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Russia

Russian fixed investment developments vary across sectors. Growth in fixed investments in the first half of this year cooled off to 0.6 % y-o-y, the slowest pace since growth remained at a halt in 2016. Fixed investments by large & medium-sized firms and the government fell by about 1 %. In 2017–18, investment growth in these categories also clearly lagged growth in fixed investments in other categories.

Fixed investments of large & medium-sized companies and the government account for about three-quarters of all fixed investments in Russia. The pace of growth in these investments has varied considerably across sectors. In the first half of this year, investments in natural gas production and liquefaction roughly doubled in their real volume, while investments in telecommunications were up by one half. These leaps provided a large boost to growth figures for total fixed investments. On the other hand, investments in crude oil production continued to fall as they had in 2018. Investments in oil refining were up notably after last year's drop. Investments in other manufacturing branches declined after two years of strong growth.

First-half growth remained brisk for fixed investments by entities other than large & medium-sized firms and the government, scoring a pace of 5–6 % y-o-y even after rapid growth in 2016–18. Most of these investments consist of housing and machinery & equipment in various sectors. The data on this category of other fixed investments are based, especially within a year, on Rosstat's estimates of fixed investments by small firms, entrepreneurs, households and the grey economy.

Data on the rapid rise in the real volume of these other fixed investments carry a special feature as regards price increases. Comparison of the volume data to data on the value of these other fixed investments indicates that the rise of prices in these investments for many years has considerably lagged the price increases in fixed investments by large & medium-sized firms and the government, or even declined, like they did last year. It appears that in some years a partial cause of the slower price increases was a moderate rise in housing construction prices.

Russia streamlines visa rules. Starting on October 1, foreign visitors to Russia can get cleared for their visit to St. Petersburg or the surrounding Leningrad region simply by filling in data online and downloading an electronic visa at no cost. It is not clear yet whether the new e-visa will also apply travellers entering Russia via Finnish-Russian rail services. The list of nationalities eligible for e-visas has also yet to be released.

Citizens of 53 countries (e.g. all EU countries, India and China) have been able to visit the Kaliningrad enclave on an e-visa since July. Citizens of China, India and 15 other (predominantly Asian) countries have been able to visit the Russia's Far East Federal District on an e-visa since 2017.

CIS countries have generally relaxed their visa practices. In order to attract visitors, some CIS countries over the past couple of years have introduced e-visas or increased the number of countries exempt from the visa requirement. This year, Uzbekistan removed the visa requirement for 45 nationalities. The countries of Central Asia are also planning to introduce a joint Silk Road Visa that would allow travel in any Central Asian country with the exception of Turkmenistan.

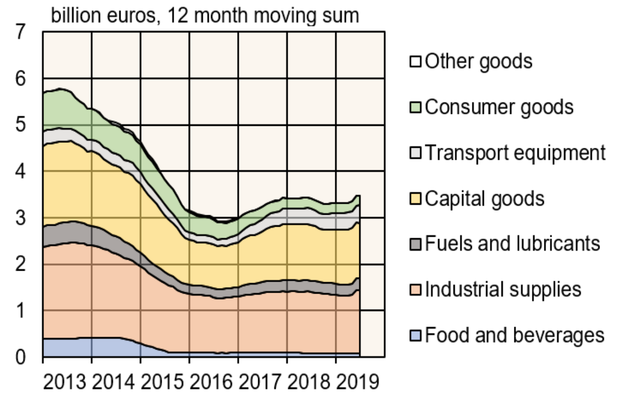
EU citizens can now visit a number of CIS countries without visas, including Armenia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Ukraine and Uzbekistan. E-visa travel is available for Azerbaijan and Tajikistan. Limited visa-free travel is available for Russia and Belarus. Of all CIS countries, only Turkmenistan retains the traditional visa requirement.

Finnish-Russian trade remains sluggish. Finnish Customs reports that in the first half of 2019 the value of goods exports from Finland to Russia (1.8 billion euros) increased by 10 % and the value of goods imported from Russia to Finland (4.5 billion euros) was down by 1 % compared to the first half of 2018. However, a significant share of export revenues this year have derived from one-time gas pipeline deliveries to the Nordstream 2 pipeline that spans the Baltic Sea. Other exports declined slightly.

The total value of the goods flow from Finland to Russia remains at about half of its level prior to the start of the global financial crisis in 2008. Over the past decade, Russia's share of Finnish exports has dropped from 11 % to 5 %.

In the first half of 2019, Russians made 2 % fewer trips to Finland than in the same period last year and had 4 % fewer overnight stays in Finland. In particular, there were much fewer Russian overnight stays in January, which includes the Russian Christmas holiday season. On a yearly basis, Russians account for 4 % of overnight stays in Finland, but in January their share was 9 %.

Finnish goods exports to Russia



Source: Finnish Customs (BEC classifications).

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China

Corporate social credit system presents new challenges to firms operating in China. While China's development of a social credit system (SCS) for individuals has received wide press, the fast-approaching inauguration of China's Corporate SCS has obtained much less attention. Last week, the European Union Chamber of Commerce in China, in cooperation with the German consulting firm Sinolytics, released a report entitled *The Digital Hand: How China's Corporate Social Credit System Conditions Market Actors*. Its main message is that China's Corporate SCS poses large challenges for companies operating in China.

Building on unprecedented computer power in gathering, integrating and processing data, the government hopes to use the Corporate SCS as a sophisticated rating and governance tool. A good score may reward a firm with preferential treatment such as lower tax rates, cheaper financing, easy access to markets and opportunities to participate in government procurements. A low score exposes the firm to increased official scrutiny, exclusion from government procurements or public blaming and shaming. If the proposed scheme is enacted in its present form, firms might even face black-listing.

The EU Chamber wants firms to prepare themselves in three areas. First, they should be ready for *compliance challenges* as Corporate SCS places strong emphasis on compliance with laws and regulations. While such compliance should not be a problem for most firms, the system's rigidity, comprehensiveness and cross-cutting interdependence may create compliance gaps caused by even minor mistakes. The monitoring burden is relatively greater for small firms than large ones. Second, the rating system creates *strategic challenges* relating to the trustworthiness of suppliers and business partners as their SCS ratings may affect scores of the firm. The system also provides a loose framework for sanctioning foreign firms, e.g. as part of a bilateral trade policy dispute. Third, officials mandate that firms *surrender massive amounts of data*, i.e. even more than the large quantities required at present. The integration and manipulation of otherwise mundane firm data, as well as sensitive information on personnel and proprietary technologies, permits to develop a concise picture of corporate operations that may threaten the firm's competitive position.

The report notes that the Corporate SCS is part of China's efforts at opening up its economy to the world. In the new system, formal barriers to market access such as domestic partner requirements will be replaced with an automated approach in which officials still retain control over a firm's activities. The Corporate SCS already exists to some extent. In the next phase, the government will work with domestic tech giants (Taiji Computer, Huawei, Alibaba, Tencent, VisionVera) in building a massive database (the National "Internet+Monitoring" System) which integrates information from public and private sources. The database should be rolled out by the end of this year. The EU Chamber notes that firms need to prepare for a rapid launch of Corporate SCS next year.

Wider issues extend beyond the practical implementation challenges of the Corporate SCS. While the system nominally claims to treat all firms equitably, the SCS in China's opaque and authoritarian regime offers authorities a lot of possibilities to treat firms as they see fit, making the system vulnerable to e.g. corruption. It could even aggravate trade tensions in coming years.

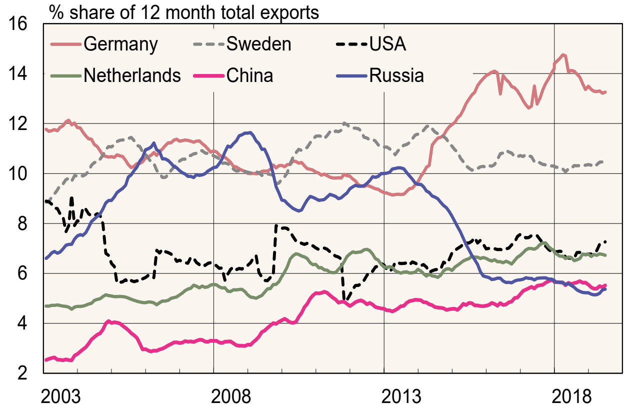
Strong performance in Finnish goods exports to China in recent months. Finnish Customs reports that the value of Finnish goods exports to China increased in the second quarter by slightly over 10 % y-o-y. In the first quarter, goods exports fell by 5 % y-o-y. For the first six months of this year, China exports were up about 3 % or roughly the same increase as Finnish exports generally.

For 2Q19, the biggest export growth was seen in pulp exports (up 16 % y-o-y), certain types of machinery & equipment (up 10 %) and wood products (up 40 %). Media attention focused also on the rapid growth in meat exports to China after the granting of import licences to Finnish meat producers. The value of meat exports in the first half tripled from 1H18. Despite the rapid growth, meat and meat products only made up about 0.5 % of Finnish exports to China.

Finnish imports from China have increased steadily this year at a roughly a 4 % y-o-y rate, slightly outpacing growth in Finnish exports to China. For this reason, Finland's trade deficit with China rose by 40 million euros in the first half to around 500 million euros.

Finland typically runs a services trade surplus with China, and last year that surplus amounted to nearly 500 million euros. 2018 services exports to China were roughly 1.4 billion euros, while goods exports were valued at 3.5 billion euros. Chinese tourism in Finland accounted for 14 % of services exports in 2017. Chinese tourism in Finland continues to enjoy strong growth. Statistics Finland reports that in the first seven months of this year, 133,000 Chinese tourists visited Finland (up 14 % y-o-y) and that they spent a total of 217,000 nights in Finnish hotels or inns (up 17 %).

Main markets of Finnish goods exports



Sources: Finnish Customs, Macrobond and BOFIT.

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