

# External and Internal Factors Affecting the Socio-economic Situation of the EAEU during the COVID-19 Pandemic

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**Keywords:** Pandemic, Eurasian Economic Union, Socio-economic Situation, External Environment Factors, Internal Environment Factors, Saint Petersburg, Sustainable Development.

**Abstract:** The global spread of the new coronavirus infection has had a strong destructive effect on the socio-economic situation in the EAEU countries, which required the search for factors that could quickly influence its improvement. The analysis showed that the factors of the external and internal environment can have both positive and negative impact on the socio-economic situation in the EAEU. Particular attention should be paid to the role of internal factors and, first of all, the effectiveness of the work of authorities at all levels, because they are the ones who are able to control other factors and set the directions for their development, relying on the resource potential.

## 1 INTRODUCTION

The pandemic of the new coronavirus infection has become a serious challenge for the entire world community. In a short period of time, this caused a number of negative socio-economic consequences in many countries, which led to a very deep recession in the global economy. According to UN estimates, the global economy contracted by 4.3% in 2020 compared to 2019 due to the spread of COVID-19 and the widespread introduction of restrictive measures to contain it (United Nation, 2021). This was the largest decline since the Great Depression.

One example of the negative impact of the pandemic is the deterioration of the socio-economic situation in the countries of the Eurasian Economic Union. A sharp deterioration in external economic conditions and the introduction of internal restrictive measures to limit the spread of coronavirus infection have led to a weakening of export demand, a decrease in investment inflows, a deterioration in the business climate, a decrease in migration flows, a decrease in the performance of many sectors of the economy, a reduction in budget revenues, an increase in unemployment and poverty in each EAEU country (Sorokina, 2021; Selishcheva, 2021). In this regard,

additional difficulties have been created for the implementation of the Concept of Sustainable Development, proposed by the United Nation in the 90s of the XX century.

In fact, the successful functioning of the EAEU is a derivative of the successful functioning of the economies of its member countries. Thus, it can be argued that the socio-economic problems that have arisen in the EAEU countries negatively affect the development of the Union as a whole and significantly reduce the possibilities of achieving the ambitious goals of Eurasian integration.

The situation is complicated by the fact that there are currently no unambiguous forecasts regarding the timing of the end of the pandemic. In particular, this is due to the fact that the SARS-CoV-2 virus mutates rapidly, new more aggressive strains appear, while the rate of vaccination in the EAEU countries is growing at an insufficient rate. As of November 1, 2021, only 16.76% of the total population has been vaccinated in Armenia, in Belarus — 29.22%, in Kazakhstan — 44.04%, in Kyrgyzstan — 15.21%, in Russia — 39.72% (Minfin, 2021).

The ambiguity of epidemiological forecasts complicates the fight against the consequences of a pandemic and the choice of its strategy. This requires

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a search for factors that can affect the socio-economic situation of the integration association.

## 2 METHODOLOGY

The theoretical basis of this study was the work of O. L. Goikher, U. Kanykei and others in the field of the content and characteristics of external and internal factors of economic systems. Certain aspects of the functioning of the Eurasian economic were considered in the works of A.V. Bredikhin V.E. Frolov, T.A Meshkova and others. The socio-economic consequences caused by the coronavirus pandemic were described in the works of L.E. Slutsky and E.A. Khudorenko.

In addition, numerous various analytical materials were used, which contain certain aspects of the socio-economic development of the EAEU countries during the pandemic, prepared by the United Nations, the World Bank, the World Trade Organization, the Eurasian Economic Commission, the Central Bank of the Russian Federation and the Eurasian Development Bank.

This work was based on such theoretical methods as analysis, synthesis, and generalization.

## 3 RESULTS OF THE STUDY

Considering the factors affecting the socio-economic situation in the EAEU, it is important to note that this is a macroeconomic concept. According to the authors, it characterizes not only the current state of the social and economic spheres, but also the possibilities of their development in a specific time period.

The EAEU is a regional integration association of five countries, which ensures the freedom of movement of goods, services, capital, labour and the conduct of a coordinated, agreed or unified policies in key sectors of the economy to achieve sustainable economic growth in the long term (Treaty on the Eurasian Economic Union, 2021).

Based on these provisions and on the research of Goikher and Laryushkina (2013), we can conclude that the Union has all the features characteristic of economic systems, including:

- the interconnectedness of system elements;
- the certain territory;
- the presence of multifunctional connections between the elements;
- the presence of socio-economic relations;

- the motivation of the participants;
- the presence of various mechanisms of interaction (Goikher and Laryushkina, 2013).

Consequently, based on the principles of functioning of such systems, the EAEU is influenced by factors of both external and internal environment.

Traditionally, the internal environment of any economic subject is understood as a set of factors that are controlled by this subject and affects his activities. In turn, the external environment arises and exists independently of the activity of an economic subject, but at the same time it has a certain influence on it. In contrast to the internal environment, it is characterized by greater uncertainty and the rate of change (Panasyuk, Pudovik and Vakhterova, 2019). The external environment of direct impact includes factors that directly and purposefully affect the activity of an economic subject. On the contrary, the external environment of indirect impact includes factors that affect it indirectly and may not have a quick impact. It is important to note that both environments exist in close relationship (Figure 1).

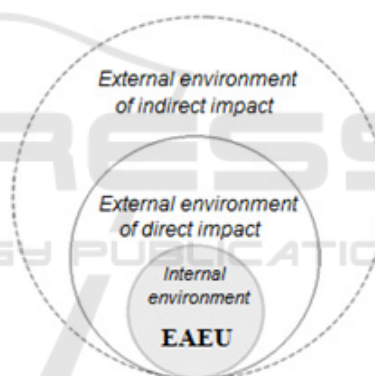


Figure 1: External and internal environment of the integration association.

There are many factors of the external and internal environment that differ in their effects. The analysis of these factors is complicated by the fact that some of them affect individual countries, and only later can transfer the effect to the entire association. Due to the complexity of the analysis of all factors, it is advisable to further consider them in generalized groups.

The following factors of the internal environment affecting the socio-economic situation of the EAEU can be noted:

- activities of supranational and national authorities;
- production and resource potential;
- the development of legal and financial institutions;

- the state of public infrastructure;
- the educational level of the population;
- the level of scientific, technical and innovative development, etc.

The specificity of the internal environment determines that among the indicated factors, a special role belongs to the activities of supranational and national authorities, because they can control other factors and determine the directions of their development, relying on resource potential.

Thus, the activities of the supranational authorities of the EAEU (Supreme Eurasian Economic Council, Eurasian Economic Commission) are mainly aimed at shaping a common agenda for Eurasian integration and at making decisions, orders and developing recommendations that relate to the economic interaction of the member states. At the same time, responsibility for the practical implementation of many acts remains in the competence of national government bodies, including at the level of individual administrative-territorial units (cities, regions, etc.).

The importance of administrative-territorial units and territorial authorities in achieving the goals of Eurasian integration is steadily increasing, because they are able to coordinate their implementation, taking into account local specifics and available resources. Moreover, many of these units can become drivers of the Union's socio-economic development due to the existing opportunities. Mainly, these are the largest cities of the EAEU, which have a developed industry, transport system, scientific, educational and cultural spheres. Thanks to this, they are able to take an active part in political and socio-economic processes of both national and supranational scale (Bredikhin, 2017).

For example, Saint Petersburg is such a city, because the issues of Eurasian integration occupy a special place in its activities. Currently, the city is the most important political and diplomatic center in the EAEU. It is a frequent meeting place for the political elites of the member states, and is also a platform for events dedicated to integration issues. In addition, Saint Petersburg is actively developing partnerships with many cities and regions of the EAEU countries. Among them: Yerevan, Minsk and Minsk region, Alma-Ata and Nur-Sultan, Osh and Bishkek (Government of Saint Petersburg, 2021). The city also has a practice of signing "diagonal" cooperation agreements with Belarus and Kyrgyzstan (Frolov, 2015). At the same time, occupying leading positions in a number of indicators of socio-economic development among Russian regions, it is able to significantly influence the socio-economic situation

of the integration association. The city receives on its territory huge migration flows from the EAEU countries and actively develops trade and investment relations with them (Trofimova and Kaskova, 2021).

Turning to the factors of the external environment of direct impact on the socio-economic situation of the EAEU should consider:

- the influence of third countries;
- the influence of international organizations and development institutions.

The context of influence of third countries can imply both cooperative and confrontational relations. Of course, cooperative relations can largely contribute to the formation of a favorable socio-economic situation in the EAEU. For example, at present the Union is actively developing relations with the countries that are members of ASEAN, BRICS and SCO, with the aim of mutual exchange of experience and expansion of economic cooperation. Also, the international dialogue on the Latin American direction is intensively developing: the Union has documented relations with the Andean Community, the Pacific Alliance and the Southern Common Market (Meshkova, Izotov, Demidkina and Kofner, 2019).

At the same time, there are rather problematic relations in the Euro-American vector, which is mainly associated with the introduction of sanctions by Western countries against Russia and Belarus, as well as the reciprocal acceptance of counter-sanctions by these countries. The policy of mutual sanctions significantly complicates the development of international economic cooperation, interferes with negotiation processes and has a significant destabilizing effect on the socio-economic situation in these countries. According to some estimates, the sanctions against Belarus, which were imposed due to disagreement with the results of the presidential elections in August 2020, could bring the total economic damage to the country in the amount of 7-8% of GDP (DW Akademie, 2021). In turn, the damage to Russia is estimated at more than \$50 billion after the imposition of sanctions in 2014 due to the Ukraine crisis (TASS, 2021).

As for the influence of international organizations and institutions on the socio-economic development of integration associations, today these structures perform a number of important functions. They act as research centers for various socio-economic problems, developing ways to solve them (recommendations, humanitarian and financial assistance, etc.) and coordinating international cooperation in problem areas. This is confirmed by an analysis of the interaction of the EAEU countries with

international organizations and institutions. Unfortunately, the EAEU cannot take full advantage of the advantages of this interaction due to the strong politicization of economic processes.

Considering the factors of the external environment of indirect impact, it should be noted that they set the general directions for the development of the entire world economic system and, therefore, are of the most complex nature (Kanykei, 2018). In general terms, these include:

- pandemics,
- a global competition,
- the cyclical nature of the world economy,
- socio-demographic trends,
- the acceleration of the pace of scientific and technological progress, etc.

In particular, the problem of the COVID-19 pandemic today determines many trends in world development and has a direct impact on all other specified factors.

Thus, the spread of coronavirus infection led to a decrease in world trade in goods by 8% in 2020 compared to 2019. Trade in services decreased by 21% over the same period (WTO, 2021). Forecasts for 2021 are quite optimistic: the world economy is expected to recover by 5.6% compared to the previous year, and world trade may grow by 10.8% (World Bank, 2021). However, many countries continue to strengthen their policies of imposing barriers and restrictions on international trade due to unfavourable external conditions and the protracted nature of the pandemic (Ministry of Economic Development of the Russian Federation, 2021). Of course, this negatively affects the development of global competition and reduces the opportunities for economic recovery in individual countries by increasing export volumes.

An equally important aspect of the impact of the pandemic on world economic development is the exacerbation of global imbalances, which can lead to a systemic crisis even in conditions of post-COVID economic recovery. According to the Central Bank of Russia, the likelihood of a systemic crisis could significantly increase “if a rapid and significant tightening of monetary policy in the United States is superimposed on the bursting of bubbles in asset markets” (Bank of Russia, 2021).

It should also be noted that the pandemic had a serious impact on the territorial mobility of the population both between countries and within individual states due to the introduction of a huge number of internal restrictions and the closure of borders. The widespread decline in labour migration has contributed to increased unemployment and

poverty in many countries. This has become a serious problem for the EAEU countries, and mainly for Russia, which receives huge migration flows from allied countries on its territory and largely depends on the labour of migrants. According to the EEC, in 2020 the migration growth of Russia from other EAEU member states decreased by more than 10 times: in 2019 it was 95.9 thousand people, in 2020 – 6.6 thousand people (Eurasian Economic Commission, 2021).

An important trend provoked by the pandemic is the strengthening of the role of science and an increase in its funding (Slutsky and Hudorenko, 2020). Thus, the scientific community was tasked with the early development of a vaccine and treatment for COVID-19.

The increase in the growth of e-commerce, the widespread transition to distance learning in universities and schools, the transfer of many enterprises to remote work, led to the acceleration of digitalization, which became part of the competitive indicators for enterprises and countries.

Thus, factors of the external and internal environment can have both positive and destructive effects on the socio-economic situation of the EAEU, which is confirmed by the analysis performed. The pandemic has changed the conditions for the functioning of economies, which sets before the allied countries both the task of overcoming its negative consequences and the task of adapting economies to new conditions. Of course, the solution of these tasks can be favoured by the expansion of interaction with third countries and international organizations and institutions. Unfortunately, the peculiarities of the political situation can prevent the establishment of this interaction and further shift the emphasis towards the factors of the internal environment, which were previously described.

## 4 DISCUSSION

According to the experts of the Accounts Chamber of Russia, the spread of COVID-19 and the socio-economic problems provoked by it seriously worsened the possibilities of achieving the entire list of Sustainable Development Goals that were established by the UN (Accounts Chamber of Russia, 2021). The pandemic not only cancelled out previous gains in improving living standards and well-being of the population, but also created risks for increasing inequality between countries. According to IMF forecasts, the economies of developed countries will be able to recover their pre-pandemic indicators as

early as 2022, but the vast majority of developing countries may take “many more years” due to extremely high inflation rates, growing budget deficits and a significant increase in the volume of public external debt (IMF, 2021). It should be noted that these obstacles exist in most of the EAEU countries. In 2020, in relation to 2019, inflation in the EAEU as a whole amounted to 5.4%. Moreover, the average inflation rate in the EAEU in the first quarter of 2021 amounted to 6.7%, which significantly exceeds the target values (Eurasian Economic Commission, 2021).

In 2020, there was an increase in the budget deficit in all EAEU countries due to a decrease in revenues and an increase in budget spending on health care and measures to support the economy and the population (Figure 2).

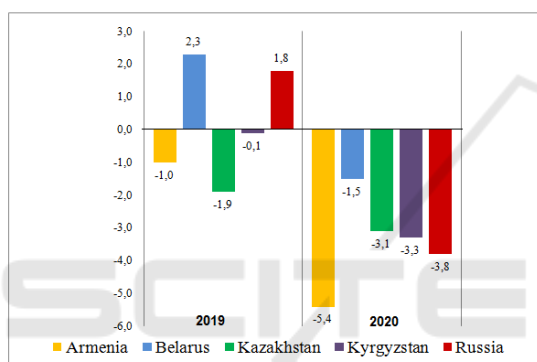


Figure 2: Budget deficit/ surplus, % of GDP (Eurasian Economic Commission, 2021).

In 2020, the size of the republican budget deficit increased in Armenia, Belarus, and Kyrgyzstan to 5.4% of GDP, 3.1% of GDP and 3.3% of GDP, respectively. In turn, budget surpluses were replaced by deficits in Belarus (1.5% of GDP) and Russia (3.8% of GDP).

Due to the lack of own funds for economic recovery, the EAEU countries, except for Russia, increased external borrowing, which affected the growth of external public debt (Table 1).

Table 1: Public external debt in the EAEU in 2019-2020.

Country	Public External Debt, US \$ bln		Year-on-year growth, %
	2019	2020	
Armenia	5.8	6.0	▲4.6
Belarus	17.1	18.6	▲8.4
Kazakhstan	15.2	16.4	▲7.6
Kyrgyzstan	3.9	4.2	▲9.5
Russia	41.6	39.1	▼6

Source: (Eurasian Economic Commission, 2021).

Russia continued the course to reduce the external debt burden, even in the context of the pandemic. On the contrary, other countries of the Union actively resorted to borrowing from other organizations and international development institutions, including the IMF, IBRD, EBRD, ADB, IFC and others. However, an increase in external public debt with insufficient GDP growth is associated with great financial risks for the EAEU countries. According to EDB forecasts, the economies of Armenia, Kyrgyzstan will not be able to reach the pre-crisis level in 2021, while the protracted nature of the spread of COVID-19 and its socio-economic consequences can only contribute to a further increase in external borrowing (Eurasian Development Bank, 2021).

According to the authors, the current situation has shown the importance of creating its own financial support mechanism within the EAEU and confirmed the conclusions about the important role of its own resources and reserves.

## 5 CONCLUSIONS

Currently, the global spread of the new coronavirus infection has had a strong destructive impact on the socio-economic situation of the EAEU countries. This required a search for factors that can quickly affect its improvement. The factors of the internal and external environment were identified as influencing factors. Their interaction and significance in a given time interval have been described.

The results of the study showed that the specificity of the internal environment is associated with a special role that belongs to the activities of supranational and national authorities. They are the ones who are able to control other factors and determine the directions of their development. Unfortunately, at the present stage they cannot fully express themselves, due to the fact that the Union is a fairly young association, which is just entering the stage of revealing its integration potential.

In this situation, it is proposed to pay particular attention to the role of internal factors and, first of all, to the efficiency of the work of authorities at all levels and the presence of their own resource potential. At the same time, much attention should be paid to constant analysis of the current socio-economic situation and mutual exchange of experience with third countries.

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