



# Russia integrates: deepening the country's integration in the global economy

by Apurva Sanghi (World Bank)

Discussion by Abdul. A Erumban, University of Groningen

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# Extensive 200-pages report, very useful and interesting

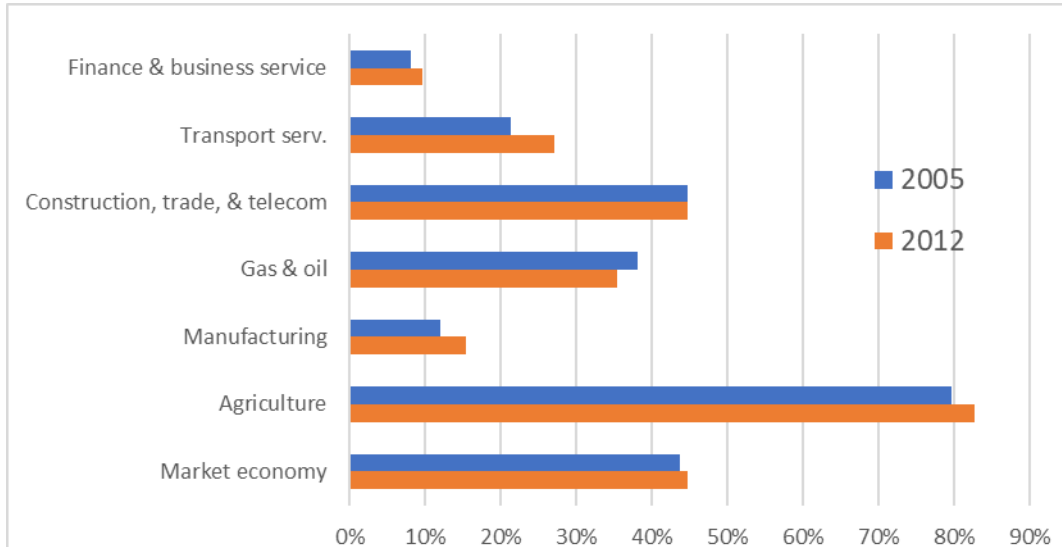
- › Prudent macroeconomic policies, joining of the WTO, and oil revenues helped Russia to improve its growth, and achieve inclusive growth
- › Potential output is shrinking, because of weakening in productivity and falling labor force. Therefore, Russia aims to develop skill intensive modern export-oriented sectors.
- › Over-reliance of Russia on natural resources and commodities for income, jobs and exports.
- › Chapter 3, where the role of services sector is laid out, is of particular relevance in the current context (t.b.d).

# Some suggestions that comes out

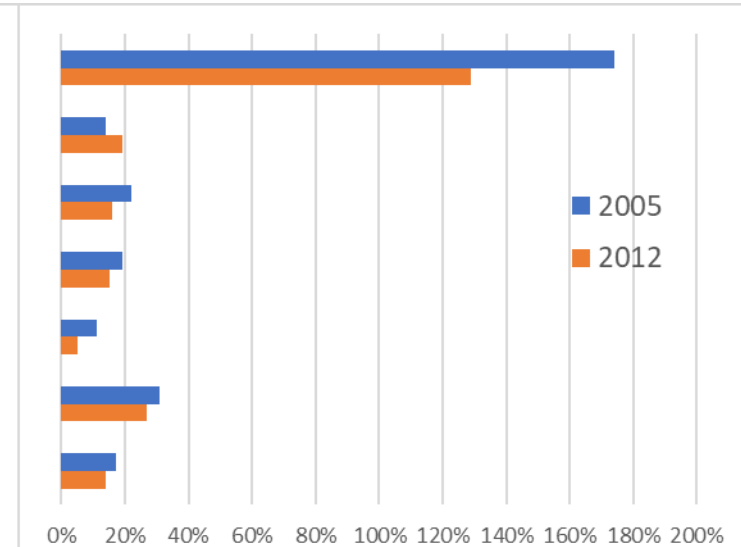
- > The need for further integration into GVC to promote diversification and growth
- > Deepening GVC participation in manufacturing (esp. commodity intensive sectors)
- > Service globalization: Russia's services exports are largely concentrated in business services and logistics – it needs to diversify that basket.
- > FDI

# Why productivity remains a challenge for Russia?

Share of informal jobs (hours worked), %



Informal labor productivity level (% of formal sector)



Source: Voskoboynikov (2020)

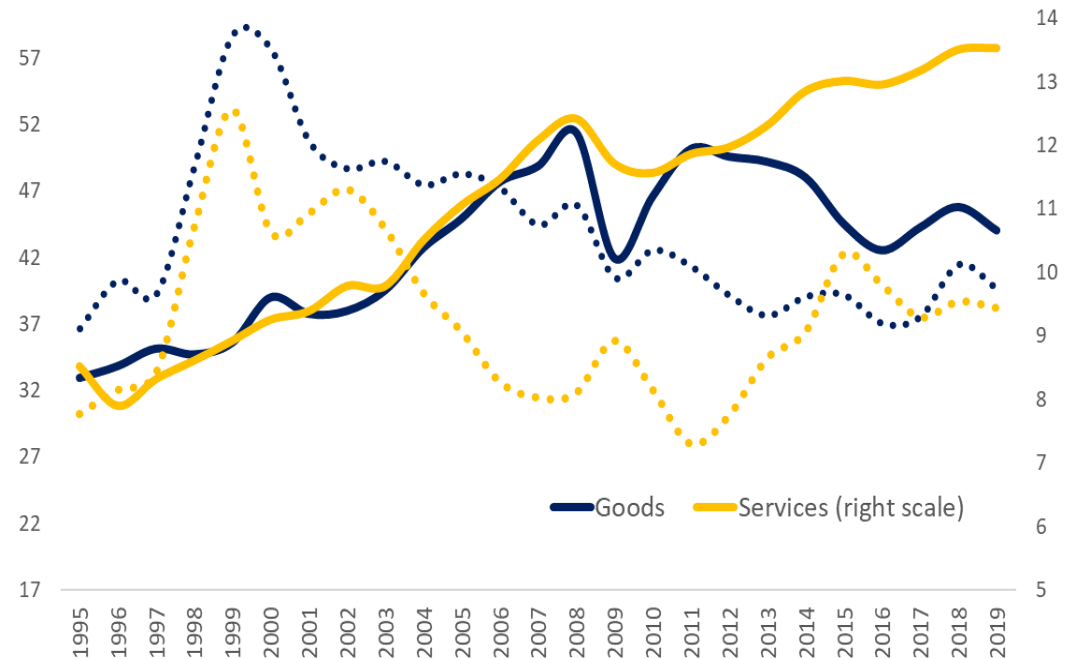
- As in many other emerging markets (e.g., India) informality remains a drag on labor productivity
- How will raising informality constrain or help Russia's aspiration to strengthen GVC participation?
- How does the continued reliance on commodity and natural resources constrain structural change and diversification – does that add to productivity challenge

# Does manufacturing really offer a future for Russia's GVC integration?

Trade/GDP has been lately somewhat stagnant in Russia

- Global trade of manufactured goods has been falling (% of GDP) since the Great Recession of 2008
- Rising populism around the world
- Trade war and anti-globalization sentiments in the west, Brexit...
- Changing manufacturing **technology** & automation accelerates re-shoring
- Finally, Covid-19
- The trend of global integration is likely to diverge between services and manufacturing

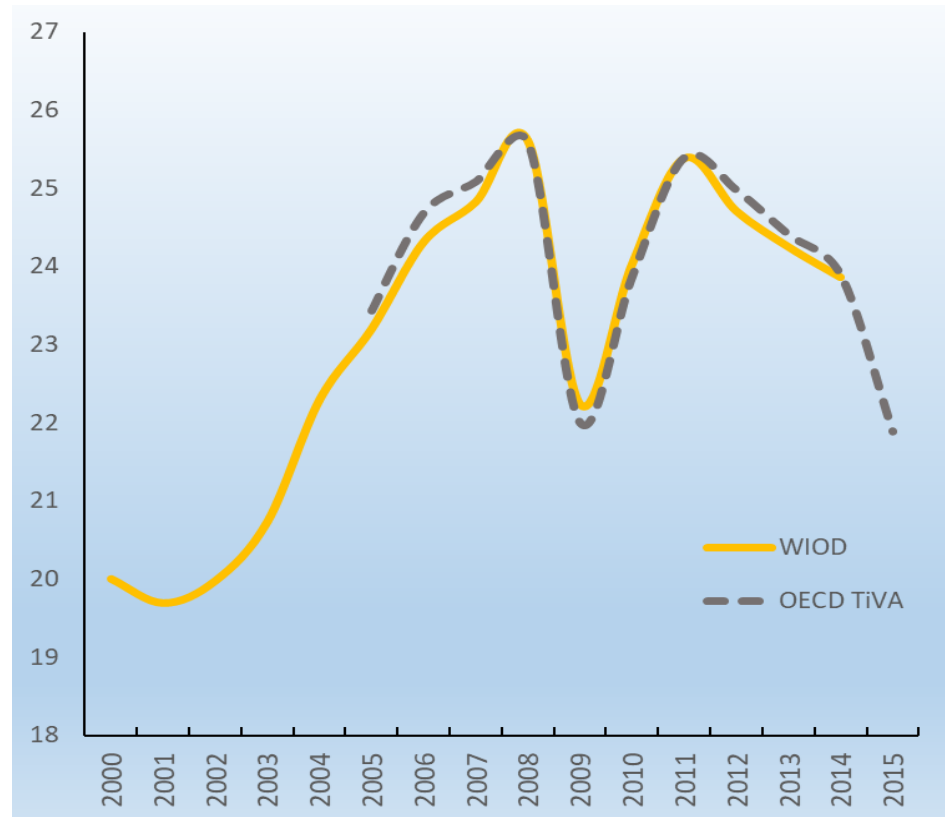
Trade as % of GDP (solid lines are Global and dotted lines Russia)



# Production fragmentation has been falling globally since 2011 in the manufacturing sector

- Businesses and policy makers shift emphasis from efficiency to resilience, flexibility and self-reliance
- reshoring production to accelerate, hastening the end of globalization
- COVID-19 seem to be reinforcing this trend as it pushes economies to turn inward to avoid exposure to external economic and health shocks

% of foreign value added in domestic output value of manufacturing

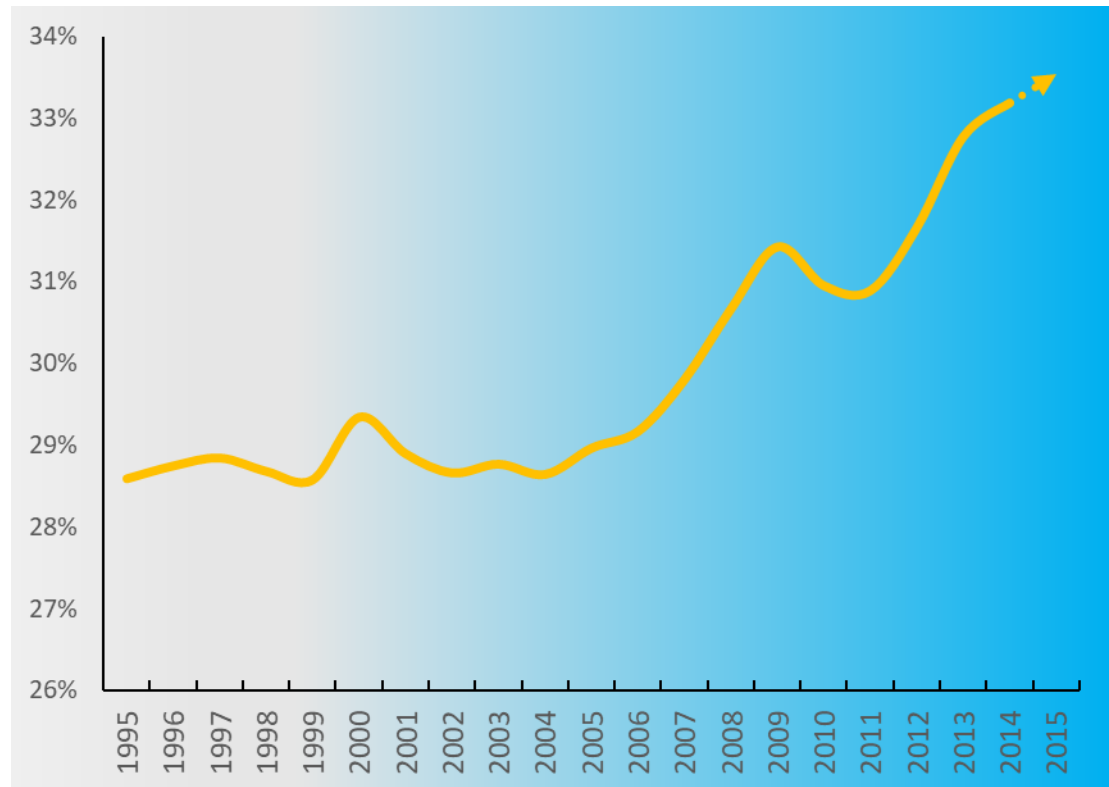


Sources: WIOD, OECD

# But services tend to be showing resilience

Perhaps for countries like Russia, where skilled labor can be exploited in services, joining more intensely in service value chain is the future

- The foreign content in domestic services output continue to outpace the trend in manufacturing
- This upward movement is likely to continue in the post-COVID-19 world



Sources: WIOD, OECD

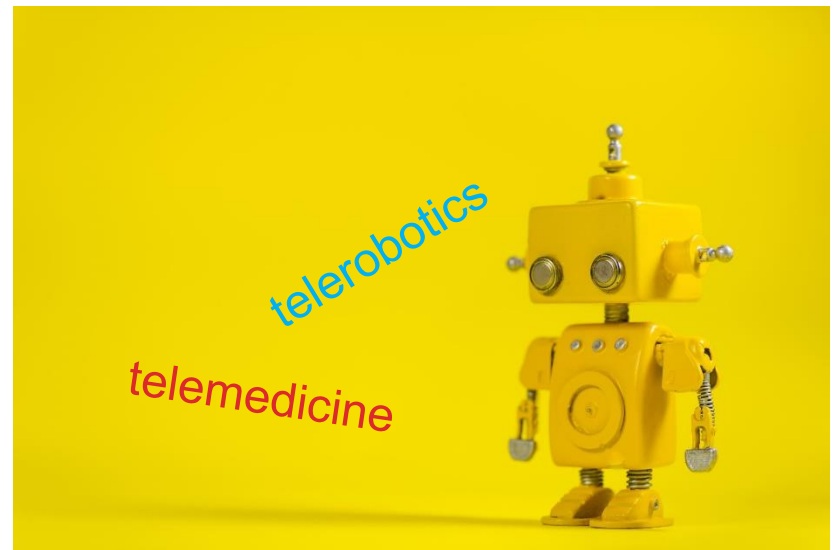
# Potential for service globalization (Baldwin, 2016)

- Services account for 75 percent of GDP and 80 percent of employment in OECD countries, but service trade is only 1/3rd of manufacturing globally
- Many tradeable activities are part of services: ICT, finance, insurance, professional, scientific, and technical services etc.
- Tradeable business services have a greater share of employment than manufacturing in many advanced economies
- Relatively large wage differences in services across countries
  - The large size and wage differences to provide potential for service-based global integration.
  - Data challenges in measuring services output properly



# But that's not alone; covid-19 to speed up the service globalization?

1. **technological shifts** reduces cost advantage of offshoring manufacturing to low-cost emerging countries but may facilitate greater service integration.
2. Trade in services could be less amenable to direct **policy restrictions such as tariffs and quotas**.
3. As companies respond to political forces by reshoring manufacturing, they are likely to continue to depend on **imported business services**.



*"the third unbundling" Richard Baldwin (2016)*

## The nature of work changes to favor services globalization



- Businesses and households are forced to adopt new technologies that would not have happened at this pace otherwise
- Video conferencing, teleworking, ecommerce, distance learning – the adoption rate has accelerated everywhere
- Rising activities in the suburbs and villages
  - Especially in the advanced world where technology was largely evenly distributed

- > Increased trade and GVC participation indeed improve efficiency and scale economies, but it reduces inventories of essentials, which might push politicians continue restricting trade, at least on vital products
- > Given the already declining globalization trend, does the traditional type of manufacturing GVC has great potential, or countries like Russia should be exploring services more?
- > Accelerate digital transformation, relax trade policies, remove barriers to several service industries – important recommendations from the paper & lesson for policy makers
- > What strategies Russia should adopt in order to stimulate productivity and reduce informalization of the economy.
- > Investing in and adopting new technologies to create smart and productive jobs, perhaps including in the tradable services?

Thank you  
@Abdul\_Erumban