

## POLITICAL ECONOMY OF REGIONAL INTEGRATION IN THE CONTEXT OF MODERN REALITIES AND FORECASTS

**Tatul Manaseryan**

Ph.D., Doctor of Science, Professor

Key words: regional integration, sanctions, forecasts, political economy, EU, EAEU, BSEC

**Introduction.** As a rule, all forecasts follow from specific conditions, trends and realities. In turn, it is impossible to talk about modern realities in Armenia, Russia and the EAEU without taking into account and assessing the sanctions of the West. At the same time, it can be predicted that as a result of sanctions, there will be losses both in the economy and in the financial sector. In particular, investments, the volume of private transfers will decrease, and a decrease in the solvency of the market may lead to a reduction in the volume of exported goods from Armenia.

**Methodology.** The purpose of the article is to reveal the problems related to the process of forming or joining different regional economic integration blocks and to come up with an effective structure gross domestic product aimed at reducing the risks and managing them in RA. In particular, the research focuses on new sanctions on neighbors and trading partners of Armenia and their impact on local markets, as well as administrative restrictions related to the financial markets, banking infrastructure. This, in turn, requires further improvement of the legal framework of business for the operation of the cashless payment system, and other issues. In terms of analysis, the data of the Central Bank of the Republic of Armenia, the National Statistical Committee of the Republic of Armenia served as the information basis of the research. Statistical, comparative, graphic, comparison, induction and deduction methods were also used.

**Literature review.** Many experts believe that international organizations and developed countries should help small states by keeping official aid flowing to help climate change adaptation and debt recovery. National policies to stimulate investment growth should be country-specific [Bukht, et al., 2017, 32], but the starting point is always the establishment of a sound fiscal and monetary policy framework, as well as comprehensive reforms aimed at improving the investment climate. Not the last role will be played by the possible restructuring of the world economic order, about which there were active debates, in particular, at World Economic Forum in Davos [Vass, 2023, 1].

**Analysis.** As for the negative consequences of current economic integration and close cooperation with the EU and the BSEC or the EAEU, they are primarily associated with the Ukrainian crisis and the sanctions imposed by the US and the EU against Russia. Sanctions and dependence of the Russian economy on oil and gas prices, as well as their tangible fall, have seriously affected the macroeconomic situation in mentioned state and the exchange rate of its national currency. Thus, the fall in oil prices and the

depreciation of the Russian ruble created certain obstacles for the further development of Armenia, whose economy is tied to the Russian one. All this is reflected in the process of integration into the EAEU. The expected investments and increase in trade volumes from integration into the EAEU are difficult to realize today.

The sanctions that are applied today, in the context of the growing process of globalization, when any important changes in one country in one way or another will certainly affect economic and social relations in other countries, were invented in the Stone Age. For those who have not learned this history lesson, any manifestation of sanctions today can have the effect of an “Australian boomerang”. It is from this point of view that the package of sanctions against Russia applied by the West should be assessed. These sanctions to some extent may also affect the Armenian economy, since Russia is the main trading partner of Armenia, the Russian Federation accounts for a significant share of the export of the Republic of Armenia, therefore, our country cannot remain aloof from these processes.

The war has already begun to leave its negative consequences for the economy. First, the ruble depreciated against the dollar and the euro. And the devaluation of the ruble creates problems for the export of Armenian goods. Devaluation of the Russian ruble in 2023 may lead to the fact that the purchasing power of the population of Russia will decrease, i.e. Russians will be able to buy fewer goods and services for the same amount. Naturally, we will have a reduction in the volume of exports of goods from Armenia to the Russian market, and due to the devaluation of the ruble, Armenian products will become uncompetitive in the Russian market. The participation of Russian capital in our economy is quite large. And in such a situation, investments will also decrease, because in the event of such sanctions, Russia will not be able to implement investment programs in our country at the same pace. Russian capital has a large share in the banking system, so here problems may also arise. And if the sanctions persist for a long time, the problems may increase, but it is to be hoped that solutions will be found. Of course, Russia is not a country where sanctions have a one-sided effect. The West is also hurting: companies from many American and European countries have been quite successful in the Russian market. That is, losses are not one-sided.

The same is true in terms of the possible impact of economic sanctions against Armenia’s neighboring Iran. It is almost impossible to trade with this country even on micro level or person to person if someone intends to make a legal payment through a commercial bank transfer. People are forced to initiate or increase the volumes of the “shadow economy” by opening up bank accounts in other countries as Georgia or Turkey to serve their micro level trade transactions.

In our opinion, some of the trends of 2022 may continue into 2023. It is safe to predict further growth in business activity, which, this time, may be below nine percent

if there are no external contributing factors and preconditions. Our forecasts somewhat differ in numbers from the forecasts of influential international organizations, but they coincide with the forecasts of positive trends. Thus, the EBRD in September last year predicted the growth of the Armenian economy by 8% in 2022 and a slowdown to 4% in 2023. At this stage, the mentioned forecast remains unchanged - at the level of 4%. Growth in trade and services is in double digits. The influx of a significant number of people and businesses from Russia has increased demand for services, coupled with a significant increase in remittance inflows. According to the Ministry of Economy of Armenia, in 2022, the real GDP growth of the republic amounted to 14%, with an indicator of 7% laid down in the state budget, as well as an inflation forecast of 4% ( $\pm 1.5\%$ ). Meanwhile, the International Monetary Fund (IMF) predicted the economic growth of Armenia in 2022 at the level of 11%, the World Bank (WB) and the Asian Development Bank (ADB) - up to 7%, the EBRD - 8%, and the Eurasian Development Bank (EDB) - 12.5%. \$1 - 395.88 AMD).

It is worthy to recall that the economic growth of Armenia in the state budget for 2022 is provided for in the amount of 7%, and inflation is set at 4% ( $\pm 1.5\%$ ) [www.parliament.am]. In December last year, the Central Bank of Armenia predicted that the country's economy would grow by 12.9% by the end of 2022, and inflation would be 9-9.5%. The World Bank predicts that economic growth in Armenia in 2023 will be 4.1%. It is also important to consider all these forecasts in the context of global economic development trends. In particular, in 2023, global economic growth will slow down to 1.7%, and not to 3%, as expected six months ago.

As noted in the latest edition of the World Bank's World Economic Outlook report, global economic growth is slowing sharply amid high inflation, rising interest rates, reduced investment and disruption to supply chains caused by the conflict in Ukraine. Given the volatility of the economic environment, the emergence of any new adverse factor, such as higher-than-expected inflation accelerating, a sharp increase in interest rates to contain it, a new wave of the COVID-19 pandemic, or an escalation of geopolitical tensions, could push the global economy into recession [Williams, 2021, 92]. This means that for the first time in over 80 years, there would be two global recessions within a decade. According to forecasts, in 2023 the global economy will grow by 1.7%, and in 2024 by 2.7%. The sharp slowdown in economic growth is expected to be widespread, with a downward revision to the 2023 outlook affecting 95% of advanced economies and nearly 70% of emerging market and developing economies. Growth is projected to slow to 0.5% in 2023 in advanced economies from 2.5% in 2022. In the past two decades, a similar slowdown in growth has preceded a global recession. In the US, growth is projected to slow to 0.5% in 2023, 1.9 percentage points lower than previously forecast and the lowest level since 1970, excluding periods of recessions. In the euro area, zero economic growth is expected in 2023, 1.9 percentage points lower than

previous forecasts. In China, growth in 2023 is projected to be 4.3%, 0.9 percentage points lower than forecast [Cheng, 2021, p.62].

**Conclusions.** In view of the foregoing, some conclusions can be drawn for the economy of Armenia and Russia. The situation will force the Russian government to become more efficient, to find ways out, to carry out reforms. And in the foreseeable future, the situation may gradually improve. It is not difficult to predict that the European economy will suffer more losses than the US. It is enough that Russia's share in the American energy market is significantly inferior to European indicators. Russia provides 40% of gas consumption in Europe, it will be very difficult to replace these volumes, therefore, cooperation with Russia in the energy sector is maintained. And the share of Russia in US imports of oil and petroleum products in 2020 was 7%, despite the fact that the United States produces oil at home and is able to cover the rejection of Russian oil. Thus, Europe will suffer more.

#### **References:**

1. Vass, S., (2023) The New International Economic Order. <https://theconversation.com/the-new-international-economic-order-stumbled-once-before-will-it-succeed-a-second-time-around-198969>
2. Bukht R, Heeks R. Defining, Conceptualising and Measuring the Digital Economy. Development Informatics working paper (2017). doi: 10.2139/ssrn.3431732
3. Williams LD. Concepts of Digital Economy and Industry 4.0 in Intelligent and information systems. *Int J Intell Netw.* (2021) 2:122–9. doi: 10.1016/j.ijin.2021.09.002
4. Cheng C., ICT diffusion, financial development, and economic growth: an inter cross-country analysis. *Econ Model.* (2021) p.62. doi: 10.1016/j.econmod.2020.02.008
5. [www.parliament.am](http://www.parliament.am)

#### **Tatul Manaseryan**

##### **Political economy of regional integration in the context of modern realities**

*Key words: regional integration, sanctions, forecasts, political economy, EU, EAEU, BSEC*

Our research confirms the idea that positive trends in Armenia can continue in the case of a balanced and targeted economic policy. It can also be predicted that if the government manages to create attractive conditions for entrepreneurs from Russia, then after the conclusion of peace between Russia and Ukraine, if even 10% of the invested capital remains, the Armenian economy will be able to maintain sustainable growth rates. This, in turn, will have a positive impact on the integration processes in the EAEU, which are taking place in difficult conditions. The current situation, according to the government, certainly affects the basic economic indicators of all member states of the union, and in this difficult time for all of us, we should focus our efforts to maximize the effects of Eurasian integration, taking into account national priorities of socio-economic development. An important task, in our opinion, is to maintain the achieved level of growth in business activity. To improve long-term economic growth prospects, the government and the private sector need to pay close attention to building climate resilience, promoting effective economic diversification, and improving governance. And this, in turn, requires close cooperation with the expert community.