Weekly Review
49 • 8.12.2017
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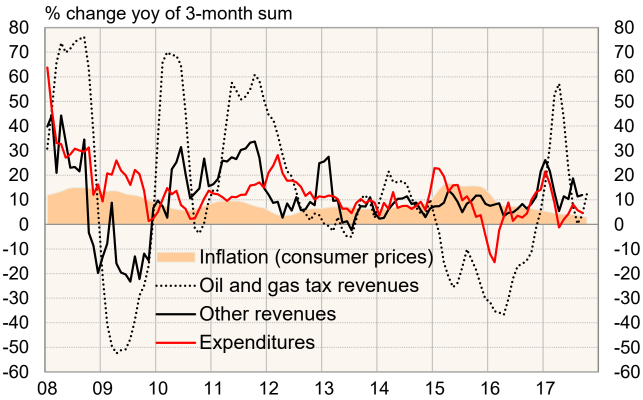
Russia

Russia reaches agreement with OPEC and other oil-producing countries on keeping cuts in place. The countries collectively decided at the end of 2016 to limit their oil output by 1.8 million barrels a day. The agreement was extended for the second time on November 30 to end-2018. The agreement will be reviewed again next summer.

OPEC has often had trouble enforcing agreed production ceilings on its members, but compliance with the current arrangement seems to have been quite good. Rising oil prices, up about 25 % y-o-y in January-November, have been to a degree supported by the deal. The Brent oil price in early December has been around 63 dollars a barrel.

The fastest recovery phase for Russia's government budgets is over. The recovery of revenues to the consolidated budget (combined budgets of federal, regional, municipal governments and state social funds) slowed in the third quarter of 2017 to 10 % y-o-y after soaring early in the year. On-year growth in the first nine months of the year was 14 %. Oil and natural gas revenues rose by 24 %, while the rapid increase in oil prices that characterised the first half of the year was no longer there to boost budget revenues. The 10 % growth in other budget revenues continued to outpace inflation. This applied to all large tax categories such as value-added tax and mandatory social taxes, and suggests that the tax bases have broadened somewhat.

Consolidated budget revenues and expenditures, 2008–2017



Source: Russian finance ministry.

Consolidated budget spending rose in January-September by 6 % y-o-y. Several spending categories posted growth quite far from estimates for the year. Especially social security spending (up 13 %) has increased faster than scheduled. Spending was lower, however, for defence (down 8 %) and healthcare (down 7 %), while homeland security saw no increase, leading to performances well below estimates in these categories. Bursts of spending in these categories can be expected at year's end when total budget spending also typically soars. The finance ministry's 2017 spending growth estimates for the federal budget and social funds including supplementary budgets have risen to 8–9 %.

The consolidated budget for the first nine months of the year showed a slight surplus (0.6 % of GDP). The performance augurs a relatively small deficit for this year overall.

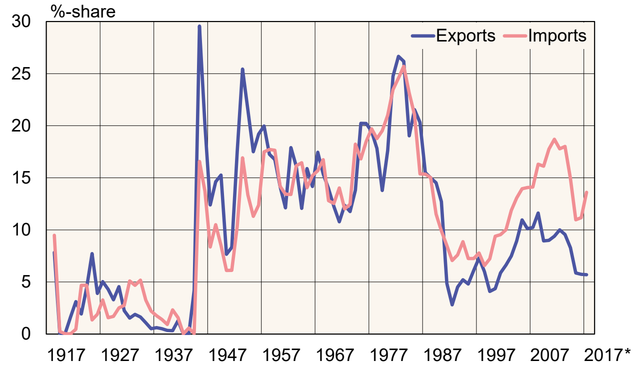
Finland at 100: Finnish-Russian trade recovering, while Russia's share of exports is low compared to history. Finnish goods exports to Russia grew in January-September by 18 % y-o-y. While growth has slowed in recent months, it has remained brisk. Growth was led by machinery & equipment, but e.g. food exports also made a rather brisk recovery. The value of goods imports from Russia was up 45 % y-o-y in in January-September on higher oil prices and large gas pipeline deliveries in the first half. Still, the level of bilateral goods trade was well below peak levels of 2012–13. In January-September, Russia accounted for nearly 6 % of Finnish goods exports and under 14 % of imports.

During Finland's 100 years of independence, Russia and the USSR accounted on average for about 10 % of Finnish goods exports and imports. The share fell to zero during WWII and then soared to 30 % in the first years of Finland's war reparations to the USSR. The share again reached a new high during the oil price spike of the early 1980s. Since the 1960s, the trade has followed the price of oil, which largely determines Russia's export earnings and import demand. For decades, the bulk of Finland's imports from Russia have consisted of various forms of fossil fuels.

From 1861 to 1917, Russia accounted on average for 40 % of imports and exports of the Grand Duchy of Finland (Finland was then part of Russia).

The structure of Finland's exports to Russia has evolved and diversified notably over past decades from raw timber to metals, textiles and ships and further to today's emphasis on machinery & equipment and chemicals. The emphasis in services exports has shifted from construction projects to tourism. The significance of direct investments has also increased over the past two decades in parallel with trade.

Share of Russia / the Soviet Union in Finland's goods trade since Finland's independence



Source: Finnish National Board of Customs. **January-September*

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China

Finland at 100: China's significance as a trading partner continues to rise. China is currently Finland's sixth top export destination and fourth largest provider of imports. Throughout the past century of Finnish independence, the importance of trade with China has grown – especially in the past decade. Prior to the 2000s, China never made the top-10 list of Finland's main trading partners. But Finnish exports to China soared in recent years, with the value of exports to China in January-September reaching 2.5 billion euros, nearly 6 % of Finland's total exports. In that period, the value of exports climbed 30 %, while total Finnish goods exports rose 15 %. The value of Chinese imports to Finland in January-September was 3.4 billion euros (up 13 % y-o-y).

Relations with the Republic of China (1912–1949) never amounted to much in the decades following Finland's independence in 1917. Finland, however, was among the first Western countries to recognise the People's Republic of China in 1950. Because the PRC emphasised self-sufficiency in its early years, relations remained modest. With the advent of major economic reforms in the 1980s, however, the importance of trade with China emerged. In the 1990s, Finland consistently ran goods trade surpluses with China. China's accession to the WTO in 2001 cemented its position as a global trade power. As trade increased, Finland began to run goods trade deficits with China. This is partly offset today by Finland's services trade surpluses with China.

For many years in the past decade, electronics accounted for at least half of Finnish imports from China. The current share is less than a third. The share of electronics in exports has fallen from almost 40 % in 2005 to 14 % in January-September this year. Machinery & equipment's share of total exports has fallen by half over the past decade and now account for less than 20 %. Pulp (19 % of exports in the first nine months of 2017) and wood (10 %) account for an increasing share of Finnish exports to China, while paper exports have declined. Exports of furs to China peaked in 2013, accounting for 14 % of total exports. This year furs accounted for just 5 % of exports. About 40 % of Finland's fur exports go to China.

China's share of Finnish trade since Finland's independence

Source: Finnish Customs. ** January-September 2017*

Trade policy disputes impair China's relations with the West. China claims that during its World Trade Organization accession talks, Western countries agreed that it would automatically be granted market-economy status 15 years from accession in December 2016. The US and EU, however, oppose the automatic grant of market-economy status with the expiry of its accession protocol. In their view, the state's pervasive role in the Chinese economy still distorts prices. China petitioned the WTO to resolve the matter. As the parties were unable to settle it among themselves, the dispute with the EU has already been moved before a panel selected by the WTO. The US last week submitted a brief from its trade representative to the WTO, laying out the case for not automatically granting China market-economy status.

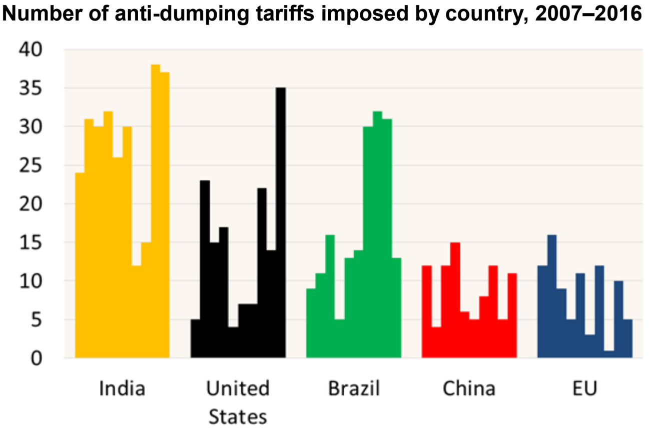
For China, market-economy status would mean political acknowledgement of its progress in market reforms. It also governs how anti-dumping duties are imposed on imports. Without market-economy status, it is easier for WTO countries to impose higher duties on imports. Market-economy status also means that existing anti-dumping duties against goods produced in China would be changed.

As the market-economy dispute has smouldered, the EU has worked to update its own anti-dumping rules. The latest rules approved by the EU parliament in November imply that the EU can continue to use its old method of determining whether Chinese imports will be subject to retaliatory duties. The European Council has yet to approve the new rules.

Over the past five years, the global average for anti-dumping duties has been about 160 a year. The biggest duty-imposers are India and Brazil, but last year saw the US quite active as well. The hard US line is also highlighted by the fact that for the first time since the early 1990s, a US administration unilaterally launched an investigation into dumping of aluminium sheet produced in China. Generally, such clarifications are initiated at the request of the industrial branch.

China has also been active, imposing 11 anti-dumping duties last year and even more this year. The WTO said that China had already imposed 10 anti-dumping duties during the first half of the year. China's commerce ministry reports the country has since added a number of new duties.

Number of anti-dumping tariffs imposed by country, 2007–2016



Source: WTO.

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