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Abstract

This paper explores the macroeconomic trends across the post-socialist economies of Central and Eastern Europe and Former Soviet Union (CEE and FSU) between 2018 and 2023. The situation is dynamic, calling for re-assessment of the post-socialist economic development models that have been evolving over the past three decades. The small CEE and FSU economies' policy framework is defined by the accumulation of directly impacting regional and global political risks, accompanied by the latest transformation of the macroeconomic foundations, rising internal social and economic underdevelopment, global value chains repositioning, as well as acute pressures in the capital and foreign exchange markets. As a result, this paper advances and further explores several probable macroeconomic scenarios that may play out in the smallest CEE and FSU economies. This paper builds upon and adds an updated discussion to the material found in the earlier published *Transition Economies: Transformation, Development, and Society in Eastern Europe and the Former Soviet Union* (Routledge, 2018).

Introduction

This brief essay is an attempt to analytically review the most recent developments in the post-socialist CEE and FSU. The difficulty is to offer a commentary about real-time kaleidoscopic occurrences; a commentary that would hold relevance beyond immediate time horizon. The only true constant variable in the post-socialist region is the volatility of ground-shifting historic events. Those events often turn out to be catastrophic to the society's institutional fabric, systemic continuity, and economic development. Recently, the sad reality in the bigger part of the post-socialist realm, has been filled with precisely such type of destructive events. History's chokehold, especially on the fates of the smallest economies, seems to be inescapable.

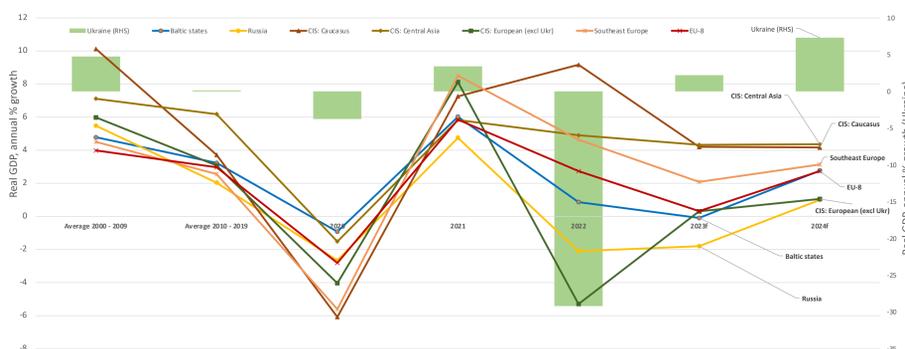


Fig 1. Annual real GDP growth, % || Source: WDI (2023) and FocusEconomics (April 2023). Note: f – forecast; due to the scale effect, data for Ukraine appear on the right hand-side.

The shocks: one greater than the other

The challenges facing the post-socialist countries are of dual nature: both global and unique to each country at the same time. Since 2018, the CEE and FSU have gone through localized but far reaching political upheavals leading to sometimes abrupt government changes (e.g., Armenia, Kazakhstan, Moldova); hastily put together policy responses to the global COVID-19 pandemic (ad hoc in some and better-organized in other places); lived through disruptions of supply chains, elevated inflation, rising public and private debts, worsening social and economic inequalities, including a breakdown in the established living standards (to the extent there had been earlier improvement). The key outcome of the recent years has been the reemergence of a sense of greater uncertainty about the present and the future, even greater than that in the 1990s period. Below are the three groups of shocks with significant macroeconomic (social and political) impacts (Fig. 1).

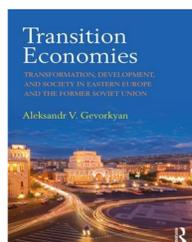
The uniform shocks: 1) the COVID-19 pandemic; 2) global economic slowdown and build up of geopolitical tensions; and restructuring of global value chains (with peak globalization in 2008), with political and socio-economic consequences for developing economies (e.g., Shin 2023).

Military confrontations within CEE/FSU: 1) September 2020 and into October 2023 – Artsakh/Nagorno-Karabakh Republic; February 2022 – Russia/Ukraine; 3) tensions in Central Asia; Kosovo/Serbia.

Country shocks: mainly structural weaknesses due to the above and pandemic.

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Small economy trends

Following the 2020 slowdown, there was a general recovery in macroeconomic activity (Fig. 1). The pre-pandemic positive trend was supported by rising wages and growing consumer culture as private spending recovered. Since February 2022, an unprecedented number of sanctions were imposed on the Russian economy. Some of the leading Western corporations that had spent three decades planting their roots in the post-socialist Russia announced plans for immediate suspension of operations. At the same time, Evenett and Pisani (2022) point to evidence of remaining proxy activity and differences in corporate withdrawals. Partly compensating are the re-exports from the structurally smaller CEE/FSU. Despite a temporary boost to the local markets, such trends shroud a substantial risk for the medium and longer-term sustainability of the smaller economies. For some, there have been significant financial and capital inflows on top of a large-scale migration of young professionals from Russia. Much of the professional talent among the new migrants is engaged in the information communications and technology sector.

Drivers and RISks of FX appreciation (Fig 2): 1) Labor migrants' remittances; 2) individual relocation; 3) corporate relocation; 4) increased trade - risks in reversals.



Fig 2. Exchange rate, national currencies versus USD, annual % change. || Source: WDI (2023) & FocusEconomics (2023); f – forecast.

Small economies: any options?

The small economies are facing five to the long-term socio-economic development and stability (Fig. 3) but also have five alternatives for their economic development models (Gevorkyan, 2023, 2022, 2018):

1. Big-Push protectionism: attempts to become self-sufficient
2. Search for integration with the existing trading partners and economic unions
3. Maintain the current status-quo
4. Unite in a separate economic cooperation mechanism.
5. Diaspora – the fifth element?

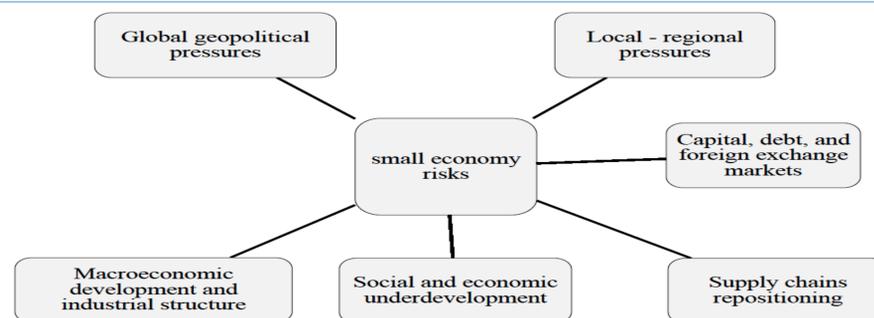


Figure 3. Risks to long-term socio-economic development and stability for small open economies

Conclusions

The questions of national security and geopolitical balances on the one hand and search for innovative and inclusive macroeconomic development alternatives, new trade patterns, and new bolder steps towards financial markets growth, on the other, will characterize the next five to ten years. This is also true for those CEE and FSU economies that are on a relatively stronger macroeconomic footing mainly due to integration with the European Union's economy. Each nation's choice is critical for a longer-term systemic longevity and economic sustainability. For now, it appears that the fates of the post-socialist nations remain in a strong grip of history's unforgiving chokehold...

References

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