



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

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Extensive 200-pages report, very useful and interesting

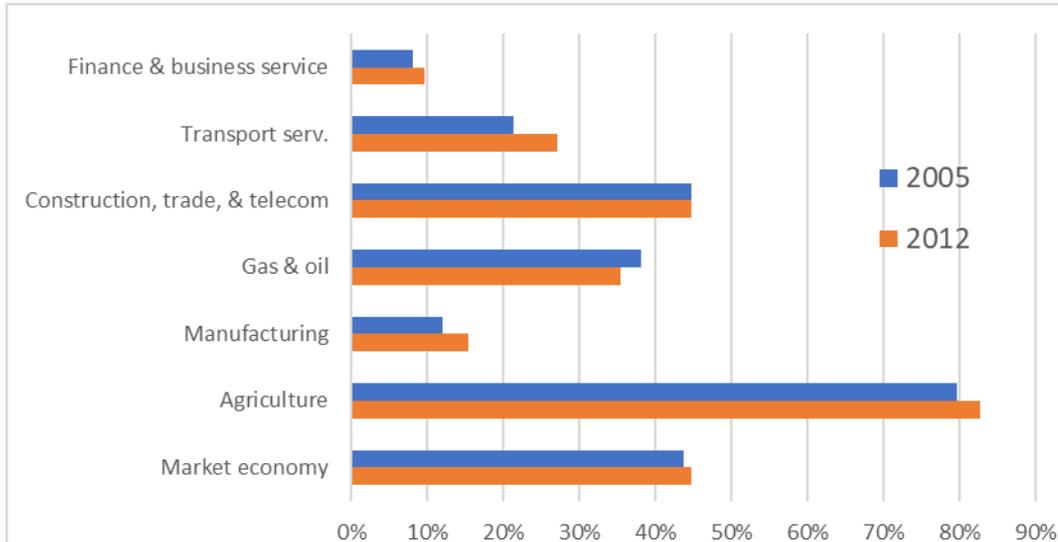
- › Prudent macroeconomic policies, joining of the WTO, and oil revenues helped Russia to improve its growth, and achieve inclusive growth
- › Potential output is shrinking, because of weakening in productivity and falling labor force. Therefore, Russia aims to develop skill intensive modern export-oriented 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

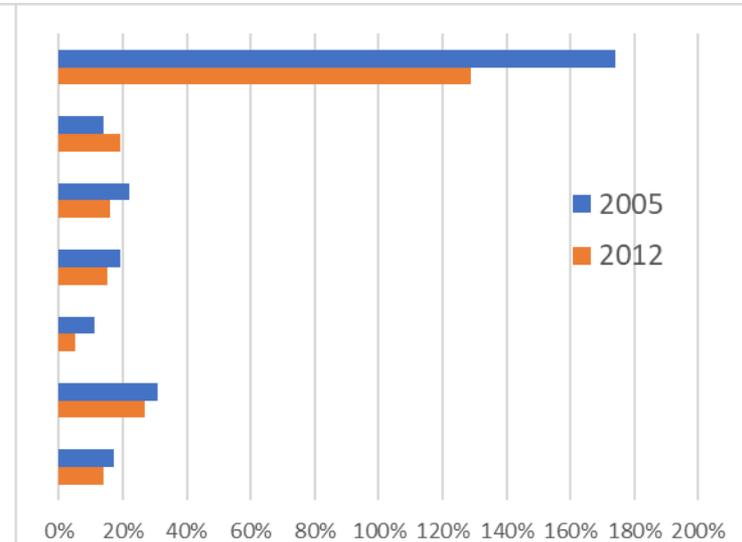
- > The need for further integration into GVC to promote diversification and growth
- > Deepening GVC participation in manufacturing (esp. commodity intensive sectors)
- > Service globalization: Russia's services exports are largely concentrated in business services and logistics – it needs to diversify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

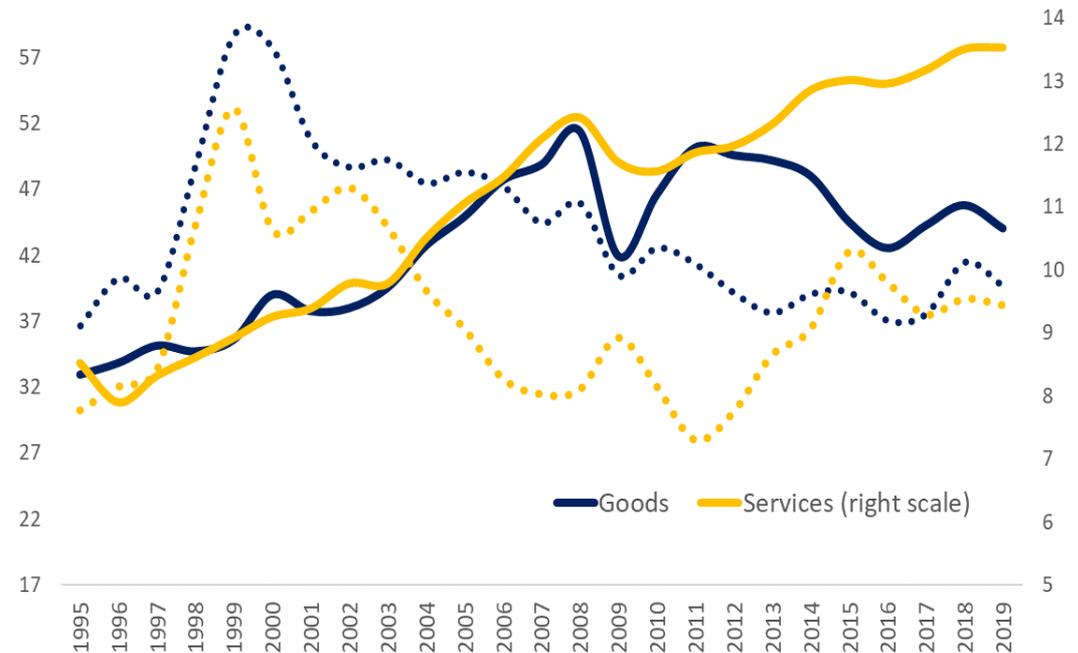
- As in many other emerging markets (e.g., India) informality remains a drag on labor productivity
- How will raising informality constrain or help Russia's aspiration to strengthen GVC participation?
- How does the continued reliance on commodity and natural resources constrain structural change and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

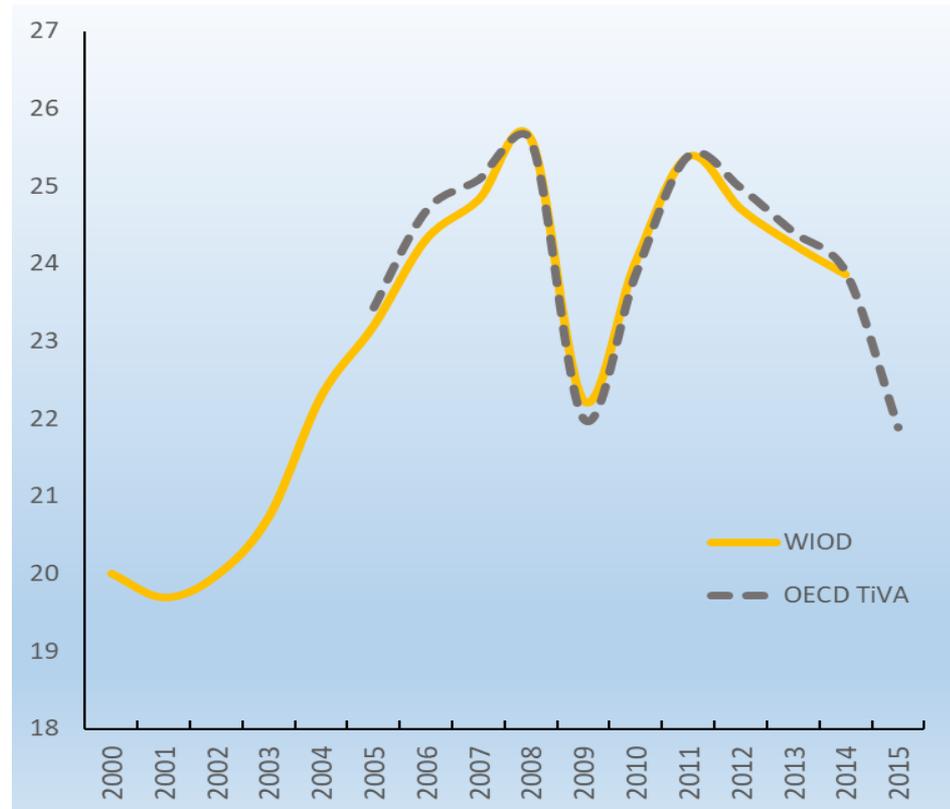
Trade as % of GDP (solid lines are Global and dotted lines Russia)



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

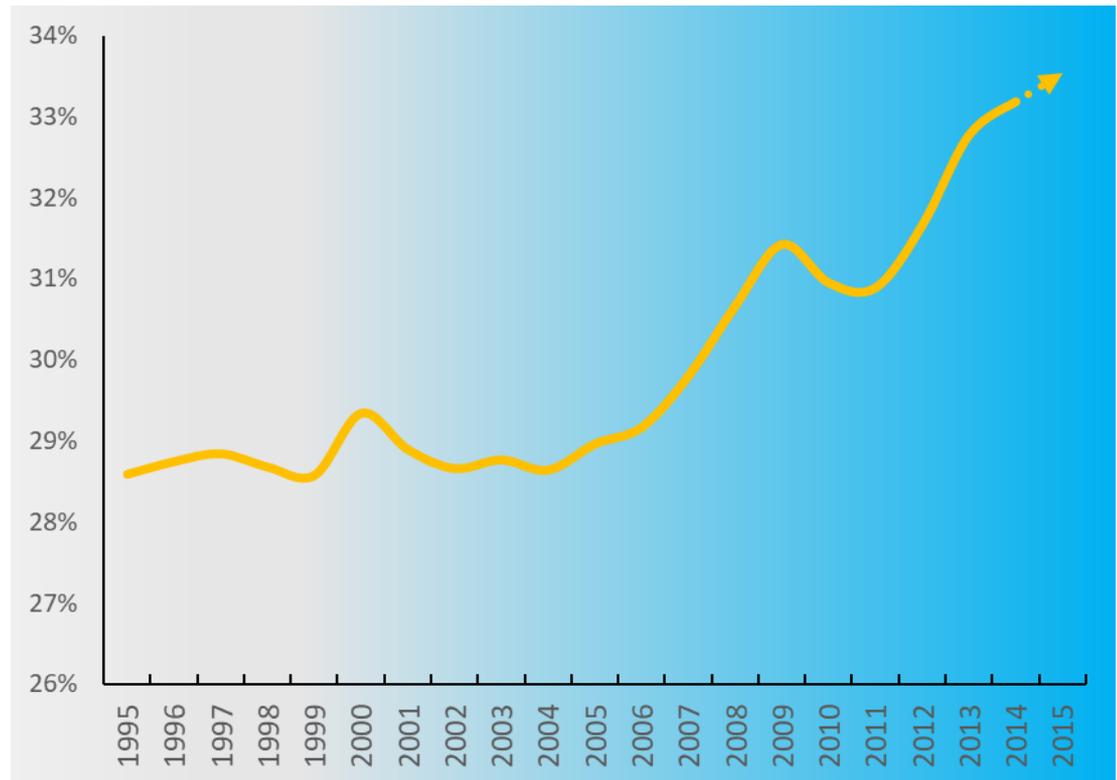


Sources: WIOD, OECD

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



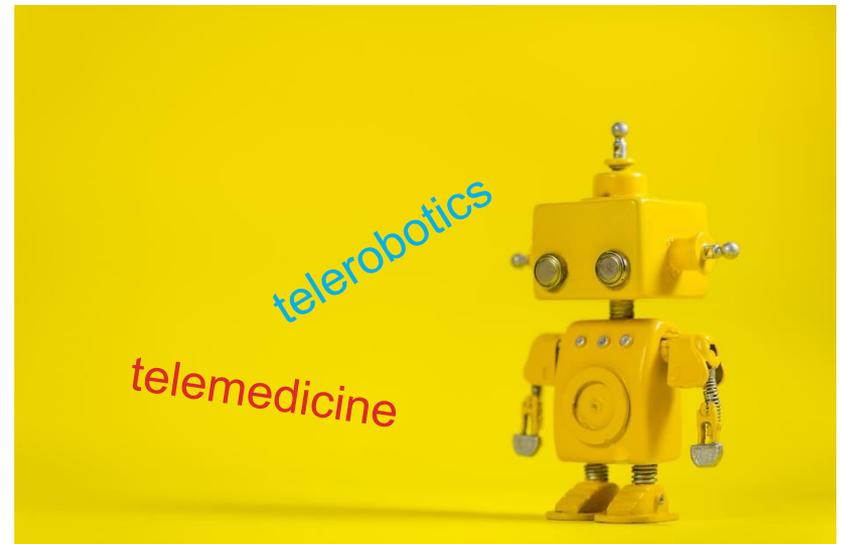
Sources: WIOD, OECD

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
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