



Asia-Pacific Trade Briefs

North and Central Asia

(Armenia; Azerbaijan; Georgia; Kazakhstan; Russian Federation; Tajikistan; Turkmenistan; Uzbekistan)

Merchandise trade: Trade in North and Central Asia (NCA) is dominated by the Russian Federation and Kazakhstan which, in 2015, accounted for 75.5% and 10.7%, respectively, of total merchandise trade in the subregion. Merchandise exports from the NCA economies contracted sharply in 2015 by 32.6%, compared to the Asia-Pacific average export decline of 9.7%, and continued a five-year trend of export contraction in the subregion. The subregion consists of major energy-exporting economies, with some of the world's largest oil and natural gas reserves in Azerbaijan, Kazakhstan, the Russian Federation, Turkmenistan and Uzbekistan. Petroleum oils and gas collectively accounted for 56.5% of subregional merchandise exports. The export contraction in 2015 was largely driven by a combination of value and quantity effects; export revenue suffered heavily from a continuing decline in world commodity prices, especially for fuels, coal and copper. This was exacerbated throughout 2015 by a relative strengthening of the United States dollar, domestic monetary instability and continuing weak growth in commodity imports in China related to the latter's ongoing structural re-balancing process, especially for imports of investment-related goods. Export volumes for several individual economies in the subregion, especially among the energy-exporting economies, were further affected adversely by prolonged economic sanctions against the Russian Federation – the subregion's transit hub for energy exports, especially to European Union economies – and heightened subregional geo-political tensions and trade disputes. Likewise, merchandise imports in 2015 contracted substantially by 32.5% compared to the average Asia-Pacific average import decline of 15.0%. Subregional import growth was also affected by prolonged currency depreciations, falling migrant remittances – especially from the Russian Federation – and overall weak domestic demand, which continued to be largely aggravated by the 2014 international sanctions against the Russian Federation. In addition, further contractionary pressure was created by changing import requirements and customs tariffs under the Eurasian Economic Union (Armenia; Belarus; Kazakhstan; Kyrgyzstan; and the Russian Federation), especially in the case of China and Germany which are the subregion's two largest sources for imports.

Services trade: The services trade share of subregional total trade in 2015 reached 20.1%, up from 17.8% in 2014. However, in 2015 services exports contracted sharply by 17.3% compared with an average 4.8% decline in Asia-Pacific exports. Similarly, services imports in 2015 suffered a sharp contraction of 24.2%, compared with an average Asia-Pacific import decline of 5.2%. The decline in subregional services trade growth was largely driven by the deteriorating services trade performance of the Russian Federation – which accounts for 20.5% of subregional services trade – especially in terms of falling travel and construction services trade due to heightened international sanctions.

Intra-subregional and intraregional trade: In 2015, 36.5% of goods exports in the subregion were among Asia-Pacific economies, while 7.9% of total exports were intra-subregional. Meanwhile, 48.9% of imports in goods were intraregional – with China (22.2%) as the largest intraregional import partner – and 13.1% were intra-subregional. The prospects of broadening the Eurasian Economic Union may provide additional impetus for enhancing intra-subregional trade and investment.

Foreign direct investment (FDI): The NCA subregion is both a major foreign investor – largely driven by FDI outflows from Russian Federation – and a recipient of large FDI inflows from within and outside the subregion, especially from China. In addition, China became the largest foreign investor in Kazakhstan (\$1.2 billion) in 2015. FDI inflows into the subregion in 2015 contracted sharply by 48.7%, compared to the 5.6% growth of Asia-Pacific average inflows, and continued a deteriorating trend of average inflow contraction of 13.0% during 2010-2015. Likewise, FDI outflows from the subregion in 2015 contracted substantially by 57.2%. Heightened geo-political instability and diminishing investment returns – especially in the energy sector – as a result of lower world commodity prices, prolonged international sanctions against the Russian Federation, weak prospects for rapid economic recovery and currency volatility largely explain the subregion's relatively weak FDI performance. A range of existing structural weaknesses, especially weak financial and legal institutions and inefficient government bureaucracy, remain major challenges to prospects for recovering FDI growth.

Trade costs: Intraregional and international trade costs of the NCA subregion remained considerably higher compared with the most efficient traders in Asia and the Pacific. The trade costs of the economies in NCA to reach four major developing economies in Asia and the Pacific (China, India, Indonesia and the Russian Federation) are around three times as high as those for East Asia-3 economies in reaching these markets. This gap has not been substantially reduced since 2009. Tariffs do not appear to be contributing considerably to these trade costs of the NCA, although three of its economies are still not WTO members and thus have no tariff binding commitment. Based on tariffs in 2014, the levels of MFN bound tariffs of the NCA subregion averaging 7.8% are considerably lower than that of the Asia-Pacific region (20.0%). Likewise, the applied MFN and effectively applied tariff rates of 5.0% and 4.4% are lower than the Asia-Pacific averages of 6.9% and 5.9%, respectively.

Figure 1. Key trade and investment indicators

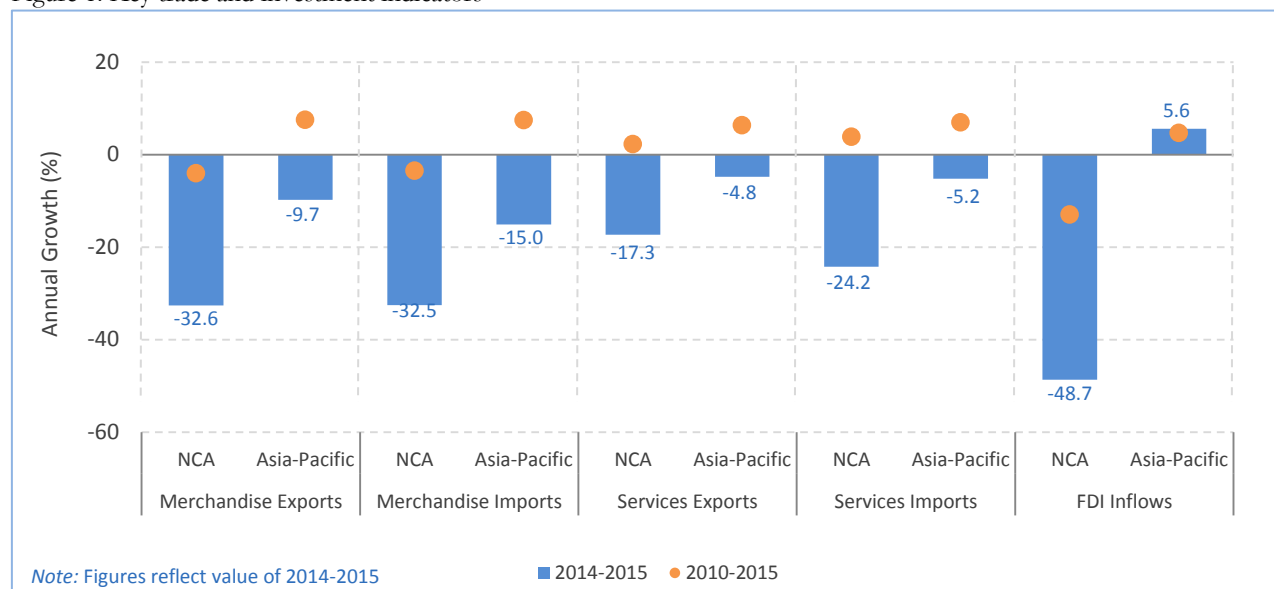


Figure 2. Top merchandise markets

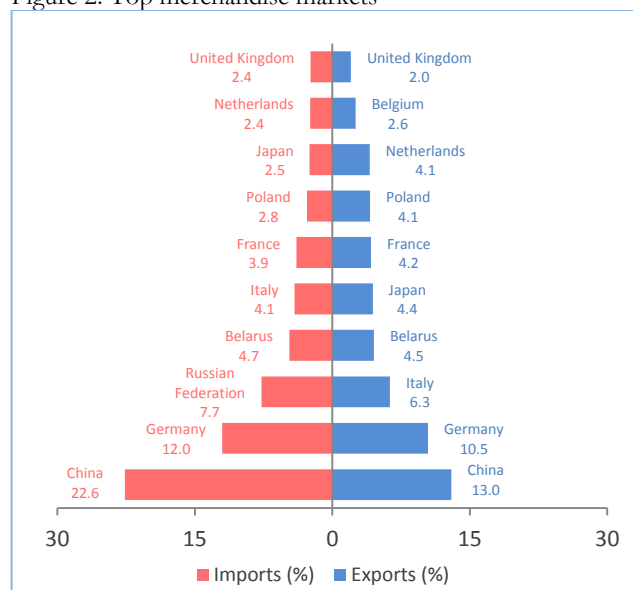


Figure 3. Top merchandise products

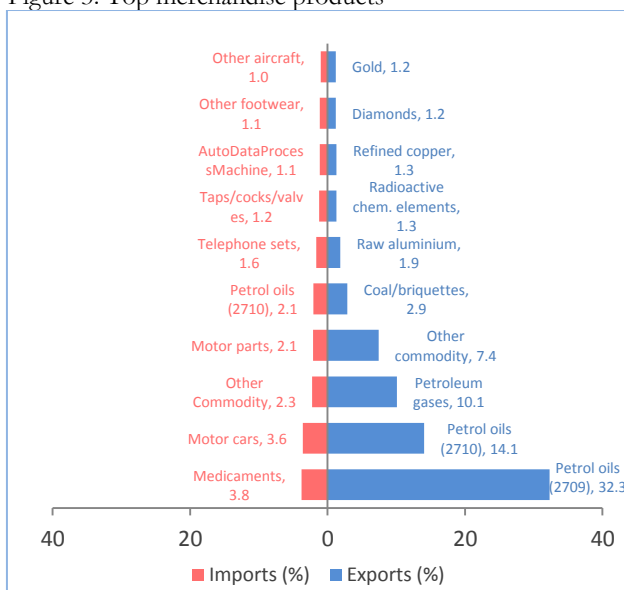


Figure 4. Breakdown of North and Central Asia intraregional trade

Sources/Destinations (% share)	North and Central Asia imports from		North and Central Asia exports to	
	2014	2015	2014	2015
Asia-Pacific	42.9	48.9	32.5	36.5
East and North-East Asia	26.8	26.3	17.0	18.4
North and Central Asia	7.3	13.1	5.8	7.9
South-East Asia	2.7	3.0	2.6	1.9
South and South-West Asia	5.8	6.3	7.1	8.1

Figure 5. Foreign direct investment

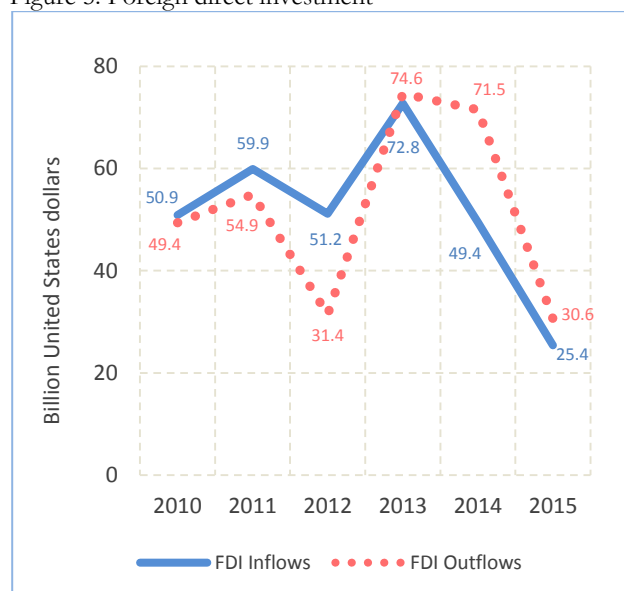


Figure 6. Tariffs (2014)

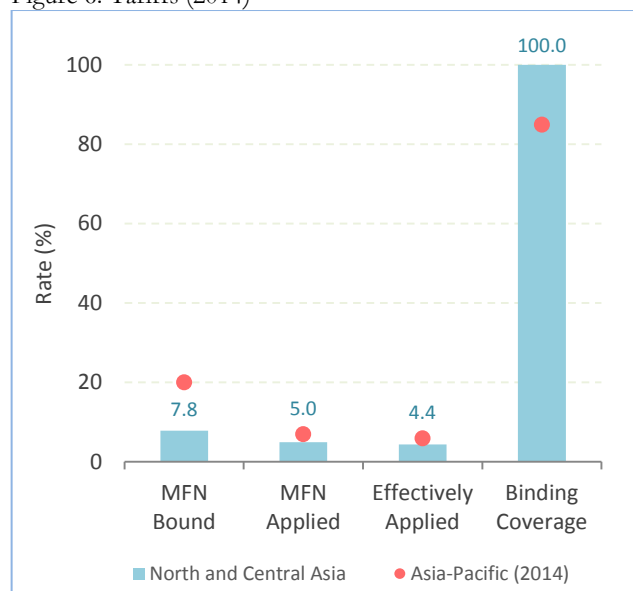
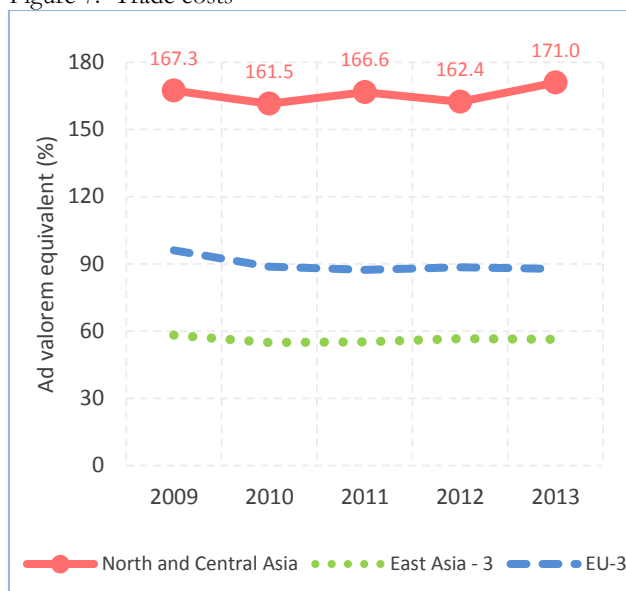


Figure 7. Trade costs



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