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Weekly Review
11 • 15.3.2019

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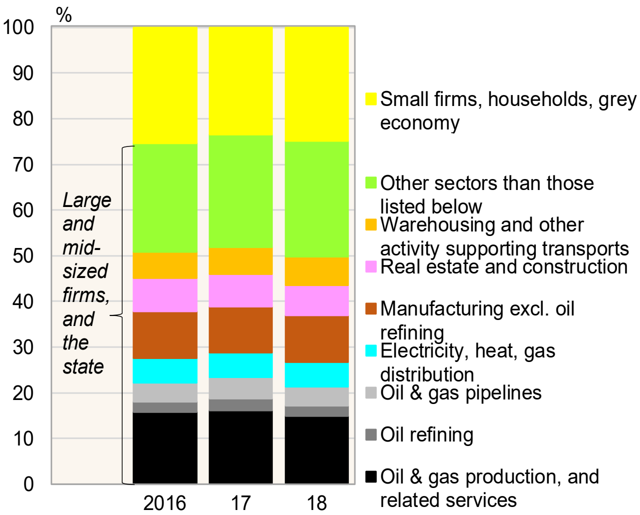
Russia

Recovery in Russian fixed investment continued in 2018. Fixed investment rose by 4.3 % last year (4.8 % in 2017, with Rosstat's latest round of revision raising the figure a bit). The level of fixed investment was no longer more than about 3.5 % below its 2013 peak. Investment growth dropped below 3 % y-o-y in the fourth quarter of 2018, but the figure for the first nine months of the year was revised up. Together with the earlier upwardly revised growth figures for the construction sector this reaffirms the setup where the surprisingly strong GDP growth in 2018 figures rest partly on improved data for January-September (revised quarterly GDP data will be released in early April).

The pace of investment last year was typical of nearly all years in this decade, when investment of large and mid-sized firms, as well as the government, increased slower than total investments (just over 2 %). Instead, other investment such as small firms and households, Rosstat says, rose some 10 %.

Investment of large and mid-sized manufacturing firms (excluding oil refining) rose briskly. The increase was led by further growth in the chemical industry and a recovery of investment in the car industry after deep slump. The chemical industry makes the most investment in manufacturing industries by far. Investment in crude oil production declined last year, after increasing in 2017. Growth in investment in natural gas production soared due to the Yamal LNG project (the Yamalo-Nenets autonomous region accounted for about two-thirds of all Russian natural gas production investment in 2017 and 2018). Investment figures for large and mid-sized firms indicate a slight decline from previous years in the share of the energy sector (oil, oil products, natural gas and electricity) from about 30 % of total fixed investments, while manufacturing (excluding oil refining) rose to 12 %.

Main categories of fixed investments, 2016–2018



Source: Rosstat.

Finnish exports to Russia slackened last year. The trend in Finnish-Russian trade last year reflected Russian foreign trade generally. Due in part to ruble depreciation, Russians cut back on their purchases of foreign goods and services abroad. The value of Russian goods exports was lifted by higher oil prices.

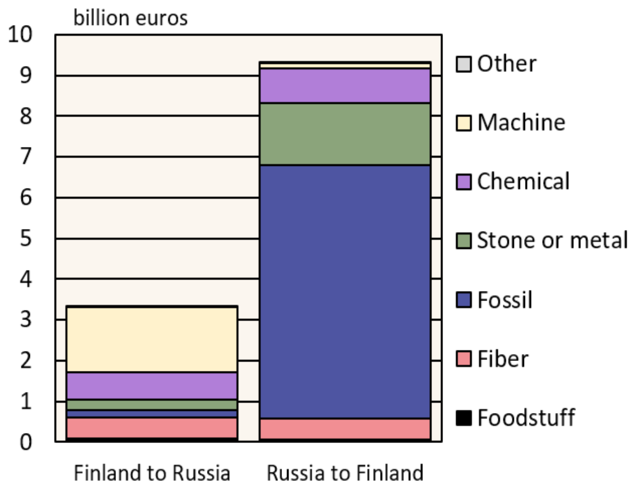
According to Finnish Customs, goods exports from Finland to Russia totalled 3.3 billion euros last year, or 3 % less than in the previous year. Russia accounted for 5 % of the value of Finland's total goods exports. Russia's share has diminished considerably during recent years. In 2013, nearly 10 % of Finnish exports went to Russia. Finland's main export goods include machines and paper.

Finland last year imported from Russia goods worth 9.3 billion euros, or 13 % more than in the previous year. Russia's share of Finland's good imports was 14 %. The value has grown mainly due to higher oil prices as fossil fuels represent two-thirds of Finland's goods imports from Russia. However, it is noteworthy that a significant share of the oil that Finland imports is exported after refinement. Finland also imports a considerable amount of wood, metals and chemicals from Russia.

According to Statistics Finland, Finns annually produce just under 1.5 billion euros in services for Russians. While the value has increased over the past two years, it depends to a large extent on Russians' willingness to travel. That in turn is affected by the ruble's exchange rate, and the ruble fell about 10 % against the euro during last year. Around the New Year holiday period Russians spent about 10 % fewer nights in Finland than a year earlier. During last year, Russian travellers accounted for 12 % of overnight stays by foreigners. About 5 % of all Finnish services provided to foreigners went to Russians.

Russians annually provide Finns with services worth nearly 1 billion euros. Russia accounts for 3 % of Finland's service imports. Transportation services represent about half of the services Russians produce for Finns.

Finland-Russia goods trade in 2018



Sources: Finnish Customs, BOFIT.

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China

EU seeks more reciprocity and balance in its China relations. On Tuesday (Mar. 12), the European Commission released a joint communication entitled "EU-China – A strategic outlook." The document reflects the strong pressures to strengthen the EU's China policies. Proposals involving foreign trade and economic issues in many respects overlap with current US demands set out in the current trade negotiations with China.

The EU Commission, in addition to emphasising greater cooperation with China in many issues like climate policy, seeks more balanced and reciprocal economic relationship. This means the EU should closely monitor China's compliance with its EU agreements and commitments. Needed actions include reforming the WTO (including reducing subsidies and forced technology transfers), as well as approval by 2020 of long-negotiated bilateral agreements on investment. Government procurements should stress reciprocity and make it easier for European firms to compete in China.

In addition to its demands on China, the European Commission also presented a number of actions EU could take to amend laws and their implementation in ways that reduce distortions in competition. These include the operation of third-country state-owned firms in the internal market as well as compliance with labour and environmental standards in government procurements. The joint communication directly mentioned the security risks associated with 5G telecom networks and foreign investment. Member countries were advised to implement the foreign investment screening mechanism agreed last month. The European Commission also stressed the importance of the EU's own need to adapt to changing realities and reject protectionist urges in EU policy.

China will figure prominently in the EU agenda this spring. The upcoming meeting of European Council will take up the Commissions joint communication on March 21. The annual EU-China summit will be held on April 9. European business groups are also refining their China positions.

China's foreign trade contracted in January-February. China Customs valued the country's goods exports in January-February at 350 billion dollars, a 5 % decrease from the first two months of 2018. Imports contracted by nearly 3 % y-o-y to 310 billion dollars. The foreign trade surplus shrank by 10 billion dollars from a year earlier and stood at 40 billion dollars. Both exports and imports measured in yuan were about the same in January-February as a year ago.

Measured in dollars, the value of exports to the US in the first two months of the year declined by nearly 15 % y-o-y. Exports to the EU and ASEAN countries still grew slightly, but the pace of growth slowed noticeably. In terms of product categories, the largest contractions in exports were seen in phones (down 24 %), clothing (down 15 %) and footwear (down 11 %). Exports of electronic devices other than phones also contracted. Exports of microchips and refined oil products increased by roughly 20 %.

In January-February, China imported 35 % less goods from the United States than a year earlier. Imports contracted sharply also from ASEAN countries (down 10 %) and South Korea (down 14 %). Imports from the EU increased by a few per cent. Imports from many commodity-producing countries, including Russia, showed robust growth.

The manufacturing purchasing manager index for February reflected shrinking export orders, an indication of a deteriorating export outlook in the months ahead.

Growth in Chinese and Russian arms exports lags growth of other major arms suppliers. The latest report on global arms transfers from the Stockholm International Peace Research Institute (SIPRI) shows that, during the latest five-year study period (2014–2018), arms transfers rose 8 % from the previous period (2009–2013). Three-quarters of global arms transfers involved the United States (36 %), Russia (21 %), France (7 %), Germany (6 %) and China (5 %).

The volume of China's arms transfers in 2014–2018 rose by less than 3 % from the 2009–2013 period. The figures suggest growth in China's arms exports has slowed radically from the boom years at the start of this decade. The number of customer countries, however, increased from the previous five-year period from 41 to 53 countries, even if arms supplies continued to focus on Pakistan (37 % share), Bangladesh (16 %) and Algeria (11 %). China's arms export possibilities are limited by political reluctance in many countries to purchase Chinese arms. SIPRI notes that, among the world's top 10 arms importers, India, Australia, South Korea and Vietnam do not buy any arms from China. Asia and Oceania account for 70 % of Chinese arms exports, Africa 20 % and the Middle East 6 %.

China is the world's largest exporter of drones for military use. Part of the reason is that the United States and Israel restrict the sale of their military drones to others.

Even with own arms production capabilities, China was the world's sixth largest importer of arms in the 2014–2018 period after Saudi Arabia, India, Egypt, Australia and Algeria, accounting for just over 4 % of global imports. Although the volume of imports fell (down 7 % from the previous five-year period), China is still dependent on imports of e.g. engines for fighter jets and ships, and air defence missiles. Russia accounts for 70 % of Chinese arms imports, France 10 % and Ukraine 9 %.

The volume of Russian arms exports dropped by 17 % during the 2014–2018 period relative to the previous five-year period. SIPRI reports that much of the decline came from a 42 % drop in exports to India and a total collapse in exports to Venezuela. Even so, India is still Russia's top arms customer with 27 % share, followed by China (14 %) and Algeria (14 %). Russia exports arms to 55 countries. Asia and Oceania account for 60 % of exports, Africa 17 %, the Middle East 16 %, Europe 6 % and Americas just over 1 %. Russian arms imports are insignificant at the moment.

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