



Issue description

Committee: Economic and Social Council
Issue of: Industry in Post-Soviet Countries
Submitted by: Flóra Nagy, Deputy President of Economic and Social Council
Lilien Nagy, Deputy President of Economic and Social Council
Edited by: Márton Levente Sipos, President of the General Assembly
Csanád Végh, Deputy President of the General Assembly

Introduction:

During the operation of the Union of Soviet Socialist Republics (USSR) between 1922 and 1991, the Member States of the Union experienced plenty of economic and social difficulties. Under the leadership of Leonid Brezhnev, the fifth leader of the USSR the era of economic and political stagnation thrived as the leaders of the Soviet Union were comfortable in their positions and did not want to implement change. This meant that innovation was scarce and the USSR was both politically and economically lagging behind the Western world. Another factor responsible for the fall of the USSR was that the Union was in the midst of a Cold War with the West. The nuclear arms race was draining the resources. By December 1991 the Union of Soviet Socialist Republics had virtually ceased to exist, and the future of its territories and peoples was uncertain. Three republics—Estonia, Latvia, and Lithuania—had achieved complete independence and were internationally recognized as sovereign states, and several others were demanding independence. Attempts were made, led by Mikhail Gorbachev, the president of the Soviet Union, to establish a new “Union of Sovereign States” with some degree of integration in foreign policy, defence, and economic affairs, but agreement among the remaining 12 republics was not achieved. In 1991 the USSR finally dissolved, 15 new republics seemingly achieved independence, most of them made policies to strengthen their own languages and culture with the aim of increasing autonomy.

One of the major issues surrounding life after the USSR had fallen is that only three states could achieve a democratic form of government. Estonia, Latvia and Lithuania are recognized as “flawed democracies”. Georgia, Moldova, Armenia, Kyrgyzstan and Ukraine fall into the category of “hybrid regimes”. Russia, Turkmenistan, Kazakhstan, Belarus, Uzbekistan, Azerbaijan and Tajikistan remained “authoritarian regimes” with a large amount of political corruption cases.

Another consequence of the fall was that the states converted from command economy to market economy. Most of the countries had difficulties with the change after 70 years of command economy system and in the beginning, their GDP dropped significantly. Russia, Azerbaijan and Kazakhstan soared from oil wealth which resulted in a high increase in GDP. Belarus and Georgia managed to stabilize their economy by improving manufacturing and industry. Armenia and Turkmenistan could develop and increase their GDP as well. However, the republics of Pakistan, Tajikistan, Moldova and Kyrgyzstan stagnated both in terms of



politics and economy. The former second richest country of the Soviet Union, Ukraine is now constantly failing to improve its industry and the economic growth is meagre.

Definition of key terms:

GDP

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Put simply, GDP is a broad measurement of a nation's overall economic activity.

Flawed democracies

Nations, where elections are fair and free and basic civil liberties are honoured but may have issues (e.g. media freedom infringement). These nations have significant faults in other democratic aspects, including underdeveloped political culture, low levels of participation in politics, and issues in the functioning of governance.

For instance Estonia, Lithuania and Latvia.

Hybrid regimes

Nations where consequential irregularities exist in elections regularly preventing them from being fair and free. These nations commonly have governments that apply pressure on political opponents, non-independent judiciaries, and have widespread corruption, harassment and pressure placed on the media, anemic rule of law, and more pronounced faults than flawed democracies in the realms of underdeveloped political culture, low levels of participation in politics, and issues in the functioning of governance.

For instance Moldova, Ukraine, Georgia, Kyrgyzstan and Armenia.

Authoritarian regimes

Nations where political pluralism has vanished or is extremely limited. These nations are often absolute monarchies or dictatorships, may have some conventional institutions of democracy but with meagre significance, infringements and abuses of civil liberties are commonplace, elections (if they take place) are not fair and free, the media is often state-owned or controlled by groups associated with the ruling regime, the judiciary is not independent, and they are characterised by the presence of omnipresent censorship and suppression of governmental criticism.

For instance Belarus, Kazakhstan, Russia, Azerbaijan, Uzbekistan, Tajikistan and Turkmenistan.

Democracy Index

The Democracy Index is an index compiled by the UK-based company the Economist Intelligence Unit (EIU) that intends to measure the state of democracy in 167 countries, of which 166 are sovereign states and 164 are UN member states. The index is based on 60 indicators grouped in five different categories measuring pluralism, civil liberties and political culture. In addition to a numeric score and a ranking, the index categorises countries as one of four regime types: full democracies, flawed democracies, hybrid regimes and authoritarian regimes.



Military-industrial complex (MIC)

An informal alliance between a nation's military and the defense industry that supplies it, seen together as a vested interest which influences public policy. A driving factor behind this relationship between the government and defense-minded corporations is that both sides benefit—one side from obtaining war weapons, and the other from being paid to supply them.

Command economy or planned economy

A type of economic system where investment and the allocation of capital goods take place according to economy-wide economic and production plans. A planned economy may use centralized, decentralized or participatory forms of economic planning. A command economy or administrative command economy is any of the nominally-planned economies of the former Soviet Union and Eastern Bloc—these terms highlight the central role of hierarchical administration in guiding the allocation of resources in these economic systems as opposed to planned coordination.

Market economy

A market economy is an economic system in which the decisions regarding investment, production, and distribution are guided by the price signals created by the forces of supply and demand. The major characteristic of a market economy is the existence of factor markets that play a dominant role in the allocation of capital and the factors of production.

General overview:

The fall of the Soviet Union

The country's domestic struggles eventually lead to the fall of the Soviet Union. It began with the last leader, Mikhail Gorbachev (1985-1991), who implemented a large number of reforms. He entered office after the "era of stagnation", which was largely based on economic, social and military issues. The main goal was to outperform the United States in two major regions: military and spaceflight. Excessive spending was characteristic of the time and the country became a self-contained military-industrial complex, at the expense of economy, which led to underproduction and eventually stagnation. After a long history of repressive communist rule, the domestic attitude towards the government was at its lowest leading to greater dissent and unrest. An increasing amount of protests against the government also worsened the situation.

There were two main stages of reforms: *Transparency*: Raised the ban on books, encouraged new freedoms, multi-party elections were held and the hold of the Communist Party on the government was reduced. *Restructuring* meant moving away from the structured economy, more private ownership of businesses, and semi-free market access. Gorbachev induced a complete shift of political and economic ideals compared to previous example. The Soviet Union mirrored the western ideals since plenty of countries gained success after implementing these policies. These reforms, however, failed to undo decades of state-rule. Gorbachev himself described the situation as "The old system collapsed before the new one had to begin working, and the crisis in the society become even more acute." The economy and standards of living got considerably worse and the Eastern European satellite states began to hold free-elections partly thanks to the Transparency reform. Other satellite states saw their peaceful transition to power and slowly unrest spread throughout the government eventually leading to a coup d'état against Gorbachev by a group of hard-line Communist Party members in August 1991. The



coup was unsuccessful, but Gorbachev resigned as head of the Communist Party and ultimately it was dissolved entirely.

Dissolution of the Soviet Union

On 8 December 1991, an agreement was signed by the three Slav republics of Russia, Ukraine and Belarus on the establishment of the Commonwealth of Independent States (CIS), with an agreed common policy for foreign affairs and defence. Later, all the states except Georgia were included in the CIS, however, great difficulty was experienced in arriving at agreed policies. The three Baltic States, Lithuania, Latvia and Estonia saw their membership in the Soviet Union as an illegal occupation and formed their own Baltic Assembly. Today, there are five organizations within the CIS: Commonwealth of Independent States Free Trade Area (CISFTA), Collective Security Treaty Organization (CSTO), Eurasian Economic Union (EAEU), Union State of Russia and Belarus (US), GUAM Organization for Democracy and Economic Development.

The situation nowadays

After the collapse of the Soviet Union, the fifteen independent states moved in very different directions, despite their shared history of almost seven decades. Russian is still widely spoken in all of the countries, however, most of the states made efforts to strengthen their own languages.

Right after the dissolution of the Union, all of the new states saw economic recession. Most countries began the transition from command economy to market economy. It took some time to get used to the completely different type of economy after 69 years of command economy. As mentioned previously, command economy was characteristic of the Soviet Union. It meant that there was little to no private ownership and mainly one grandiose state-owned factory was producing everything the government demanded. The government had to plan out everything ahead and the factory had to stick to the plan. However the countries adapted to the new circumstances eventually.

Nowadays, almost all countries have a higher GDP than right after their independence began. For instance Turkmenistan, due to being rich in natural gas, experienced the most growth with its GDP increasing threefold since independence, followed by Azerbaijan and Uzbekistan. However, Ukraine today is still below Soviet times.

Regarding politics, some of the newly formed states have had their issues with democracy and corruption. The countries can be divided into three main groups based on their ratings in the Democracy Index. The “flawed democracies” including the Baltic countries, Estonia, Lithuania and Latvia; next Moldova, Ukraine, Georgia, Kyrgyzstan and Armenia called the “hybrid regimes”; the remaining countries, Belarus, Kazakhstan, Russia, Azerbaijan, Uzbekistan, Tajikistan and Turkmenistan are labelled as “authoritarian regimes”.



Major Parties Involved:

Russia

The Russian Federation ranks highly among the most corrupt countries in the world. Freedom House, a civil rights watchdog group, gave Russia a score of 6.75 out of 7 for corruption in 2015. In its report, Freedom House pointed to President Vladimir Putin and his tight circle of political loyalists as the root cause for such rampant corruption. While Putin has promised to bring an end to bribes and favouritism since 2008, he appears to only target those who oppose him. As far back as the 16th century, those in power have been exchanging bribes and favours, often to make up for a lack of funds. Since then, corruption has spread throughout the country's financial system and bureaucracy, from banks to agencies that issue drivers licenses. It's become such a problem that Russia's economy not only tolerates dirty money, but it flat out relies on it. The World Bank Reported that in 2007, Russia's shadow economy comprised near half of the national GDP. Russia's systemic corruption is so widespread, it leaves people little if any choice to pursue other options.

Kazakhstan

Corruption is entrenched within Kazakhstan not only in the judicial system but in law enforcement, tax administration, public services and legislation as well. In the judiciary system, bribes and irregular payments are often exchanged in order to obtain favourable court decisions. Corruption is present at every stage of judicial processes, and civil courts are perceived as untrustworthy. The courts are controlled by the interests of the ruling elite. Accordingly, public trust in the impartiality of the judicial system is low, and Kazakhstani citizens generally hold no expectations that justice will be dispensed professionally in court proceedings. Furthermore, two-thirds of households perceive the police to be corrupt, ranking it as the most corrupt institution in the country. Companies in Kazakhstan complain about the inconsistent application of laws and regulations as a means for officials to extort bribes. It is also reported that the government uses at times bureaucratic stalling tactics to pressure companies into giving up contractual concessions in return for services (licenses, permits, etc.) that companies are otherwise entitled to. Despite the numerous provisions in legislation, public officials continue to engage in corruption with impunity. Corruption charges have only been pressed against high-ranking officials who fall out of favour with the ruling elite or challenge President Nazarbayev's authority.

Ukraine

The economy of Ukraine is an emerging free market. The depression during the 1990s included hyperinflation and a fall in economic output to less than half of the GDP of the preceding Ukrainian SSR. GDP growth was recorded for the first time in 2000, and continued for eight years. This growth was halted by the global financial crisis of 2008, but the Ukrainian economy recovered and achieved positive GDP growth in the first quarter of 2010. By October 2013, the Ukrainian economy lapsed into another recession. The early 2014 annexation of Crimea by Russia, and the War in Donbass that started in the spring of 2014 severely damaged Ukraine's economy and severely damaged two of the more industrial oblasts. In 2013, Ukraine saw zero



growth in GDP. Ukraine's economy shrank by 6.8% in 2014, and this continued with a 12% decline in GDP in 2015. In April 2017 the World Bank stated that Ukraine's economic growth rate was 2.3% in 2016, thus ending the recession. Despite the fact that Ukraine's economy ceased to decline, it is not stabilized and requires further innovations after the era of decline, stagnation and crisis.

Moldova

Although it is the poorest country in Europe, Moldova has made significant progress in reducing poverty and promoting inclusive growth since the early 2000s. The economy has expanded by an average of 5% annually, driven by consumption and fuelled by remittances. The latter account for a quarter of GDP, among the highest share in the world. European integration has anchored the Government's policy reform agenda, but reforms that are good on paper have yet to materialize. A vulnerable political system, polarized society, adverse external environment, and skills mismatch in the labour market, as well as climate-related shocks, are Moldova's biggest economic challenges. Transparency, accountability, and corruption are crucial concerns. Business confidence is low, and the macroeconomic framework remains vulnerable. External budget support, based on an agreement with the International Monetary Fund, has a high level of conditionality. Continued economic stabilization, the advancement of key economic reforms, and the creation of a rule-based environment for businesses are the country's key goals.

Previous attempts to solve the issue:

Efforts to achieve independence

The conversion from a command economy to market economy itself was a necessary step in order to achieve independence and to improve the region's economic state. Each country had stimulated innovations in industry, manufacturing, education and technology. For instance, Azerbaijan, Moldova, Turkmenistan and Uzbekistan changed their writing script from Cyrillic to Latin. Also, although Russian is still widely spoken, most of the countries implemented policies to strengthen their own language.

Democracy Index

The Democracy Index is based on electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. By providing a snapshot of the state's current rank in the Democracy Index and make it accessible for everyone, the government's corruption cases are uncovered. This may imply changes in the government.

United Nations Convention against Corruption

The United Nations Convention against Corruption is the only legally binding universal anti-corruption instrument. The Convention's far-reaching approach and the mandatory character of many of its provisions make it a unique tool for developing a comprehensive response to a global problem. The Convention covers five main areas: preventive measures, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange. The Convention covers many different forms of corruption, such as bribery, trading in influence, abuse of functions, and various acts of corruption in the private sector.



Possible solutions and approaches:

- What might have caused difficulty to the countries in transitioning to market economy?
- Why could the Baltic countries improve their situation more rapidly than the other Post-Soviet countries?
- What might be the cause of Ukraine not being able to stabilize its economic, industrial and political state?
- Is there any potential for future regional integration?
- How could each country improve their situation the most? Who or what might help them with doing so?
- What could be a good example to follow for the countries constantly failing to improve?
- What measures would bring about changes in the countries in need of change?



Bibliography:

- <http://journals.rudn.ru/international-relations/article/view/18877>
- <https://www.sciencedirect.com/science/article/pii/S1877042816305675>
- https://en.wikipedia.org/wiki/Post-Soviet_states
- <https://www.theguardian.com/world/2014/jun/09/-sp-profiles-post-soviet-states>
- <http://www.fao.org/europe/news/detail-news/en/c/1172311/>
- <https://www.khanacademy.org/economics-finance-domain/ap-macroeconomics/basic-economics-concepts-macro/introduction-to-the-economic-way-of-thinking-macro/v/command-and-market-economies>
- https://www.youtube.com/watch?v=ysNauzn_GUA
- <https://www.youtube.com/watch?v=m-TFENSuJ5U>
- <http://www.afsa.org/something-happened-way-market-economic-state-former-ussr>
- <https://www.bbc.co.uk/news/world-europe-14489883>
- https://en.wikipedia.org/wiki/Soviet_Union
- <https://www.youtube.com/watch?v=fo2Rb9h788s>
- [https://en.wikipedia.org/wiki/Dissolution_\(law\)](https://en.wikipedia.org/wiki/Dissolution_(law))
- https://en.wikipedia.org/wiki/Military%E2%80%93industrial_complex
- <https://www.yabiladi.com/img/content/EIU-Democracy-Index-2015.pdf>
- <https://www.investopedia.com/terms/g/gdp.asp>
- https://en.wikipedia.org/wiki/Planned_economy
- https://en.wikipedia.org/wiki/Market_economy
- https://www.youtube.com/watch?v=zadkWw702_M
- <https://www.youtube.com/watch?v=qZdijf1U7OY>
- <https://www.youtube.com/watch?v=mY5P2ehFDPQ>
- https://www.youtube.com/watch?v=_uk_6vfwqTA
- https://en.wikipedia.org/wiki/Dissolution_of_the_Soviet_Union
- https://www.youtube.com/watch?v=ysNauzn_GUA
- <https://www.britannica.com/place/Soviet-Union/The-U-S-S-R-from-1953-to-1991#ref42076>
- https://www.youtube.com/watch?v=M16RMXZDG_g
- <https://www.seeker.com/how-corrupt-is-russia-1792674500.html>
- <https://www.britannica.com/place/Baltic-states#ref253373>
- <https://www.business-anti-corruption.com/country-profiles/kazakhstan/>



https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/weorept.aspx?pr.x=64&pr.y=5&sy=2015&ey=2018&scsm=1&ssd=1&sort=country&ds=.&br=1&c=926&s=NGDP_RPCH&grp=0&a=

<https://www.worldbank.org/en/country/ukraine>

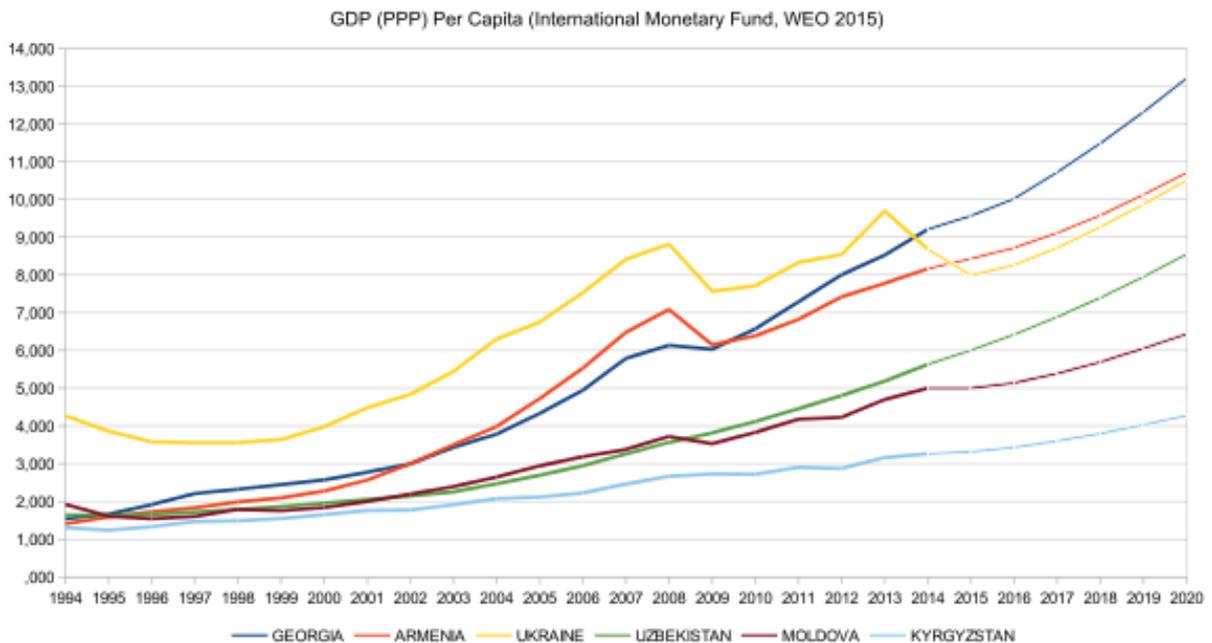
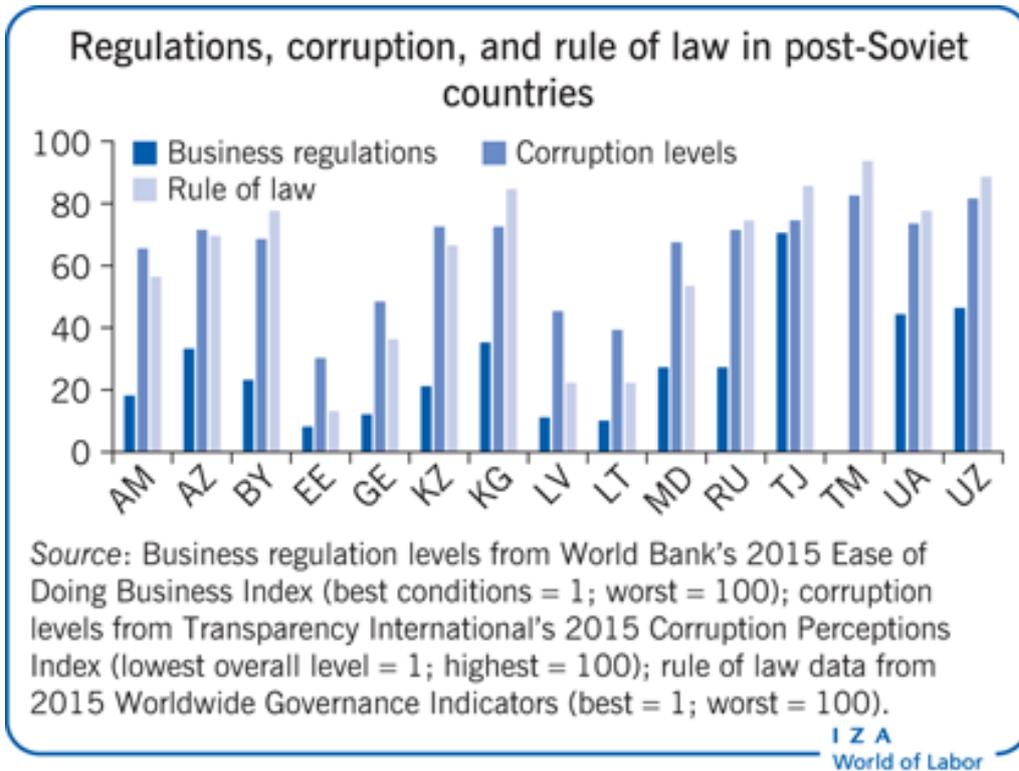
<https://www.worldbank.org/en/country/moldova/overview>

<https://www.eiu.com/topic/democracy-index>

https://www.unodc.org/unodc/en/corruption/tools_and_publications/UN-convention-against-corruption.html



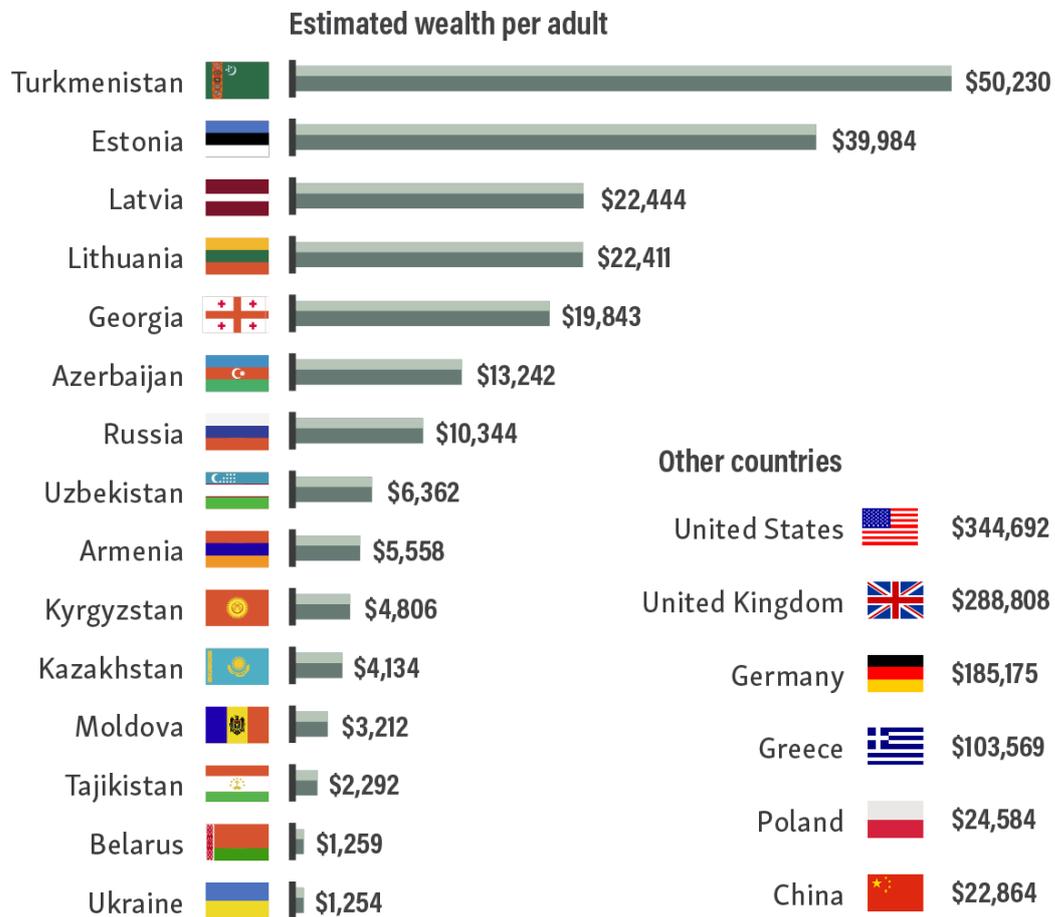
Annex:





WEALTHIEST POST-SOVIET COUNTRIES

Credit Suisse estimated the amount of wealth per adult citizen.



Note: Figures are estimates published by Credit Suisse.
Source: Credit Suisse Global Wealth Report 2016

