

Decoupling Russia from western-led value chains?

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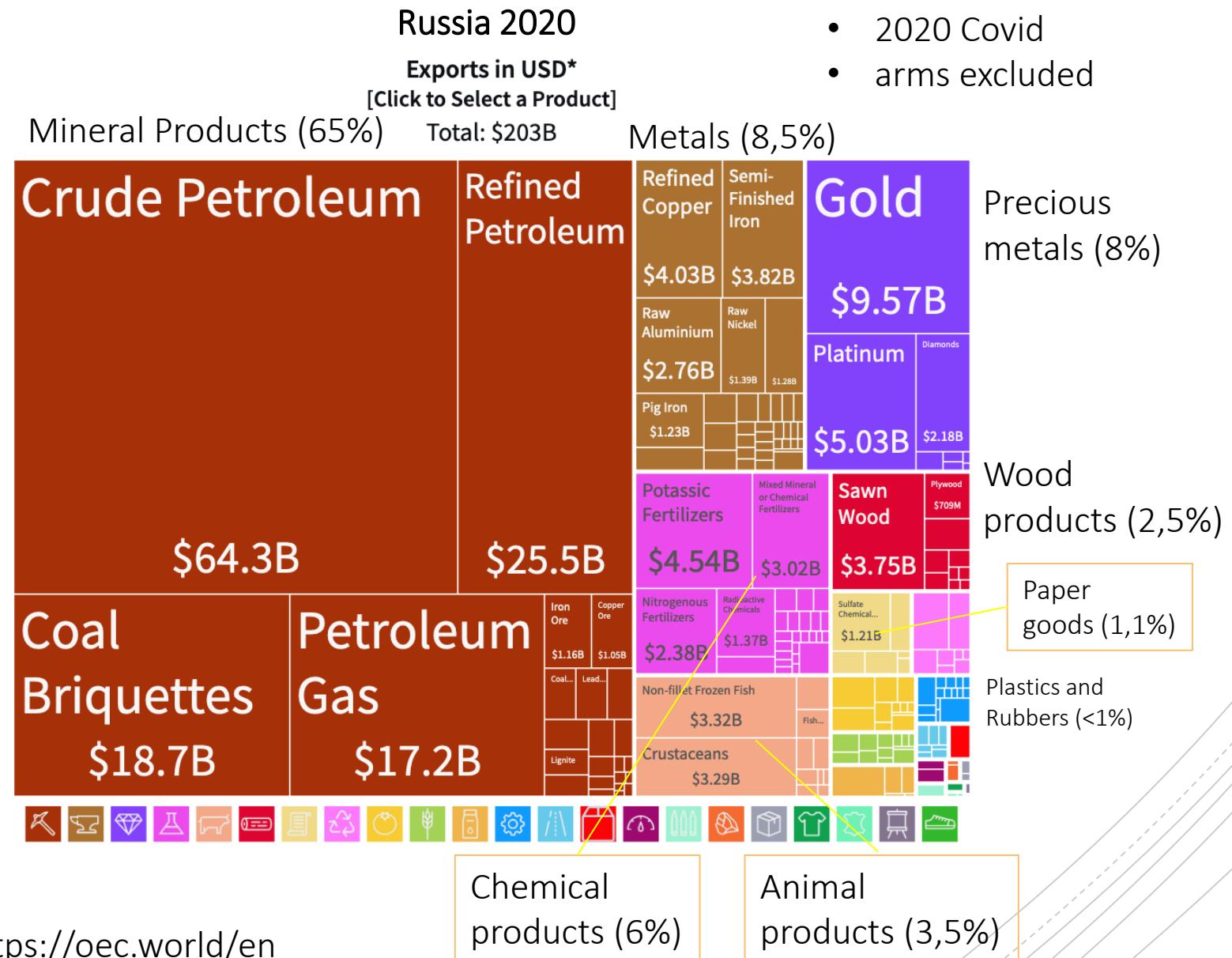
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Introduction

- Context: uncertainty over data quality in times of war
- Western sanctions over Russia : hard decoupling
- First previsions for Russia in the West: short-term economic collapse
- First official reactions in Russia: western sanctions are self-harming
- **Observations: significant impact on Russia, but not systemic to date.** Some links are interrupted, others are maintained, others transformed

1. How far is Russia integrated into GVC?

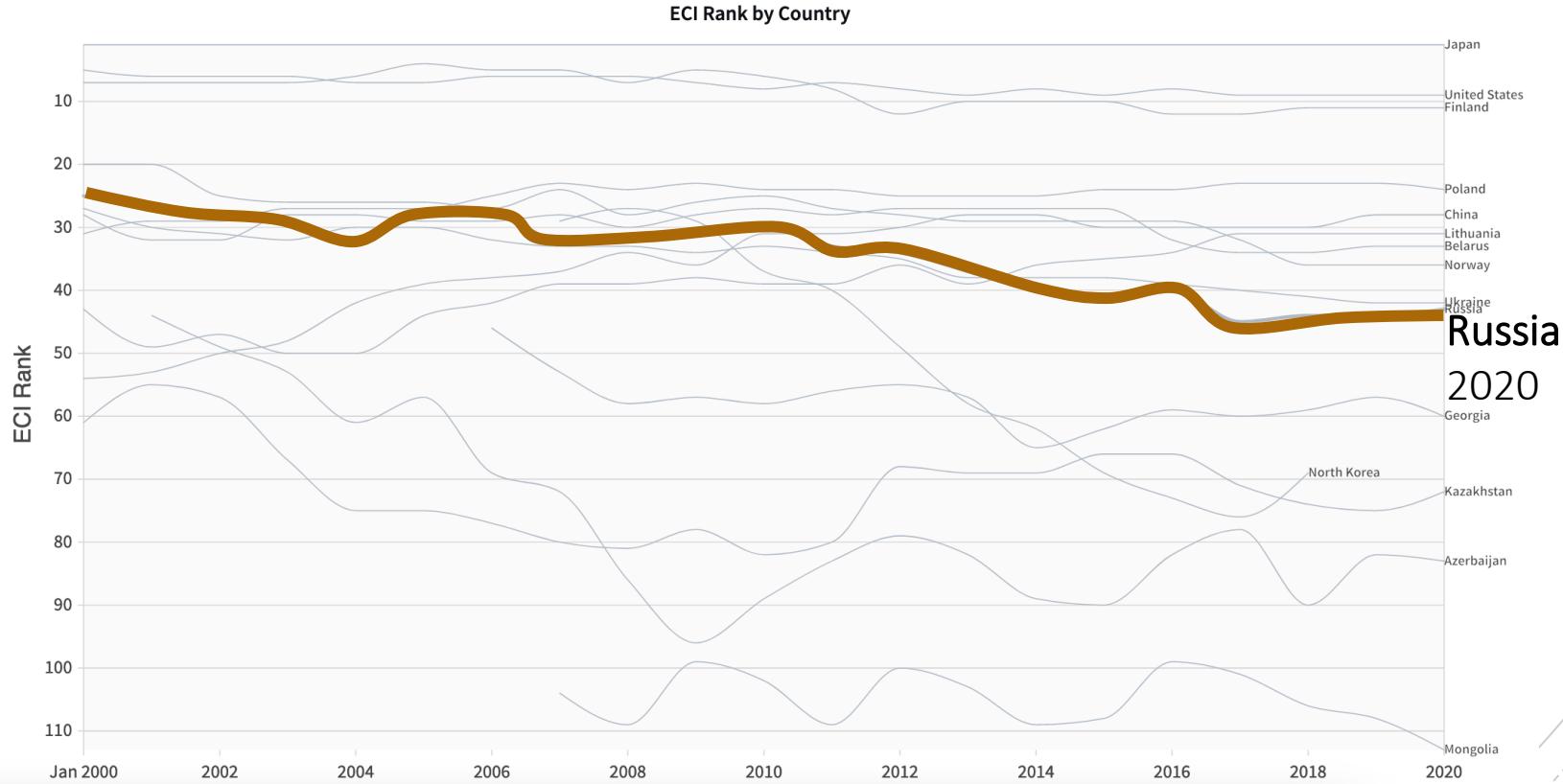


A modest level of integration, diminishing in relative terms

Economic Complexity Index

Dimensions:

- Complexity of traded products
- Partner countries complexity



GVC participation
of Russia is
structurally
forward-oriented

Source : OECD, 2013

GVC participation in value added

Figure 1. GVC participation across countries, 2009

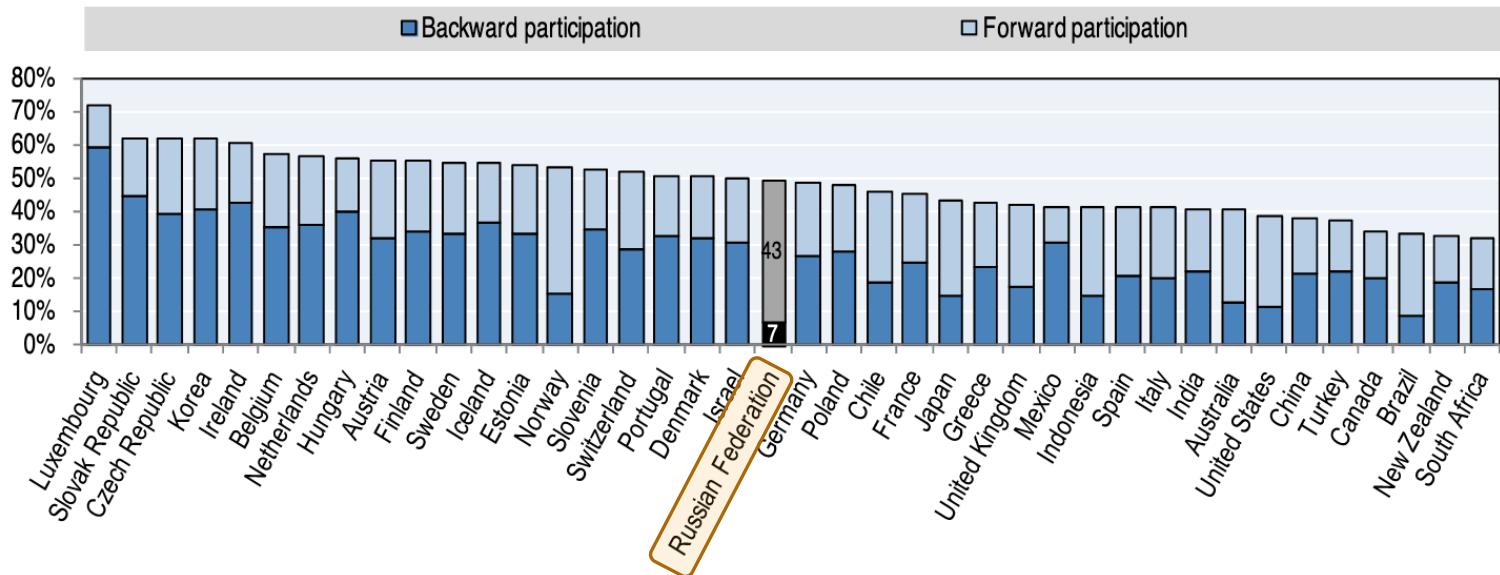
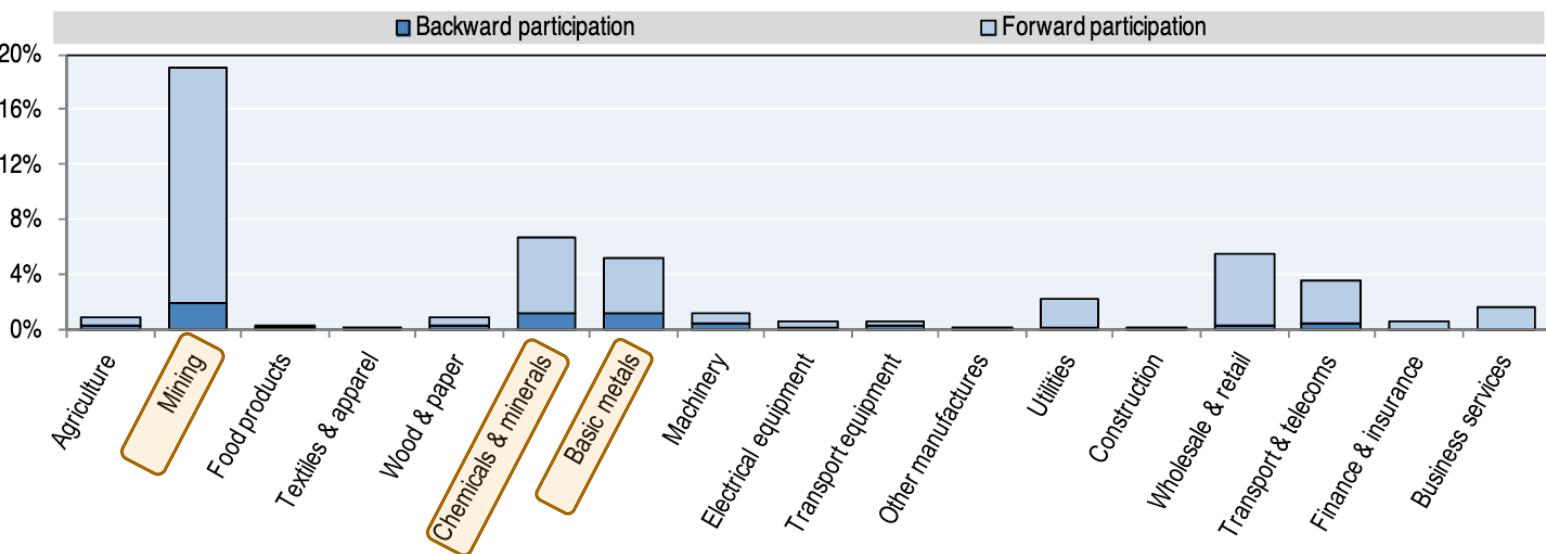


Figure 2. GVC participation by industry², 2009



Simulating the decoupling of Russia: CGE calculations

- « Decoupling »: a twofold increase in Non-tariff barriers
- Three decoupling scenarios :
 - From US and EU and others (3A) on their imports from Russia
 - From Russia (3B) on its imports from US and EU and others
 - From both (3C)

Decoupling scenario	Δ Bilateral exports		Δ Exports to RoW		Δ Imports from RoW		Δ Total exports		Δ Welfare	
	Russia	US al.	Russia	US al.	Russia	US al.	Russia	US al.	Russia	US al.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
3A US al.	-95.68	-39.68	107.35	-1.59	-34.19	3.19	-28.74	-3.80	-7.30	-0.13
3B Russia	-27.53	-96.22	-22.51	2.03	50.58	-1.11	-25.87	-3.67	-4.71	-0.09
3C Bilateral	-96.36	-97.69	58.79	-0.06	-9.09	1.90	-45.21	-5.72	-9.71	-0.17

Western sanctions since February 2022

- Main domains of sanctions:
 - Finance: SWIFT, Western capital markets, CBR
 - Transports: by air, by sea, on the ground
 - Exports of goods: aeronautics, shipbuilding, space, luxury, petroleum technologies, dual use and military goods
 - Export of services: engineering, architecture, law, digital services
 - Imports of goods: iron, steel, wood, cement, spirituals, coal, oil (progressive), gold
- On top of sanctions, western companies reactions are adding to the decoupling (see the Yale list)

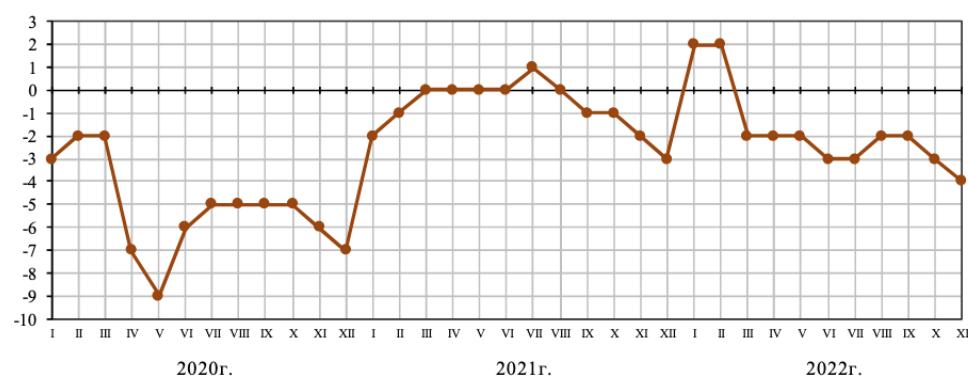
How the Russian manufacturing industry is reacting?

- Context:
 - X: -15 %
 - M: -23 %
 - GDP: -3 %
- No apparent collapse of oil & gas production and exports
- No apparent collapse of manufacturing
- But deteriorating expectations

Динамика обрабатывающих производств
в % к среднемесячному значению 2019 года



Индекс предпринимательской уверенности
организаций обрабатывающих производств
(без малых предприятий)
в процентах



Source: Rosstat (2022)

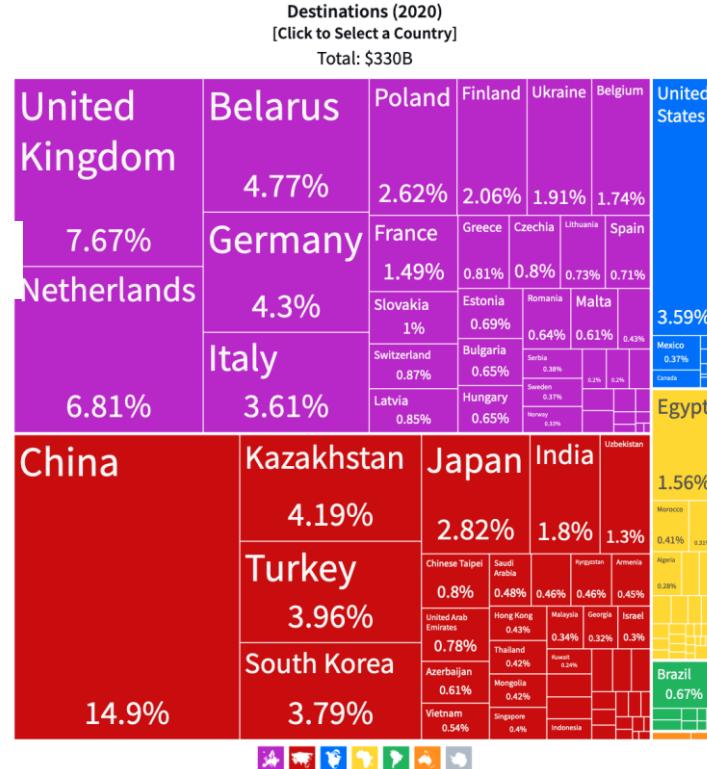
The automotive industry

- Demand-side shock: the effects of war on domestic demand (and car market)
- Supply-side shock:
 - Imports
 - Foreign producers leaving Russia (ex: Renault-Avtovaz)
 - Shortages of components -> disruptions in production chains (CBR, 2022)
- Preliminary statistical observations:
 - Output : -44 % January-October 2022 (Ind. Manuf : -0,7 %) (Rosstat, 2022)
 - Price : +29 % (CPI 14 %) (CBR, 2022)

Could China and India replace Europe and the US?



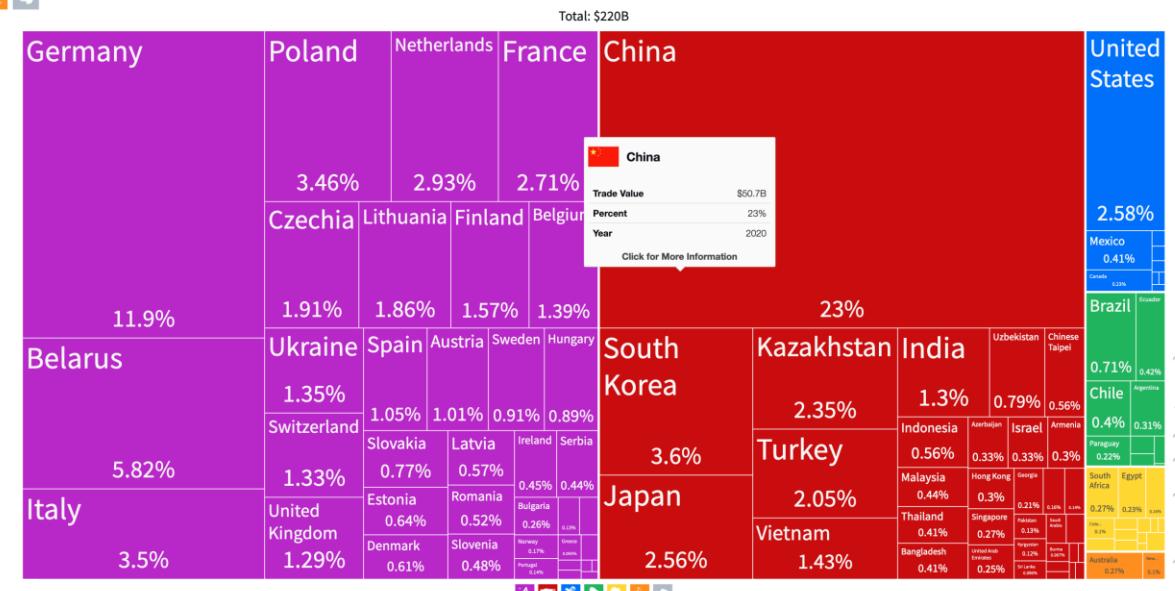
Russian Exports



Russian Imports

- Leading position of China as a trade partner
- Monetary substitution almost done against US\$ already before the war
- India: a newcomer a customer (of oil) – and a junior partner
- Limits to the extension of their role:
 - Absorption capacity (India)
 - Imbalances (India)
 - Logistics (India and China)
 - (Geo-)Politics (India and China)

Where does Russia import from? (2020)



Concluding remarks

- Two paramount factors in the effect of the current decoupling of Russia:
 - Extent and enforcement (by-pass possibilities?)
 - Duration / Reversibility
- The current and relative resilience of the Russian economy is due to the short-term perpetuation of its currency earnings (oil and gas exports)
- China and India are not able (and presumably not willing) to fully substitute EU and US as trade, financial and technological partners for Russia
- So the effects of sanctions on the Russian economy seem to be here to stay – and develop



Thank you !

- Questions ?

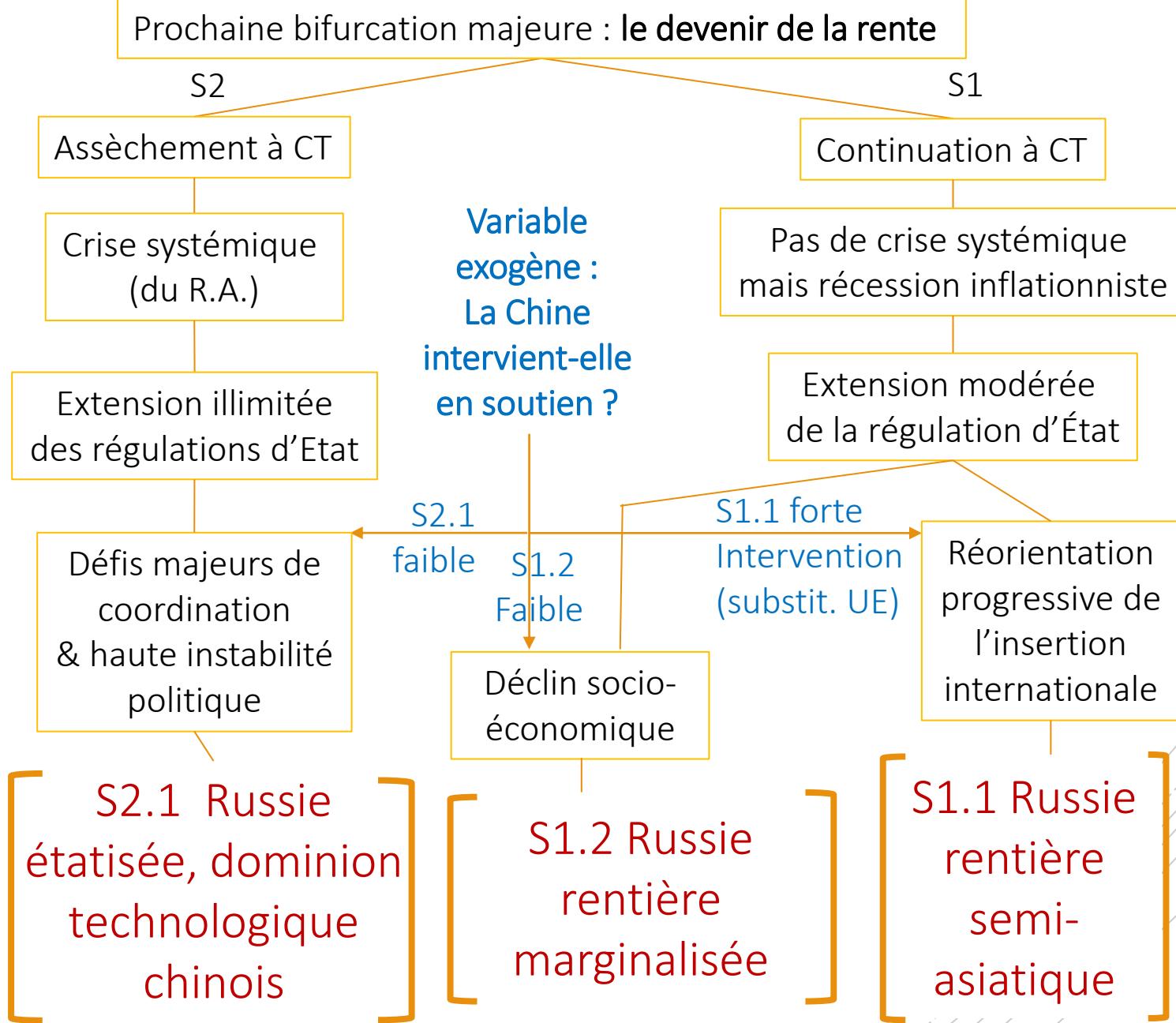
Annex1. Estimates of current economic activity in Russia

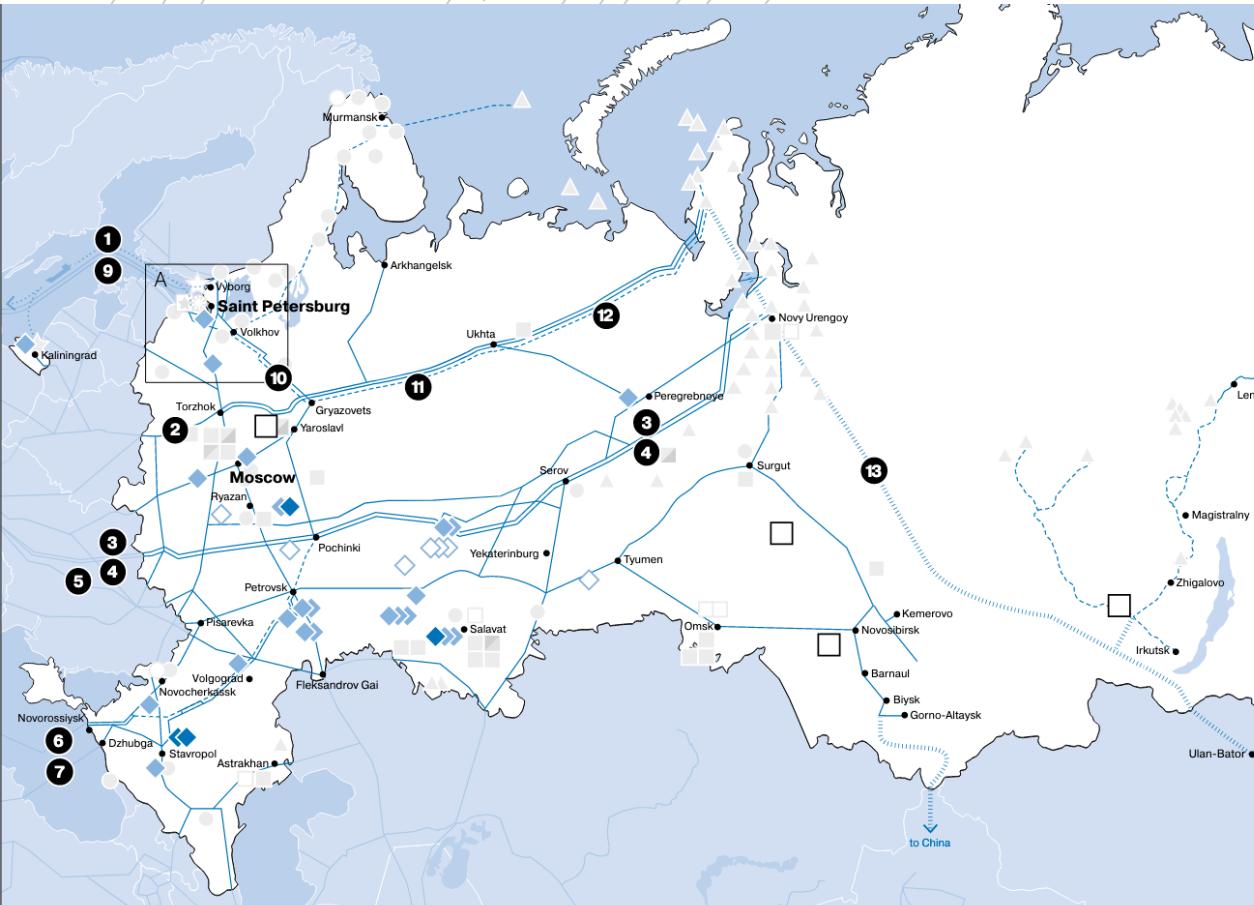
<i>% de variation</i>	2021	2022 BCR	2022 IPEN-ASR
PIB	+4,7	-3,3	-3,1
Inflation	+8,4	+13,8	+12,3
Consommation des ménages	+9,5	-3,3	-5,9
FBCF	+8,9	-11	-11
Exportations	+3,5	-15,5	-10,6
Importations	+16,9	-23	-23,8

Scenarii

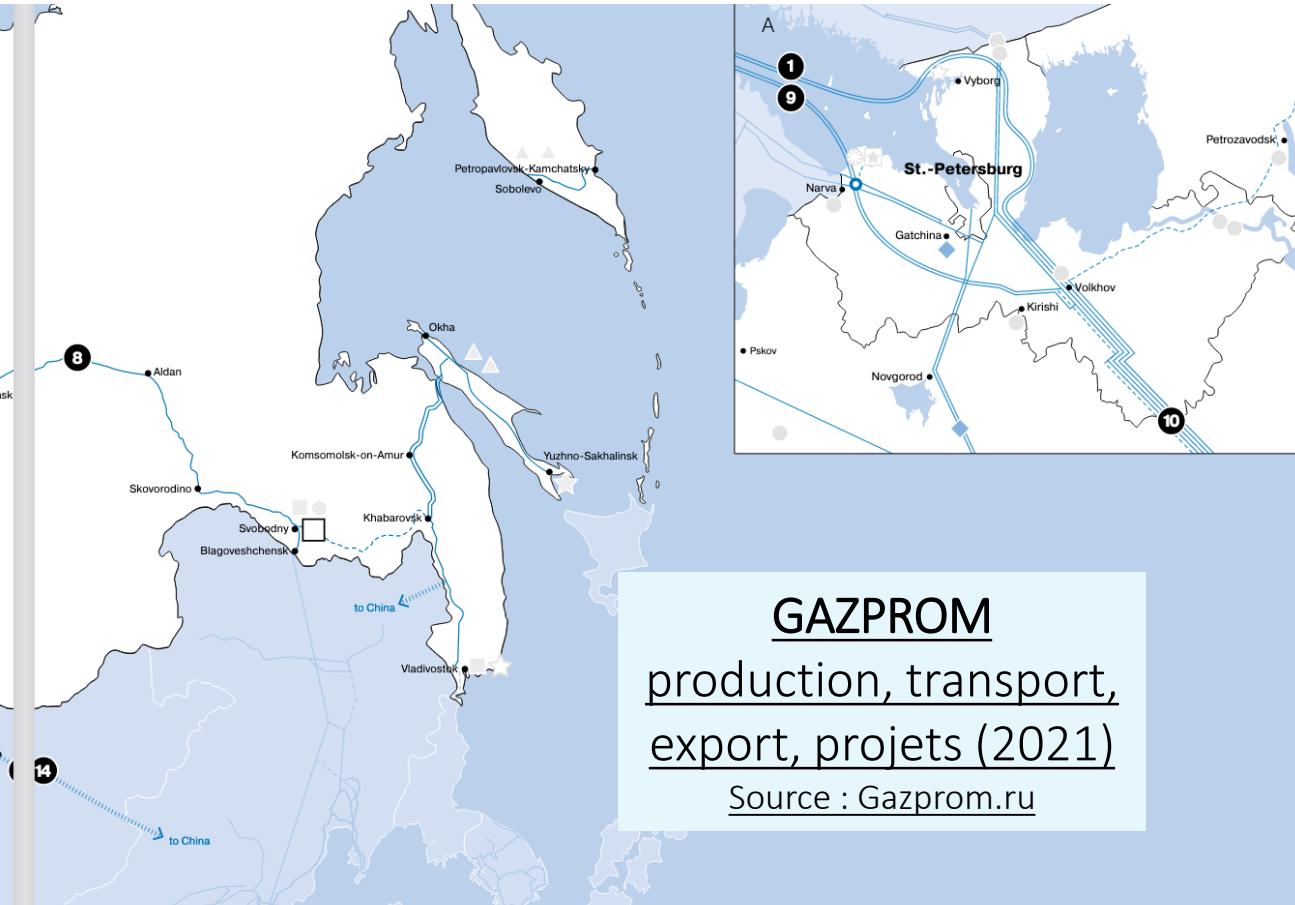
Nouveau rythme
de croisière (N+2 à 5)

Année 1





- Major gas trunklines**
- Constructed and active gas pipelines
 - Gas pipelines under construction and projected gas pipelines
 - Projected supply routes
- UGSFs**
- Active facilities with a working gas capacity over 5 bcm
 - Active facilities with a working gas capacity below 5 bcm
 - Facilities under construction and projected facilities
- Areas explored for the construction of UGSFs**



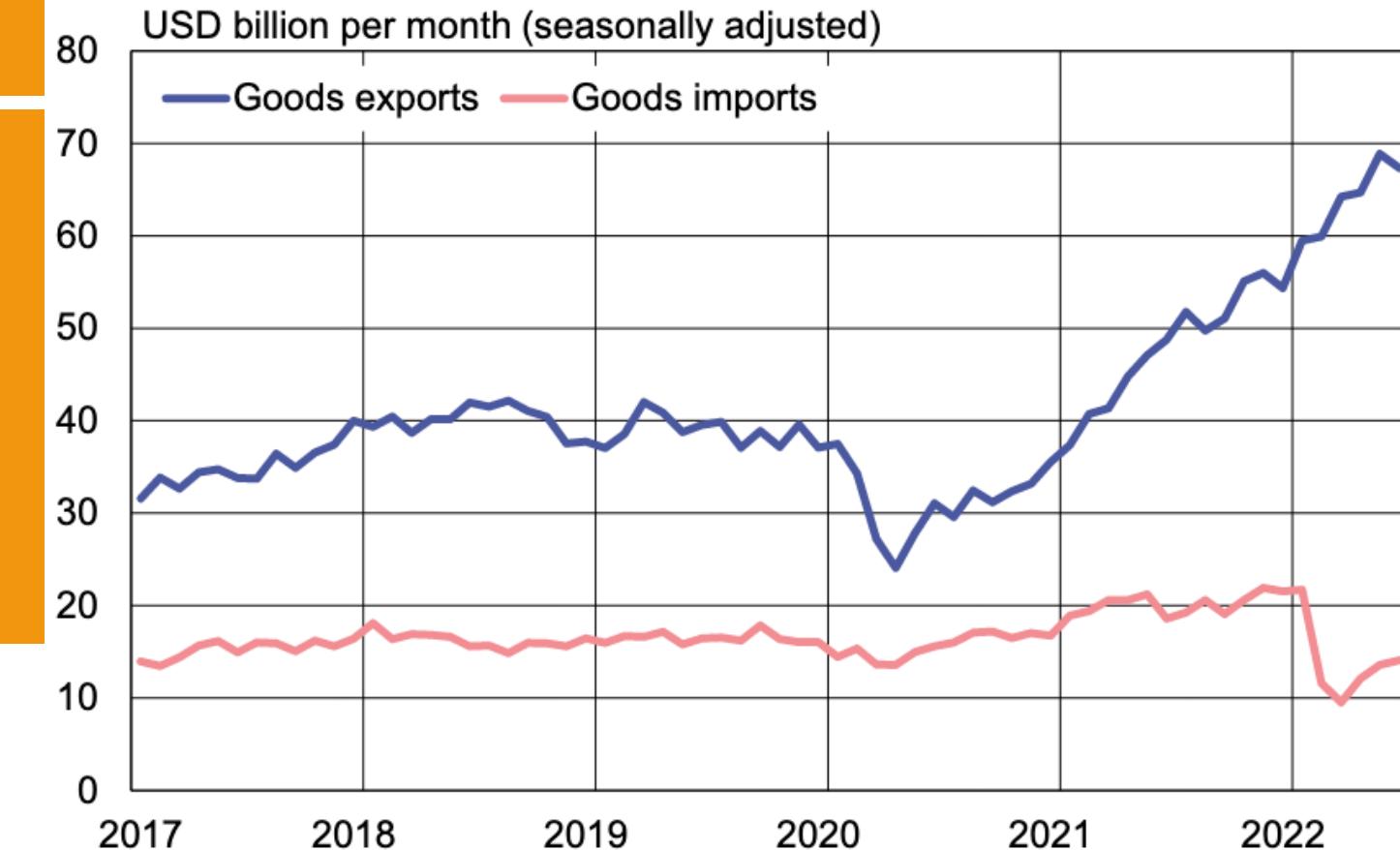
GAZPROM
production, transport,
export, projets (2021)

Source : Gazprom.ru

- Key gas export routes**
- Nord Stream gas pipeline
 - Yamal–Europe gas pipeline
 - Progress gas pipeline
 - Urengoy–Uzghorod gas pipeline
 - Soyuz gas pipeline
 - TurkStream gas pipeline
 - Blue Stream gas pipeline
 - Power of Siberia gas pipeline
 - Nord Stream 2* gas pipeline
 - GTS revamp projects to supply ethane-rich gas from the Nadym-Pur-Taz region's fields to the Baltic Sea coast
 - Ukhta–Torzhok 3 gas pipeline
 - Bovanenkovo–Ukhta 3 gas pipeline
 - Power of Siberia 2 gas pipeline
 - Soyuz Vostok gas pipeline (extension of the Power of Siberia 2 gas pipeline into Mongolia)
- Gas transportation projects**
- Nord Stream 2* gas pipeline
 - GTS revamp projects to supply ethane-rich gas from the Nadym-Pur-Taz region's fields to the Baltic Sea coast
 - Ukhta–Torzhok 3 gas pipeline
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 - Power of Siberia 2 gas pipeline
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External trade

Figure 2. Estimate of Russian foreign trade based on mirror figures of Russia's main trading partners



Sources: Macrobond, Eurostat, UN Comtrade and BOFIT.

Oil prices

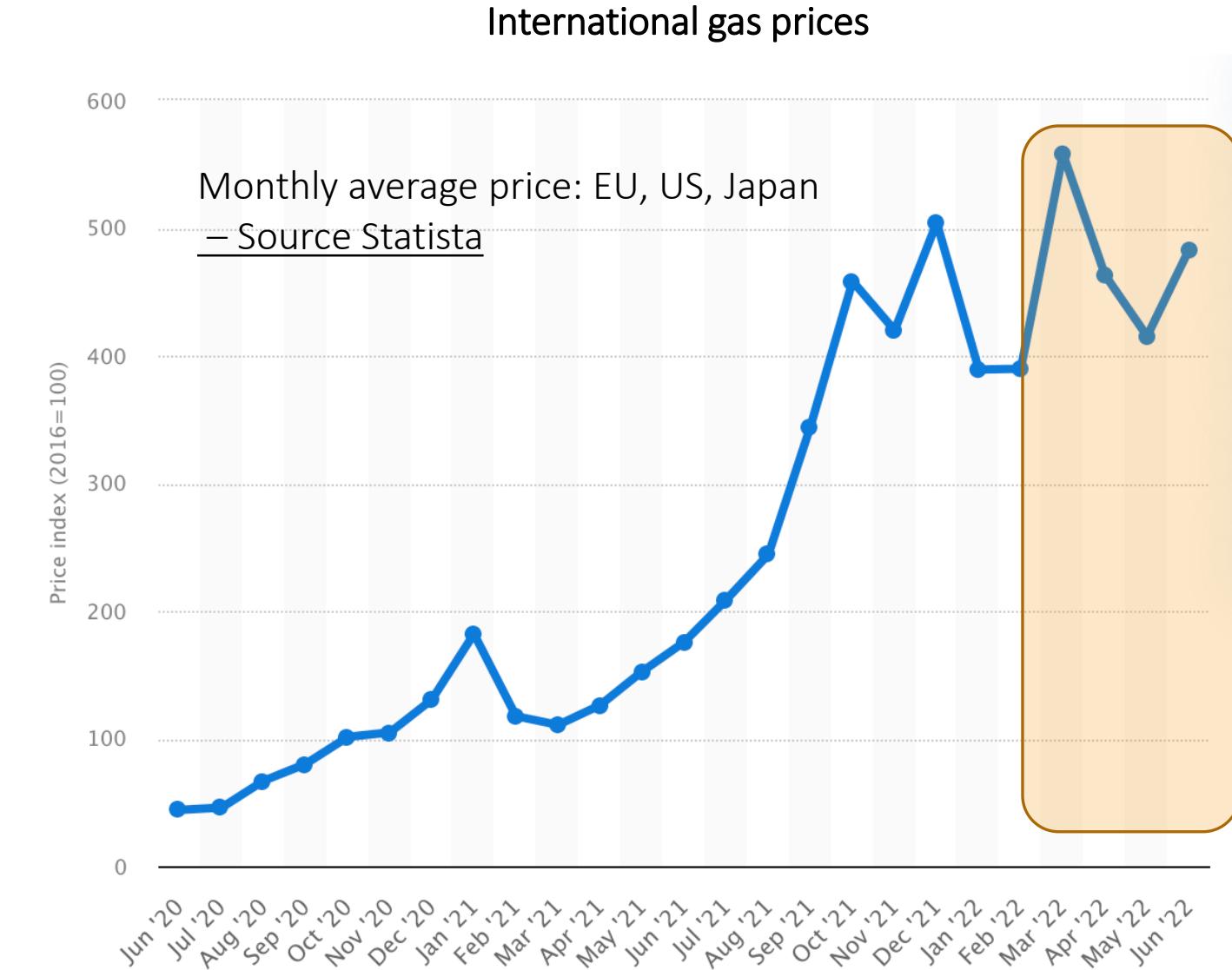
Source: statista

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International oil prices



Gas prices



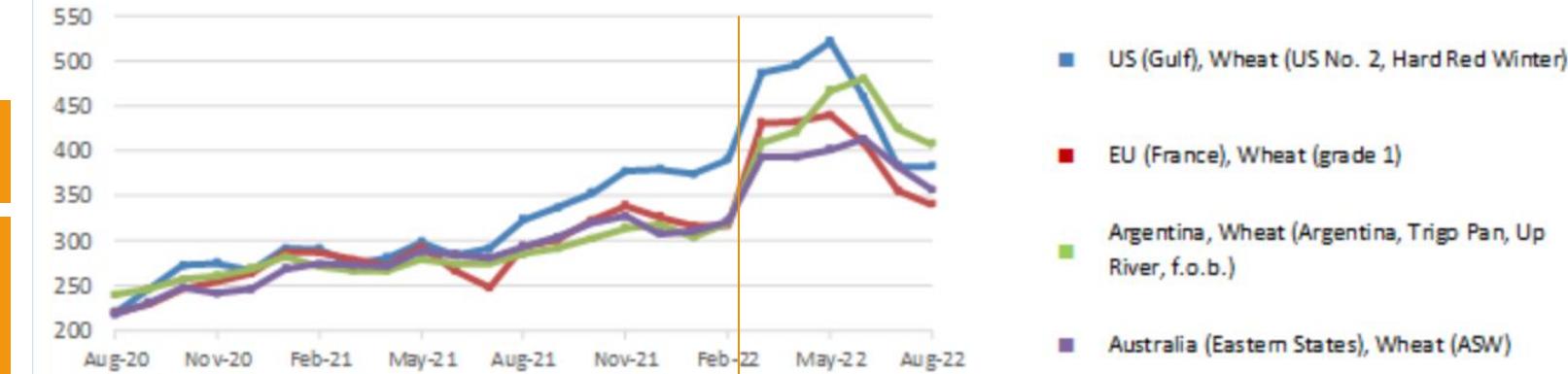
Prices of Cereals

Source : FAO, 2022

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International wheat prices

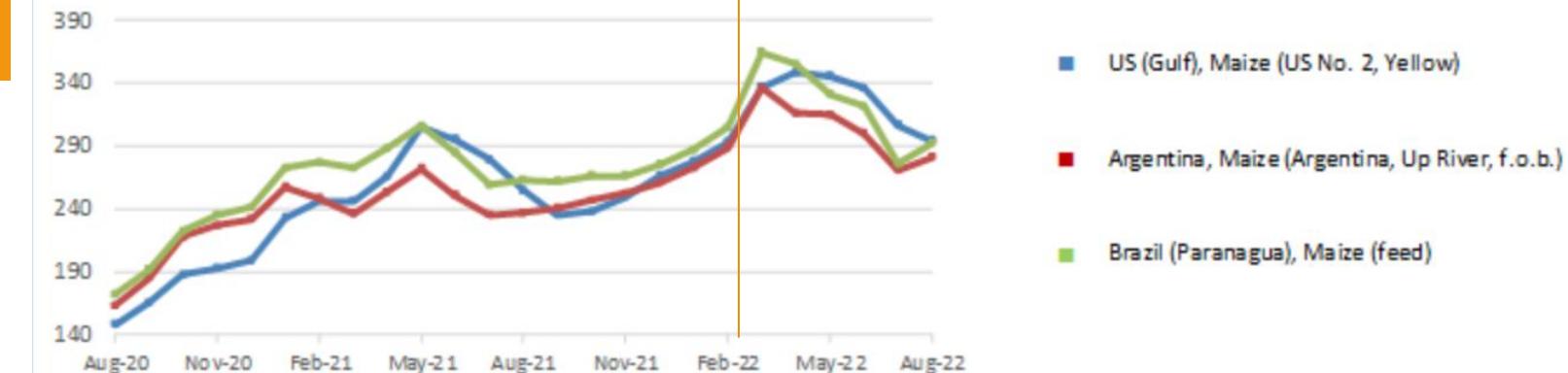
United States dollar per tonne



Source: International Grains Council.

International maize prices

United States dollar per tonne



Sources: USDA; International Grains Council.

short-term
weathering of
inflationnary war
shocks

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Inflation rate
(monthly, grey, Source Rosstat)

