Weekly Review
13 • 29.3.2019

BOFIT

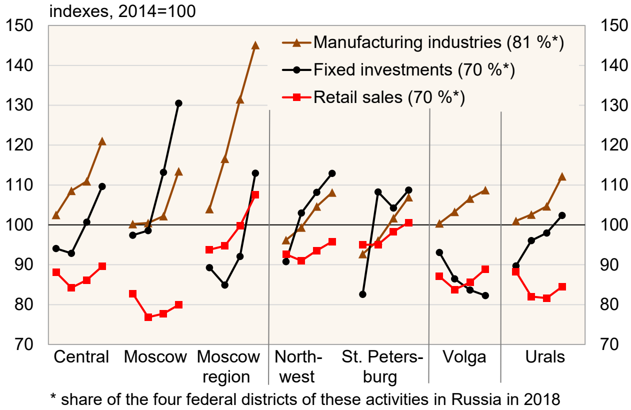
Russia

Large disparities in Russian regional economic development. Apart from the Siberia and Far East federal districts, manufacturing output has risen over the past 3–4 years continuously in Russia's other six federal districts. Rapid growth in the Central Federal District reflects diverse manufacturing operations in the Moscow region surrounding the City of Moscow, the region enjoying manufacturing growth surpassing 10 % p.a. for the past three years. The mega concentration of the City and the region accounted for over 15 % of all national manufacturing output (excluding oil refining). Manufacturing in the Northwest, Volga and Ural federal districts has also shown good growth.

Fixed investments recovered rapidly over the past two years in the Central Federal District, buoyed by investments in a number of sectors based in Moscow and the Moscow region. In the Northwest Federal District, investments also rose briskly over the past couple of years, due in large part to sharp increases in transportation sector investments in the Leningrad region surrounding St. Petersburg. Investments in the Central and Northwest federal districts last year exceeded the pre-plummet 2014 level by roughly 10 %. Both federal districts continued to raise their shares of fixed investments in Russia over the past two years. In 2018, they together accounted for nearly 40 % of all fixed investments in Russia.

Since the deep slump in 2015, retail sales have recovered to their previous level in only a few of Russia's more than 80 administrative regions. The Moscow region led the rise, due in part to shifts where retail trade has been moving to the region from the City of Moscow. The Moscow region continues to account for an increasing share of national retail sales, which, together with the City, was nearly 23 % of the country's retail sales in 2018. Retail sales in the City of St. Petersburg and the Leningrad region have recovered to 2014 levels. In five federal districts, however, retail sales last year were still at levels 10–15 % below those of 2014.

Real change in manufacturing, investments and retail sales in 4 federal districts and the 2 largest urban centres, 2015–2018



* share of the four federal districts of these activities in Russia in 2018

Source: Rosstat.

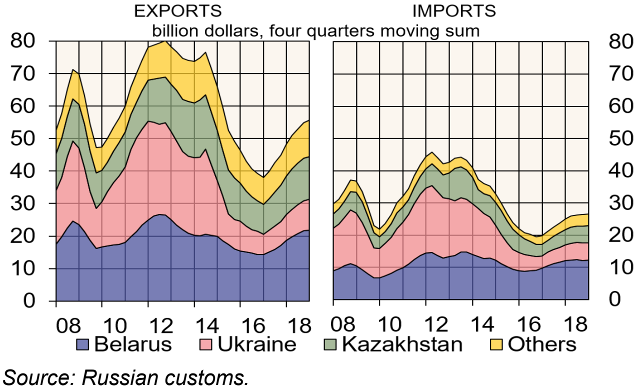
President of Kazakhstan resigns. 78-year-old Nursultan Nazarbayev, Kazakhstan's leader since the break-up of the Soviet Union, announced his resignation on March 19. The speaker of the upper house of parliament Kassym-Jomart Tokayev will serve as acting president until Nazarbayev's current term expires next year. Rather than going into full retirement, however, Nazarbayev will continue as head of the Security Council and as chairman of his Nur Otan party. Nazarbayev's new informal position was further evidenced when Tokayev, upon assuming office, changed the name of the capital city from Astana to Nursultan.

As most of Kazakhstan is arid land, most of its 18 million population live either in the relatively verdant steppe of the north or the mountain foothills of the south. Over half of the country's inhabitants are ethnic Kazakhs, but the northern plains are also home to millions of ethnic Russians. Partly owing to its wealth of natural resources, Kazakhstan has been able to sustain living standards close to those of Russia. Its Central Asian neighbours are rather less affluent. Kazakhstan is a member of the Eurasian Economic Union, which includes Russia, Belarus, Armenia and Kyrgyzstan.

Russia actively engages in trade with its neighbours. Although the significance and number of members of the Commonwealth of Independent States (CIS) have declined, the eleven former Soviet republics that formed it with Russia remain an important group of trading partners for Russia. These countries have economic significance also as transit countries since they lie between Russia, the European Union, the Middle East and China. In 2018, these countries accounted for about 11 % of Russian goods exports and imports. Exports volumes are reported to have grown by about 10 % from 2017 to 2018, while imports grew much more modestly.

Russia exports significant volumes of fossil fuels to Belarus and Ukraine, whereas many countries in the Caucasus and Central Asia have their own fossil fuel reserves. In addition to fuels, Russia exports machinery, vehicles and metal goods to these neighbour countries. Russian food is also exported to Central Asia. Russia imports machinery from Belarus and Ukraine, ore and metals from Ukraine and Kazakhstan, and foodstuffs from Belarus and the Caucasus.

Russia's goods trade with current or former CIS members



Source: Russian customs.

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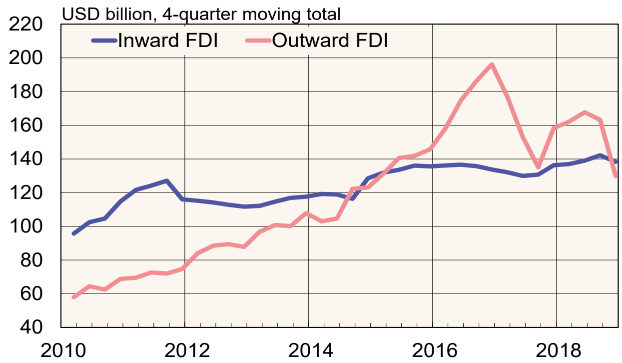
China

Foreign direct investment flows from China declined again last year; EU investment also down. China's Ministry of Commerce reports that foreign direct investment outflows from China amounted to 130 billion dollars last year, a decline of 18 % from 2017. Outward FDI was slightly less than inward FDI to China, which was valued at 138 billion dollars.

Inward and outward FDI flows for China



Sources: China Ministry of Commerce and CEIC.

China Global Investment Tracker (CGIT) also reported a sharp decline in investment from 2016–2017. CGIT reports that 40 % of Chinese investment last year went to Europe, while Asia, North America and Africa each accounted for roughly 15 %. Chinese investment in Africa soared after a slump of several years. CGIT shows that nearly 40 % of Chinese investment last year went to the metals and energy sectors, compared to less than 15 % in 2017. Investment in other branches fell sharply.

A recent report from MERICS and the Rhodium Group finds that the flow of Chinese FDI to EU countries last year fell to just 17 billion euros, a 40 % drop from 2017 and the lowest level of FDI since 2014. The UK, Germany and France together accounted for nearly half of Chinese FDI to EU countries, down from more than 70 % in 2017. Investment in Sweden, however, soared after Volvo-owner Geely pumped in 3 billion euros in new capital. As recently as the start of this decade, Chinese state-owned enterprises accounted for 80–90 % of Chinese FDI to the EU. The Rhodium Group estimates that the share was just over 40 % last year.

FDI outflows from China have fallen since 2017 after China implemented tighter guidance on investment abroad and narrower access of Chinese firms to financing. A number of firms struggling with debt last year were forced to sell a part of their foreign assets. MERICS/Rhodium Group estimate that Chinese firms divested at least a total of 4 billion euros in EU assets last year.

The stricter regulatory environments in FDI receiver countries has also affected Chinese foreign investment. In recent years, several Western countries have tightened their screening of foreign investment. The EU also recently approved new rules on investment screening for third countries (see BOFIT Weekly 7/2019). Equitable treatment of foreign investors and a level competitive playing field were again on the agenda during president Xi Jinping's visit to Europe this week.

Chinese international patent activity almost on par with the US. The World Intellectual Property Organization (WIPO), which operates under the auspices of the UN, reports that a total of 253,000 international patent application covered by the Patent Cooperation Treaty (PCT) were filed last year, an increase of 4 % from 2017. Even with a minor decline, the number of PCT patent applications from the US was the highest, accounting for just over 22 % of total PCT applications. The number of Chinese PCT patent applications rose by 9 % last year to a total share of 21 %.

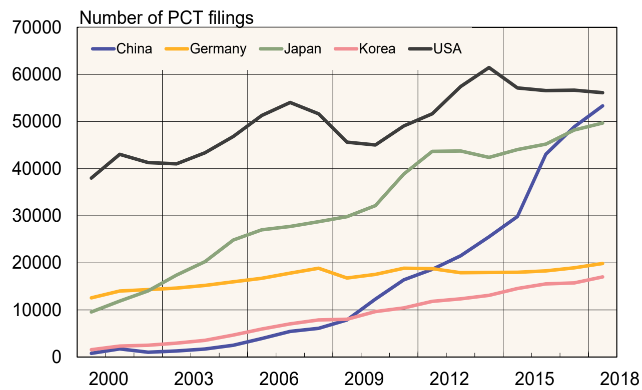
Asia's push on the innovation and patent front was bolstered by number-three Japan (20 % of all patent applications) and fifth-place South Korea (7 % share). They bracket number-four Germany with its 8 % share. Six of the top 10 PCT patent application countries were located in Western Europe. For the first time, Asian countries accounted for half of all applications, while Europe represented just over 24 % and North America 23 %.

Asia's push into the technology frontier was also evidenced in the rankings of firms filing the most PCT patent applications. The Chinese Huawei topped the global list with over 5,400 patent applications last year. Next was the Japanese Mitsubishi Electric with about 2,800 applications. The number 3 and 4 spots went to the American Intel and Qualcomm, respectively. The top 10 also included two other Chinese firms, two Korean firms, a Swedish firm and a German firm.

BRIC countries other than China are far less active in their patent application activity. Although the number of patents submitted from India increased by 27 %, it still represented only about 2,000 applications, which is less than 1 % of all applications. Russians submitted less than 1,000 patent applications, while Brazilians had just over 600 applications.

The number of PCT patent applications from Finland rose by 15 % last year to just over 1,800, putting Finland 15th in the rankings just after India and Israel.

PCT patent applications in leading countries



Source: WIPO.

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