



UNIVERSITY OF CENTRAL ASIA  
GRADUATE SCHOOL OF DEVELOPMENT  
Institute of Public Policy and Administration

# **The Impact of Macroeconomic Factors on Agrifood Trade in Post-Soviet Countries**

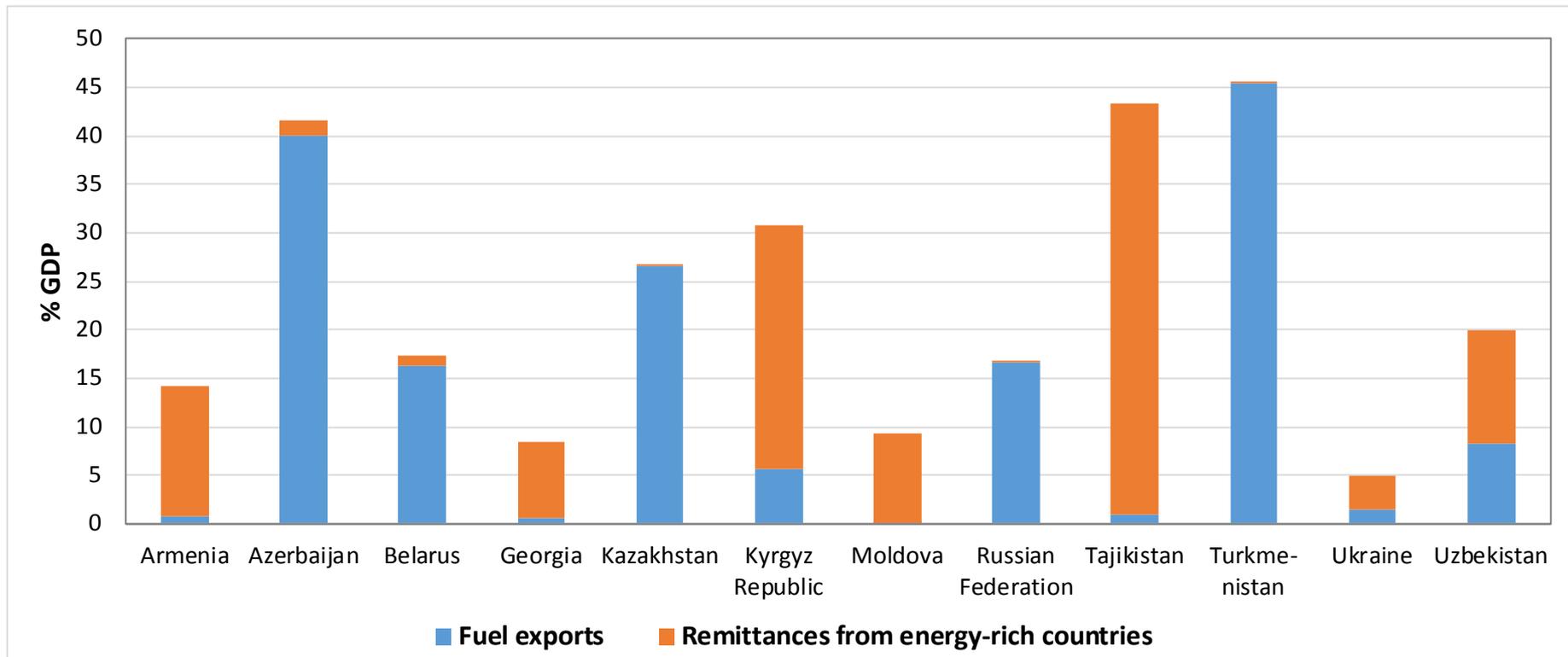
**Roman Mogilevskii, University of Central Asia  
IAMO Forum 2017, Halle (Saale), 21 June 2017**

# Background

- In 2012-2016, trade policy landscape in the region has significantly changed:
  - establishing and expansion of Eurasian Economic Union
  - DCFTA agreements with EU (Georgia, Moldova, and Ukraine)
  - Russia, Tajikistan and Kazakhstan joined WTO
  - political shocks
- Trade performance of these countries changed much, too
- There is a strong temptation to establish causal relationship between the policy changes and the changes in trade
- However, there could be other explanations for these trade changes
- In particular, the fall in international energy prices affected all these economies

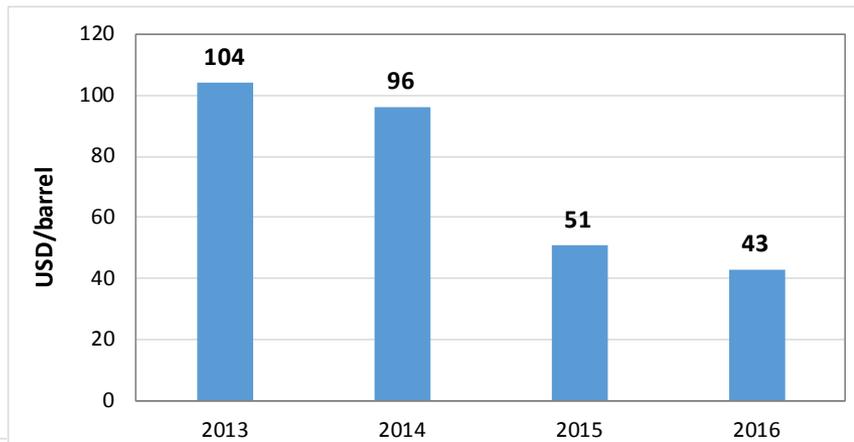
# Dependence of the Region on Energy Trade

- Almost all countries of the region strongly depend either on energy exports, or on remittances sent from the neighboring energy exporting countries

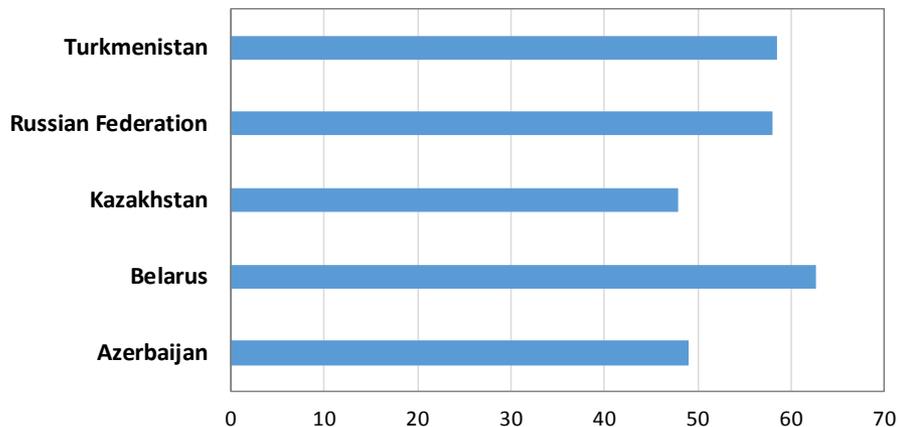


# Fall In Energy Prices and its Macroeconomic Effects

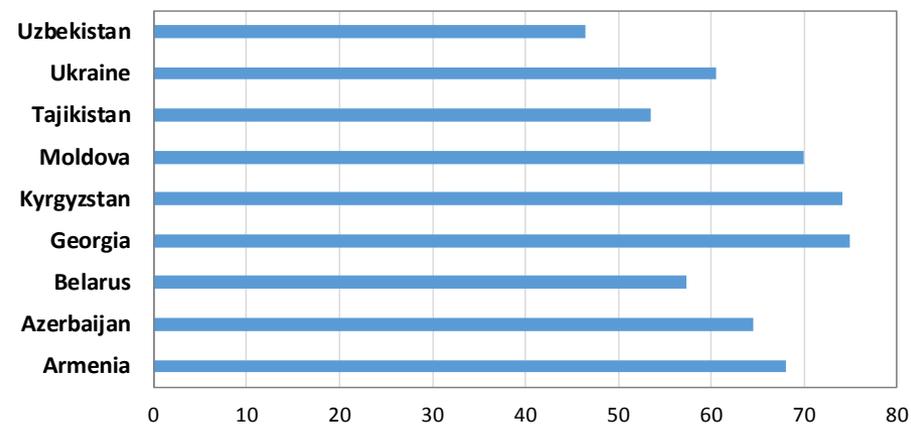
- In 2014-2016, oil and gas prices were falling
- Energy exports revenue and remittances from energy-rich countries (mainly Russia) decreased



Energy exports, 2015 in % to 2013



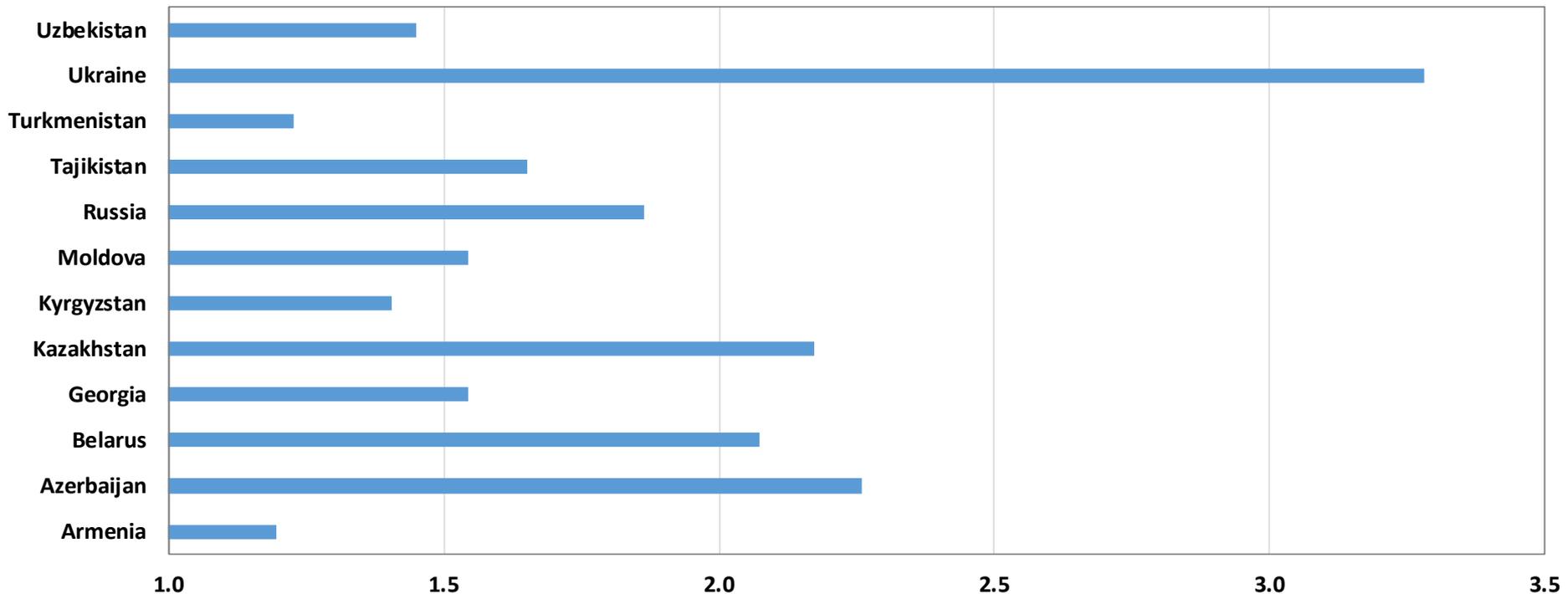
Remittances, 2015 in % to 2013



# Fall in Energy Prices and its Macroeconomic Effects (2)

- All regional currencies devaluated against US dollar
- The extent of devaluation was very different
- Currencies of many smaller economies appreciated against Russian ruble and Kazakh tenge

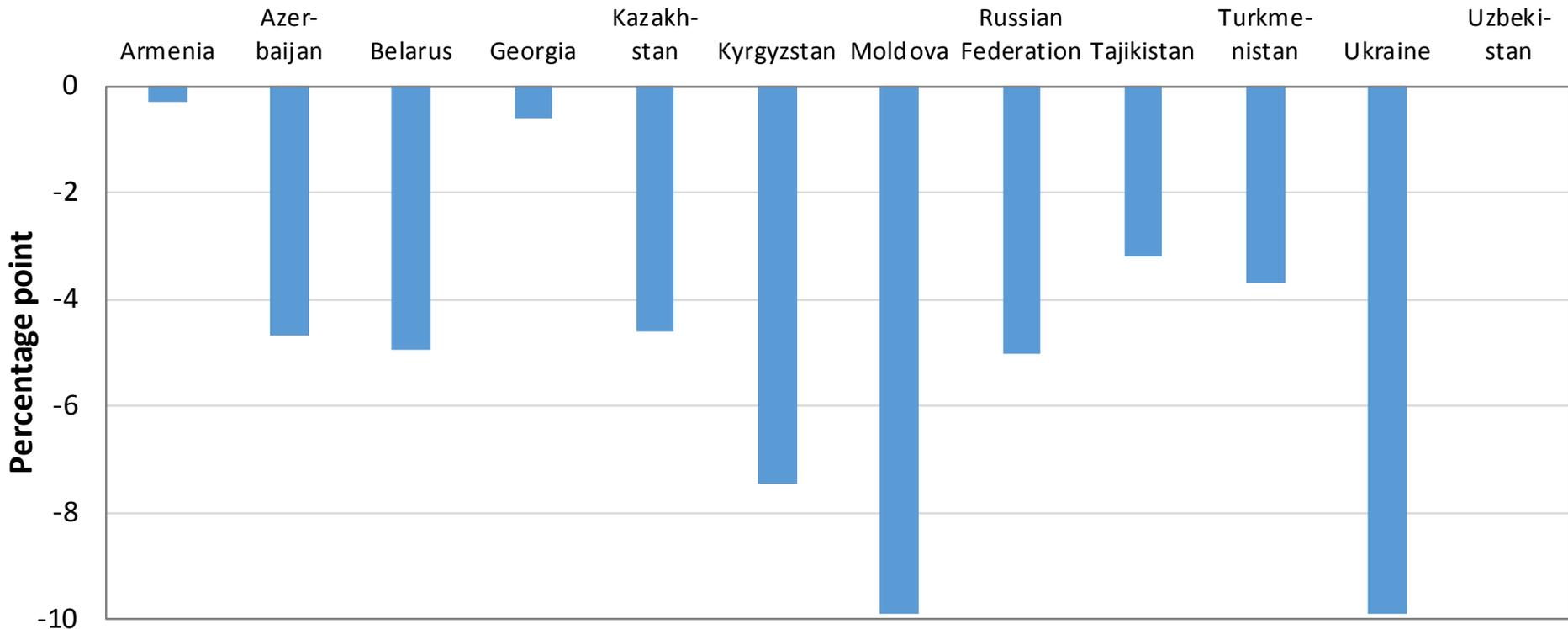
Index of nominal exchange rate, LCU/USD, 31-12-2016 to 31-12-2013



# Fall in Energy Prices and its Macroeconomic Effects (3)

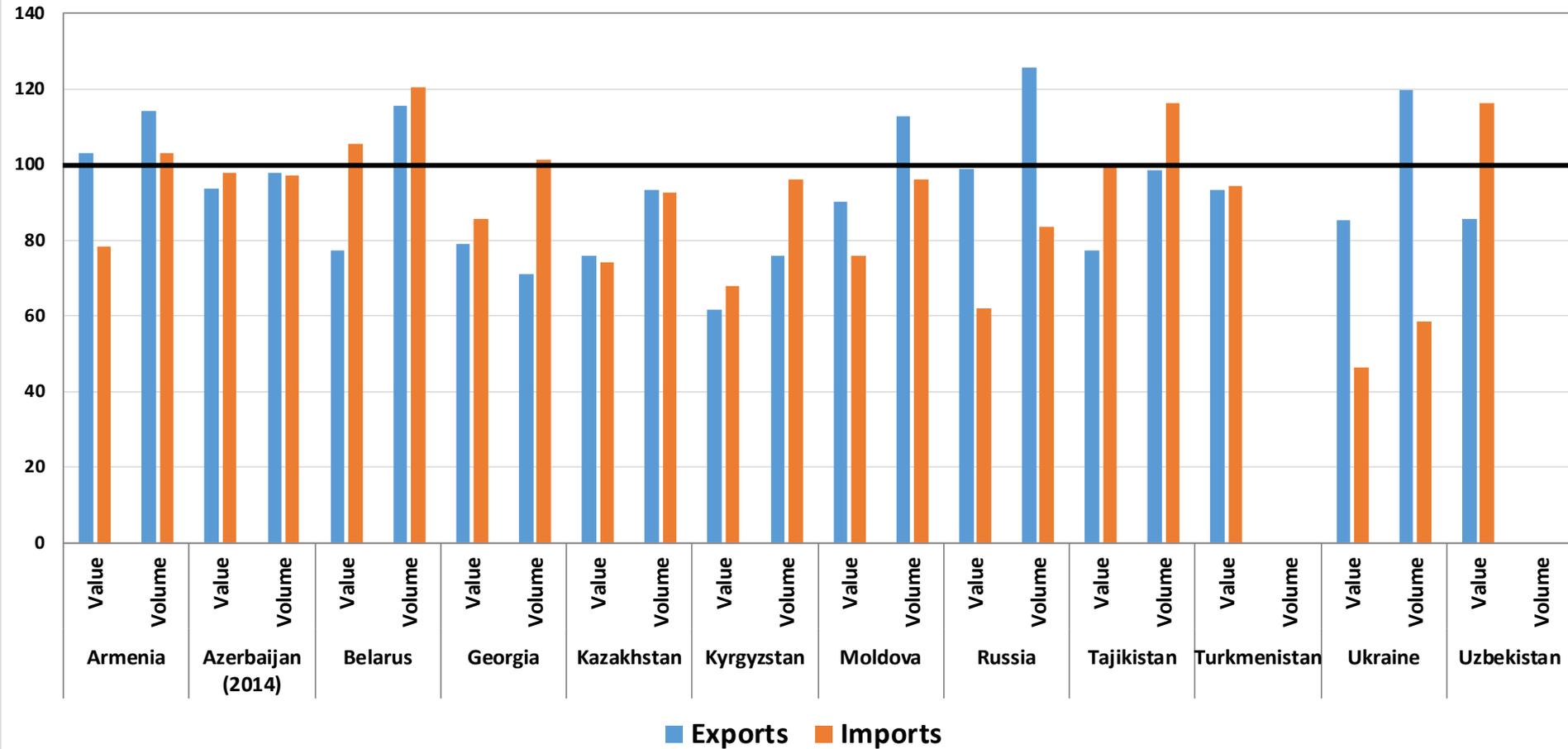
- GDP and internal demand growth rates have declined
- Prices of regional export goods on the neighboring countries' markets (especially in Russia) have changed

**Change in GDP growth rate, 2015 to 2013**



# Agrifood Trade Response

Agrifood Trade Value and Volume Indices, 2015 in % to 2013



## Agrifood Trade Response (2)

- Values of exports and imports (expressed in USD) decreased almost everywhere
- In most cases, physical volumes of trade fell less than values
- In most cases, import prices fell in USD, but increased in LCU
- Policy changes could not explain large part of this dynamics
  - neither trade creation, nor trade diversion related to the EAEU accession for Kazakhstan and Kyrgyzstan
  - imports of Moldova and Ukraine from EU fell, not increased
  - etc.

# Agrifood Trade Response (3)

- What is the role of macroeconomic developments?
- Variables of interest – agrifood export and import volume indices (2013 = 100)
- Macroeconomic variables – GDP of importing country and real exchange rate (RER)
- 10 countries of the region (except Turkmenistan and Uzbekistan) and their major trade partners
- Panel with 85 groups (pairs of exporting and importing economies) and 163 observations for 2014-2015
- Statistically significant, but not very strong correlation between the changes in export/import volume indices and the respective RERs

# Agrifood Trade Response (4)

- Non-macroeconomic factors could be treated as either random, or fixed effects

<b>Dependent variable – agrifood export/import volume index change</b>		
	Random effects	Fixed effects
RER index change	0.255**	0.271*
GDP growth rate	0.017*	0.017
Constant	-0.024	-0.020

- The impact of macroeconomic variables appears to be significant

# Conclusions and Policy Implications

- Not every change in agrifood trade could/should be attributed to trade policy
- At least, part of the recent trade dynamics for all countries of the region could be explained by macroeconomic developments
- Currency devaluation of the scale observed in the region is a very powerful, non-selective (but painful) protective measure
- Under such exchange rate shocks, protective trade policies become redundant and trade liberalization policies ineffective

## Conclusions and Policy Implications (2)

- Agrifood trade policy must be coordinated with macroeconomic policies; otherwise effectiveness of both types of policies is going to be damaged
- Agrifood trade in the region appears to be quite sensitive to price shocks
- Too few branded, too many standard region's export goods competing by price only
- Development of quality/niche products would allow increasing resilience of the region's agrifood exports to macroeconomic and other shocks

**Thank You!**