four recent quarters, EUR billion



Sources: Rosstat, CBR

Russian tourists spending more and more in Finland. In first ten months of this year, the number of Russian travellers crossing the border to visit Finland continued to increase. The value of their tax-free purchases in Finland was nearly €230 million, an increase of almost 30 % y-o-y.

Based on interviews at the Finnish border, most Russian tourists take day trips to Finland for shopping. The lion's share of Russian visitors came from St. Petersburg and Vyborg areas. The destination for nearly half of all Russian visitors this year has been the city of Lappeenranta in eastern Finland not far from the Russian border. At least half of Russian tourists buy groceries and clothing in Finland, and many also purchase other household items.

Finland had 3.3 million Russian visitors in 2011, which meant that nearly half of all travellers to Finland last year had Russian passports. Russian travellers spent €860 million in Finland. Russians' total spending during travel abroad exceeded €23 billion according to CBR balance-of-payments figures.

Russian cabinet approves environmental programme until 2020. The programme notes that Russia's environmental problems have serious impacts for society and the economy generally. For example, air pollution currently reduces the lifespan of an average Russian by about a year. Environmental problems annually generate economic losses estimated on the order of 4–6 % of GDP.

The programme would get about €600–800 million a year from the federal budget. Over half would go to improving the state of environment and environmental monitoring. The state of environment is to be improved by cleaning up environmental damage, reducing emissions and pollutants, as well as developing waste management and recycling. The goals include e.g. cutting emissions from energy production and metal industries by a third by 2020, cleaning up chemicals and toxic metals from contaminated sites at a rate of 0.5 km² a year, constructing an industrial waste treatment facility in the Leningrad region and increasing industrial use of solid household waste. The objective of monitoring is to reduce impacts of natural events through e.g. improved forecasting. The remaining share of programme funding would go to sustaining biological diversity, study of arctic regions and protecting Lake Baikal.

The programme tries to encourage companies to invest in environmental protection. To support development and application of environmentally friendly technology, it proposes e.g. tax breaks. The programme's goal is to increase fixed investment in environmental protection by 5 % a year in 2013–2020. In 2010, just over €2 billion went to environmental protection, or about 1 % of all fixed investments. Interest in environmental issues is rising and the programme is the first of its kind in Russia. Environmental experts regard the programme as a positive step, but hope to see more ambitious goals and effective implementation.

China

Unresolved issues likely to try US-China relations in Obama's second term. For China's leaders, this week's re-election of United States president Barack Obama means existing and coming spats with the US will continue to be handled with an administration and views familiar to the Chinese. China showed a keen interest in the recent US election, in part due to Mitt Romney's pledge to declare China a currency manipulator on his first day in office. Even if the threat was just campaign bluster, sorting it out would have caused additional tensions between the two nations. Obama's election to a second term means more predictability and as such was good news for the Chinese leadership as it embarked this week on naming its own new leadership for the Communist Party and the central administration. The new leadership will take over the reins in handling US relations this spring.

Simmering disputes have long characterised China-US economic relations. US politicians routinely accuse China of artificially holding down the value of the yuan in a manner that leads to persistent and massive trade imbalances. Americans also repeatedly express discontent over Chinese theft of intellectual property. China has responded to these accusations with its own claims that the US is thwarting Chinese development by limiting technology transfer and blocking investment of Chinese firms in the US.

China-US disputes so far have been constrained, avoiding the widespread use of protectionist measures or a full-blown trade war. US-China Strategic and Economic Dialogues held every six months have played a major role in managing bilateral economic relations. Both sides have not been shy about resorting to WTO arbitration in resolving trade disputes over specific trade practices or violations.

Competition between the two countries is most evident in the Pacific Rim, which Obama made a cornerstone of foreign policy and national security last year in response to the rise of China. The US has been pushing its own alliance for regional cooperation, the Trans-Pacific Partnership (TPP), which does not include China. So, this week it was announced that China would participate in the recently launched talks to create a Regional Comprehensive Economic Partnership (RCEP). The RCEP seeks to reduce barriers to trade between the ASEAN countries, India, Japan, South Korea, Australia and New Zealand. Although China initially had sought to limit free-trade talks between ASEAN members, Japan and South Korea, it now appears ready to support a wider arrangement in order to counteract US influence in the region.

China's exports to the US this year have increased slightly faster than Chinese exports overall. The US now

accounts for about 17 % of China's exports, making it China's largest single export market. Imports to the US have also climbed, although the US, which provides about 7 % of China's imports, is only the third largest importer after the EU and Japan.

China accounts for 18 % of US imports, making it by far the most important importer to the US. After Canada and Mexico, China is the third largest export market for US goods and services with a 7 % share. For the January-August period, the US ran a \$500 billion trade deficit, of which \$200 billion came from its trade deficit with China.

Euro crisis drags down growth in Chinese exports; exports to Finland remain robust. China customs reports that the value of exports to the EU shrank 6 % y-o-y in the first nine months of 2012, while exports to other continents grew in the range of 10–17 %. The differences in export performance varied widely within the EU. Exports to Germany, France, Italy, Spain and the Netherlands decreased, while exports to the UK rose. The six countries together account for about 75 % of China's exports to the EU. China's imports from the EU continued to rise, but just barely. The drop in exports sharply reduced China's trade surplus with the EU. In contrast, Europe's struggles were not reflected in direct investment flows from the EU to China, which are on track to be about the same as in 2011. Direct investment in China from other parts of the world has declined this year.

China-EU economic relations have been marred by a range of disagreements. China recently took offense to an EU initiative to find out whether China has been dumping solar panels in Europe at prices below their actual production cost. Such behaviour would entitle the EU to impose anti-dumping sanctions on China, the world's largest producer of solar panels. China is also upset over the EU's decision to impose a CO₂ fee at the start of this year on all airlines arriving and departing from European airports. A longer run goal for China's leaders is getting the EU to finally grant China market-economy status, which is seen as a politically important recognition. The EU has also refused to lift its ban of arms exports to China imposed in the 1980s.

The EU wants to see China e.g. open its markets further to foreign companies, create a level playing field for domestic and foreign firms in public procurement, as well as improve enforcement of laws. EU-China relations have also been strained by China's imposition of export restrictions on strategic metals such as rare earths. Despite the disputes, some EU countries are interested in signing on to a free-trade agreement with China.

China customs reports that exports to Finland rose nearly 25 % in January-September, while imports from Finland declined more than 10 %. The trade development resulted in China's trade surplus with Finland climbing to \$3 billion.