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Exports of the CIS Countries in the Light of New Price Relations in International Trade

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Abstract. The paper presents the directions of impact of new price relations in the international market on the exports of the CIS countries as observed in the beginning of the 21st century. The evidence from the research indicates that the structure of the CIS exports (with a large share of commodities) became a significant factor driving up the Commonwealth's total exports. As a result, export prices (unit values) in this group of countries grew twice as fast as the world average, which given comparable growth rates of exports volume observed for both the CIS and the world as a whole, translated into an overall growth rate of the total export value of this region being twice as high as the world average. This structure, however, has contributed to the disintegration of the Commonwealth as the demand for commodities is raised mostly by third countries (outside the CIS).

Keywords: Commonwealth of Independent States, world prices, prices versus volume, international trade.

JEL classification: F14, F15, P2.

INTRODUCTION

The last two decades witnessed a significant transformation in the structure of international trade which had been initiated by the changes in the prices of commodities traded on the market. Contrary to the relative growths in the prices of manufactured goods and improvement of price relations in their favour, as observed for nearly the entire second half of the 20th century, this trend reversed at the beginning of the present century. The most recent writings in the field of international economic relations and reports of international organisations emphasise the phenomenon of a relative increase in the prices of primary commodities (closure of the "price scissors"), i.e. occurrence of new price relations (Dudziński 2011, pp. 69–83), which has been observed for some time now.

This price movement, naturally, exerts an impact on the given economic region's position in the global economy and international trade on the one hand, and on individual economies and their categories on the other. Contemporary literature on the subject usually presents the evidence from the research focusing on two major groups of countries – developed and developing economies, and tends to neglect transition economies. The countries forming the Commonwealth of Independent States seem to be a particularly interesting example of the latter group due to their increasing economic potential and role in the global trade.

The aim of the paper is to explore the impact of the changes in export prices and new price relations on the CIS export and its dynamics in the years 2000-2011. In the course of the analysis the authors emphasise also the role of other determinants, including the changes in the exports volume as well as the transformation in the CIS export structure.

PRICE MOVEMENTS IN INTERNATIONAL TRADE IN THE BEGINNING OF THE 21ST CENTURY

Over the last two decades the international trade has witnessed an absolute as well as relative (in relation to manufactured goods) increase in the prices of food and resources (Figure 1). This tendency seems to be long-term. The surge in primary commodity prices – noted in absolute terms since 2003 (and in relative terms since 2004) – has been interrupted only once, in 2009 (in terms of the annual average growth). Between January 2010 and April 2011 another surge in the prices of primary commodities was observed. Afterwards, however, the prices of food and resources, as well as those of manufactured goods, became relatively stable.

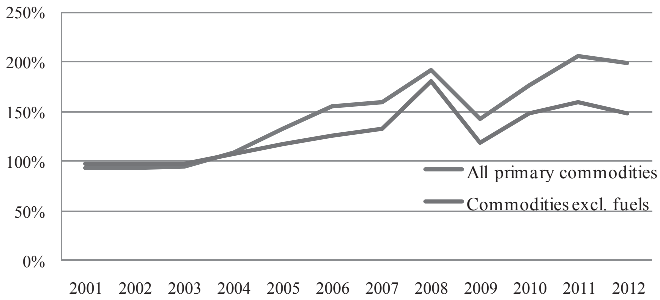

Figure 1. Relations between the prices of primary commodities and manufactured goods in international trade in 2001–2012 (prices of manufactured goods = 100)

Source: *UNCTAD Statistical Database*, http://unctadstat.unctad.org; http://www.imf/external//np/res/commod/table1.pdf.

The price relations shown above are worthy of attention also for another reason – under dynamic changes in the prices of primary commodities, the prices of manufactured goods (which accounted for approx. 65% of the total goods traded in the world) were rising at a moderate rate. Between 2002 and 2008, i.e. during the resource boom, the world export prices of manufactured goods increased only by 39% (in terms of US dollars), whereas the average prices in the global exports increased by 60% (UNCTAD 2012, p. 234). In that last period also the prices of food and resources were changing dramatically, yet their increases were accompanied by soaring inflation all over the world. In the 21st century the situation has changed, as faster growths in the prices of commodities can no longer be explained by the global inflation since the prices of manufactured goods (which determine the level of inflation) have been recently rising really slowly and in 2012 they even dropped by 2.1%, according to preliminary estimates.

This moderate growth rate of the prices of manufactured goods explains also the improvement in price relations in favour of primary commodities in international trade. It seems to have been affected by two relatively new phenomena related to the globalisation of the world economy. The first one is connected with the structural changes witnessed in the global export, involving a rising share of manufactured goods, usually originating in low-production-cost developing economies. Its relevance has been emphasised within the so-called new trade theory and new economic geography, a concept developed by P. Krugman (Dudziński 2012, pp. 744–754). It has been observed since the 1990s and has undoubtedly contributed to the improvement in the price relations observed in that period. The second phenomenon, related to the deregulation of international financial markets and more intense activity of financial investors in commodity markets, has been witnessed since the late 2000s. It has significantly contributed to the closure of the price scissors in international trade in favour of primary commodities.

The first phenomenon has been contributing to the relative decrease in the prices of manufactured goods in the global export. The second one, on the other hand, has reinforced the relative rises in commodity prices through boosting trade in international commodity markets and integration between commodity and financial markets.

CIS COUNTRIES AND THEIR POSITION IN INTERNATIONAL TRADE

The Commonwealth of Independent States was established in December 1991 as a result of an agreement signed by leaders of 11 former USSR republics. Since its establishment, the Commonwealth has been an economic and political union, very similar to a confederacy in its form, and has aimed to fill the void left by the collapse of the USSR. Even though the agreement has been open to both other former republics and other countries in general, the composition of the Commonwealth has virtually not changed (Demjaniuk 2011, pp. 164–165). The CIS is internally diverse in terms of economic potential. Russia is its unquestionable leader; in 2011 it accounted for more than 76% of the Commonwealth's GDP and 66% of its exports. Kyrgyzstan, on the other hand, the smallest economy of the group, has a GDP which is more than 320 times lower than Russia's.

Table 1

Intra-exports and intra-imports of the Commonwealth of Independent States in 2001–2011

Category		2001	2003	2005	2007	2009	2011
Intra-exports	value (USD millions)	30,420	39,524	61,306	99,932	87,107	96,625
	% of total[a]	21.46	20.61	18.01	19.34	19.47	13.08
Intra-imports	value (USD millions)	33,637	43,327	63,896	103,035	86,982	139,371
	% of total[b]	33.90	31.24	28.35	26.05	25.04	24.68

[a] Total CIS export.

[b0] Total CIS import.

Source: *UNCTAD Statistical Database*, http://unctadstat.unctad.org.

In 1993 the CIS member states signed a declaration on creating a common market offering free mobility of commodities, services, capital and workforce. Nearly twenty years later it is difficult to evaluate unambiguously the effects of the CIS efforts towards economic integration (or rather re-integration) of the former USSR republics. So far the efforts towards creating a common market have failed. Moreover, it seems an equally unrealistic goal also for the nearest future, given that the 1990s witnessed a sudden deterioration of the traditional economic relations among the CIS countries, and also the early 21st century saw a clear downward tendency in this area (Table 1)[1]. It seems both understandable and in compliance with the theory of the international economic integration as the countries which emerged after the collapse of the USSR were not attractive trade partners to each other as a result of the lack of complementary economic structures. Owing to similar commodity structures of their exports, after 1991 the CIS countries became competitors in the markets of third countries instead (Demjaniuk 2011, p. 169). Moreover, virtually all the CIS member states suffered from deterioration in their export structures, which involved a shrinking share of manufactured goods in total exports. According to some authors, Belarus is the only CIS country which avoided this downward tendency in the exports of manufactured goods (Shelburne, Pidufala 2006, p. 5).

Table 2

The role of CIS countries in the world exports in the years 2000–2011 (as %)

Country	2000	2001	2003	2005	2007	2009	2011
Total CIS	2.248	2.332	2.571	3.261	3.698	3.588	4.323
Armenia	0.005	0.006	0.009	0.009	0.009	0.006	0.007
Azerbaijan	0.027	0.037	0.039	0.073	0.152	0.169	0.189
Belarus	0.114	0.120	0.131	0.152	0.173	0.170	0.226
Kazakhstan	0.137	0.144	0.175	0.265	0.341	0.345	0.485
Kyrgyzstan	0.008	0.008	0.008	0.006	0.009	0.013	0.011
Republic of Moldova	0.007	0.009	0.010	0.010	0.010	0.010	0.012
Russian Federation	1.630	1.647	1.797	2.319	2.529	2.424	2.866
Tajikistan	0.012	0.011	0.011	0.008	0.010	0.008	0.007
Turkmenistan	0.039	0.044	0.048	0.047	0.057	0.040	0.071
Ukraine	0.260	0.263	0.305	0.326	0.352	0.318	0.376
Uzbekistan	0.044	0.044	0.042	0.045	0.057	0.086	0.073

Source: as for Table 1.

Within the CIS a certain integration tendency has emerged towards forming smaller regional structures, grouping several countries, and organisations. Some of them can boast more – although failing to meet expectations – progress in the integration process (Żołądkiewicz 2012, pp. 307–310; Demjaniuk 2011, pp. 173–178).

CIS countries as a group play a relatively insignificant part in the global export, although their total share increased from 2.3% in 2000 to 4.3% in 2011 (Table 2). The only individual economy which contributes significantly to the global trade of commodities is Russia, which ranked as 9th among the global exporters in 2011. Apart from Russia, only four other CIS member states (Kazakhstan, Ukraine, Belarus and Azerbaijan) account for more than 0.1% of the world export, hence mainly export indicators of these five countries will be subject to further analyses.

[1] The data published by the WTO diverges from the UNCTAD data, yet the downward tendency can be observed in both cases (WTO 2012, p. 206).

CHANGES IN THE AVERAGE EXPORT PRICES IN THE CIS COUNTRIES

The first general conclusion which emerges in the course of analysis of the dynamics of unit value indices in the CIS countries is that they were increasing much faster than the world average. The prices in the global exports grew by only 74% between 2001 and 2011, whereas the same figure reported for the CIS countries amounted to as much as 228%. The differences are therefore huge (Figure 2). These tendencies are, naturally, determined by the price movements observed in the international trade in the 21st century, as discussed in the first part of the study. The resource- and fuel-oriented structure of exports of the CIS countries turned out to be their key strength in the light of the new price relations of the last two decades.

Next, we should emphasise that the differences in the growth rates of export prices among the CIS countries are closely related to the share of fuels in their total exports (Figure 3; Table 3). Oil exporters (Russia, Azerbaijan, Kazakhstan, as well as Turkmenistan) reported very high dynamics of export prices, explained mostly by the movement of the world prices of crude oil. The countries with the lowest shares of fuels in their total exports reported much slower changes in their unit value indices (e.g. Ukraine, Belarus).

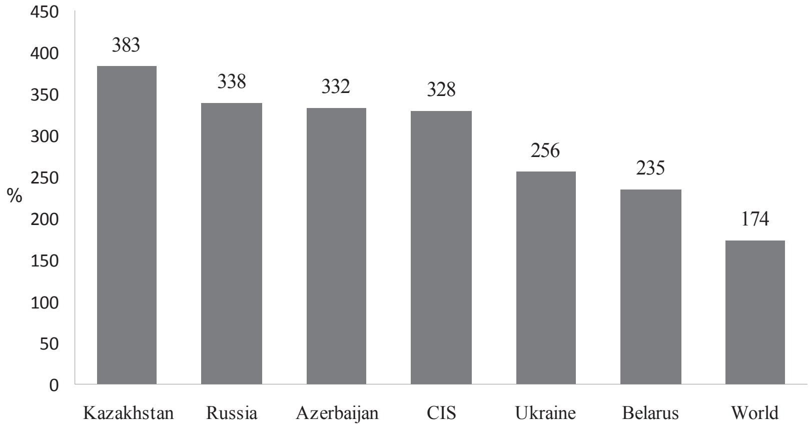

Figure 2. Unit value indices of exports in selected CIS countries in 2011 (2000 = 100)

Source: as for Table 1.

It should be pointed out, however, that the two countries, both with a considerably large share of manufactured goods in their exports (Belarus with approx. 50%, and Ukraine with even more than 60%), noted in 2011 – as related to 2000 – more dramatic price rises than the world average (Belarus – 235, Ukraine – 256, whereas the world average amounted to only 174). This phenomenon may be explained with two factors. On the one hand, the figures are distorted by the low initial levels which serve as bases for comparisons in the analyses of the new countries (after the collapse of the USSR) and their independent economic structures[2]. On the other hand, it may have been determined by a relatively large proportion of oil-related products in the total exports of those countries.

[2] The events of the late 1990s have also contributed to the situation. The more important ones include the Russian currency crisis as well as the sharp drop in the prices of certain resources (crude oil in particular).

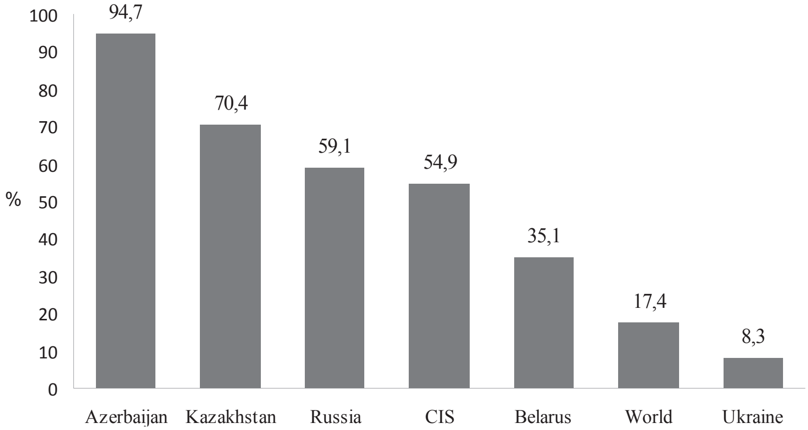

Figure 3. The share of fuels in the total exports in selected CIS countries in 2011 (as %)

Source: as for Table 1.

Table 3

Commodity structure of the CIS exports in 2011 (as %, SITC Revision 3)

Country	Agricultural products[a]	Mining products[b]	Manufactured goods[c]
Armenia	18.3	54.4 (5.8)	26.5
Azerbaijan	2.0	95.0 (94.7)	2.9
Belarus	11.0	36.1 (35.1)	49.9
Kazakhstan	3.9	82.6 (70.4)	13.5
Kyrgyzstan	19.6	35.9 (15.6)	41.5
Republic of Moldova	41.5	6.9 (1.9)	51.5
Russian Federation	4.5	65.1 (59.1)	13.5
Tajikistan	21.7	40.8 (1.8)	11.9
Turkmenistan	17.0	69.3 (68.3)	13.5
Ukraine	19.8	17.1 (8.3)	62.6
Uzbekistan	24.5	34.8 (14.7)	40.7
Total CIS	6.8	61.8 (54.9)	20.2

[a] SITC 0 + 1 + 2 – (27+28) + 4.
[b] SITC 27 + 28 + 3 + 68+ 667 + 971; figures for fuels provided in brackets.
[c] SITC 5 + 6 + 7 + 8 – (667 + 68).

Source: *UNCTAD Handbook of Statistics 2012*, United Nations, New York–Geneva 2012.

DYNAMICS OF THE CIS EXPORTS VOLUME AND VALUE

Exports volume may be considered as the second (next to the price) synthetic factor determining the total export value. The character of impact of the two factors has been widely discussed in the literature on the subject (e.g. Bożyk 2008, pp. 122–124; Dudziński 1998, pp. 143–170; Orłowska 2013, pp. 100–110), owing to the usually inversely proportional relationship between the two variables. Particularly heated discussion – for instance in the second half of the 20th century – concentrated on the so-called supply shortages in the exports of underdeveloped countries. Recently this aspect has been explored – from the microeconomic perspective – e.g. within the analysis of the concept of company development strategy (low price versus product differentiation)[3].

The analysis of the dynamics of the CIS exports volume allows several interesting conclusions to be made (Figure 4). Firstly, the growth rate of the exports volume of the Commonwealth as a whole was similar to the world average (growth of nearly 60%). Secondly, the growth rates varied across the group. What seems interesting is the fact that Russia – the Commonwealth's most important member – reported an only 46% growth rate in its exports volume, which is not only below the world average but also below the majority of other CIS countries. It seems to be related, on the one hand, to the impact of the above-mentioned supply shortages present in Russia's exports of resources, and on the other – to the low initial level used for comparisons in case of other countries. Thirdly, the differences in growth rates of exports volume between individual economies may be considered as an external expression of progress (or difficulties) in economic growth of individual CIS economies.

Special attention should be paid to Azerbaijan, which reported a 6-fold growth in exports volume, similar even to that noted in this period for China (index: 638). Azerbaijan's performance is interesting also from the viewpoint of its exports structure – with unquestionable predominance of resources (fuels account for as much as 95% of the total), whereas China's export is dominated mostly by manufactured goods. In this aspect it should be pointed out that in the years 2000–2011 the growth rate of the global export of mineral resources was nearly twice lower than that of manufactured goods (WTO 2012, p. 202).

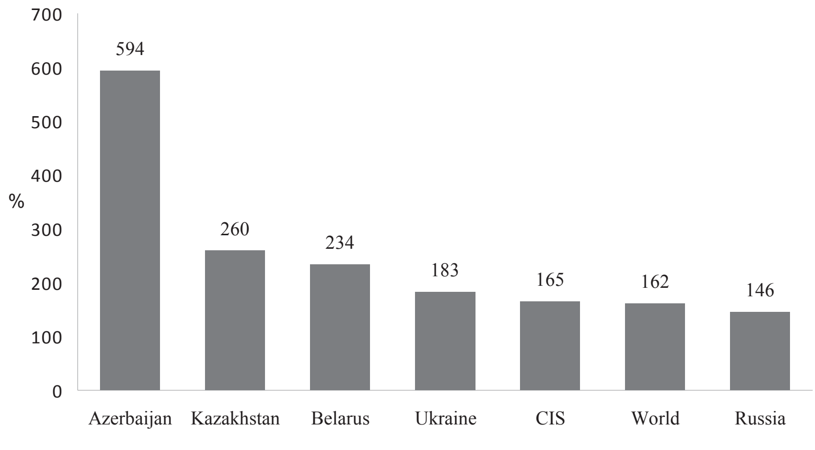

Figure 4. Exports volume dynamics in selected CIS countries in 2011 (2000 = 100)

Source: as for Table 1.

Of particular interest is the fast increase in the exports volume reported by Kazakhstan (growth of 160%), combined with an extremely high, 70 per cent share of fuels in the total exports, as well as by Belarus (growth of 134%). Also Ukraine with its exports volume which grew by 83%, i.e. above the figure for the CIS as a whole (a 65% increase), is worth mentioning. Another interesting economy is Moldova (with an

[3] These issues have been discussed in detail in (Dudziński 1998, pp. 153–161).

increase in volume by nearly 350%). With its high exports volume index and very low dynamics of prices, the country can be considered a good example of the inverse relationship between export price and volume, which has been discussed in the literature, and mentioned above.

When analysing the impact of the exports volume on the total export value, one should not overlook the very poor results of the least wealthy CIS member state, i.e. Tajikistan (noting an absolute 33 per cent drop in exports volume). It could be assumed, therefore, that the results are a reflection of both the development problems of the country which found it difficult to face the new institutional and economic environment after the collapse of the USSR, and the unfavourable effect of the country's geographic location[4].

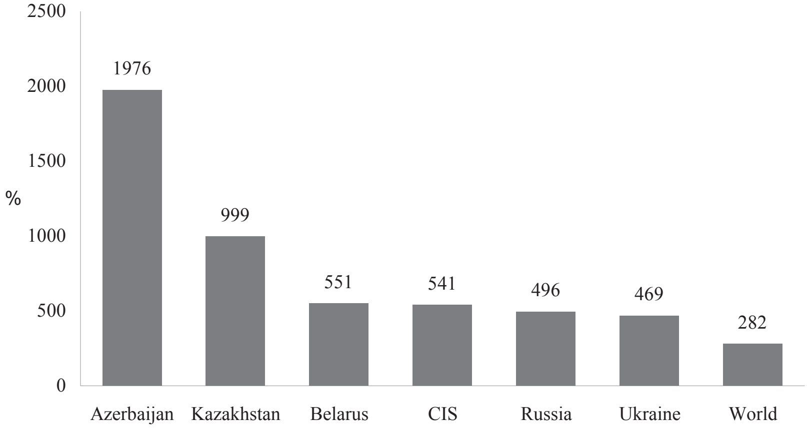

Figure 5. Dynamics of export value in selected CIS countries in 2011 (2000 = 100)
Source: as for Table 1.

Following an analysis of the changes in the total export values reported for the CIS countries, a general conclusion can be reached that individual economies increased their total export more than five-fold in the previous decade (Figure 5). In other words, the total export of the region as a whole was rising twice as fast as the world average. As a consequence, this group of countries, as already mentioned above, has gained in importance from the viewpoint of the global export. The fastest growths were observed, naturally, for countries whose exports were dominated by fuels, i.e. Azerbaijan (a nearly 20-fold growth) and Kazakhstan (10-fold growth). It is interesting to note here that China – i.e. the economy which is most frequently mentioned as an example of rapid export growth – reported in that period only a 7-fold growth.

Two other countries should be mentioned here which also performed extremely well in terms of growth in their exports. The first one is Belarus, which reported a high, more than five-fold growth in its export (which was even more than Russia's), and the other one is Moldova – with a nearly five-fold growth. Their performance is an even better achievement given the unfavourable growth rates in export prices. Tajikistan's exports, in contrast, increased throughout the whole period of analysis only by 60%.

* * *

[4] According to UNCTAD, Tajikistan can be classified as a landlocked developing country next to Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Republic of Moldova, Turkmenistan and Uzbekistan (UNCTAD 2012, p. xv).

To sum up the entire analysis, a general conclusion can be reached that the extremely good performance of the Commonwealth as a whole (in terms of export) may be attributed, first and foremost, to the favourable price relations in the international trade of the 21st century. It should not be forgotten that the CIS exports volume increased in that period at the same rate as the world average. Fuel exporters (Kazakhstan, and above all – Azerbaijan) reported above-average export performance owing to their potential of simultaneous strong increase in their exports volume.

In conclusion, we can argue that the tendencies in the CIS export – determined on the one hand by favourable price relations, and on the other – by the structure of exports – contributed to the economic and political disintegration of the whole Commonwealth. The tendencies (mentioned in section two of the study) pushed the export, naturally, outside the group as it is where the demand for the products exported by these countries was raised.

CONCLUSIONS

The analysis presented in the study leads to several conclusions which can be generalised as follows.

Firstly, the new price relations observed in the 21st century in the international trade had different effects on individual regions and countries. In general, they were favourable to the countries and regions whose exports were dominated by primary commodities.

Secondly, both the structure of the national product and the export of the CIS countries turned out to be extremely favourable in the aspect of new price relations. This effect can be best observed in the more than five-fold increase in the value of the CIS exports, which was rising twice as fast as the global export. We can conclude that it is the price movement which contributed most to this export surge based on the fact that the exports volumes reported for both the CIS and the world as a whole were growing at a similar rate.

Thirdly, the favourable price relations and the commodity structure of the CIS export were a natural disintegration factor as it directed the foreign trade from the Commonwealth to third countries.

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