

Russia

Russia's Supreme Arbitration Court handling economic disputes abolished. On February 6, president Vladimir Putin signed into law a package of court reform legislation. The reform, based on a presidential initiative, combines the functions of Russia's two highest courts – the Supreme Arbitration Court, which handles economic disputes, and the Supreme Court, which handles all other types of disputes. Most of the reforms will come into force in August.

The operational model of Russia's arbitration courts stems from legislation adopted in the 1990s when Russia's current court system was just being created. Arbitration courts were created to resolve economic disputes. These courts have generally been considered more impartial and competent than the general courts. For example, over 60 % of corporate claims filed with arbitration courts in recent years have succeeded in overturning decisions by the tax authorities and other official agencies. In contrast, it is quite rare for regular courts in Russia to overturn any official decisions. Commercial arbitration courts are considerably more transparent as nearly every ruling is posted online.

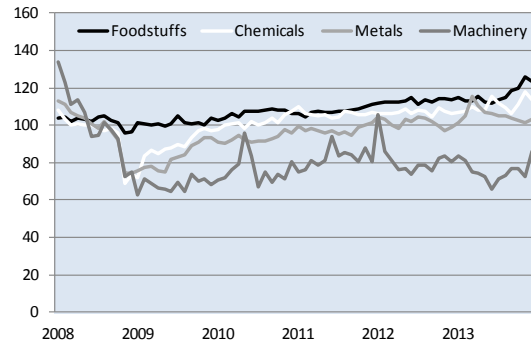
The fusion of Russia's supreme courts is justified by an aim to streamline the legal process. In some cases, the decisions of the Supreme Arbitration Court and the Supreme Court have contradicted each other. It is unclear whether elimination of the Supreme Arbitration Court threatens the existence of the arbitration court system overall.

Representatives of the business community and experts have voiced strong public criticism of the decision to merge the functions of the Supreme Arbitration Court with Russia's other supreme court. The big fear is that the merger will erode the independence of arbitration courts and make rulings on commercial disputes resemble more practices of the general judicial system. This would further degrade conditions of doing business in Russia.

Practically no growth in Russian manufacturing output last year. There were big variations, however, across sectors. Among the largest sectors, production in the chemicals branch (up 5 % y-o-y) and the foodstuffs branch (up over 2 %) were supported by continuing growth in consumer demand. Oil refining also rose 2 %.

The worst-performing branches were found in industries related to capital investment. Machine-building contracted 8 % y-o-y and metals over 2 %. Many metals industry companies have found themselves struggling under mountains of debt on falling demand for their products and declining prices. Since the end of last year, some firms have sought state assistance to help deal with their debts. Also the outlook for metal and machinery manufacturers in January was the bleakest among sectors compared to the situation a year ago.

Volume indices for select manufacturing branches, 100 = 2007 average (seasonally adjusted)



Sources: Rosstat, BOFIT

Russia preparing tighter rules governing duty-free online purchases from abroad. While there has been no official decision on the matter, the most often mentioned amendment is to lower the ceiling of duty-free purchases to €150 per imported order. On orders valued at more than €150, the purchaser should pay a duty equivalent to 30 % of the good's valuation. Russians can currently purchase up to €1,000 worth of goods from online sources outside the country each month without having to pay any import duty.

Rapid growth in Russian online shopping recent years has given a push to the officials for more regulation in the sector. In 2012, imports constituted about 10 % of Russia's total online shopping market which was estimated at about \$10 billion.

Officials justify the move as a way to weed out shady import schemes. The change should also boost revenues to the federal treasury. Even the use of additional revenue is already thought of as president Putin mentioned in his December address to the Federal Assembly that the money could be spent on building up housing infrastructure.

Russian online sellers also want the changes. They point out the current arrangement incentivises buyers to use sellers located outside Russia as long as they avoid the customs charges on foreign purchases. Opponents of the change say the change favours domestic online sellers at the consumer's expense. Many observers note that the change is likely to have little impact in the end as most Russian purchases from abroad are below the planned €150 ceiling. Larger purchases could also be transhipped via Kazakhstan to avoid customs duties.

As a rule, the Finnish ceiling on duty-free online goods orders from outside the EU is €150 per order. Value-added tax usually applies to orders valued at over €2.

Foreign electronic commerce has faced also other problems in Russia recently. In January, several of the international express delivery services temporarily suspended deliveries to private individuals in Russia, complaining that the increased paperwork demanded by Russian customs excessively prolonged delivery times.

China

Chinese tourists reduce global trade imbalances. China's current account surplus last year amounted to \$190 billion, about the same as in 2012. Given China's high GDP growth, the current account surplus fell to just 2 % of GDP last year. Before the global financial crisis China's current account surpluses were running at around 10 % of GDP and economists and policymakers were engaged in a brisk debate on impact of large trade imbalances on the global economy. In recent years, some of the major forecasting institutions, including the IMF, continue to warn that China's current account surpluses may again start rising. BOFIT has considered this as unlikely as rising imports should further diminish China's current account surpluses.

China again posted a large goods trade surplus last year, as well as a substantial services trade deficit. The services trade deficit has continued to widen on a steady rise in Chinese purchases with purchases of transport services and rapid increase in Chinese tourism. It seems China's emerging middle class is off to see the world. Tourist visits of mainland Chinese to Hong Kong last year increase by about 6 million from the previous year and some 7 million Chinese tourists more than in 2012 travelled long haul. Moreover, Chinese tourists are big spenders. When visiting Finland, for example, they spend more than any other tourist on average. Chinese balance-of-payments figures show that last year \$130 billion flowed out of China with Chinese tourists, nearly \$30 billion more than in 2012.

The financial account was well in the black as capital inflows to China exceeded capital outflows. The structural data for the financial account have yet to be released.

Balance-of-payments highlights for China, US\$ billion

	2010	2011	2012	2013
Current account	238	136	193	189
Goods account	254	244	322	360
Services account	-31	-62	-90	-122
Income account	-26	-70	-42	-41
Net transfers	41	25	3	-9
Financial account	282	260	-21	243*
Net errors and omissions	-53	-14	-80	
Change in currency reserves	467	382	92	431

*) Includes net errors and omissions. Sources: CEIC and SAFE

China's foreign trade grew fast in January. The value of exports in January rose 11 % y-o-y and imports were up 10 %. The trade surplus increased to nearly \$32 billion. Strong upticks were seen in exports to the EU (up 19 % y-o-y), the US (11 %) and ASEAN countries (18 %). The big increases in imports came mostly from the EU and the US.

The modest improvement in outlook for developed economies might be reflected in Chinese foreign trade

figures. However, it would be unwise to jump to conclusions based on January's numbers alone because it is unclear whether they represent an actual pick-up in economic activity. The Chinese Lunar New Year fell 10 days earlier than last year, jumbling available trade figures. For example, firms may have accelerated their export deliveries and advanced their import orders in January ahead of the New Year's holiday. Foreign trade data has yet again sparked concern over manipulated export figures. However, exports to Hong Kong showed a contraction of about 20 % in January relative to January 2013, which could indicate that distortions are being addressed at least to a certain extent.

China and Taiwan take a step towards increased political dialogue.

In a move of major political rapprochement, top-level officials met for China-Taiwan bilateral talks this week in Nanjing, China. Minister of Taiwan affairs, Zhang Zhijun, led the Chinese delegation. Minister for mainland affairs, Wang Yu-chin, led the Taiwanese delegation. It was the first such high-level meeting since 1949. On Tuesday (Feb. 11), the parties agreed to opening up a regular dialogue on cross-strait relations. The meeting laid the basis for deeper cooperation on the political front, but concrete results have yet to be seen.

The intensity of Taiwan-China relations stem from the fact that China considers Taiwan to be a province of China and takes a very dim view of the island's efforts to declare political independence. Taiwan, on the other hand, holds tightly to its right to self-governance. Bloomberg, for example, reports that 80 % of Taiwanese oppose reunification with China. US arms deliveries to Taiwan have also kept the question current in superpower relations.

Two camps dominate Taiwan's domestic policy debate: The Democratic Progressive Party, which is pushing for Taiwan's full independence and the more moderate centre-right Kuomintang (National People's Party). China-Taiwan relations have improved in recent years with governments led by the more mainland-friendly Kuomintang. China and Taiwan have signed numerous agreements promoting trade and freedom of travel since 2008, when Kuomintang chairman Ma Ying-jeou was elected president.

With the lifting of economic barriers, China-Taiwan trade has boomed. China is today by far the biggest trade partner for Taiwan. The Taiwanese finance ministry reports that nearly 40 % of Taiwan's exports last year went to the mainland or Hong Kong. China's relatively rapid growth has also boosted the Taiwanese economy. Taiwan's GDP grew nearly 4 % last year.

Greater freedom of cross-strait travel and direct air and sea connections have vastly increased the number of mainland China tourists visiting Taiwan over the past five years. A third of all tourists to Taiwan now come from the mainland. That share was below 10 % in 2008.