THE CURRENT ECONOMIC SITUATION IN THE CIS REGION: BETWEEN CRISES?

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ABSTRACT

This article examines the specific manifestations of crisis phenomena in the region of the Commonwealth of Independent States (CIS) that are most pronounced in countries making progress in the creation of a market economy.

The author emphasizes the imitative nature of economic reforms in the post-Soviet space. Based on an analysis of international assessments of the current economic situation in these states, he identifies the main factors that prevent their transition from extensive to intensive economic activity. He stresses the objective nature of the lack of internal prerequisites for a transition to large-scale modernization of the economy and innovative economic development. His conclusion is that the CIS countries (or "newly independent states" in foreign terminology) may face high-level threats to national security with the onset of the next stage of the recession in the absence of reliable prerequisites for economic stabilization in these countries.

KEYWORDS: ***Commonwealth of Independent States (CIS), level of economic development, crisis, modernization, civil society.***

Introduction

The end of the active phase of the 2008-2009 crisis initially raised hopes of a rapid return to high growth rates in the world economy, the creation of new incentives for its qualitative renewal based on the most advanced technologies, and a correction of sectoral, territorial, financial and economic imbalances accumulated in the previous period. But reality fell short of these expectations. By the beginning of 2013, the slowly growing world economy only reached its pre-crisis level, while growth rates in China and other new economic growth centers had fallen sharply. Of the two regions with the largest contribution to the world economy, the European Union is going through a crisis of the eurozone, and the markets of North America are unsettled. As for the future, most experts are concerned about the possibility of a prolonged recession, which could lead to a new world crisis in much worse initial conditions than those on the eve of the previous crisis slump.

Given the possible deterioration of global indicators, a particular cause for concern is the negative impact of the recession on the situation in the CIS countries, most of which do not rank among advanced countries, have an insufficiently stable national economy, and are heavily dependent on global market conditions. It should be noted that the leaders of these countries have either failed to draw practical conclusions from the negative impact of the previous crisis or have confined themselves to partial measures in ensuring national security during the recession, which makes it necessary to consider the specific responses of individual CIS countries to the events of 2008-2009.[1]

Peculiarities of the 2008-2009 Crisis in the CIS Countries

The latest global crisis has demonstrated an unexpected phenomenon in the specific development of the CIS countries: the hardest-hit countries were those which, according to previous estimates, had made the greatest progress along the path of economic reform. This applies to the region's biggest drop in the gross domestic product (GDP) of Ukraine in 2009 (by 14.8%), its significant reduction in Russia (by 7.8%), the slowdown in GDP growth in Kazakhstan from 18.8% in 2007 to 6.2% in 2009, and relatively slow economic growth in most other countries of the region. By contrast, high rates of economic growth even during the crisis were characteristic of Azerbaijan (in 2009, its GDP grew by 9.3%), Uzbekistan (by 8.1%) and Turkmenistan (by 6.1%), or countries with a high level of government intervention in economic processes and the lowest level of economic liberalization in the region.[2]

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[1] An initial and more complete analysis of the peculiarities of the crisis in the CIS region was given in my article "The CIS Countries: Some Peculiarities of Economic Development" in the journal *Central Asia and the Caucasus*, Vol. 15, Issue 2, 2012. With inevitable duplication of a number of propositions and conclusions, the present article examines the new phenomena and processes in the economy of these countries that have appeared in the post-crisis period.

[2] See: *Osnovnye sotsialno-ekonomicheskie pokazateli gosudarstv-uchastnikov SNG za 1992 (1994)-2010 gody*, Economic Cooperation Department of the CIS Executive Committee, Minsk, 2011, p. 3.

This phenomenon definitely needs to be explained. It is easiest to answer the question about the GDP decline in Armenia (by 14.1%, the second biggest drop in the region after Ukraine). This country has no significant reserves of goods competitive in the world market (primarily energy resources) and can maintain some balance in its national economy only due to financial assistance from the IMF, World Bank, European Bank for Reconstruction and Development, Asian Development Bank, Russia, etc. The sharp drop in GDP during the crisis confirmed the lack of reserves for implementing the long-term economic stabilization program in Armenia as outlined in its development scenario for 2003-2015.[3] The reasons behind the 6% drop in GDP in the Republic of Moldova (fourth biggest drop in the CIS) are virtually the same. The economies of Kyrgyzstan and Tajikistan have only tenuous links with the world economy (especially with its financial sector), which is why they demonstrated positive, albeit low, rates of GDP growth in 2009 (a decline in GDP in Kyrgyzstan was recorded the following year).

What is the reason for the continued high rates of economic growth in the three newly independent states mentioned above (Azerbaijan, Uzbekistan and Turkmenistan) and does not this obviate the need for market reforms in the post-Soviet space? A specific feature of all these three countries is that their exports are dominated by energy resources and raw materials which could be exported to the world market even during the crisis. But this statement of fact does not answer the question of why the same specialization of Russia and Kazakhstan did not allow them to maintain their previous high rates of economic development. Evidently, each of these countries had a set of specific factors that prevented or promoted the "import" of the global crisis into their national economies.

Such an important preventive factor for Azerbaijan was that its exports were "locked" into long-term agreements with foreign partners—large transnational energy companies (TNCs)—under the so-called Contract of the Century (concluded in 1994) for the joint development of offshore oil fields in the Caspian Sea. Turkmenistan, apart from existing long-term contracts, made active efforts from the beginning of this century to build new cross-border gas pipelines as an alternative to Russian routes: south to Iran (up to 14 billion cubic meters of gas per year) and especially east to rapidly developing China (in 2009, the first phase of a major pipeline running from Turkmenistan through Uzbekistan to China, which is to carry up to 40 billion cubic meters of gas per year, became operational). As for Uzbekistan, it has not only started the supply of energy resources to China, but has recently begun to open up its economy on a wider scale, attracting foreign investments in the production of gold and polymetallic ores and in the chemical, automotive and other industries.

A major role in fighting the crisis in these countries was also played by factors such as the possibility to limit its impact based on the administrative-command mechanism of economic governance existing in these countries, as well as the absence of deep involvement in the world financial system, the epicenter of crisis phenomena in the world.[4]

Like the above three countries, Russia and Kazakhstan are oriented toward the export of energy resources and raw materials in demand in the world market, and Kazakhstan, similarly to Azerbaijan, has long-term contracts with TNCs for the development of deposits in the west of the

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[3] See: *Republic of Armenia: Third Review under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criterion—Staff Report*; Press Release on the Executive Board Discussion, IMF, Wash. D.C., 2003, p. 13.

[4] As a parallel example of the use of administrative-command instruments to counter the crisis, one could also mention Belarus. Given its extremely high dependence on the situation in the Russian economy, one might have expected a plunge in the GDP of that country with the onset of the recession, but this not happen. Growth rates in the Belarusian economy did indeed fall to 0.2% in 2009 compared to 9-10% in previous years. But "manual" control of the Belarusian economy on the part of President Alexander Lukashenko's administration made it possible to avoid a sharp drop in economic growth in the country.

country. But this similarity did not lead to equally positive results in fighting the world crisis, merely making it somewhat easier for the Kazakhstan economy to survive under its impact. This difference is due to the influence of many additional factors in the specific development of each of these two countries.

In my opinion, the main reason for the economic difficulties in Kazakhstan lies in the financial sphere. According to the World Economic Forum (WEF), Kazakhstan ranks very low (115th out of a total of 144 countries) on the development of the national financial market.[5] In these conditions, private banks, which form the basis of the country's banking system, in the precrisis period pursued a policy of massive borrowing in the international capital market, thus stimulating economic development and having an opportunity to pay off these loans from the export earnings of local companies. A decline in these earnings during the crisis disrupted this pattern, creating a critical situation for the banks. In late 2009, President Nursultan Nazarbaev was even obliged to speak of a real possibility of banks passing into the hands of foreign owners on a massive scale and the need for personal intervention in the economy to avert the threat looming over them. The example of Kazakhstan highlights the increased danger of excessive liberalization of the national financial system, which requires special control on the part of the state in view of the general instability of the global financial system.[6]

It would seem that the country least likely to experience a slump during the crisis was Russia, whose economic complex is the most powerful and diversified in the CIS region and has a strong position in a number of sectors of the world market. The world's third-largest international reserves, a huge Stabilization Fund accumulating revenues from the export of highly priced energy resources, and a multi-year state budget surplus—such were the favorable indicators at the start of the unexpected collapse of the Russian economy. The increased impact of the global recession is also due to a number of specific features of the Russian economy.

First of all, let us note that the Russian economy is the largest economy in the CIS, and considering that its quasi-market mechanism is identical to those of other post-Soviet countries, this made it more difficult for Russia to manage the anti-crisis processes compared to small states in the region. Suffice it to say that in contrast to them Russia has a three-level and not a two-level budget system: the Federal budget, the budgets of 89 different-status subjects of the Federation (ranging from republics to autonomous areas) and local budgets. Such a complex pattern impeded the timely flow of anti-crisis financial assistance along the government vertical. Moreover, as it turned out, the actual response system for dealing with the financial roots of the crisis was not properly adjusted either: according to Padma Desai, an American researcher studying the Russian crisis, the policy of the Central Bank of Russia was initially focused on inflation control measures instead of assistance to the real sector.[7]

As in Kazakhstan, high foreign exchange earnings from exports created an illusion in the minds of Russian business people that it was safe for them to increase their foreign borrowing, so that from 2000 to 2008, when the external public debt was reduced from \$158 billion to \$37 billion, external bank borrowings increased from \$7.8 billion to \$192.8 billion, and non-financial sector borrowings,

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[5] See: *The Global Competitiveness Report 2012-2013*, World Economic Forum, Geneva, 2013, p. 216.

[6] The special role of the banking system in the impact of the crisis on the economy of Kazakhstan is examined in a report by researchers from the Karaganda Economic University of KazPotrebSoyuz Zh.A. Gusmanova and K.A. Yermakova *Problemy vliania global'nogo krizisa na deiatelnost kommercheskikh bankov v Respublike Kazakhstan* at a conference entitled "Integration Processes in the International Economy and Education," Siberian Academy of Finance and Banking, Novosibirsk, 2009, pp. 80-85.

[7] See: P.G. Desai, "Russia's Financial Crisis: Economic Setbacks and Policy Responses," *Journal of International Affairs*, Vol. 63, Issue 2, 2010, p. 2.

from $21.5 billion to $295.5 billion.[8] Along with the slump in demand in the world market, the need to make significant payments on these loans became an additional factor working to depress business activity in the real sector, with fewer opportunities in this sector to obtain loans from Russian banks in view of their debt service payments to foreign lenders.

Using Russia as an example, we can identify another important peculiarity of most CIS economies: the existence of fictitiously healthy business entities which stay afloat only due to their special relationship with government authorities. Their instability during economic growth or even stagnation is in a latent state but becomes clearly evident when a crisis strikes. Academician Vladimer Papava (Georgia) has described this unviable part of national business by the terms "necroeconomy" (that is, a virtually dead economy) and "zombie-economy" (the sector of virtually bankrupt firms living on soft loans based on their administrative support), emphasizing the special role of financial "doping" as the basis of the functioning of these two interconnected types of fictitious economy.[9] As it turned out during the crisis, even major Russian corporations such as AvtoVAZ or KAMAZ have characteristic features of the type mentioned by Vladimer Papava. "Zombie-economy" elements will also be found in transport enterprises, in the aircraft industry (for example, significant airfare discounts for flights to and from the Russian Far East introduced in 2013 will increase passenger traffic and thus provide indirect support to actually "zombified" aircraft factories in view of the need to increase aircraft production) and in other branches of the economy.

In conclusion, let us note Russia's special role as the main partner of the CIS countries in transmitting the changes in global economic dynamics to the whole territory of the CIS region. This fact was stated quite clearly by the authors of a report on the first twenty years of independent development of these countries: "As the 2000s showed, Russia retransmitted global market fluctuations to the economy of most CIS countries in times of both recovery and recession."[10]

A number of common development problems of the CIS counties that have affected the specifics of their participation in the crisis are considered below.

The Post-Crisis Development of the CIS Countries as Assessed by International Organizations

International organizations provide a sufficiently complete picture of the relative positions of different states in the global economic system, which also applies to their assessments of the comparative rankings of all CIS countries. Of course, the leaders of individual states may disagree with these assessments, but they lack sufficiently reliable alternative tools for such comparisons. Let us also note that each individual indicator does not allow us to draw convincing conclusions about the situation in each country since this requires an integrated assessment of the whole range of rankings as provided by international organizations.

Most newly independent states belong to the group of countries with relatively low levels of economic development. The highest level of GDP (PPP) per capita is in Russia: $10,310 in 2010 and

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[8] See: *Mirovoi ekonomicheski krizis i Rossia: prichiny, posledstvia, puti preodolenia*, Collective Report, St. Petersburg State University, St. Petersburg, 2009, p. 20.

[9] See: V.G. Papava, "The Problem of Zombification of the Postcommunist Necroeconomy," *Problems of Economic Transition*, Vol. 53, Issue 4, 2010, pp. 35-51.

[10] *Novye nezavisimye gosudarstva: sravnitelnye itogi sotsial'no-ekonomicheskogo razvitia*, ed. by L.B. Vardomskiy, Institute of Economics of the Russian Academy of Sciences, Moscow, 2012, pp. 55-56.

$17,709 in 2012, 53rd and 55th places among 187 countries ranked by the International Monetary Fund. In 2010, the second-best performer among the CIS countries was Kazakhstan ($8,883 per capita, rank 59), which in 2012 ($13,893, rank 69) lost its second place in the region to previously unranked Belarus ($15,634, rank 62). According to IMF data, only these three states exceeded the world average for GDP per capita, which in 2012 was $11,975. A point to note is that Azerbaijan moved down from 3rd to 4th place in the region and from 71st to 85th overall position in the rankings in the course of two years while its GDP per capita increased from $6,008 to $10,478. As for lower-ranking CIS countries, their positions in the region in 2010 and 2012 fully coincide, with some changes in the overall world rankings. If the appearance of Turkmenistan in the 2012 list (with $8,718 and rank 96 in the IMF estimate in the absence of the respective indicators for 2010) is not taken into account, Ukraine (with $3,000 in 2010 and $7,374 in 2012 and ranks 94 and 105, respectively) remained 5th in the region in this indicator, and Armenia, 6th (with $2,846 and $5,838 and a drop from rank 99 to rank 118 during these years). The remaining four countries, which lag significantly behind the above-mentioned states in terms of development level, have actually not changed their position in the CIS either. Uzbekistan, like Turkmenistan, was not included in the 2010 rankings,[11] and in 2012 it ranked 134th with $3,555 per capita. The figure for Moldova increased from $1,631 to $3,415 with a significant drop in the world rankings from 107th to 136th position; Kyrgyzstan had $864 and $2,376 (120th and 147th); and Tajikistan with its extremely low GDP of $741 and $2,229 per capita was 125th and 151st in the IMF rankings.[12]

What catches the eye in the above figures is that all CIS countries have moved down in the world rankings, which can be explained by the more dynamic growth in recent years of developing countries with similar GDP levels. At the same time, GDP growth in the CIS countries exceeded the respective indicators of the EU and many other highly developed countries which are a major market for CIS goods. In view of this, the overall conclusion from this difference in dynamics will be ambivalent. While faster GDP growth rates in the CIS countries should be seen as positive, it should also be pointed out that relatively slow economic growth in their advanced trading partners will inevitably create additional difficulties for CIS exports to the latter.

If we compare the figures for the CIS countries with those for the top five advanced economies, we will have to say that the whole region lags seriously behind in terms of economic development level. In 2010, the average figure for the top five countries (Luxembourg, Norway, Switzerland, Denmark and Australia), according to our calculations, was $74,451.8 per capita. Relative to this average, GDP levels per capita in the CIS region ranged from 14% in Russia to 1% in Tajikistan. In 2012, the average for the top five countries (Luxembourg, Norway, United States, Switzerland and Canada), according to IMF data, fell to $54,585.4 (the reasons for such a drop in the rankings of this international organization are not explained), which somewhat improved the relative figures for countries in the CIS region: ranging from 32.4% in Russia to 4.1% in Tajikistan.[13] The best data for GDP per capita in the CIS region in 2012 as demonstrated by Russia were close to those of Croatia or Malaysia, while Kyrgyzstan and Tajikistan with their lowest GDP per capita figures in the CIS were in the group of least developed countries such as Yemen.

Another interesting comparison is with post-Soviet countries that are not members of the CIS. In 2012, the levels of GDP per capita in Estonia ($21,713, rank 45 in the IMF list), Lithuania ($21,615, rank 46) and Latvia ($18,255, rank 51) exceeded those of Russia and all other countries in

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[11] Uzbekistan and Turkmenistan had not provided official information on their economic development indicators.

[12] See: *World Economic Outlook Database (April 2011 and April 2013)*, IMF, Wash. D.C., 2011 and 2013, available at [http://www.en.wikipedia.org/wiki/list_of_countries_by_GDP_(PPP)_per_cap].

[13] Calculated from the same sources.

the region, and only Georgia ($5,930, rank 117) was outranked by five CIS countries, being close to the level of Armenia.[14]

The reasons for the CIS countries' lag can be explained by generalizing the analysis of their current economic situation performed both by international organizations and by researchers from these countries themselves.

The efficiency of the functioning of the market economy outside the crisis period depends directly on the degree of economic liberalization. It is no accident that the most advanced countries in the world such as Australia, Switzerland, Canada, Denmark, the United States and a number of others are among the top ten states with the highest level of economic freedom. According to the Heritage Foundation, which ranks countries on economic freedom and its components using a scale of 0 to 100 (where 100 represents the maximum freedom), in 2012 Australia scored 90.0 on property rights and financial freedom, 88.0 on freedom from corruption, 80.0 on investment freedom, 86.2 on trade freedom, and 66.4 on fiscal freedom, and this, together with a number of other indicators, gives an overall economic freedom score of 82.6 (making its economy one of the freest in the world behind the economies of Singapore and Hong Kong. In the CIS region, this organization singles out Armenia (rank 38 among a total of 177 countries with an overall economic freedom score of 69.4), Kazakhstan (63.0, rank 68), Azerbaijan (59.7, rank 88) and the Kyrgyz Republic (59.6, rank 89). They are far ahead of Moldova (55.5, rank 115), Tajikistan (53.4, rank 131) and Russia (51.1, rank 139). Others were assigned less than half of the maximum score: Belarus (48.0, rank 154), Ukraine (46.3, rank 161), Uzbekistan (46.0, rank 162) and Turkmenistan (42.6, rank 169).[15]

The level of economic freedom was virtually unchanged compared to the pre-crisis period (in 2008, the average score for 11 CIS countries was 54.7, and in 2012, 54.4). In this period, the score of Kazakhstan, Azerbaijan, Russia and Belarus rose by 1 to 3 points; Armenia, Kyrgyzstan, Moldova, Tajikistan and Turkmenistan lost about as much, while the biggest losers were Uzbekistan (6 points) and Ukraine (5 points). In the same period, other post-Soviet countries increased their level of economic freedom so that in 2012 Estonia scored 75.3 (rank 13), Georgia 72.2 (rank 21), Lithuania 72.1 (rank 22), and only Latvia (66.5, rank 55) was at the level of the best performers in the CIS region: Armenia and Kazakhstan.[16]

The above data point to the imitative nature and incompleteness of reform of the economic mechanism in the CIS countries: even after the adoption of numerous legal acts in the area of national economic management, this mechanism resembles that of advanced countries only in form, whereas in content it does not meet the current needs of survival in the complex situation of stagnation processes in the world economy.

With a low level of economic freedom, it is impossible to make full and, most importantly, extensive use of the country's entire labor potential, especially of small and medium business, in the process of national production. It is no accident that all attempts to draw such business into the production sector in most CIS countries have not produced any results, and the field of its application is confined to consumer services, public catering, small-scale passenger traffic services, etc. Under the existing economic mechanism, small and medium business is rejected by the production sector, which continues to be dominated by large and medium-sized enterprises. But in relation to such economic entities the principle of reasonable competition operates only to a limited extent, whereas in real market conditions in other countries it is a key incentive to competitive struggle which entails the

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[14] See: *World Economic Outlook Database, April 2013*, IMF, Wash., D.C., 2013, available at [http://www.en.wikipedia.org/wiki/list_of_countries_by_ GDP_(PPP)_per_cap].

[15] See: *Country Rankings: World & Global Economy Rankings on Economic Freedom, 2012*, The Heritage Foundation, New York, 2013, pp. 1-5, available at [http://www.heritage.org/index/ranking].

[16] Calculated from the same source.

need to improve product quality, implement innovations, and meet the changing demand of production and personal consumption. As for big business, researchers from Moscow State University and the Higher School of Economics (Moscow) have identified the characteristic features of modern Russian corporations that fully apply to big business in other CIS countries as well. Among these features the Russian researchers list the following: highly concentrated ownership and control; rapid pace of integration (with integrated business groups dominating the Russian economy); and a tendency to "personify" Russian business.[17]

The high level of concentration naturally serves to strengthen the monopolies or oligopolies (domination by a small group of companies) in various spheres of business, making it possible for them to establish their own rules of the game in national markets and to frustrate even timid attempts by the state to introduce competition into the economy. Compared to the larger economic complexes of Russia or Ukraine, the imperative for monopolization in the smaller economies of the other CIS countries is more likely to manifest itself while its negative effects on these states become more pronounced. The reference to rapid business integration is also valid: more powerful companies push competitors out of the market through mergers and acquisitions, strengthening their monopoly position in an increasingly monopolized economy. And finally, a very important reference is made to the "personification" of big business, with the result that business dynasties (similar to the foreign "historical" companies of Rockefeller, Morgan, Rothschild, etc.) are being created in Russia and other CIS countries, which ensures the intrafamily transfer of the high level of monopolization with a view to the long term in the absence of the legal and economic instruments for limiting it that exist in advanced capitalist countries.

Despite the significant increase in the power of individual financial-industrial groups in all CIS countries, they are still highly dependent on government agencies, which also applies to control by the lower tiers of the entire power vertical over smaller-sized local business. This is particularly evident in Muslim "strongman" countries of the region, where the power vertical is built on the principle of belonging to the family clan of the head of state. In the European part, this dependence is most clearly evident during a change of government leadership when, for example, the St. Petersburg or the Donetsk clan comes to power in a country, with a gradual weakening of business associated with the previous administration. As for President Lukashenko's long-term leadership in Belarus, it brings the mechanism of administrative dependence of business closer to the practices of "Muslim" countries in the CIS region.

Of course, administrative agencies at different levels do not constantly intervene in all the concrete activities of business entities but, in pursuit of their own interests (presented as the interests of the state or a particular region), sort of monitor their practical work. The CIS region has a typical model of patron-client relationships where business entities are under the patronage of administrations at different levels. At the same time, the degree of administrative influence on economic activity varies, being highest in countries with the lowest indicators of economic freedom (Turkmenistan, Uzbekistan, Belarus).[18] In this context, an indicative assessment of the situation in the economy was made by Belarusian Academician Gennady Lych: "In terms of economic freedom, joint stock com-

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[17] See: A. Yakovlev, Y. Simachev, Y. Danilov, "The Russian Corporation: Patterns of Behavior during the Crisis," *Post-Communist Economies*, Vol. 22, No. 2, 2010, p. 131.

[18] As noted above, this group of countries with the least business freedom also includes Ukraine, but the situation with general administrative intervention in economic processes in this country differs significantly from that in the above three states. Given the unstable political position of the changing clans and the relative balance of power between them, patron-client relationships in Ukraine are not nationwide but are confined within the limits of several groups, which strengthen or weaken with a change of leadership in the country. Because of this, direct administrative intervention is applied only to "one's own" business entities, with attempts to influence such entities from other political and economic clans in the country at least indirectly.

panies in Belarus differ very little from state enterprises. Like the latter, they are under the full control of the state, and any attempts to get out of this control, accompanied by 'excessive' independence in making cardinal management decisions, are, as a rule, severely punished."[19]

The viability of each country in today's difficult conditions is directly dependent on the level of its national competitiveness compared to other participants in the current global economic confrontation. Most CIS countries during the years of independence have not been able to join the ranks of countries with a high level of competitiveness, although in the post-crisis period many of them have somewhat improved their position in the global rankings. According to the World Economic Forum (WEF), the top-ranking CIS country in terms of national competitiveness in 2012-2013 is Azerbaijan (46th out of a total of 144 countries listed in the WEF Global Competitiveness Index rankings), followed by Kazakhstan (51st), with both countries having improved their competitiveness from the previous year. The third place in the region belongs to Russia (67th with a slight drop from the previous year). Ukraine (73rd), Armenia (82nd), Moldova (87th) and Tajikistan (100th) have improved their position, while the Kyrgyz Republic (127th) has lost some ground from the previous year. Characteristically, the WEF could not provide rankings for countries with the lowest level of economic freedom: Belarus, Turkmenistan and Uzbekistan.[20]

Even while most countries in the region have improved their position in the WEF rankings (by 5-10 places, with Kazakhstan making the most impressive progress, up 21 places in the 2012-2013 rankings compared to the previous WEF estimate), it should be noted that only Azerbaijan features among the top 50 countries in the rankings, and Kazakhstan with its 51st position is virtually within the same group. In the event, both these countries have "natural" competitiveness in view of favorable conditions for the production of energy resources, their main export item (indicatively, among the most competitive countries in the world, along with economically advanced countries, one will also find Qatar, Saudi Arabia and the United Arab Emirates, which are countries with a monocultural national economy based on their rich energy resource endowments). That is why the progress in improving competitiveness made by other post-Soviet countries—Estonia (34th in the rankings), Lithuania (45th) and even Latvia (55th) along with Georgia's fairly low 77th place[21]—is more impressive.

In making an overall assessment of the current economic position of the CIS countries, one should emphasize that none of them have drawn the necessary conclusions from the previous crisis situation or taken decisive steps toward a radical change in the economic system. The leaders of the newly independent states have not ventured to launch a radical restructuring of the imitative-market economic mechanism, which would require a double infringement of the existing privileges both of businesses close to the authorities and of administrative agencies at different levels interested in maintaining current patterns of relationships with business.

Are the CIS Countries Ready for a Possible New Crisis?

Unfortunately, nothing in the modern world economy points to the possibility of a new economic recovery, while the most likely development scenarios boil down either to further prolonged stagnation or to the onset of a new crisis. Both of these can have an adverse effect on economic activ-

[19] G. Lych, "Zamedlenie rynochnogo reformirovania ekonomiki Belarusi: vo blago ili vo vred?" *Obshchestvo i ekonomika*, No. 4, 2013, p. 20.

[20] See: *The Global Competitiveness Report 2012-2013*, p. 13.

[21] See: Ibidem.

ity and even on the economic security of the CIS countries, most of which exist in a situation of irrational openness to the world market while some (primarily Turkmenistan and Uzbekistan), on the contrary, are just as irrationally autarkic and fence themselves off from the still existing possibilities of its positive impact on large-scale modernization of their national economy.

Even leaving aside the perfectly natural problem of the historically limited prospects for the current orientation toward maintaining one's place in the world economy as suppliers of non-renewable raw materials and energy resources, one must admit that such specialization of the CIS countries cannot put them in the forefront of global economic progress. The leading positions in the world, now and in the future, will be held by countries which secure these positions based on the advantages of high technology production, its constant innovative renewal, and effective and dynamic management using advanced methods of corporate governance.

The imperative need for urgent changes not only in the structure of the national economy and exports, but also in the methods of economic management is due to the fact that the background to the CIS countries' entry into a possible future crisis is much less favorable than on the eve of the 2008 crisis. At that time, a number of newly independent states had significant foreign exchange reserves due to high energy prices (accumulated in the stabilization funds of Russia, Azerbaijan and Kazakhstan) and a more or less stable position in some niches of the world economy (metallurgy for Ukraine, gas for Turkmenistan, and arms for Russia, Ukraine and Belarus). Nor should one forget the "retransmission" of Russia's favorable market conditions to the entire CIS region, as noted in the abovementioned report of the Russian Institute of Economics. In a situation of successful pre-crisis development in Western Europe and Russia, a major role in stabilizing the economy in a number of countries (especially Tajikistan, Moldova, and also Ukraine and Kyrgyzstan) was played by remittances received from temporary migrant workers employed in foreign countries. Today all these factors are changing for the worse.

It is no longer possible to have such huge stabilization funds, and competition in the world markets of metallurgical products, chemicals and intermediate goods is increasing. In July 2013, Saudi Arabia expressed its concern over a very likely sharp drop in energy prices with the transition of its main partner, the United States, to biofuel and shale gas, compounded by the slowdown in China's energy imports. Such a price drop will not only lead to a decline in the revenues of OPEC countries and in oil production in these countries, but will also have a limiting effect on gas production in the world. It will also have a full impact on the energy export sectors of Russia, Turkmenistan and other CIS countries, as well as on their production of all export commodities.

The worsening terms of trade for exports to non-CIS markets will not be fully offset by the development of intra-regional economic ties. The functioning of the Customs Union of Russia, Kazakhstan and Belarus, which may be joined by several other newly independent states, will indeed help to expand their mutual economic cooperation. It should be noted, however, that achieving a large share of mutual trade will take a long time since two members of this union are oriented toward the markets of other countries of the world: in the postcrisis 2010-2012 period, non-CIS countries accounted for 85% of Russia's exports and 85-87% of its imports, for 85-87% of Kazakhstan's exports and 49-52% of its imports, and for 46-51% of the exports of Belarus and 35-41% of its imports. Exports mainly to partners outside the CIS are also characteristic of Armenia, Kyrgyzstan, Moldova, Tajikistan, and Ukraine, with a particularly large share reported by Azerbaijan (89-95% in the same period). In Azerbaijan, Armenia, Moldova, and Ukraine, most imports in that period also came from countries outside the CIS region, which was the main supplier only for Tajikistan and Kyrgyzstan.[22]

[22] See: *Udelnyi ves stran Sodruzhestva i drugikh stran mira v obshchem obiome eksporta otdel'nykh stran Sodruzhestva. Udelnyi ves stran SNG i drugikh stran mira v obshchem obiome importa otdel'nykh stran* Sodruzhestva, Materials of the Interstate Statistical Committee of the CIS, Minsk, 2013, available at [http://www.cisstat.com/rus/macro/mac2_an.htm].

The CIS Free Trade Agreement signed on 18 October, 2011 will undoubtedly have a positive effect on the development of intra-regional trade relations, but its effectiveness is significantly reduced by collective safeguards applied by member states of the Customs Union (take the already known cases of Russian bans on the import of some Ukrainian food products being extended to other Customs Union members). At the same time, attempts to include all CIS countries in the Customs Union and the Common Economic Space cannot succeed both for economic reasons (concern among national business entities that they can maintain their position against more powerful Russian companies) and even for political reasons (a negative attitude to Russia among a significant part of the population of Ukraine or Moldova).

As a conclusion, one can say that, in the event of a crisis, the foreign economic factor will play a negative role in the stabilization of national economies in the region.

The only possibility for the CIS countries to reduce the impact of a possible crisis is to implement a rapid and large-scale modernization policy on the basis of innovation. In the post-crisis years, calls for modernization are increasingly common both in research papers and in government documents of most of these countries, and this without a sufficiently clear definition of the substance of this really important process. In my opinion, it is necessary to distinguish between its various levels such as technical and technological modernization (confined to the production process as such: replacement of obsolete machinery, technologies and raw materials with more modern ones), economic modernization (additionally covering management and the country's economic mechanism as a whole) and social modernization, designed to improve the entire system of social relations, including the construction of a civil society, full democratization of relations between members of society and the state, creation of an effective legal framework for the protection of all, including economic, rights of the individual, etc. There is a long-felt need for modernization in view of the "unprecedented deindustrialization that has occurred as a result of the transition to the market and the breakup of the U.S.S.R."[23] But at the present stage modernization is turning into a critical factor in the survival of the CIS countries, given the fundamental changes and increasingly complex economic relations in the world.

Technical and technological modernization can only be based on innovation, which requires significant financial and material resources. Such resources are not available in many newly independent states which have what is known in Russian as *patekonomika*, or an economy that is in a sort of "stalemate" where it lacks internal reserves for its normal functioning and exists only due to outside assistance. Today there are no such reserves in Moldova, Tajikistan and Kyrgyzstan, for which the task of modernization is less important than the need to address a whole group of problems for the mere survival of the national economy. At the same time, Armenia, where the domestic situation is similar, is implementing some modernization measures of a technical and technological nature based on economic modernization: the use of modern management practices under conditions of a high level of economic freedom, the existence of highly qualified personnel, and support for innovation activities on the part of the Armenian diaspora. Countries such as Azerbaijan, Uzbekistan and Turkmenistan have opportunities for selective "imported modernization" based on foreign equipment and technologies obtained for the technical and technological upgrading of export facilities at the expense of their own foreign exchange earnings or within joint ventures. The unpreparedness of these countries to exploit the opportunities of "economic modernization" through a fundamental restructuring of the economic mechanism and the implementation of advanced management methods significantly limits their overall modernization opportunities. Selective modernization of large enterprises chosen directly by the country's leadership is also underway in Belarus. The difficulties in carrying out modernization with its high costs are evident in that a transition to its large-scale implementation as an-

[23] See: *Sotsialno-ekonomicheskoie razvitie postsovetskikh stran: itogi dvadtsatiletia*, Institute of Economics of the Russian Academy of Sciences, Moscow, 2012, p. 31.

nounced by the country's authorities requires an estimated $20-25 billion a year, a sum Belarus does not have at its disposal.[24]

Successive Ukrainian leaders have also repeatedly proclaimed the need to undertake modernization. This was even the topic of President Viktor Yanukovich's 2011 annual address to parliament, "Modernization of Ukraine: Our Strategic Choice." But all modernization initiatives of the authorities have remained mere declarations for lack of material and financial backing. There are only some attempts to modernize individual enterprises in the metallurgical, chemical, automotive and food industries without a comprehensive effort in each industry or the national economy as a whole. Kazakhstan, on the contrary, is generally consistent in its modernization policy although its potential for modernization is more modest than that of Ukraine due to its much smaller national economic complex. The task of turning Kazakhstan into a developed industrial and agricultural country with a declining share of extractive industries and a predominant share of manufacturing was set in President Nazarbaev's Kazakhstan 2030 state program back in 1998. The country managed to retain its scientific and technical potential during the crisis, and after it began implementing medium-term innovation and investment programs. A concrete example is the program to develop a complete nuclear fuel cycle in Kazakhstan: from uranium mining to exports of fuel for nuclear power plants.

The largest and most developed country in the region, the Russian Federation, has the greatest potential for modernization. The Concept of Social and Economic Development of the Russian Federation until 2020, former President Dmitry Medvedev's Address to the Federal Assembly of 12 November, 2009, and the tasks of enhancing the efficiency of the national economy formulated by current President Vladimir Putin provide guidelines for the implementation of national economic strategy, setting reference points such as modernization, priority innovation, and a transition to intensive development. In accordance with these guidelines, a number of state scientific and technical programs of an innovative nature have been launched in Russia; budget allocations for nanotechnology, biotechnology and pharmaceuticals have increased; and government contracts are being awarded to contractors who can ensure a technological level of production and product quality close to world class.

Despite some positive changes in the field of modernization, these measures have not led to its diffusion throughout the Russian economy. Both Dmitry Medvedev and Vladimir Putin have repeatedly noted that the achievement of modernization targets is behind schedule, with frequent departures from the prescribed qualitative parameters. Things have reached a point where a full-scale audit is being conducted at two of the most ambitious projects—RosNANO and Skolkovo—in view of inconsistencies between the results of their activity and the funds allocated by the state.

Russian experience is particularly valuable in that it shows the impossibility of "top-down" modernization, when grassroots economic entities are passive or do not accept even those modernization measures which are used in a "normal" market economy. A radical solution of this problem, which is an essential condition for cushioning the impact of a new crisis, lies not only in the economic sphere: of paramount importance is the political factor, a transition to higher levels of reform based on social modernization.

Conclusion

Foreign analysts of post-Soviet development problems such as Jeffrey Sachs, Padma Desai, Roland Götz, Martha Olcott and others pay much attention to the relationship between democratization and economic development in the CIS countries. Particularly interesting conclusions have been

[24] See: V. Karbovich, *Eto sladkoe slovo "modernizatsia"*, available at [http://charter97org/ru/news/2013/2/9/6510].

made by the Hungarian researcher János Kornai, who is especially emphatic about the direct dependence of economic modernization on social liberalization in this region.[25]

In recent years, researchers from CIS countries, primarily Russia, are also increasingly insisting on this relationship. Georgy Satarov (INDEM Foundation) points to the growing pre-crisis threats to Russia and draws the conclusion that they can be averted only through a transition to economic modernization, while the prerequisites for its successful implementation are "a sufficiently effective state (or, more precisely, government)" and "a developed civil society." Yevgeny Yasin (Higher School of Economics) writes that "in Russia, at least since 2003, there has been a policy of modernization from above," while effective modernization implies the need to "eliminate the personalistic regime incompatible with democracy and achieve a real separation of powers."[26] Such conclusions about social modernization apply to all CIS countries regardless of their current economic and political development level.

Modernization is a complex economic and political process, and the leaders of even the most developed countries in the region find it difficult to embark on this process. But without its implementation neither Russia nor the other CIS countries will be able to maintain their security in the face of a future crisis.

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[25] See: J. Kornai, "Innovation and Dynamism. Interaction between Systems and Technical Progress," *Economics of Transition*, Vol. 18 (4), 2010, pp. 629-670.

[26] G. Satarov, "Prolegomeny k poslednei modernizatsii Rossii," *Voprosy ekonomiki*, No. 5, 2011, p. 6; Ye. Yasin, "Institutsionalnye ogranichenia modernizatsii, ili prizhiviotsa li demokratia v Rossii," *Voprosy ekonomiki*, No. 11, 2011, pp. 10-11.