

Sectoral GVC-REER and industry competitiveness in Russia

Topic: Regional trade

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We use Rosstat's recent publication of Russian Input-Output Tables (Rosstat, 2017) to study possible evidence of additional explanatory power of sectoral real effective exchange rate adjusted to Russia's participation in global value chains (GVC-REER, (Patel, Wang, and Wei 2017)). These results are opposed to a more conventional measure of industry real exchange rate (Goldberg 2004). Recent literature (Bems and Johnson 2017) stresses importance of inter industry linkages and GVC participation for construction of REER on a country or industry level. This is even more important for Russia, since it has recently been listed as a country with one of the highest levels of divergence in cost competitiveness across sectors (Patel, Wang, and Wei 2017), prompting on a significant sectoral differences in openness and GVC participation.

Historically Russia's participation in GVC is limited to first stages of global value chains. Russia supplies energy and raw materials for manufacturing processes: index of forward participation is estimated at 38.7%, while index of backward participation is about four times less and estimated at 9.36% (Kadochnikov 2015). This brings concerns about diversification of Russia's exports and competitiveness among manufacturing industries (Torvinen and VÃ¤Ã¤tÃ¤nen 2013).

Following significant depreciation of the Ruble in 2014 Russian manufacturing firms received a cost advantage that has not yet been offset by the Ruble's latest appreciation observed throughout 2017. Against this background, Russian firms' cost advantage along with acceleration in global economic growth gives a clear opportunity for movement along GVC and further increase in manufacturing exports.

Currently Russia's growth potential is held back by the set of long-term structural factors and adjustment to negative external shocks. We study how industry performance could be explained by GVC participation, which is believed to be a potential driver of growth for the Russian economy.