Global Macro Views – Trade Diversion around Russia Export Controls

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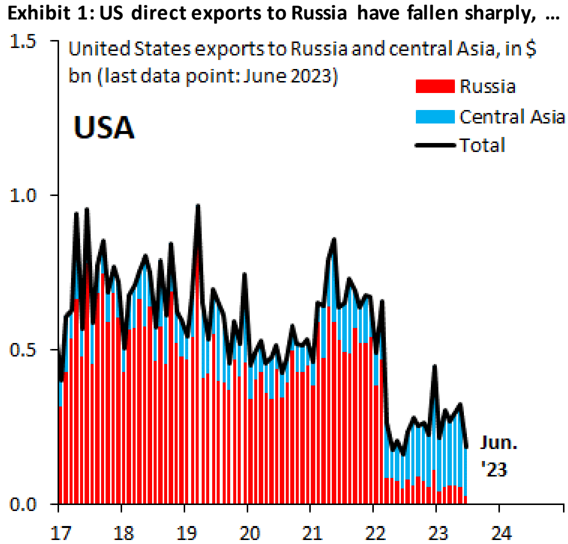
- Export controls on goods going to Russia have upended global trade.
- There is a widespread rise in exports to Central Asia since the invasion, …
- which is sizeable for countries where direct exports to Russia are down lots, …
- plus EU countries with geographic proximity to Russia, like Poland and Lithuania.
- We only document shifts in trading patterns, not actual export control violations.
- That said, the Central Asia boom shows how hard it is to enforce export controls, …
- given that – unlike Russia's oil exports – trade in goods is highly decentralized.
- This underscores the G7 oil price cap as a complement to export controls.

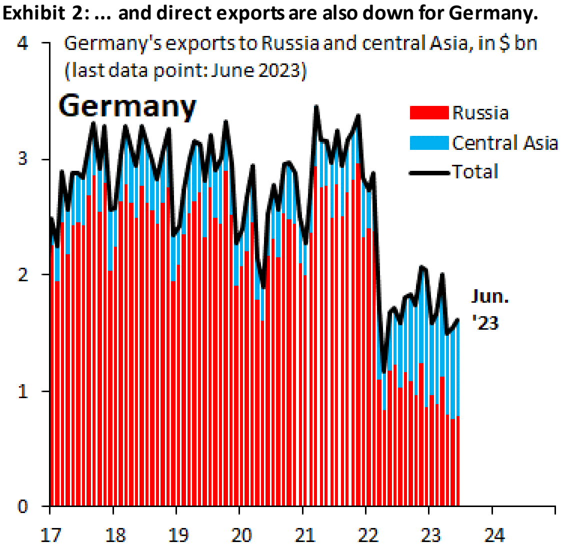
The imposition of export controls on Russia has upended global trade patterns. We examine export data for 24 advanced countries and key emerging markets. We find a widespread surge in exports to Central Asia, which is most pronounced for countries where direct exports to Russia have fallen sharply or where there is geographic proximity to Russia, as in the cases of Poland or Lithuania. Our results should not be read as indicating an obvious violation of export controls, as we only look at aggregate level export data, which do not shed light on what goods are being exported. However, the unprecedented boom in trade with Central Asia raises important questions. After all, why incur the added transportation cost of shipping goods to landlocked countries with often limited cargo capacity, unless shipments in question are at the very least questionable under current export controls. The underlying issue is that it is difficult to police export controls, as global trade is highly dispersed and decentralized. In contrast, Russia's oil exports are highly concentrated on mostly western-owned oil tankers, which underscores the importance of the G7 oil price cap in limiting Russia's purchasing power, which is what ultimately drives this trade diversion.

Exhibit 1: US direct exports to Russia have fallen sharply, …



Source: Haver, IIF

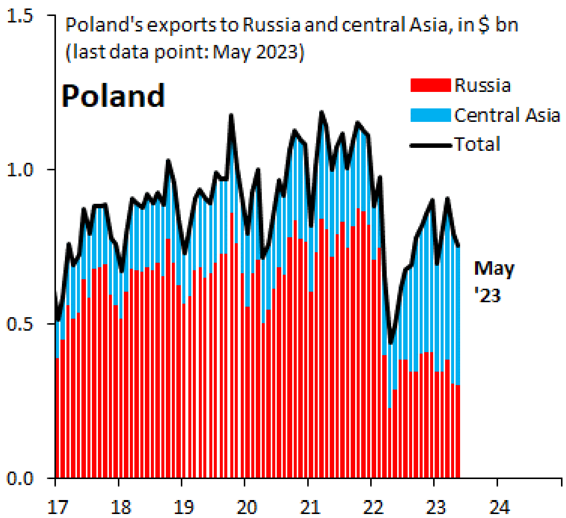
Exhibit 2: … and direct exports are also down for Germany.



Source: Haver, IIF

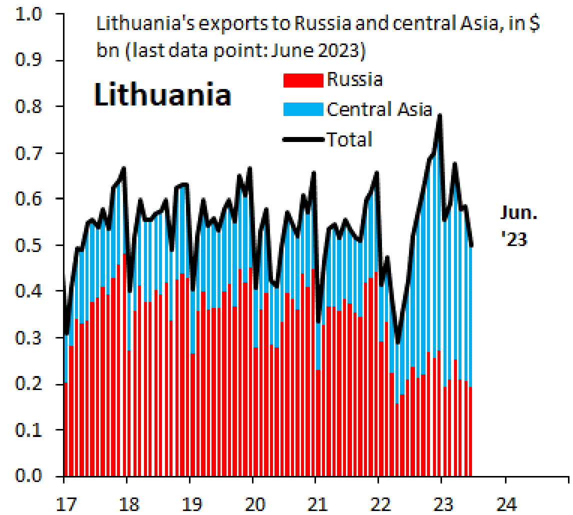
We collect data for 24 countries on direct exports to Russia and exports to Armenia, Azerbaijan, Belarus, Kazakhstan, Kirgizstan, Tajikistan, Turkmenistan, and Uzbekistan. Belarus is obviously not in Central Asia, but we include it in our *"trade diversion"* grouping given that it has – alongside many other countries – seen a boom in trade. We show monthly Dollar-denominated export values for the US (Exhibit 1) and for Germany (Exhibit 2). Both are good representations of what's been happening in most western countries: (i) direct exports to Russia have fallen sharply; and (ii) there is a boom in exports to Central Asia, which in part offsets the drop in direct exports to Russia. Trade diversion is especially pronounced for countries in geographic proximity to Russia, including Poland (Exhibit 3) and Lithuania (Exhibit 4). In the latter case, the rise in exports to Central Asia is so big that it more than offsets the fall in direct trade with Russia.

Exhibit 3: Trade diversion flows are substantial for Poland, ...



Source: Haver, IIF

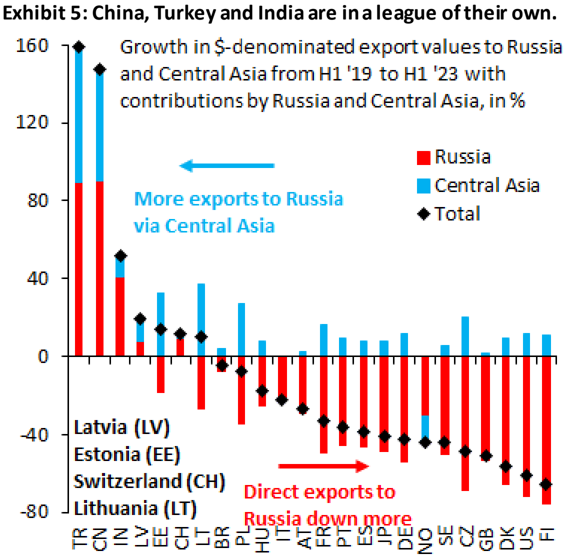
Exhibit 4: ... as well as for Lithuania and other Baltic states.



Source: Haver, IIF

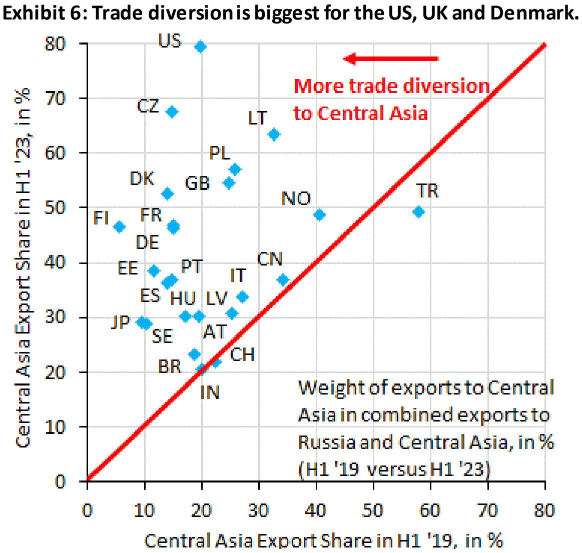
Exhibit 5 calculates the growth rate from H1 2019 to H1 2023 for total exports to Russia and Central Asia, showing the contributions to overall export growth by both categories. Turkey (TR), China (CN) and India (IN) are in a category of their own, with direct exports to Russia rising sharply and large increases in exports to Central Asia as well. Among western countries, positive overall export growth is recorded for Latvia (LV), Estonia (EE), Switzerland (CH) and Lithuania (LT). Most western countries have substantially negative overall export growth, with trade diversion flows providing only a very partial offset. Exhibit 6 shows that trade diversion flows are most pronounced for countries where direct exports to Russia have fallen most, including Denmark, Finland, Great Britain, and the US. Overall, our results underscore how difficult it is to police global trade effectively, given how dispersed and decentralized it is.

Exhibit 5: China, Turkey and India are in a league of their own.



Source: Haver, IIF

Exhibit 6: Trade diversion is biggest for the US, UK and Denmark.



Source: Haver, IIF

