Growth and the Role of Global Integration and Trade for Eurasia

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Outline

1. The global integration link for Eurasia and its benefits
2. Going global with natural resources, but why does Eurasia trade more with the west than the east?
3. Is regional trade different from Eurasia's trade with the rest of the world?
4. What is Eurasia's trade future? How you export matters.

1. The growth-trade link for Eurasia

Integration into the world economy primarily through its abundant natural resources

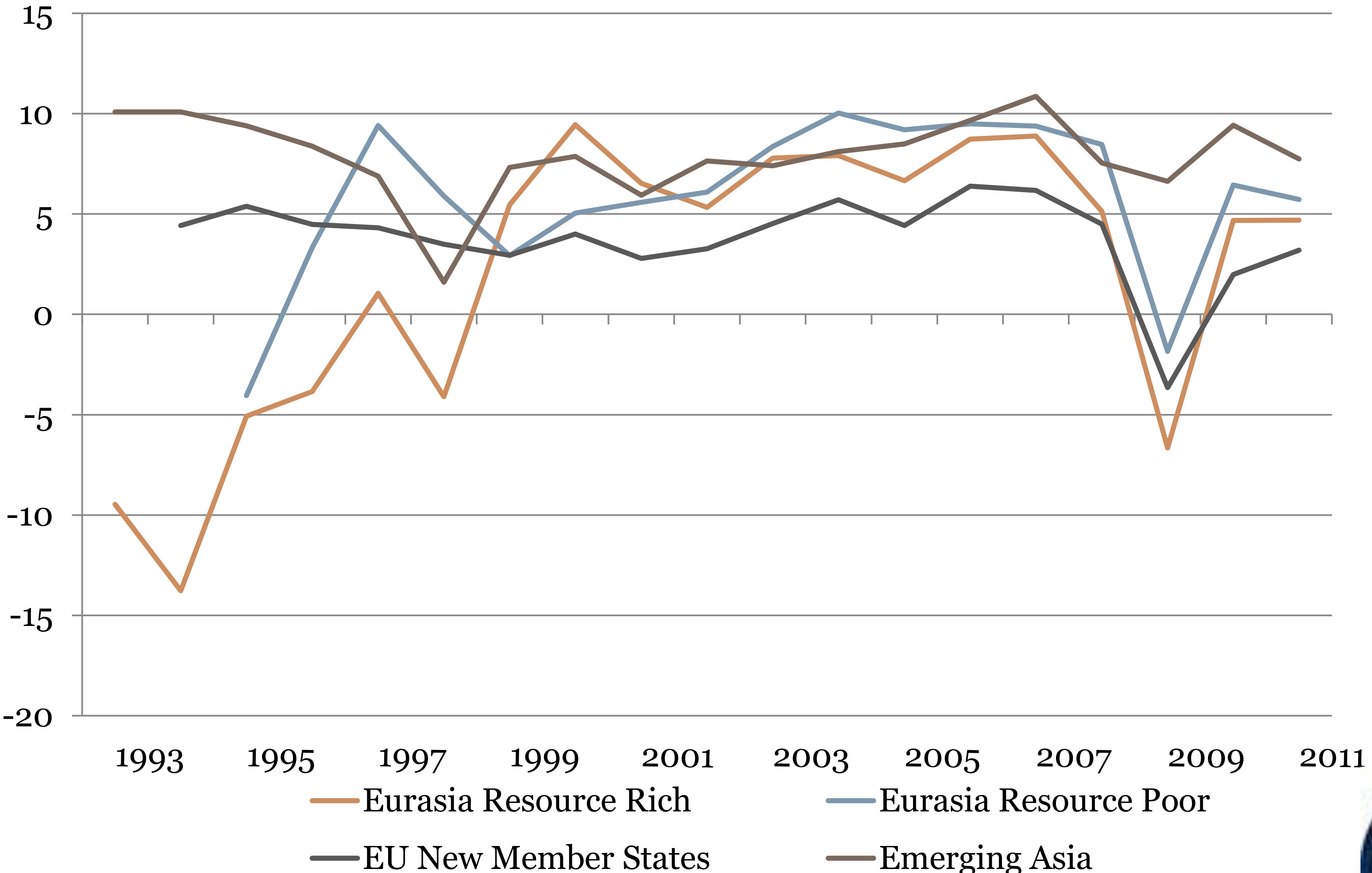
1. Eurasia's resource-rich countries have benefited from global economic growth:
   - In Eurasia three quarters of the population live in resource-rich countries
   - Eurasia has more than one third of the world's reserves of oil, gas, bauxite and gold

2. The other countries of Eurasia have also benefitted from the resource abundance of their neighbors through trade, capital flows, and remittances

Eurasia: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Kyrgyz Republic, Ukraine and Uzbekistan

Eurasia has kept high growth rates

(annual GDP growth rate, percent, 1993–2011)

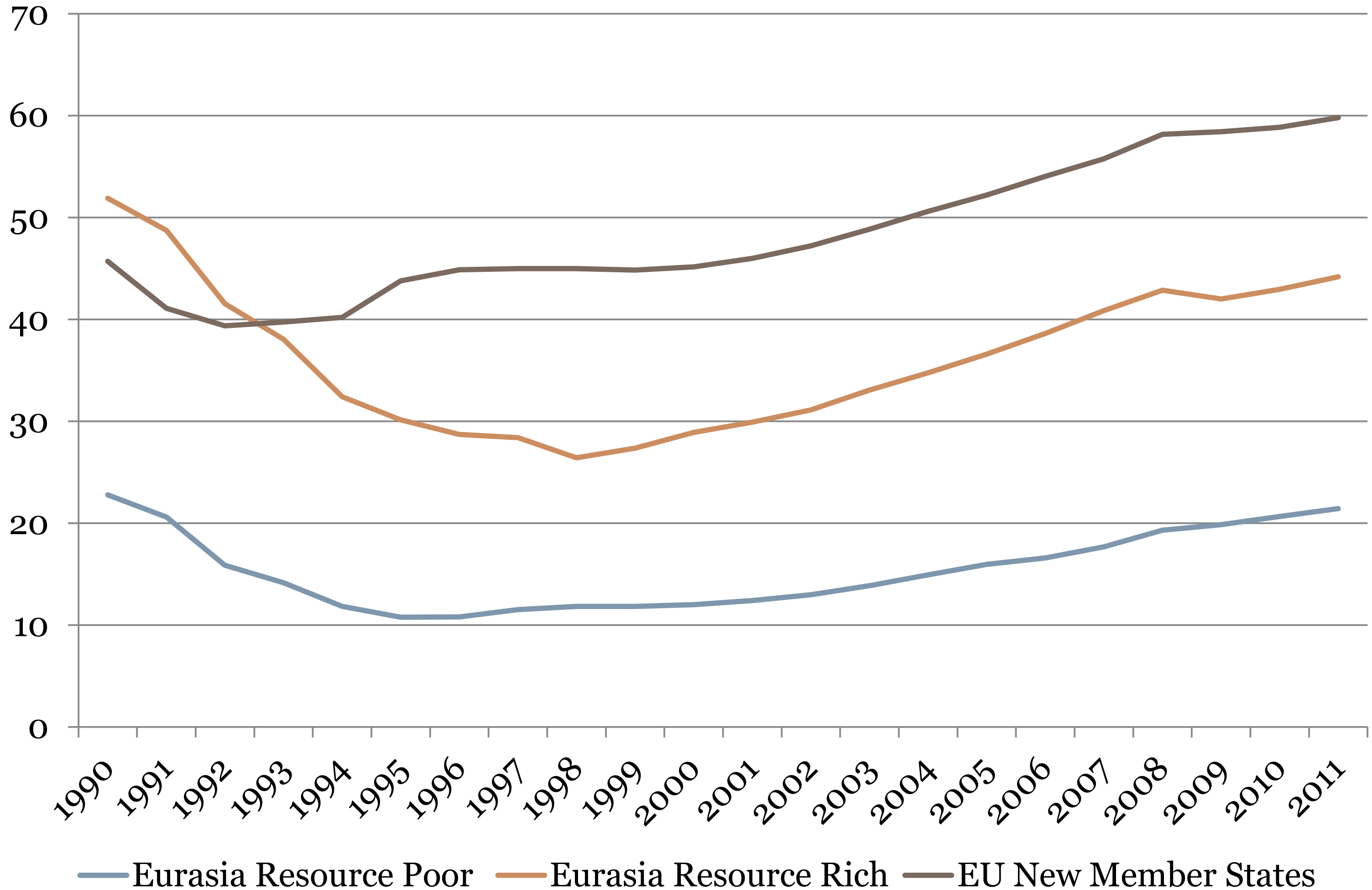


Note: Weighted averages are shown.

Source: World Bank staff calculations based on IMF WEO.

Gap has been narrowing in resource-rich Eurasia

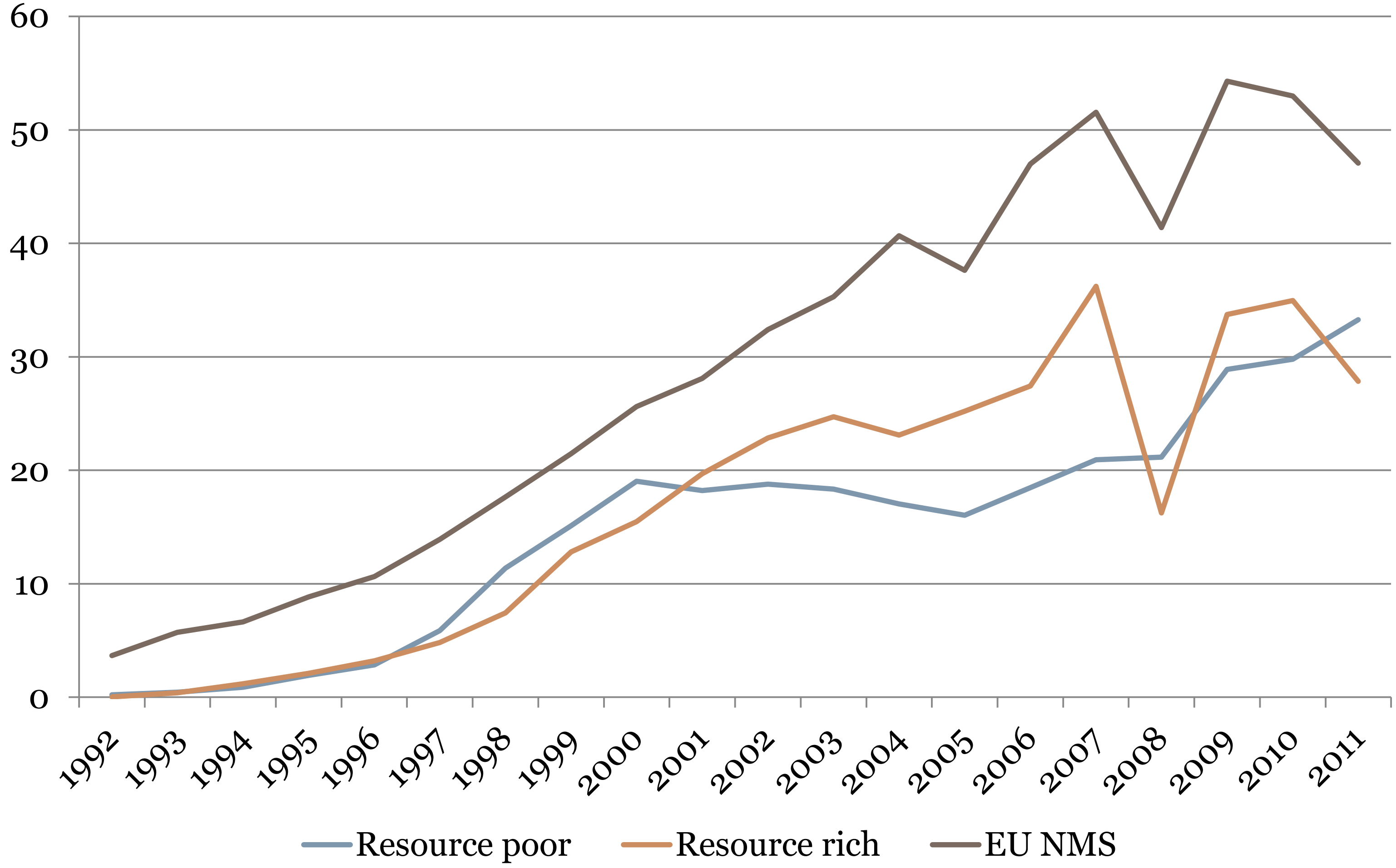
(GDP per capita, PPP, percentage of EU average, 1990–2011)



Note: Weighted averages are shown. GDP per capita, PPP, is expressed in constant 2005 international dollars.
Source: World Bank staff calculations based on World Development Indicators.

Eurasia has attracted more FDI

(FDI stocks, percentage of GDP, 1992–2011)



Note: Weighted averages are shown.

Source: World Bank staff calculations based on UNCTAD data.

Eurasia fares better than Latin America in terms of inequality

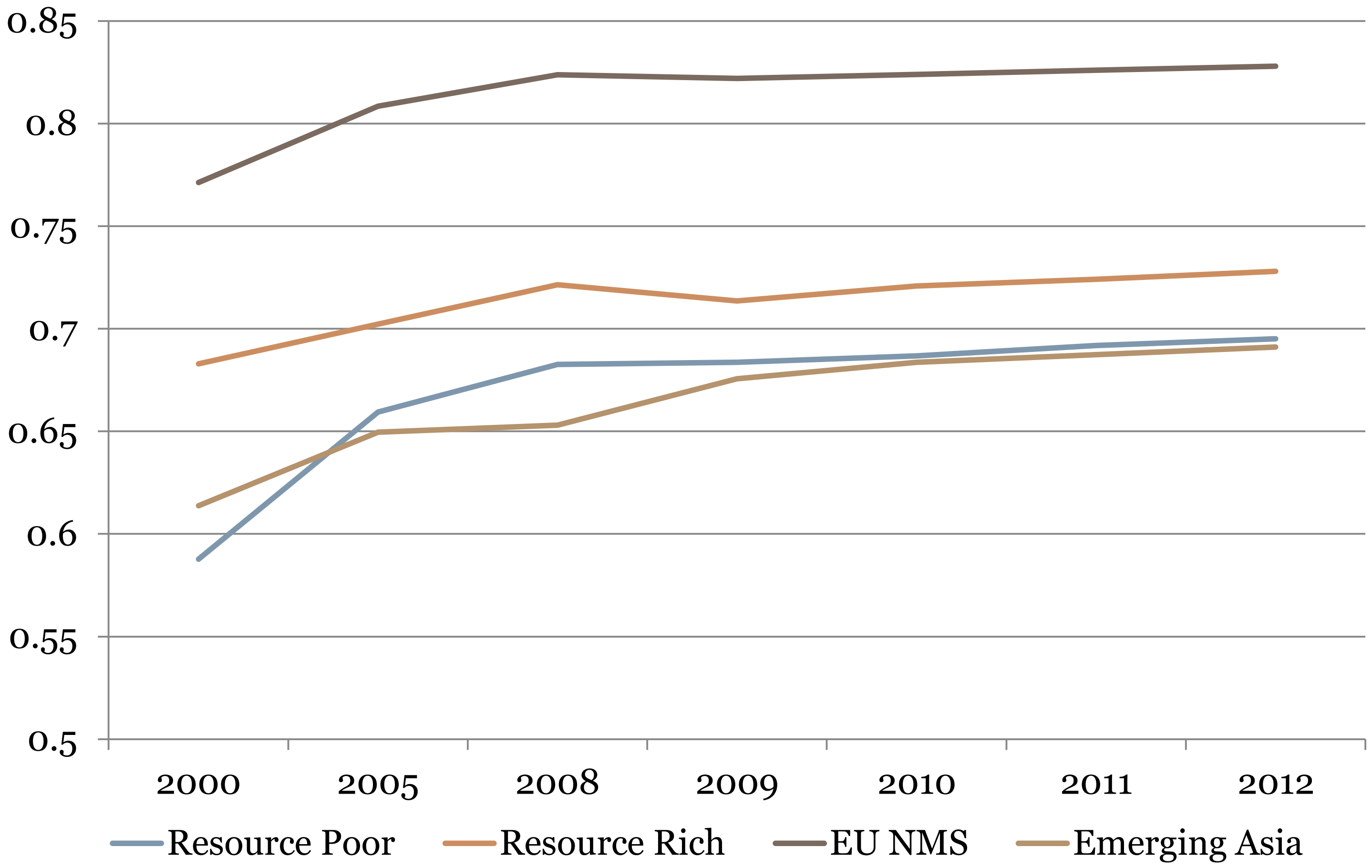
(Gini coefficient, 1995/97–2008)

	1995-1997	2002	2008
Russia	46	36	42
Brazil	61	59	55
Kazakhstan	35	35	29
Argentina	50	54	46
Ukraine	35	28	28
Azerbaijan	35		34
Ecuador	51		51
Belarus	29	30	27
Uruguay	43	47	46
Armenia	44	36	31
Georgia	37	40	41
Moldova	37	37	35
El Salvador	51	53	47
Honduras	56	59	61
Kyrgyz Republic		32	37
Tajikistan			31

Source: World Development Indicators.

Level of well-being in Eurasia have increased faster in resource-rich countries

(Human Development Index, 2000–2012)



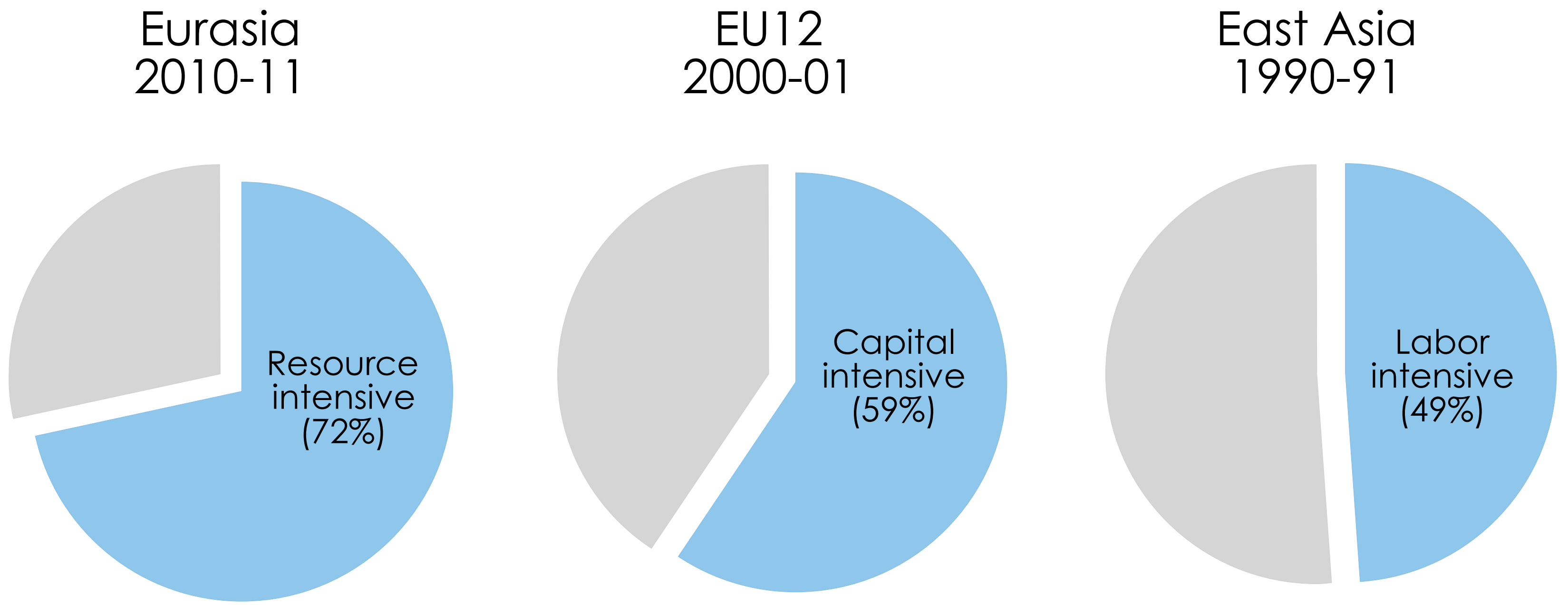
Note: Country-level index is averaged by group.

Source: World Bank staff calculations based on data from UNDP.

2. Going global with natural resources …

Different regions use different products to integrate into the world

(export products, by factor intensity, in Eurasia, EU12 and East Asia)

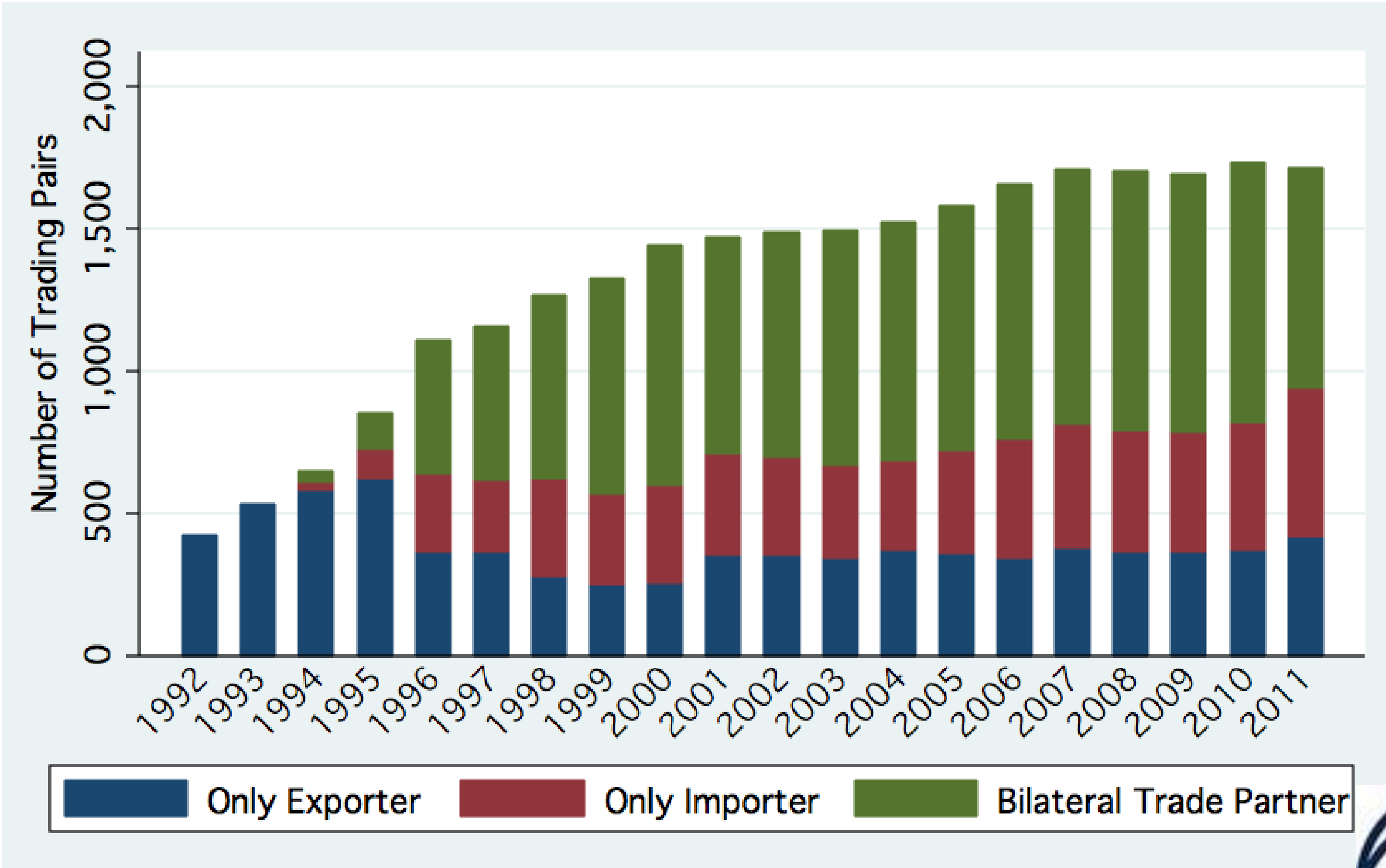


Note: Factor intensity is measured with the export data classified by SITC Revision 1. The modified version of commodity classification by Krause (1987) is used. Resource intensive includes products related to hydrocarbon and minerals only. Goods related to agriculture are contained in labor intensive (unskilled labor intensive). Here, capital intensive is represented by both technology intensive and human capital intensive.

Source: World Bank staff calculations based on UN Comtrade

The number of trade relationships has increased

(export and import relationships, 1992–2011)

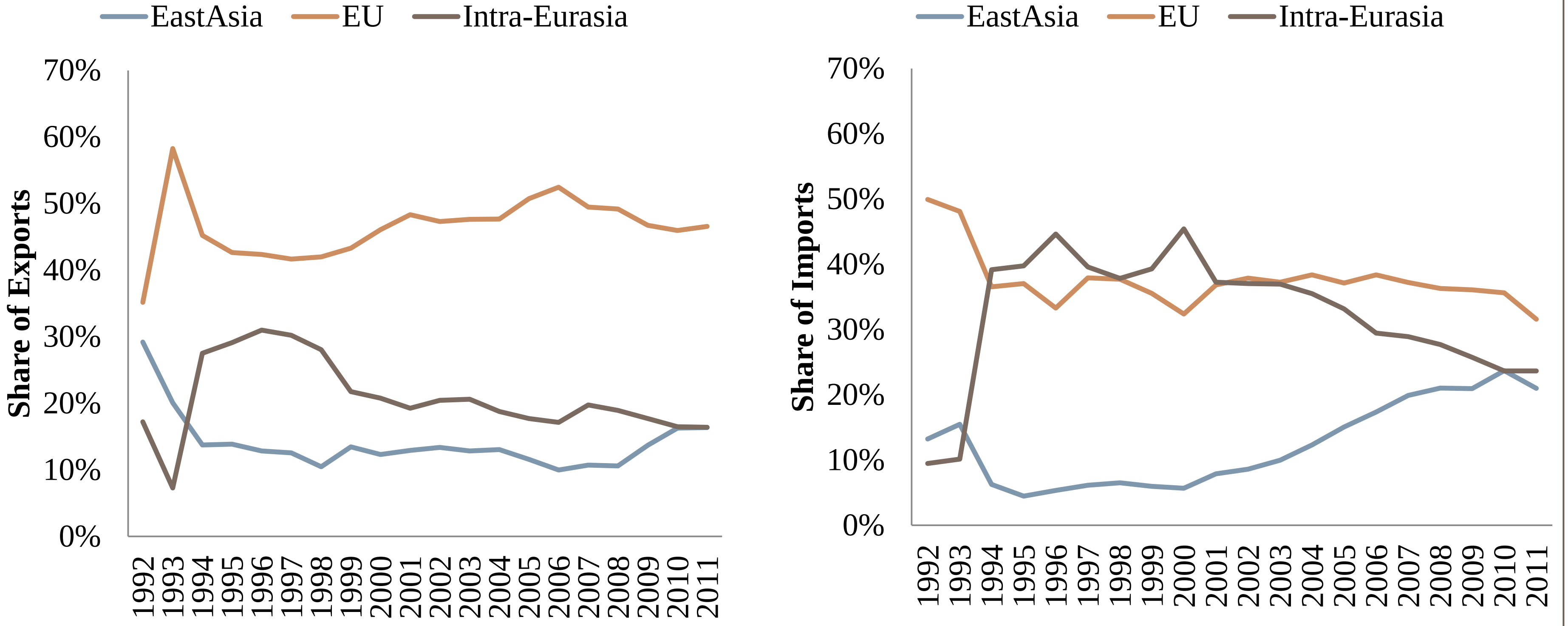


Note: The graph shows total bilateral pairings for Eurasian countries.

Source: World Bank staff calculations based on UN Comtrade.

… but why is most of Eurasia's trade directed towards the EU?

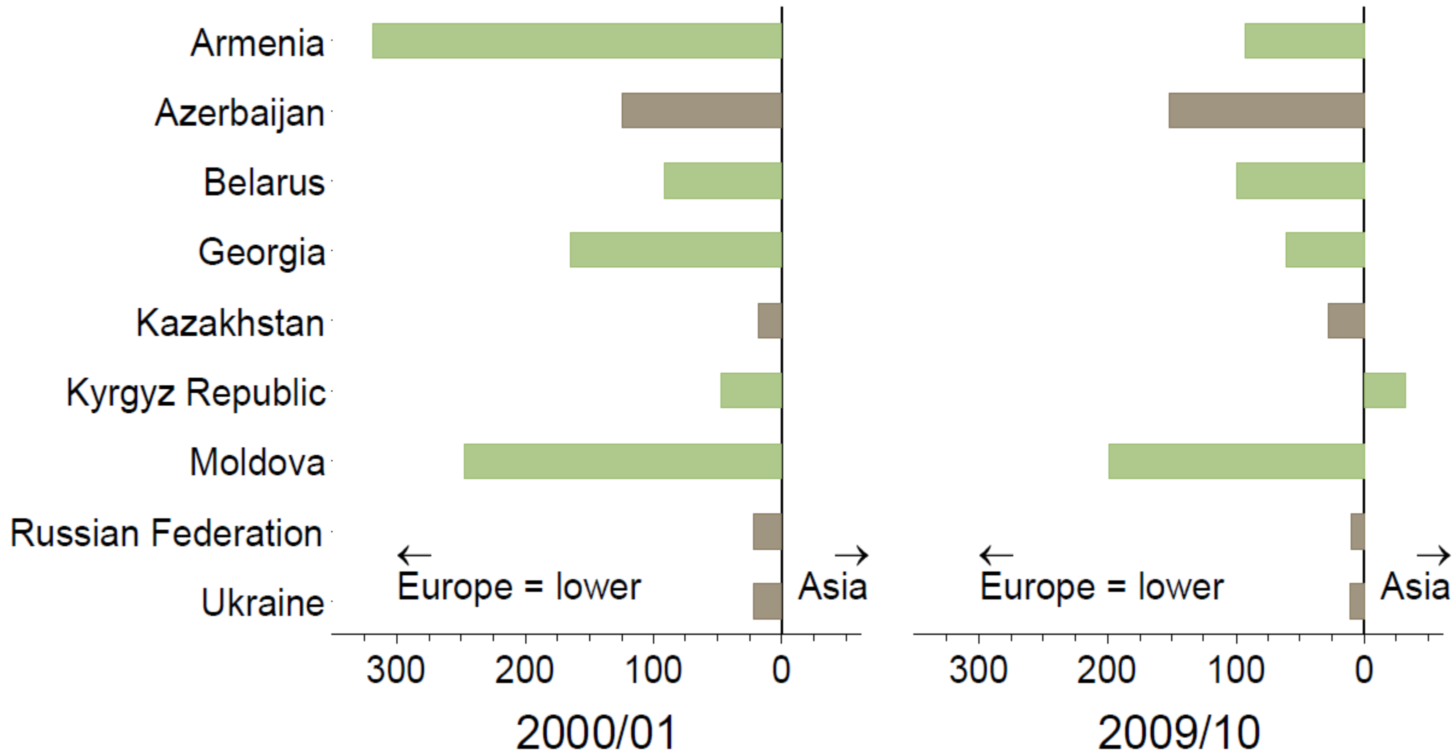
(**export (left)** and **import (right)** share, main trading partners, 1992–2011)



Source: World Bank staff calculations, based on data from IMF Direction of Trade Statistics.

Trade with East Asia is getting easier, but trade with Western Europe is cheaper

(difference in costs of trade with Europe and Asia, percentage points, ad valorem equivalent)



Source: World Bank staff calculations, based on World Bank Trade Costs Dataset; see chapter 2.
Note: Europe and Asia are represented by the three largest economies in each region: France, Germany, and the United Kingdom, and China, Japan, and the Republic of Korea, respectively. Period averages of group median values are used. The colors are coded by resource wealth, with brown indicating resource-rich economies, and green the resource poor ones.

Trade costs have fallen – but trade restrictions continue to act as an important barrier to trade

A revealing exercise: Compare trade costs of countries in Eurasia and Europe with China and Germany, the two biggest trading nations in the world that border Eurasia.

There are two surprises:

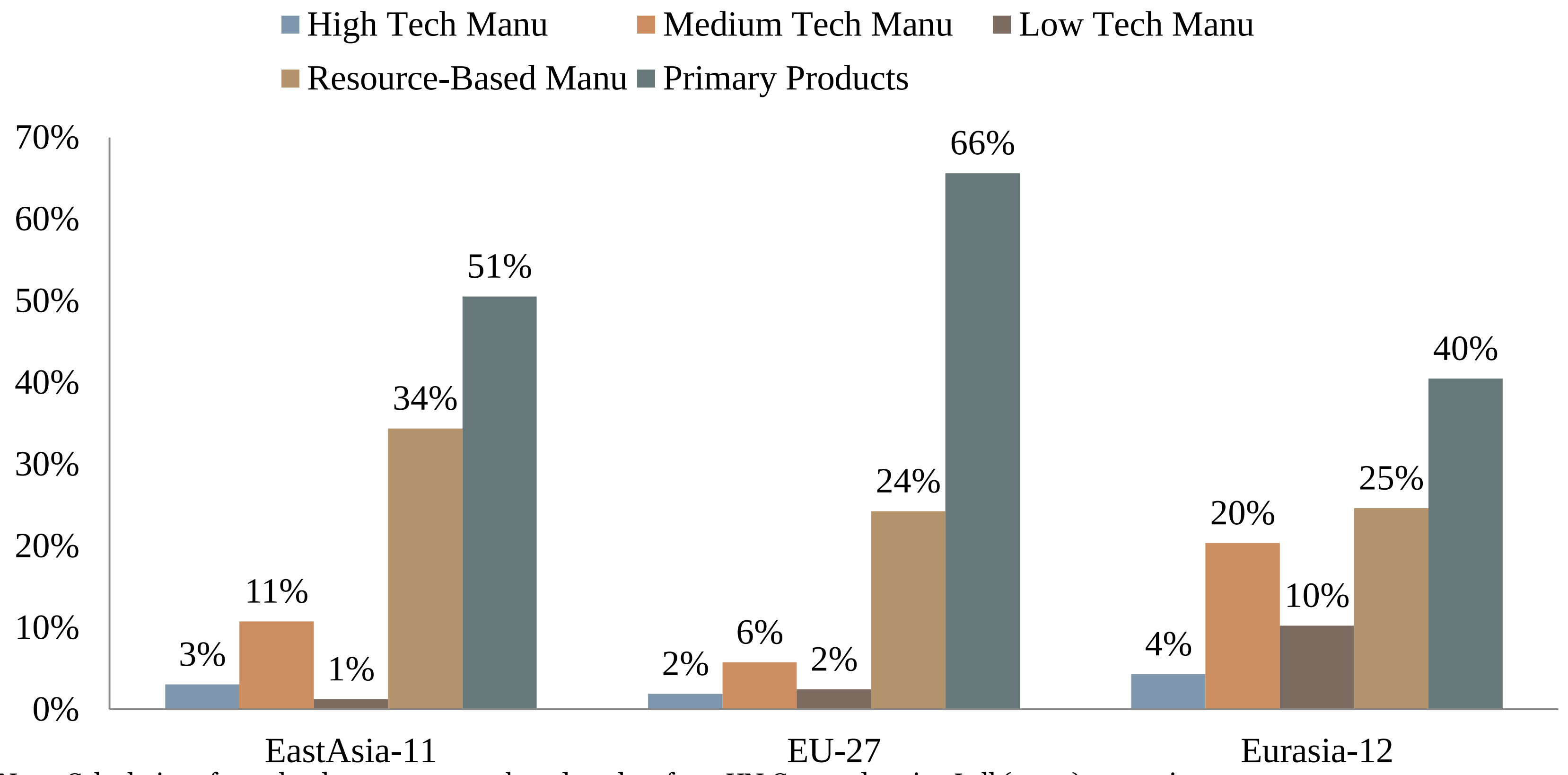
1. The only country for which costs of trade with China are lower than with Germany is Kazakhstan.
2. The cost of trading with China for the average European economy is lower than the cost of trading with Germany for the average economy in Eurasia.

Barriers thrown up by governments, not nature, make the difference.

3. Is regional trade different from Eurasia's trade with the rest of the world?

Intra-Eurasian trade includes less resource-based products and has higher technology content

(technology content of exports to main partners, 2010–2011)

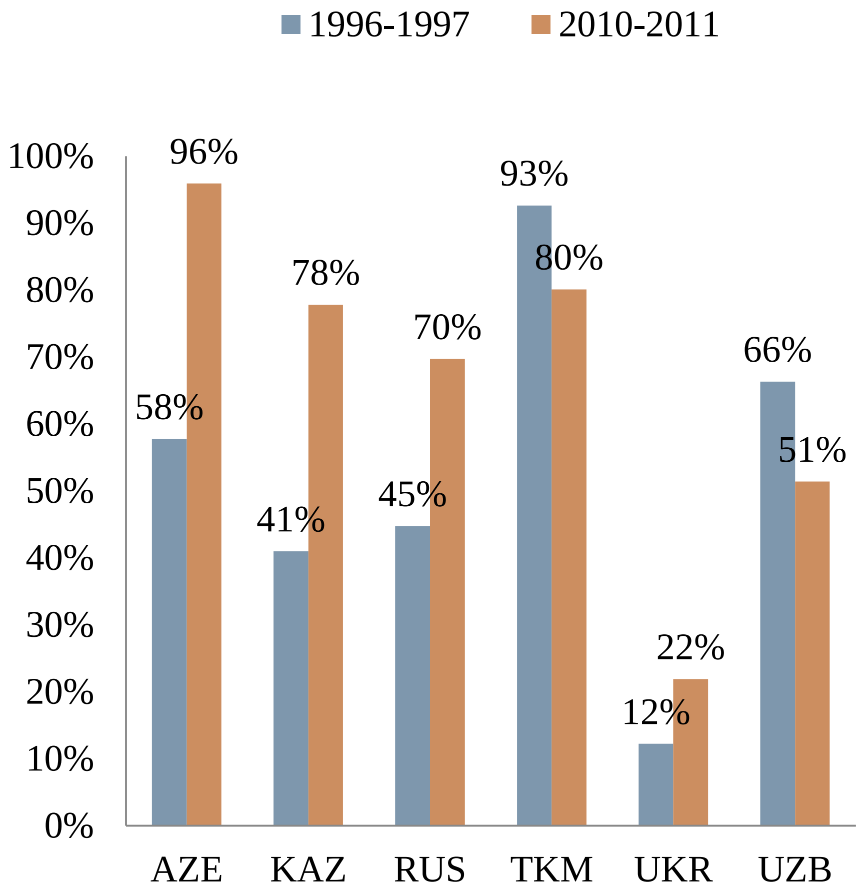


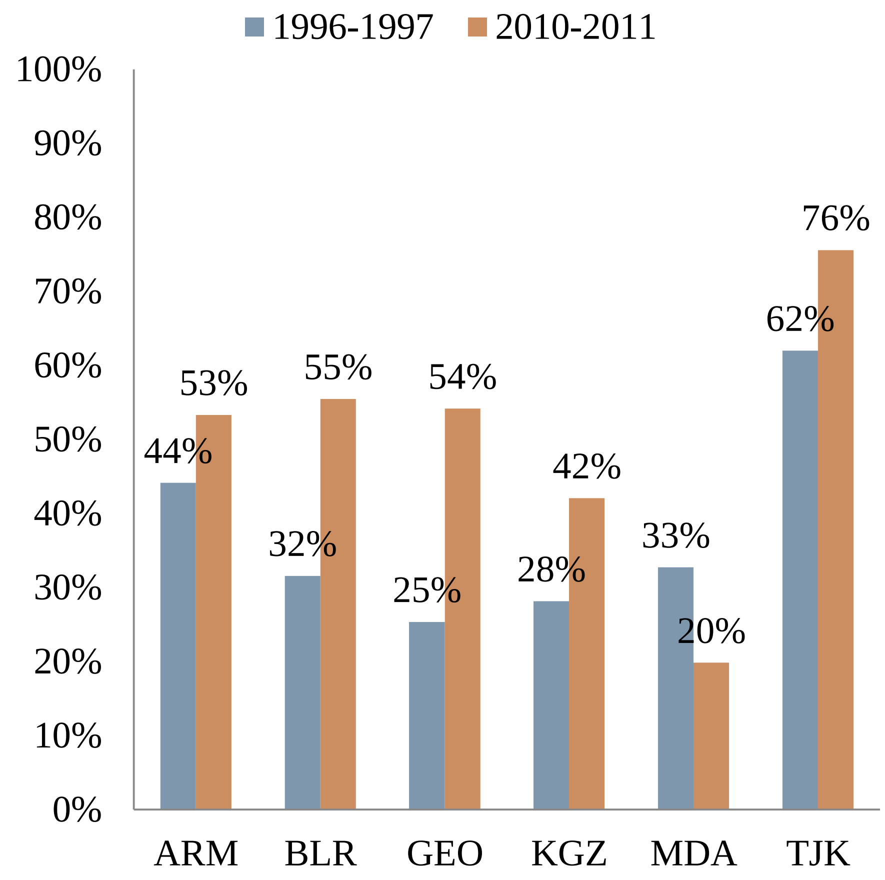
Note: Calculations for technology content are based on data from UN Comtrade using Lall (2000) categories.

Source: World Bank staff calculations based on UN Comtrade.

Export product concentration has increased, especially for resource-rich countries

(share of top 5 exports, 2002–2003 vs. 2010–2011,
for **resource-rich (left)** and **resource-poor (right)** countries)

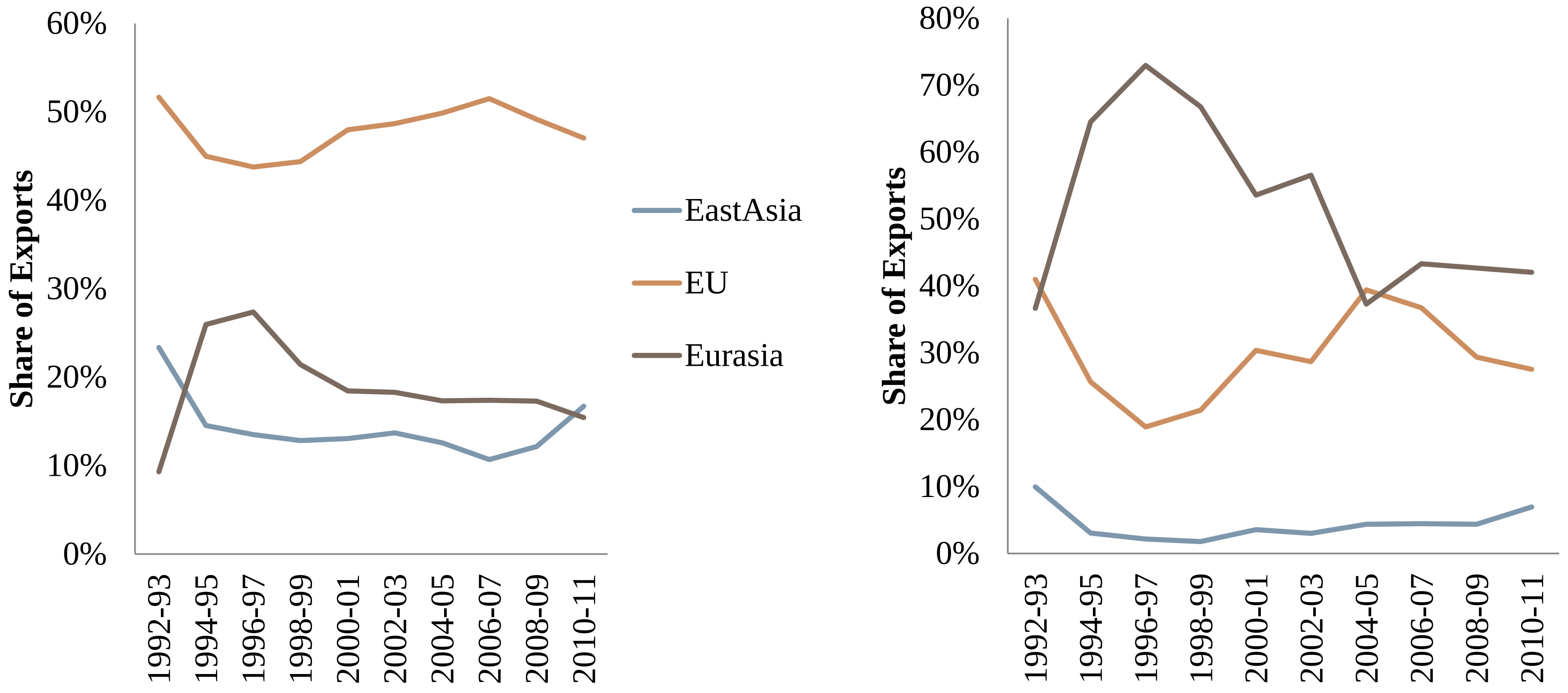




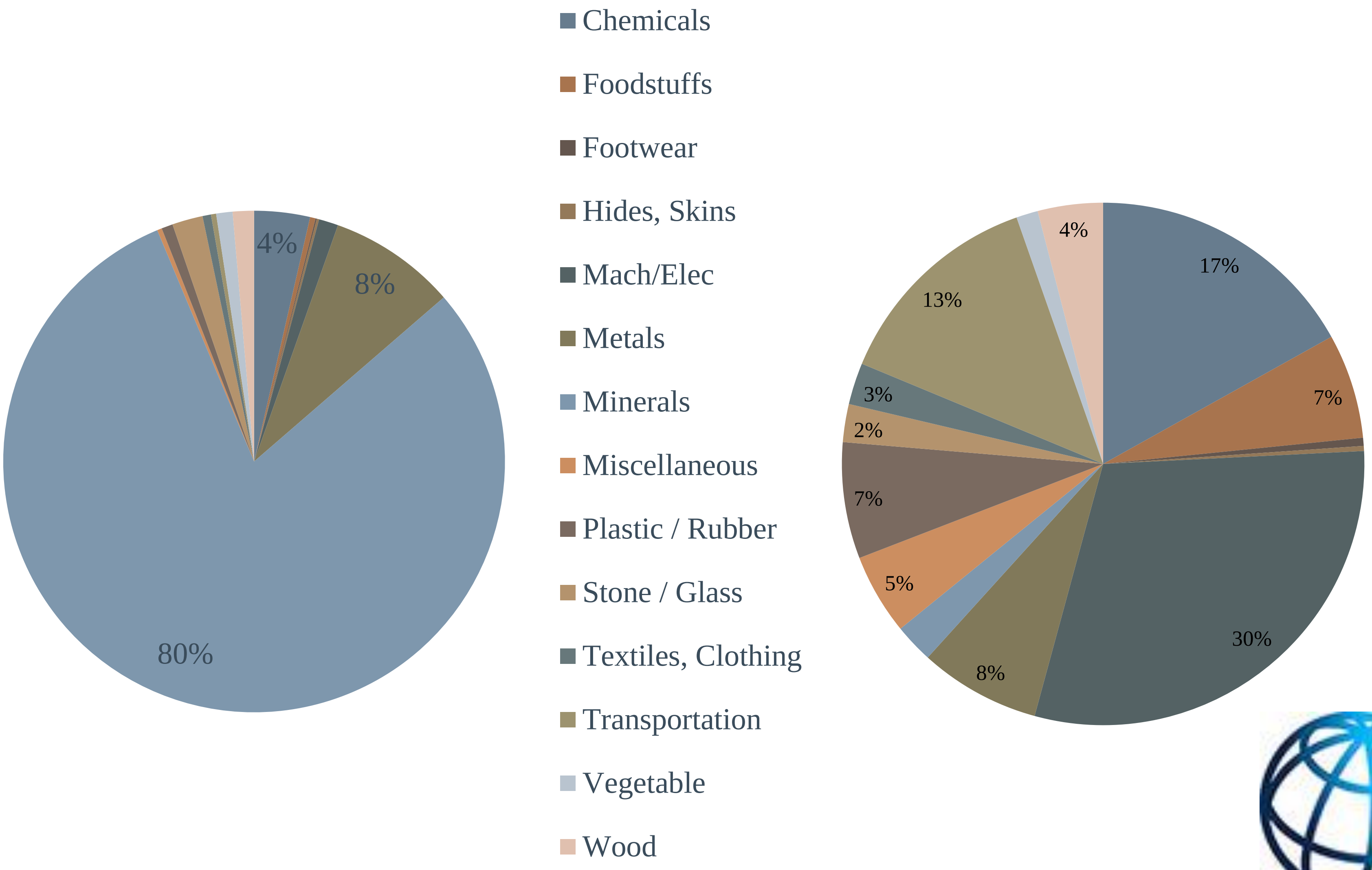
Source: World Bank staff calculations.

Resource-rich countries rely more on external partners, resource-poor more on Eurasia

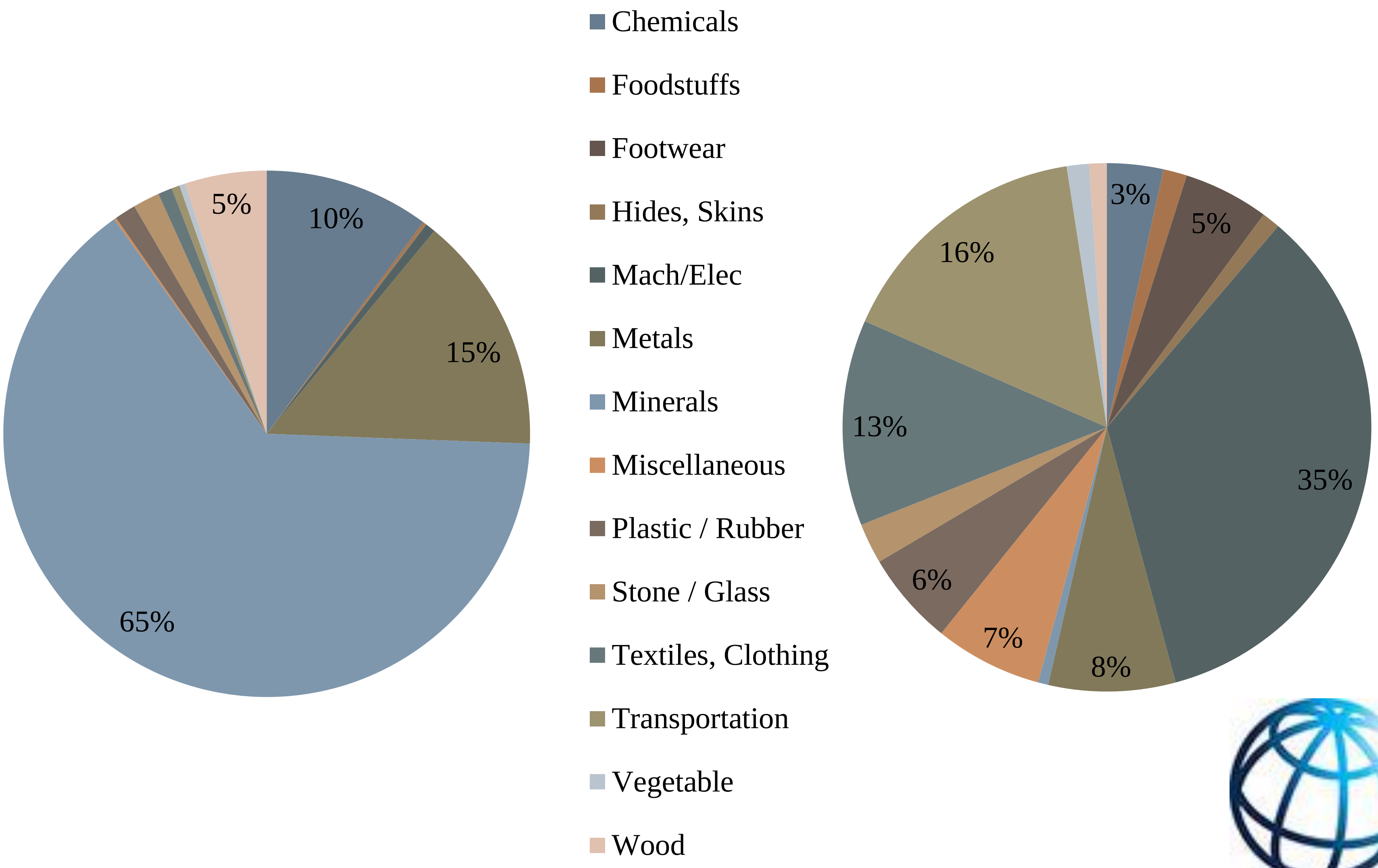
Share of Eurasian Exports to Main Regions, **Resource-Rich (left)** and **Resource-Poor (right)**, 1995-2011



Minerals and metals are exported to the EU—and manufactures come back

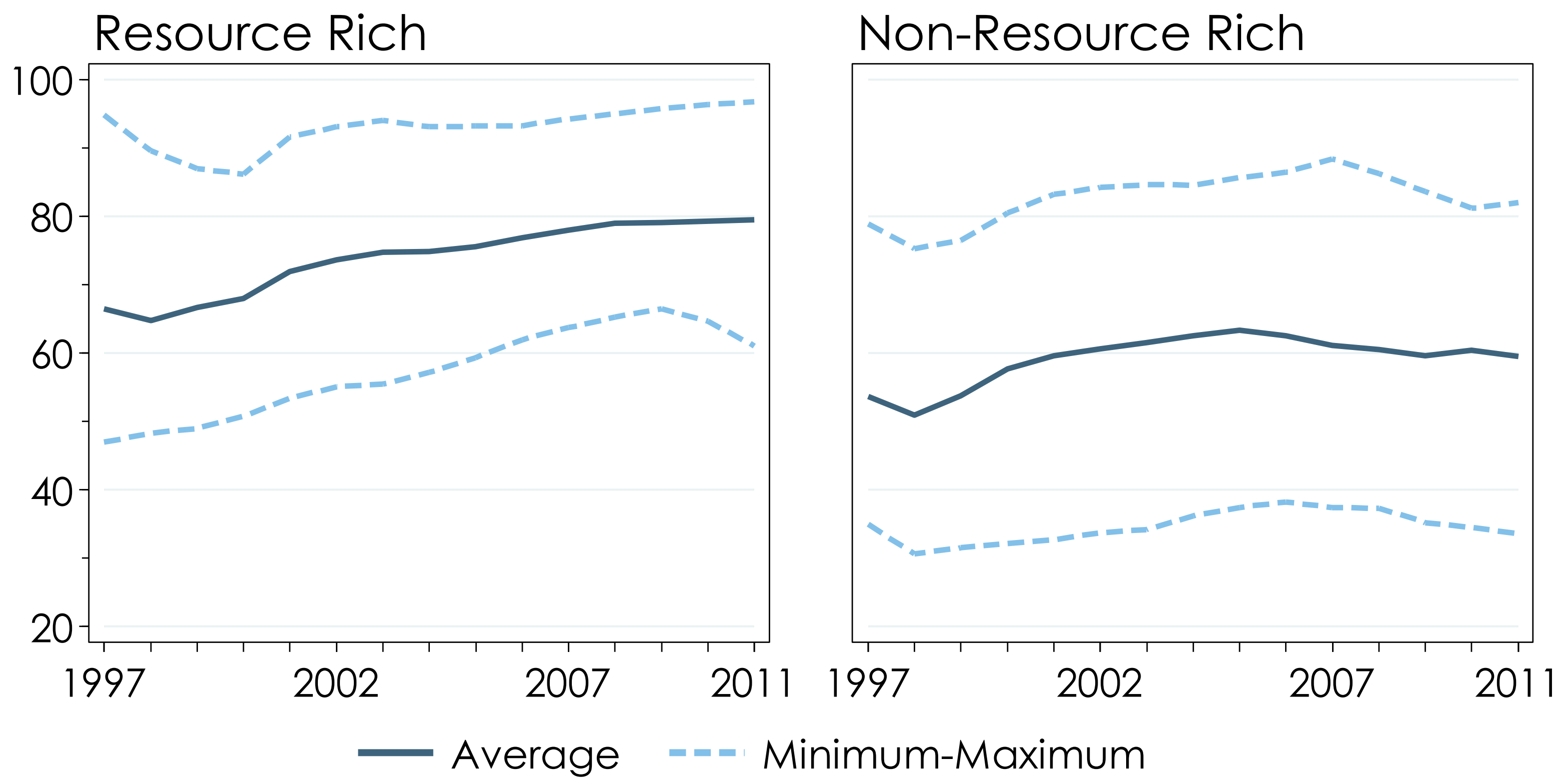


Trade with East Asia shows similar patterns



Resource-rich economies in Eurasia have been less diversified in their export products

(top 5 export products of Eurasia, percentage of all products, 1997–2011)



Note: Export data are classified by SITC Revision 1, and the 3-digit-level data are used. The numbers are shown as 3-year moving average values.
Source: World Bank staff calculations based on UN Comtrade.

4. What is Eurasia's trade future?

Does it matter what you export?

Activist industrial policies: Were East Asian governments better than others at picking industries such as electronics, automobiles, and apparel that—with some help from taxpayers—could compete and win in global markets?

Or should countries start off producing and exporting only a few things (such as wheat or crude oil), then become more diversified (such as processed foods or refined petroleum) as they develop, and then become specialized again after they reach higher levels of income (such as selling financial and transport services)?

Conclusion: Industrial policies are not sufficient to diversify production profiles.

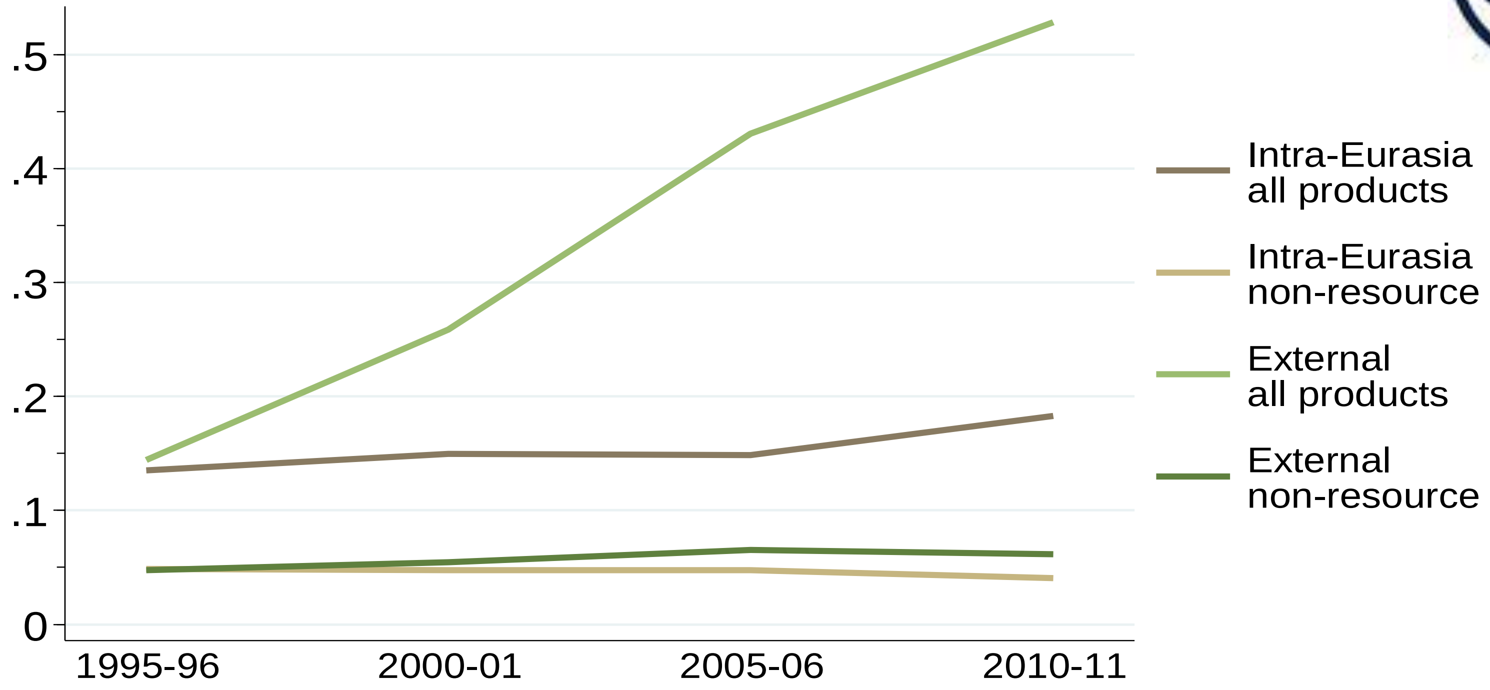
If what you export matters for economic development, then the first step is to figure out what exports will help the most and second, to come up with ways to encourage them.

Eurasia did all this: protection from foreign competitors, big subsidies or tax holidays, well-chosen investments in infrastructure, and incentives to cluster economic activities in a few places.

Yet the Result is that resource-related trade outside Eurasia has made exports less diversified

Overall exports are more concentrated despite more trade ties with the rest of the world

(normalized Herfindahl indices, 1995–2011)



Note: This index is measured as the sum of squared shares in a given trade flow. Higher index scores indicate greater concentration; Non-resource exports here exclude energy, minerals and metals (HS 25-27 and HS 72-83); External partners refers to EU27 and East Asia-11; Index calculated at the two-digit HS level; but the same trends appear at the six-digit level.

Source: World Bank staff calculations based on United Nations Comtrade; Source: World Bank staff calculations.

How you export matters

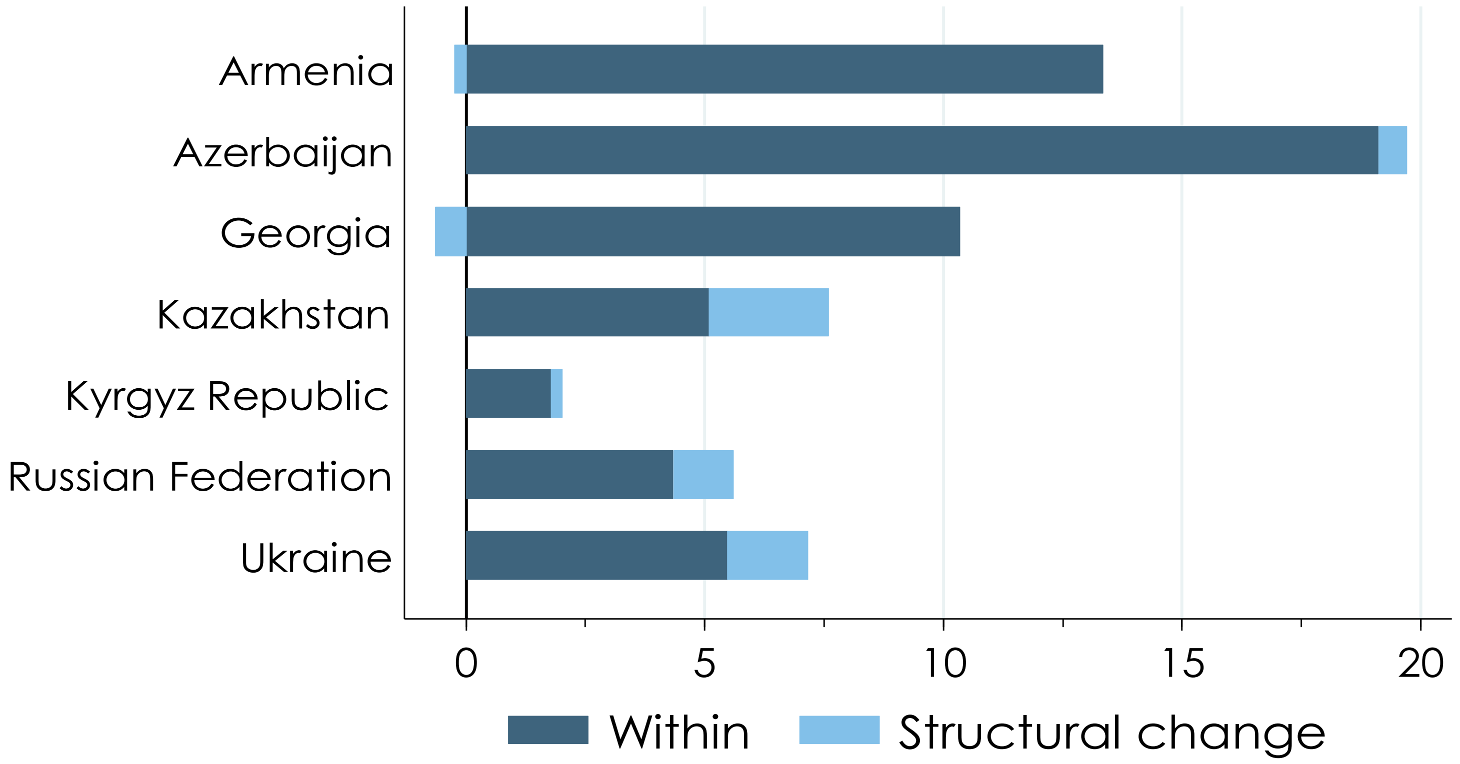
What matters for development is not so much what a country makes at home and sells abroad, but how it goes about making these goods and services.

But there is a role for Government: Market failures are abound in the provision of infrastructure, the accumulation of human capital, the establishment of trade networks, and the creation and management of ideas.

What helps a lot more than identifying growth-diversification or growth-promoting sectors are policies that **raise the overall ability of a country to increase productivity and quality**, and to move to more sophisticated tasks.

Productivity growth in Eurasia mostly takes place within individual sectors

(decomposition of labor productivity growth, percent, 2002–2007)



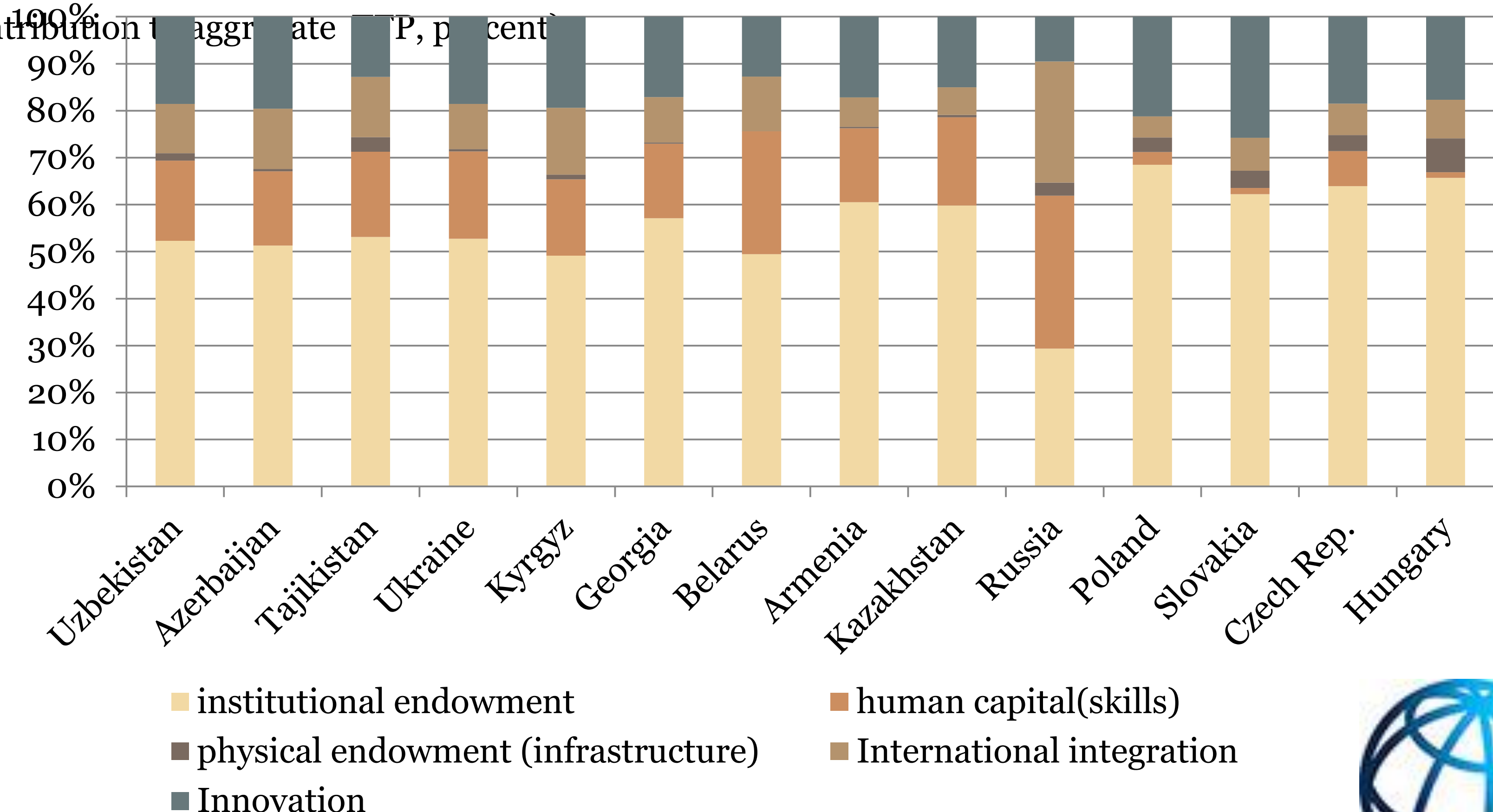
Note: “Within” refers to productivity growth within individual sectors and “structural change” captures the reallocations of labor across different sectors.

Source: World Bank staff calculations based on data from the United Nations and ILO.

The quality of institutions plays a prominent role in explaining Total Factor Productivity

The long-term strategy has to be to develop institutions

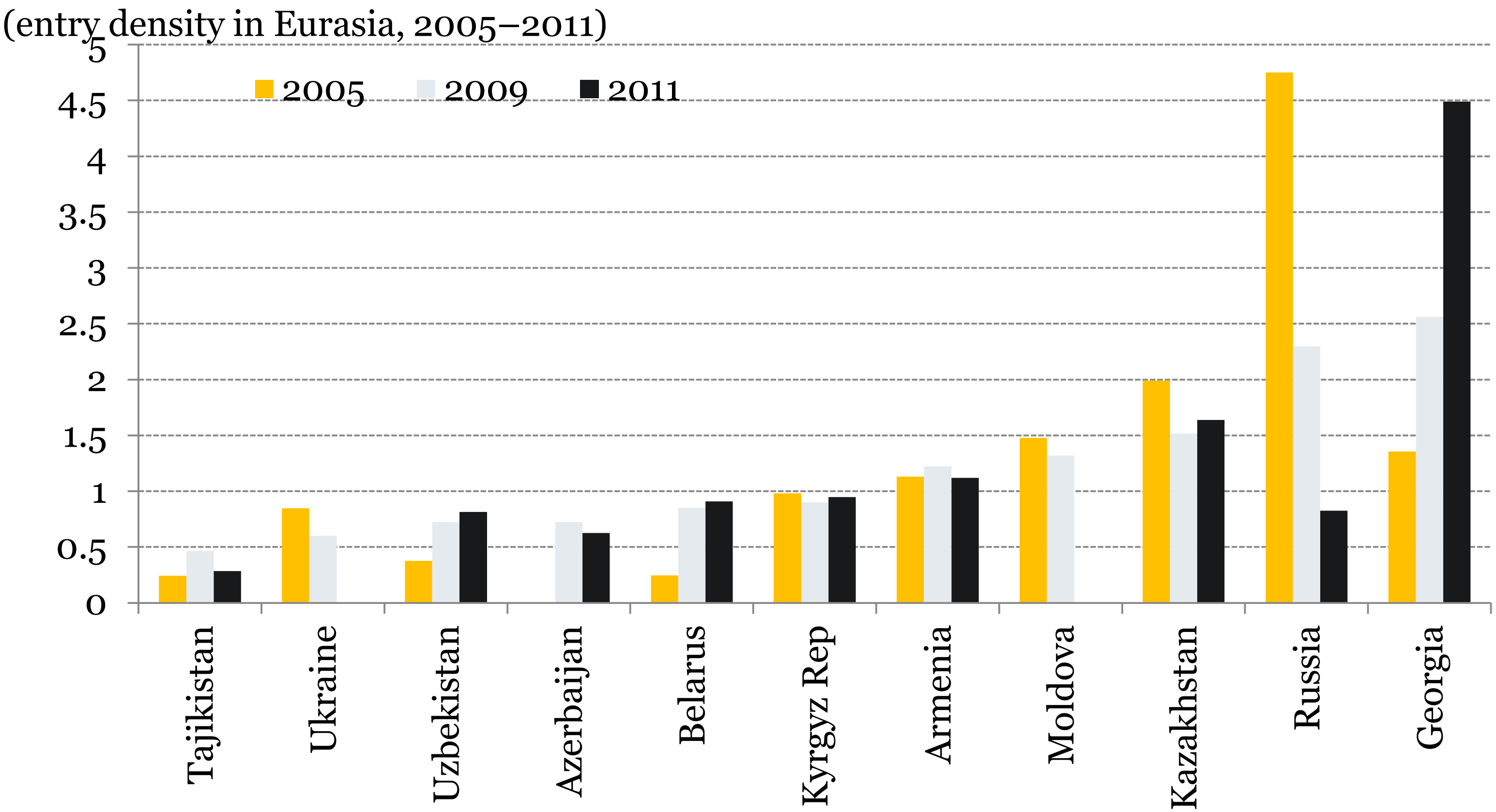
(contribution to aggregate TFP, percent)



Note: Institutions are proxied by red tape, informality, access to finance and competition, human capital is measured as access to la
physical capital considers infrastructure, international integration includes exports, imports and FDI, and innovation is measur
technology, ICT and process innovation.

Source: World Bank staff calculations based on BEEPS 2009.

Example: Weak institutions which regulate the market Why did firm entry increase in Georgia but dropped in Russia?

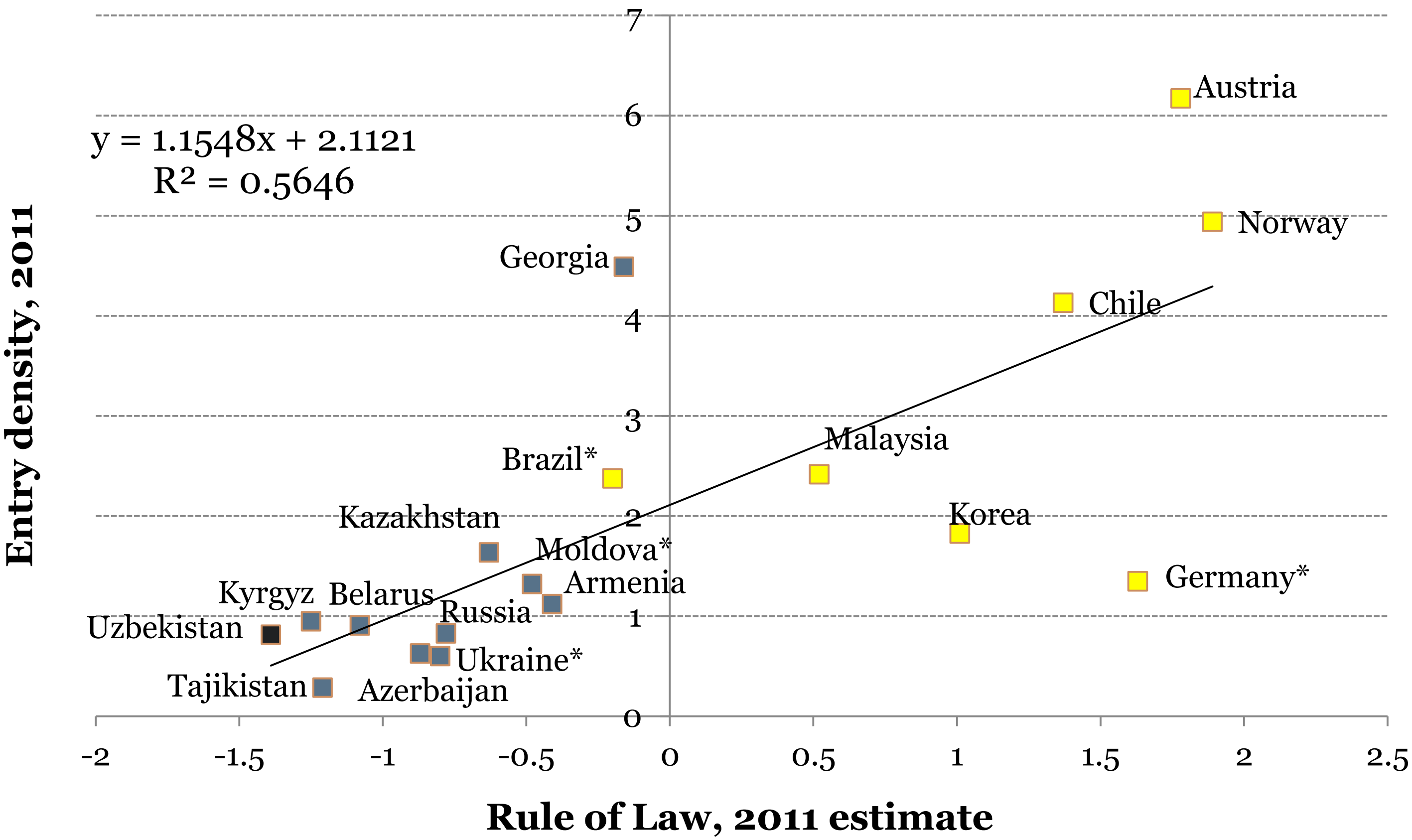


Note: The entry density is defined as the number of newly registered limited companies per 1,000 working-age population.

Source: World Bank staff calculations based on STI database.

The legal systems of Eurasian countries are a drag on entrepreneurship

(entry density and rule of law, 2011)

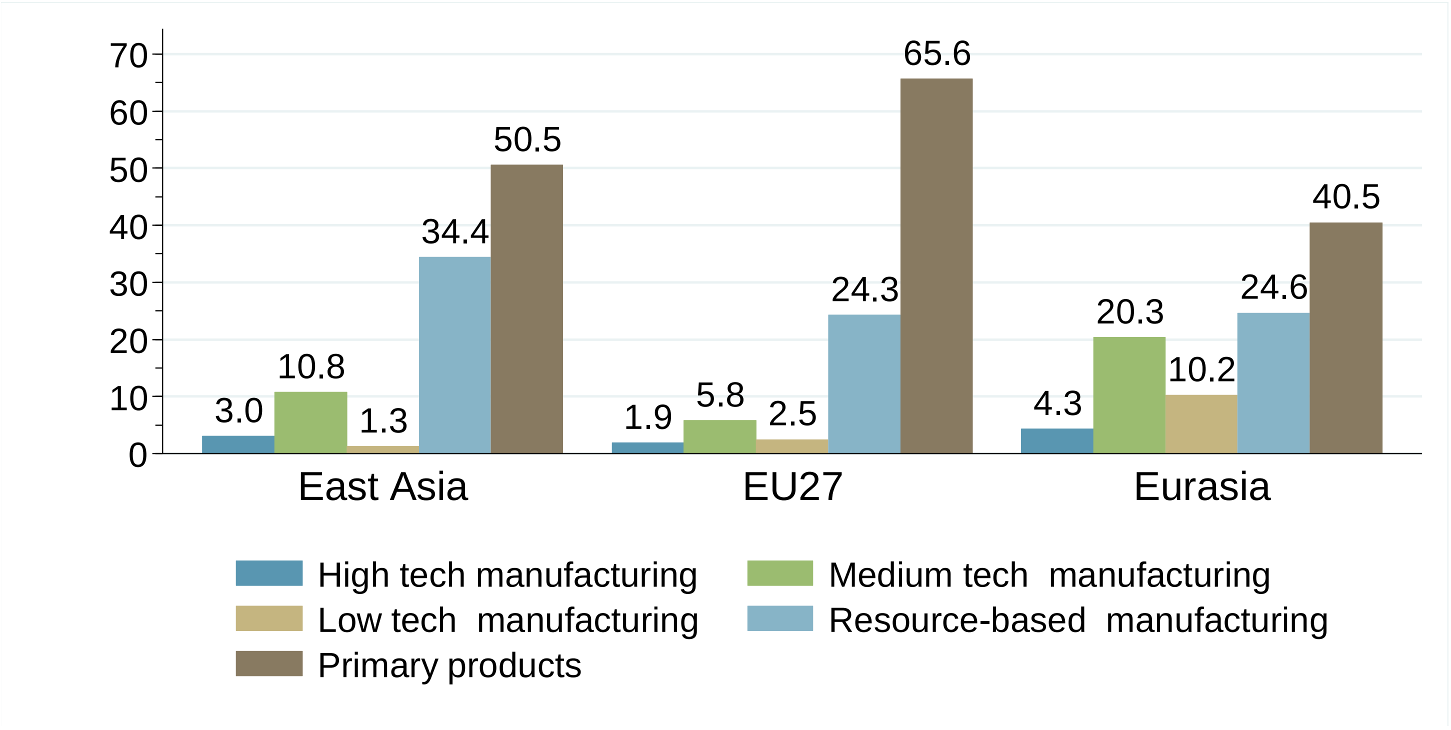


Note: * Data for Brazil, Moldova and Ukraine are as of 2009; Germany as of 2010.
Source: World Bank staff calculations based on STI database.

The short-term strategy could be increase the sophistication of Eurasian exports to offset their growing concentration

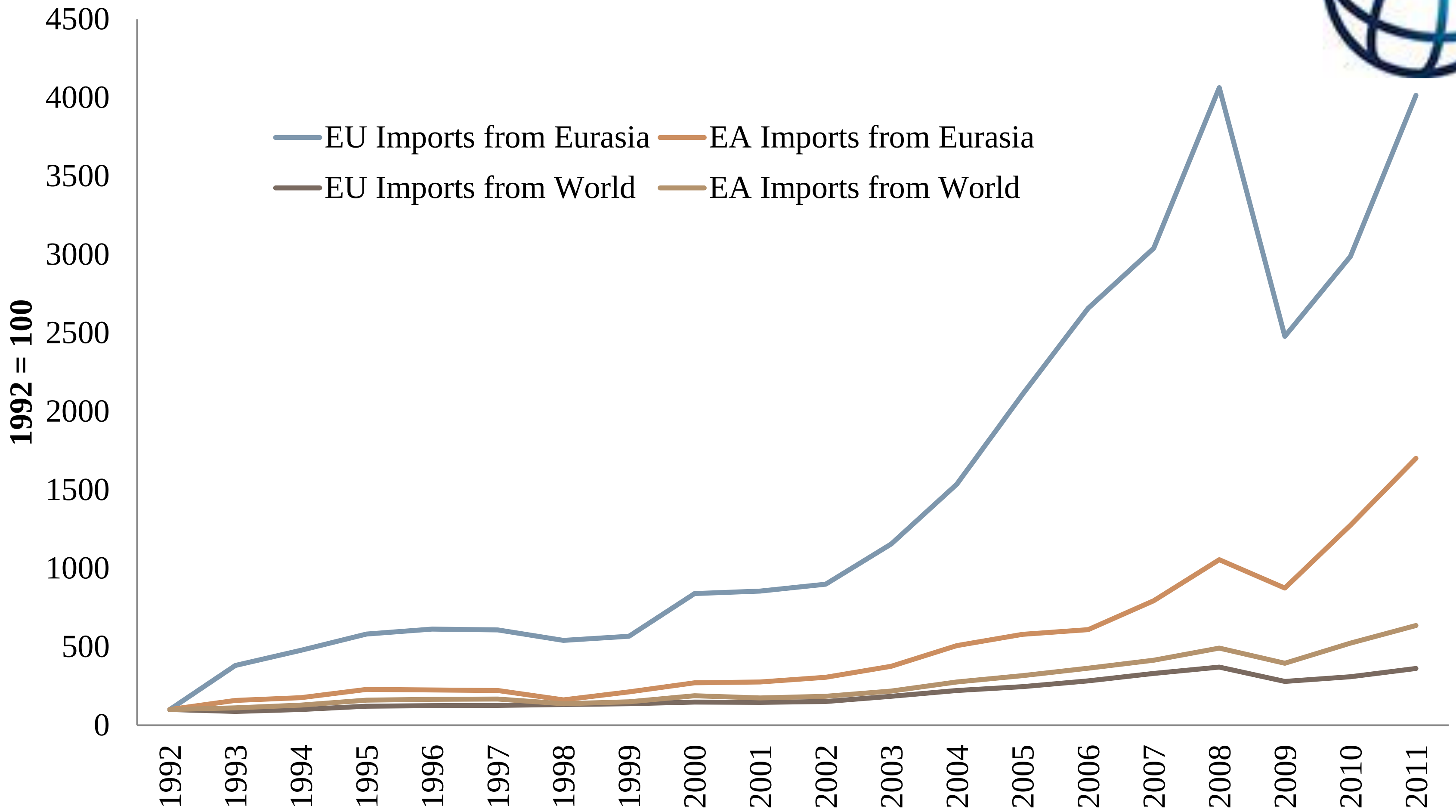
Trade with East Asia has higher technology content

(technology content of exports to main partners, 2010–2011)



Current growth patterns favor trade with East Asia

Trade potential is defined by economic distance and economic mass



Eurasia's trade strategy: International integration now, regional integration later

In the short-term:

1. Trade a little more with Europe, and
2. Trade a lot more with Asia.
3. Regional integration has less potential.

In the long-term:

Built national and regional institutions and infrastructure which will help foster productivity increases for future development.

Thank you!

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