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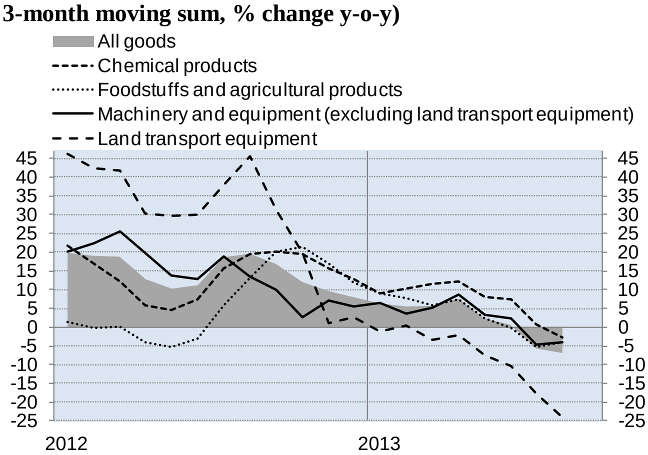
Russia

Russian economy and imports continue to falter. The economy ministry estimates GDP (workday-adjusted and seasonally adjusted) increased only slightly during the summer months. In year-on-year terms, GDP growth in August was 1.5 %, the same growth figure as posted for the whole January-August period.

Growth in manufacturing output has slowed considerably over the past twelve months. By early summer, manufacturing output was lower than a year earlier. In August, fixed capital investment was again lower than a year earlier. Retail sales, in contrast, have continued to display decent growth; August retail sales were up 4 % y-o-y.

Imports became weaker. The value of goods imports in July and August was lower than a year earlier. Until late spring, the decline was led by a drop in imports of passenger cars, but in recent months contractions have also been seen in other major imported goods categories.

Russian goods imports from non-CIS countries (in euros, 3-month moving sum, % change y-o-y)



Source: Russian customs

Wages keep climbing in Russia, but wage gaps remain huge. Rosstat reports that the average monthly wage in Russia in August was up nearly 13 % from a year earlier. A tight labour market continues to support brisk wage gains. Moreover, Russia's unemployment rate has long held at a historically low level of 5 %, despite the fact that Russian economic growth has slowed considerably. The labour ministry said that at the start of August there were nearly 2 million unfilled positions available in the country.

The average monthly wage of a Russian in August was 29,000 rubles (about €670), but wage levels vary considerably across regions and branches of employment. The highest wages are paid in Moscow and regions in the Far East involved in oil and gas production (price levels are also higher in these areas). The lowest wages are paid in Southern Russia and in the southern Siberian republics.

The business branches paying the highest wages are finance and oil & gas production. Branches that pay below-average wages include agriculture and the textile industry. In Moscow, for example, employees working in the companies of mineral extraction sector earned an average monthly salary of over €3,000, which is nearly the same as in Finland. In contrast, the average monthly wage of a textile worker in the Karelian Republic was less than €200, which is on par with the current official minimum wage in Guangdong province in China. Moreover, the wage differences between management and workers are substantially greater in Russia than in most developed countries.

The Russian minimum monthly wage by law this year is 5,250 rubles (about €120). That amount is considerably less than the official "subsistence minimum" and about the same as e.g. the low-end of the minimum wage spectrum for Chinese cities. Official statistics show that a couple of percent of those employed in Russia (over a million people) work for minimum wage. However, actual wages are often higher than reported, as many workers still take part of their pay under the table. Rosstat estimates about a fifth of the country's workers are employed in the grey economy.

Foreign pharmaceutical makers dominate the Russian market. Russian pharmaceutical sales last year were estimated to reach 818 billion rubles (about €20 billion), with foreign pharmaceutical makers controlling nearly 80 % of the market. The Russian government has tried numerous measures to promote domestic pharmaceutical production. Its goal is to raise the share of domestically produced medicines to half of the value of the pharmaceutical market by 2020. The goal is to increase the share of domestic-made "essential" medicines, i.e. those critical to survival and subject to price regulation, to 90 % by 2020.

Under a government ruling that remains in force until the end of this year, offers from foreign drug-makers submitted as part of a competitive bidding for public procurement cannot in practice win the bid unless the price offered is at least 15 % below the price offered by a Russian or Belarus firm. The Russian government is currently considering a draft proposal, whereby foreign manufacturers would be banned altogether from public procurement bidding competitions starting next year if two or more drug-makers from Russia or Belarus have registered the medicine in question in Russia.

While Russia's large market is attractive to foreign pharmaceutical manufacturers, Russian rules favour domestically produced medicines and the siting of production facilities in Russia. Several foreign pharmaceutical makers are currently building plants in Russia. A recent Deloitte survey, however, noted that foreign drug-makers find it hard to green-light investments in Russia due to market uncertainty caused by e.g. frequent changes to the laws and regulations governing the pharmaceutical branch.

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China

Additional small steps to reform Chinese financial markets. At the beginning of September, China launched trading in government bond futures, increasing the selection of instruments available to investors and making it easier to hedge against interest-rate risk. The opening of a bond futures market in China was last tried 18 years ago, when market manipulation by one brokerage house led to a collapse of the market and forced the state to ban all futures trading. Officials are now proceeding cautiously and trading is permitted only among a fairly exclusive group of brokers and investment firms. Banks and insurance companies, which hold the lion's share of government bonds, are currently not allowed to engage in bond futures trading.

China this month also took a small step towards deregulation of capital movements by granting six global hedge funds in Shanghai permission to raise money from Chinese institutions and invest it abroad. The amount of funds that can be raised is still limited to relatively small quotas. The move is the first step in the pilot Qualified Domestic Limited Partner (QDLP) programme, which is designed to complement earlier trials in liberalised capital movements. The QFII and RQFII programmes let qualified foreign investors invest foreign-currency- and yuan-denominated assets in mainland China within specific quotas. The QDII programme, in contrast, allows select domestic institutions to invest Chinese assets abroad.

China's financial markets have already been reshaped dramatically by existing financial market reforms, on-going financial sector trial programmes around the country and the explosion of grey financial markets. The changes have set off a self-sustaining chain reaction, whereby each minor reform makes it easier to move ahead with the next reform. The forces for further changes gain strength, in turn, as all market participants lobby for the same rights and opportunities as others. The September reforms are seen as important opening moves for financial market participants and create a basis for further liberalisation measures. The next financial market transformation is expected to come from the new free-trade zone established in Shanghai.

China surpasses Russia as top trading partner for Central Asian countries. Chinese president Xi Jinping earlier this month toured Kazakhstan, Kyrgyzstan, Uzbekistan and Turkmenistan. Central Asia is important to China mainly because of its large hydrocarbon endowments. China has begun to tap into those reserves now thanks to large-scale oil and gas pipeline construction in the 2000s. Additional pipeline transmission capacity is under construction.

President Xi's tour was clearly oriented to energy issues. During his visit to Kazakhstan, a number of cooperation agreements were signed. The most important deal pertains to the massive Kashagan offshore oil field, located the Kazhakh sector of the Caspian Sea. State-owned China National Petroleum Corporation will acquire an approximately 8 % stake in the oil field for $5 billion, and China promised to provide the financing for development of the oil field in exchange for future oil supplies.

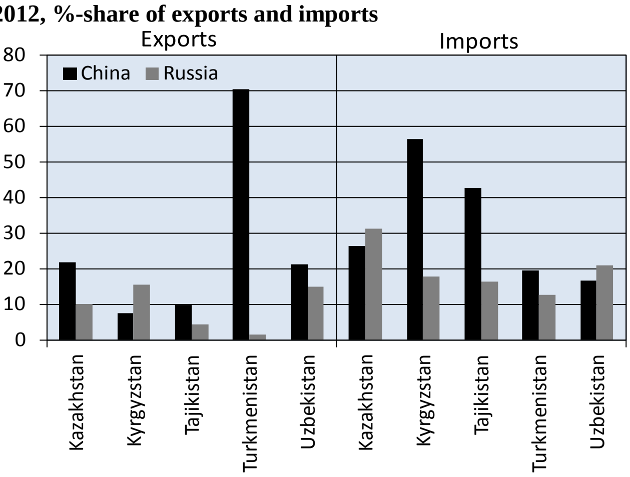
In Turkmenistan, Xi attended the inauguration the newly developed Galkynysh gas field. Gas produced at the field will go to China, and the Chinese have been extensively involved in developing the infrastructure of the field. China and Turkmenistan agreed to increase annual gas supplies by 25 billion cubic metres to 65 billion cubic metres by 2020. Turkmenistan's exports consist almost entirely of natural gas, most of which goes to the Chinese market.

In Uzbekistan, several energy-related deals were signed with a combined value of about $15 billion. The projects relate to development of Uzbekistan's oil and gas reserves, as well as exploitation of its uranium reserves. The countries also agreed on construction of a railway to run from Uzbekistan via Kyrgyzstan to China.

China granted a $3 billion loan to Kyrgyzstan. Half of the money is earmarked to fund construction of a new gas pipeline running from Turkmenistan via Kyrgyzstan to China. The rest will be used for various projects such as refurbishing of an electrical power plant, highway construction and expansion of an oil refinery.

Although China imports huge amounts of energy from Central Asia, Central Asia collectively only accounts for 1.3 % of China's total goods imports, and only about 1 % of China's exports go to Central Asian countries. In contrast, China has become an important trading partner for Central Asian countries as an alternative to their traditional main trading partner Russia. In nearly all countries of Central Asia, China has now surpassed Russia as the number-one trading partner.

Trade of Central Asian countries with China and Russia in 2012, %-share of exports and imports



Source: IMF Directions of Trade

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