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# **SPATIAL STRUCTURE AND ECONOMIC NETWORK FORMATION OF MANUFACTURING EXPORTS IN RUSSIA**

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**Policy Brief No E16/08**

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## Spatial structure and economic networks formation of manufacturing exports in Russia

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Policy brief

It has been a long discussion (Hausmann and Rodrick, 2003; Pack and Saggi, 2006) on the balance between public interventions into the structural changes of the industries and *laissez-faire* when firms are involved in self-discovering process. Multiple real world examples unambiguously point out that there is no role for the universal policy. The role of uncertainty is prevalent and neither government nor entrepreneurs know in advance which products should be produced and what are the targeted markets. Government interventions, such as trade protection policies, export subsidies and loans are all should take into account heterogeneity in abilities of the firms and product expertise, uneven spatial distribution of economic activity. Due to the temporary nature of the policies discussed above and the outside pressure from the trade agreements, self-selection of the firms into the governmental programs can lead to the inverse effect in the end.

Regional export promotion programs expand rapidly in the recent years in Russia. By 2011 there were established 28 Regional Centers for Export Support, in 2016 they are present in 36 out of 83 regions in Russia. Centers are aimed to provide first of all informational support for small and medium-size enterprises that tend to start exporting. It includes consulting services on the legislation and standardisation, support in negotiations, marketing research, organisation of the trade fairs, roundtable discussions, verification of contractors and many others. Specific knowledge about markets, e.g., preferences of the consumers, business conditions, demand, is highly valuable for the firms that want to start exporting and at the same time is occurred to be the main constraint for the small and medium-size enterprises in Russia.

There is another source of specific information about destination markets — agglomeration of exporters that have already discovered that markets. We have established that export spillover effects are destination-specific and affect positively both margins of trade for the Russian firms. This finding goes in line with the results from other developed and developing countries. Among the channels that are responsible for positive agglomeration outcomes are the common access to the large labor pool, input-sharing and knowledge

transfer. The exact contribution each of these channels is still a black box for Russia and is subject to discussion. However, the nature of export spillovers provides a link for policymakers that develop export promotion programs.

To summarise policy remarks that are encounter in the previous studies on export spillovers. First, policymakers should be aware that outcome of export promotion intensives is subject to multiplier effect from the export spillovers. More efficient targeting of a particular market can be achieved through the analysis of candidates among firms that could transfer the obtained knowledge. Second, policy initiatives should be developed along both margins of trade. Our study and the study provided by Cassey and Schmeiser (2013) indicate that cost-mutualization mechanism along the fixed export costs and variable trade costs. Third, more information about specific knowledge that exporters share with each other is needed in the field. The survey of exporters about particular informational trade barriers can be provided. Forth, development of the infrastructure as a main driving force for agglomeration can be more prominent in core regions, while in non-core regions investments in firms capacity is preferable. And, finally, export promotion policies should not prevent natural agglomeration of exporters, thus balancing along the intervention and *laisser-faire*.