

# **What Do We Know** about the Economic and Social Impacts of the 2022 External Shocks on **Central and West Asia?**

**Yevgeniy Zhukov**

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Central and West Asia Department

Asian Development Bank

**ADB Annual General Meeting**

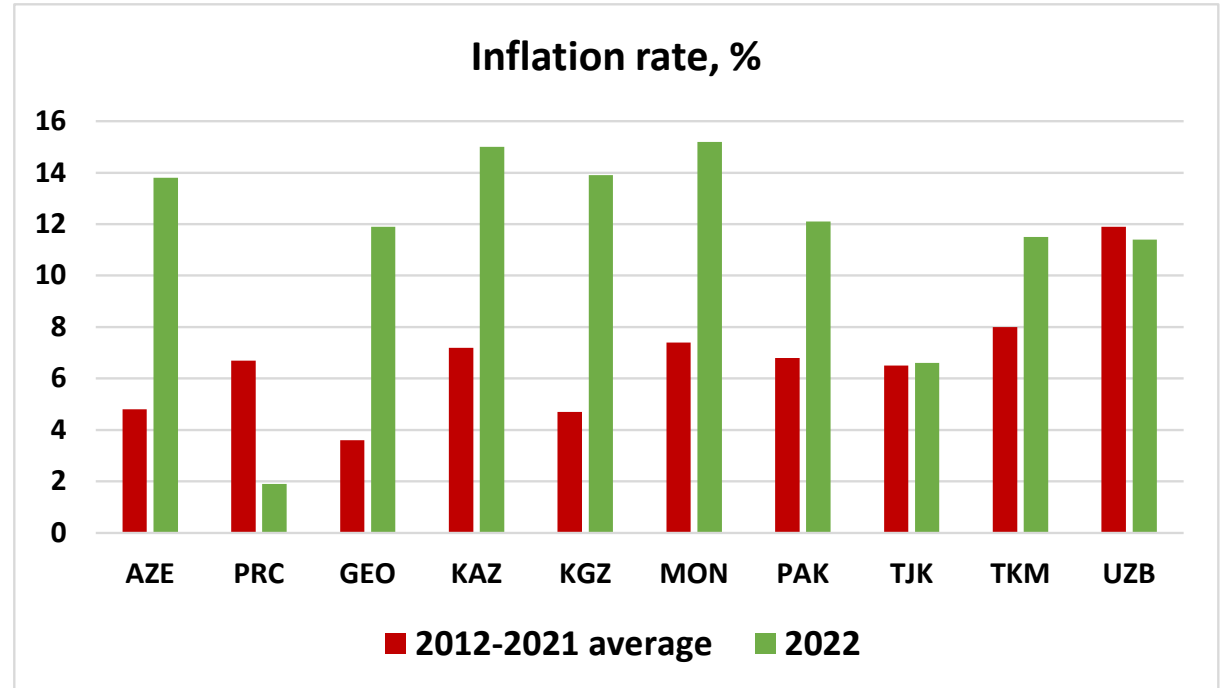
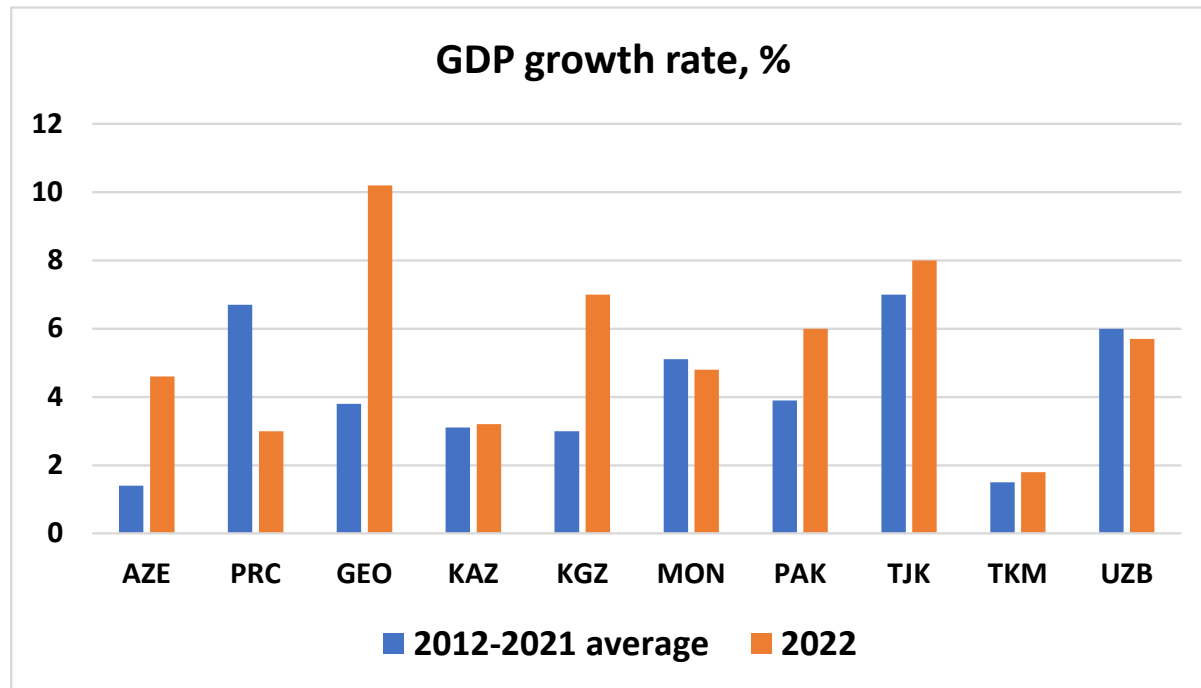
Incheon, 4 May 2023

# Multiple External Shocks Recently

- COVID-19 pandemic in 2020-2022 and post-pandemic recovery
- Increased frequency and severity of climate-related shocks – the 2021 drought in Central Asia, 2022 floods in Pakistan
- Regime change in Afghanistan in 2021
- The ongoing conflict of Russia and Ukraine and its spillovers onto neighboring economies
- Bilateral conflicts and domestic shocks in some parts of the region

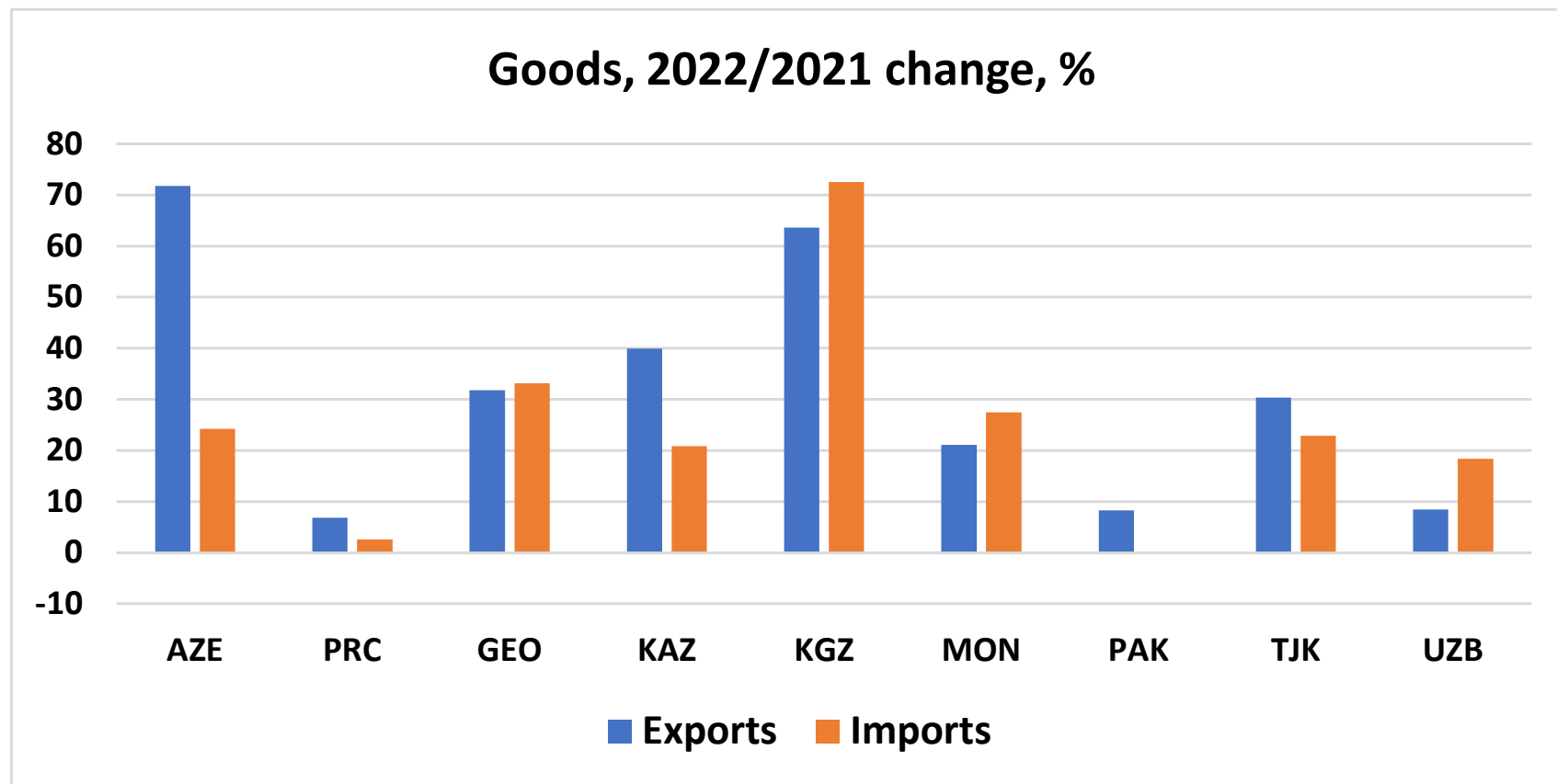
# Macroeconomics in 2022 – Good Growth but High Inflation

- Due to post-pandemic recovery and close ties with Russia, most CAREC economies recorded growth rates above the long-term trend
- Hike in the international energy and food prices and supply chain disruptions resulted in high inflation



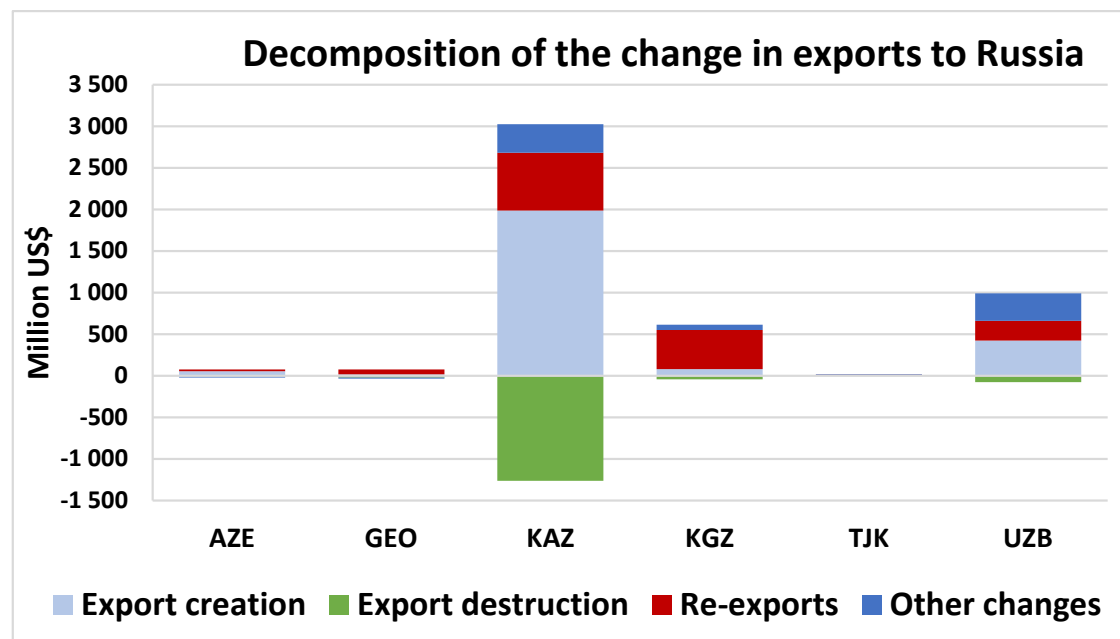
# Increase in Trade in Goods due to Energy Prices...

- Many economies of the region have recorded all-time high values of merchandise exports and imports
- Dramatic increase in exports and imports of energy



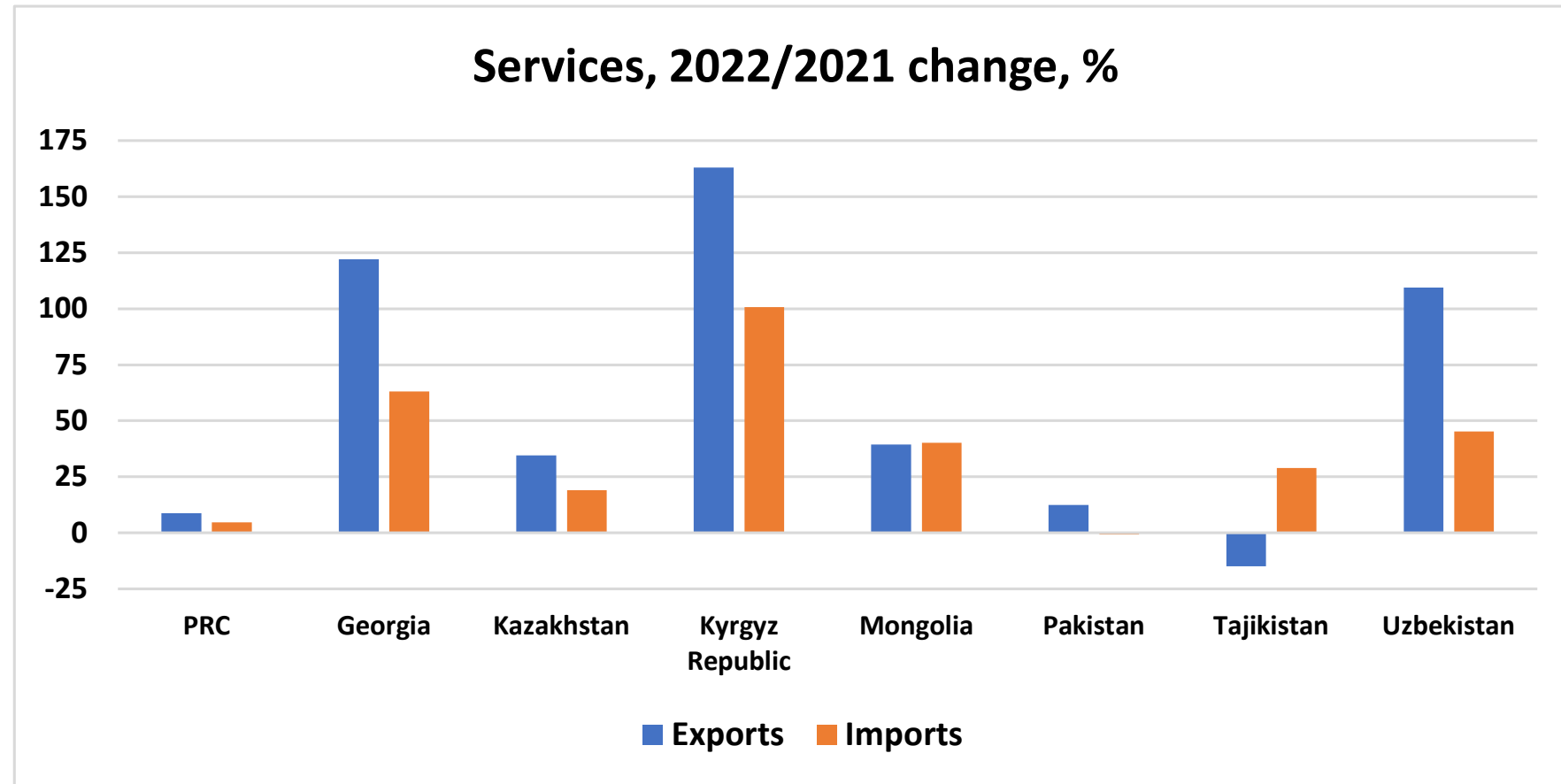
# ...and exports (re-exports) to the Russian Federation

- Major increase in exports to and imports (mostly energy) from Russia
- Re-exports, export creation and export destruction as a result of voluntary departure of international companies from the Russian market and sanctions
- Declining imports of machinery and equipment from Russia



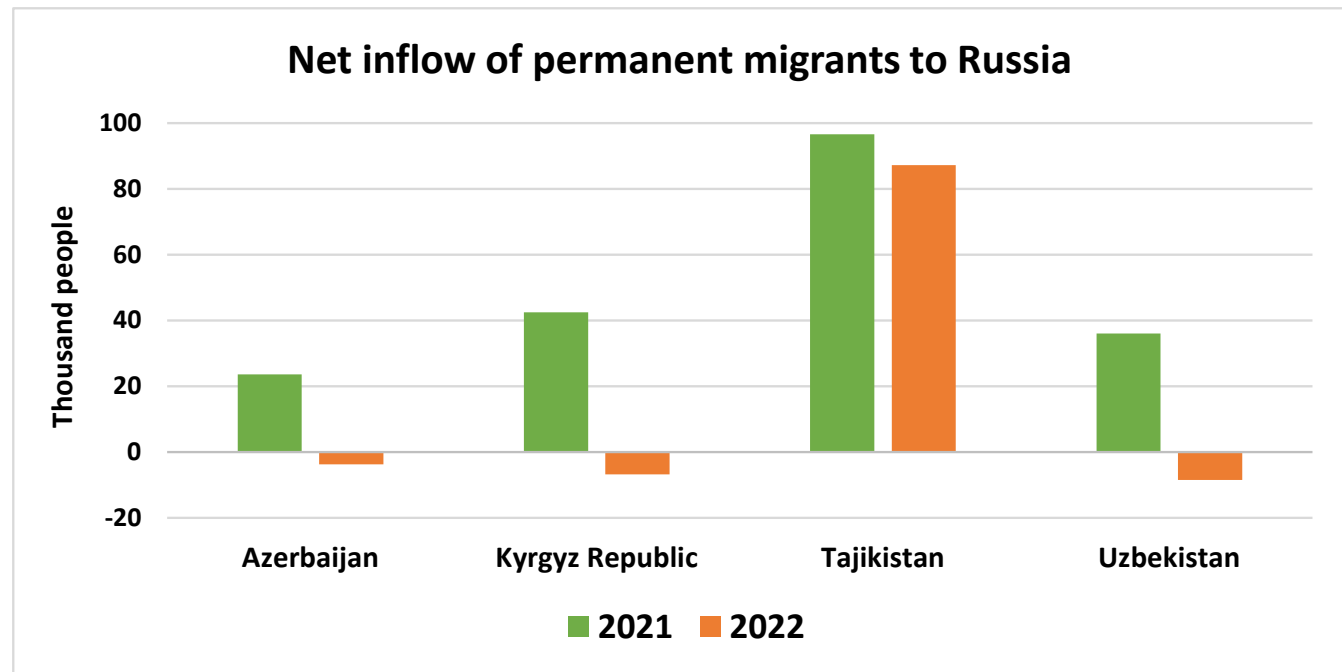
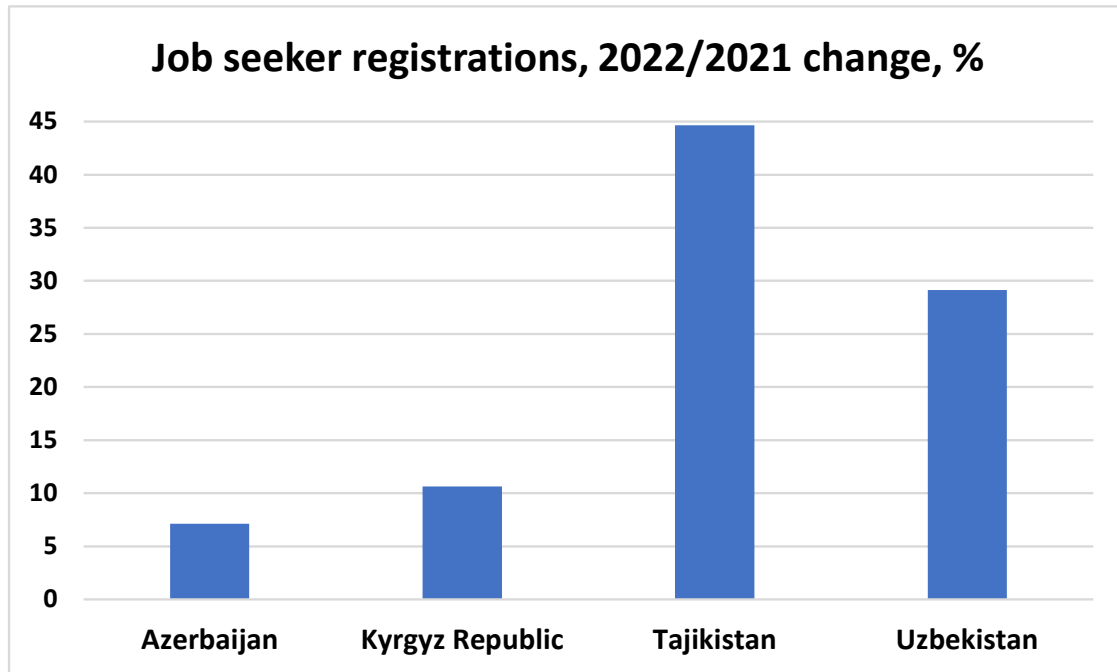
# Growth in Trade in Services due to Movement of People and Goods

- Growth in trade in goods led to the increase in trade in transport and related services
- Post-pandemic recovery of tourism and migration and massive inflow of Russian citizens and associated service exports



# Migration – Short- vs. Long-Term

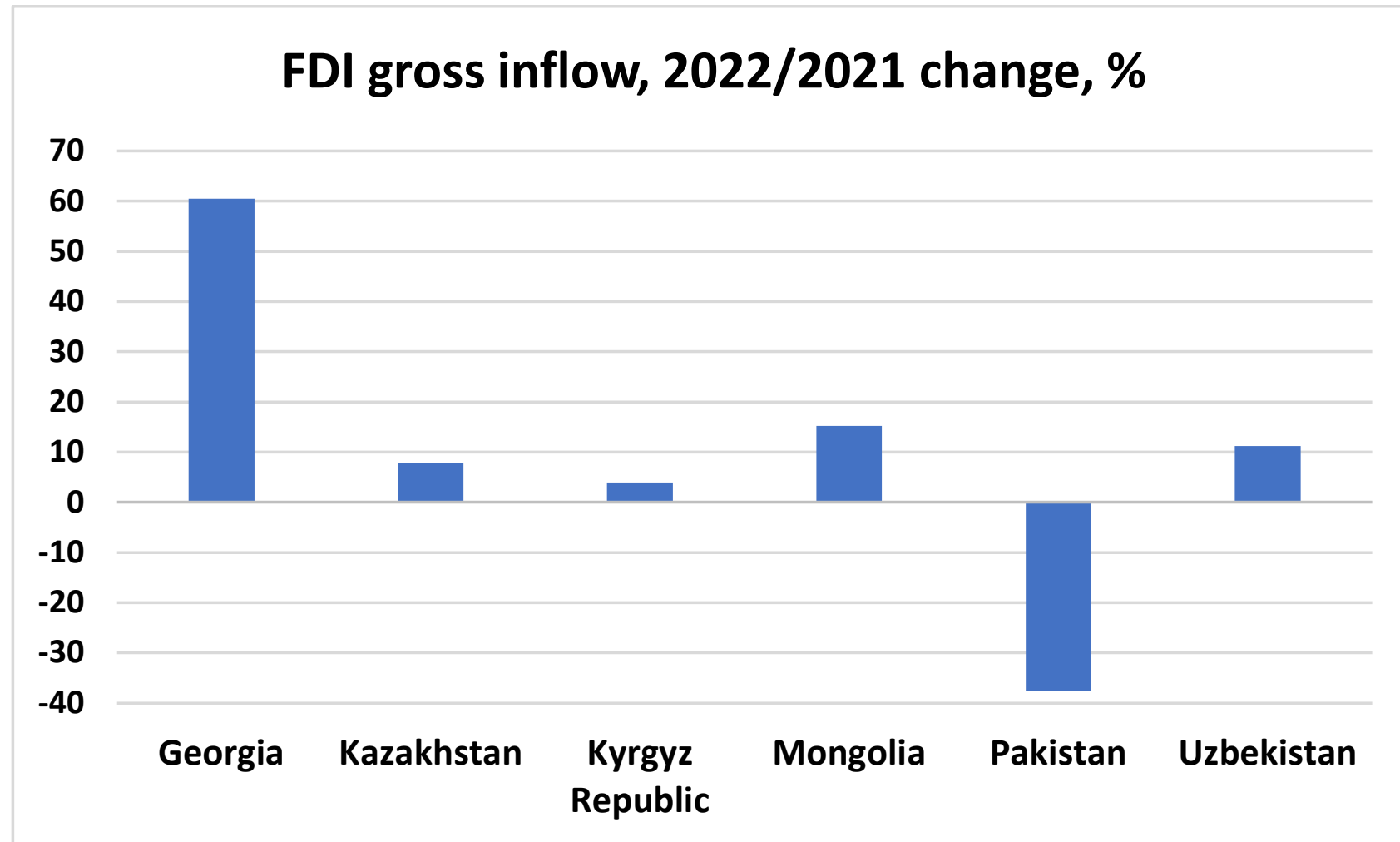
- Continuing increase in labor migration to Russia
- Reduction in permanent migration to Russia and search for alternative destinations
- New flows reduced the quality of data on remittances





# Inflow of Foreign Direct Investments

- Some CAREC economies received significant FDI inflows
- Post-pandemic return of foreign investors and staff
- Relocation of businesses from Russia?





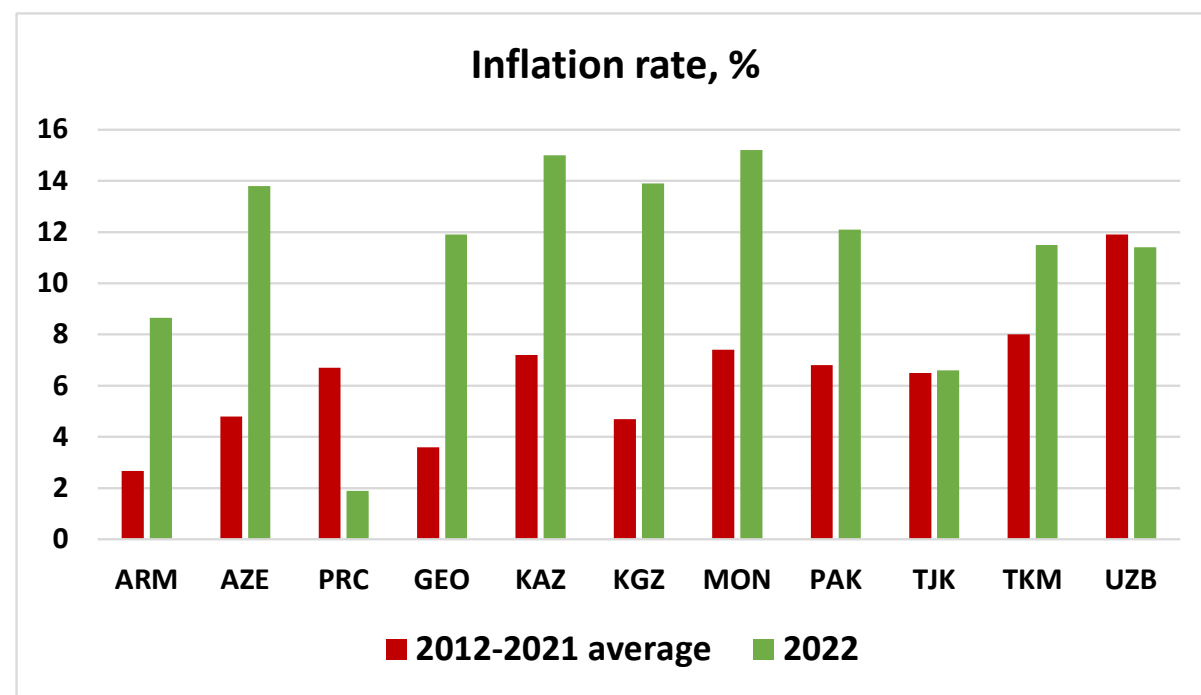
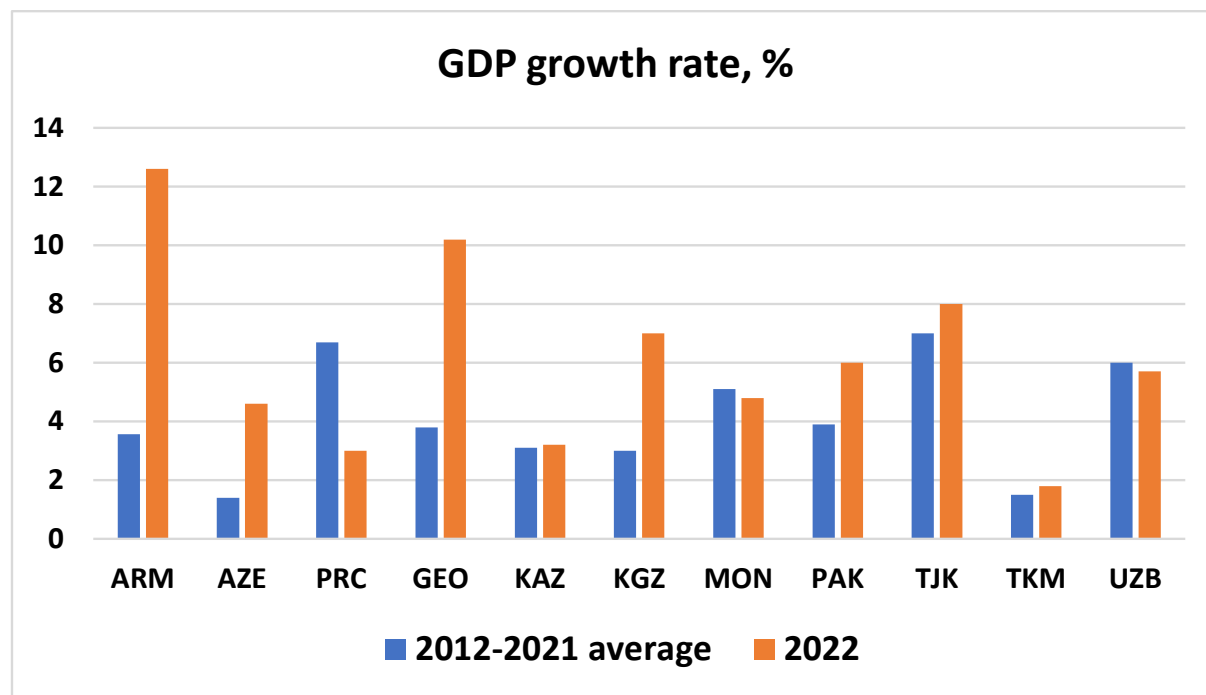
# How Sustainable Are These Changes?

- Many CAREC economies, especially those in the Caucasus and Central Asia, appeared to experience positive spillover effects from shocks in 2022
- Post-pandemic recovery produced one-off effect in 2021-2022
- Climate-related shocks—the 2021 drought in Central Asia and 2022 floods in Pakistan—have not fully affected yet these economies' growth values in 2022
- The Russia-Ukraine and other conflicts caused supply chain disruptions but also created (short-term?) opportunities for the economies in the Caucasus and Central Asia
- Long-term growth fundamentals—the ability to access foreign markets, traditional production systems in agriculture, access to advance technology etc.—have been questioned
- Lingering perception of uncertainty could lower the demand for investments
- **Would enhanced regional cooperation through CAREC be a part of response?**

# **ADDITIONAL SLIDES [with ARM]**

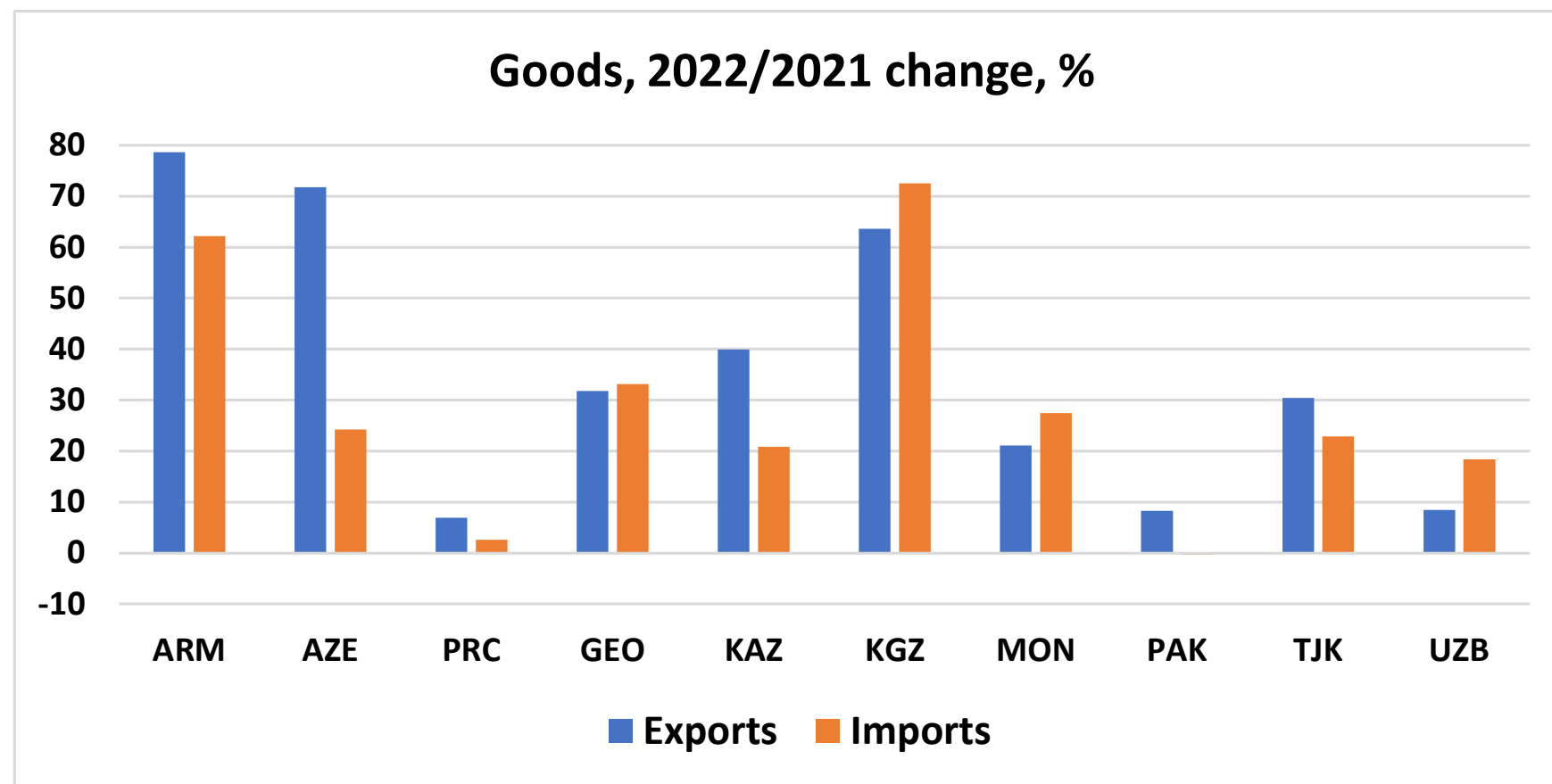
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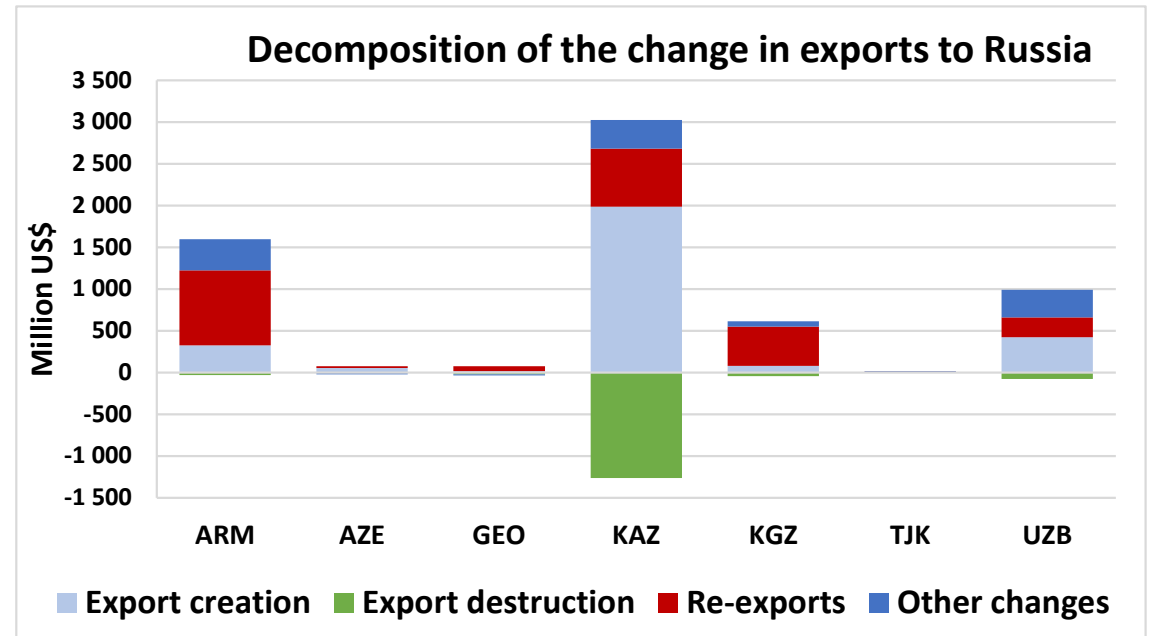
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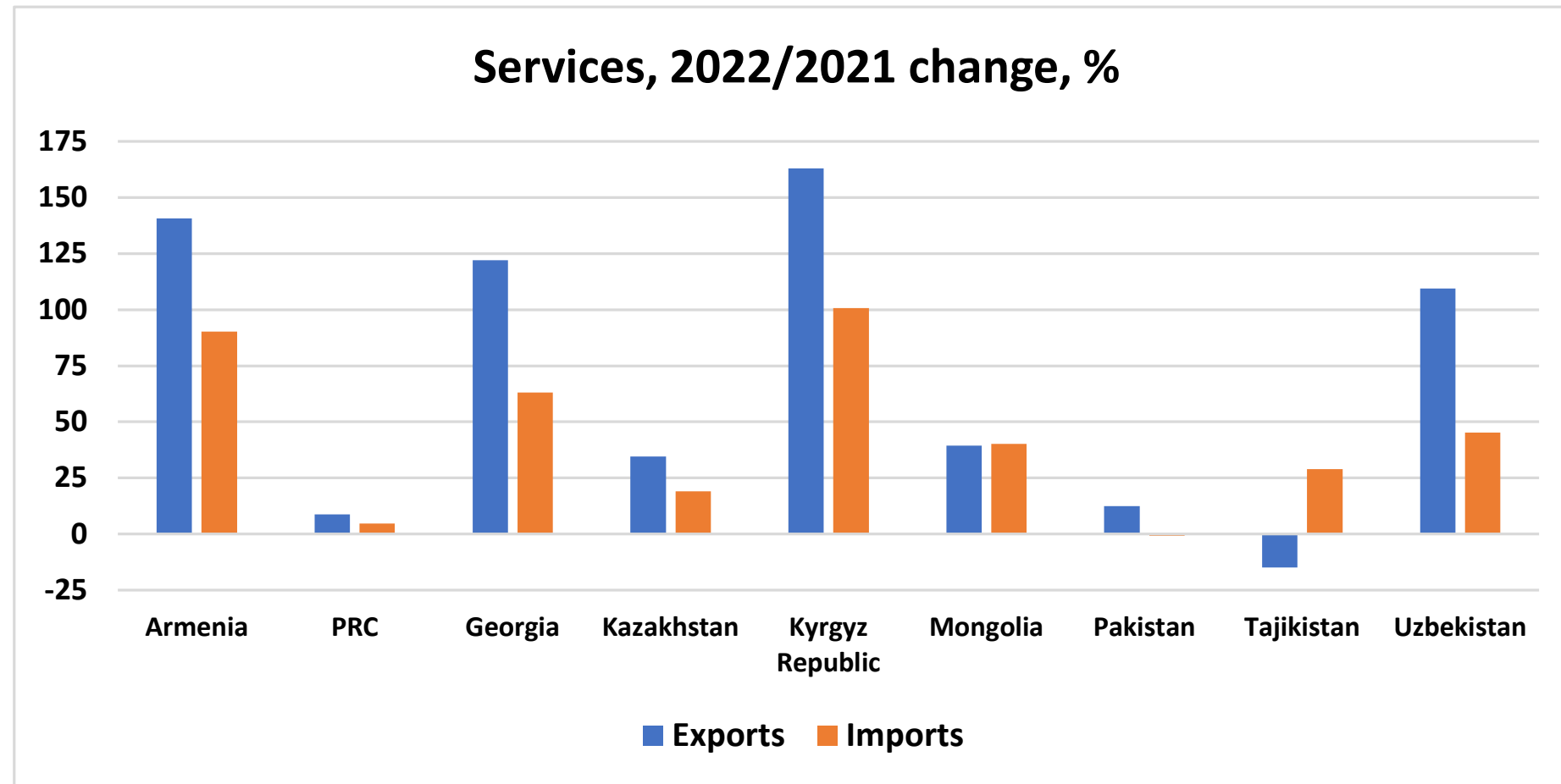
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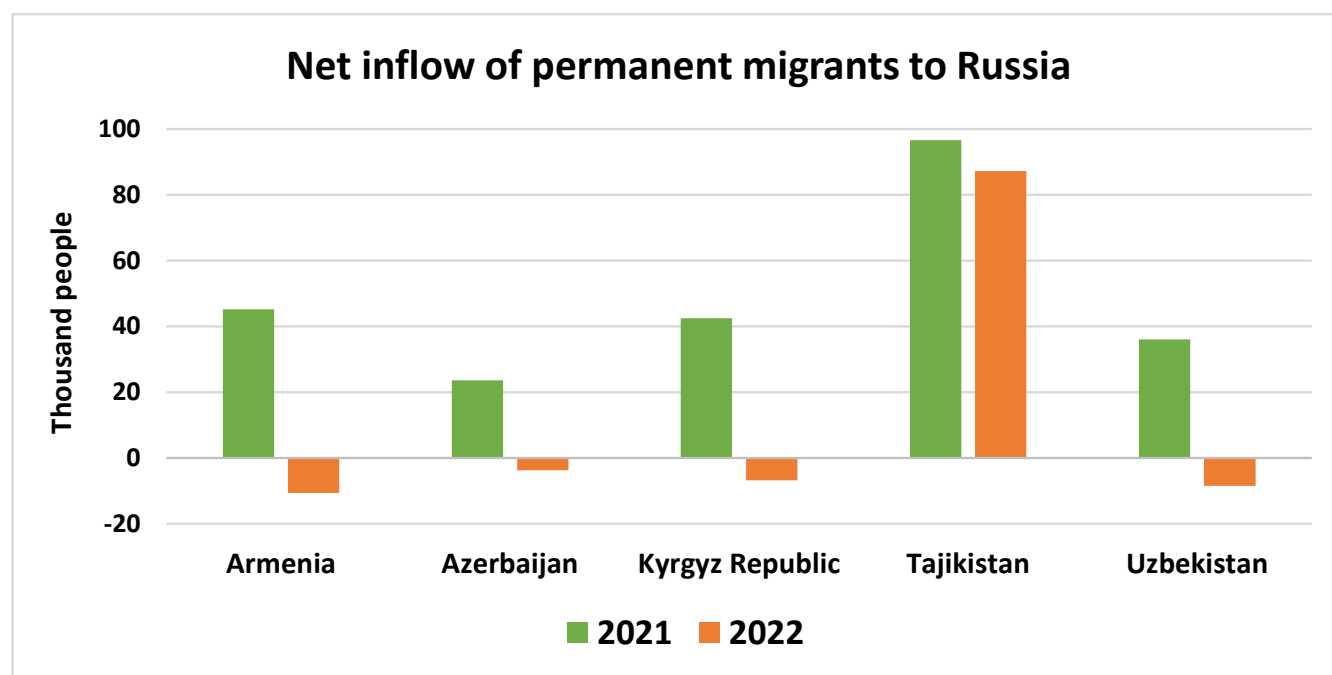
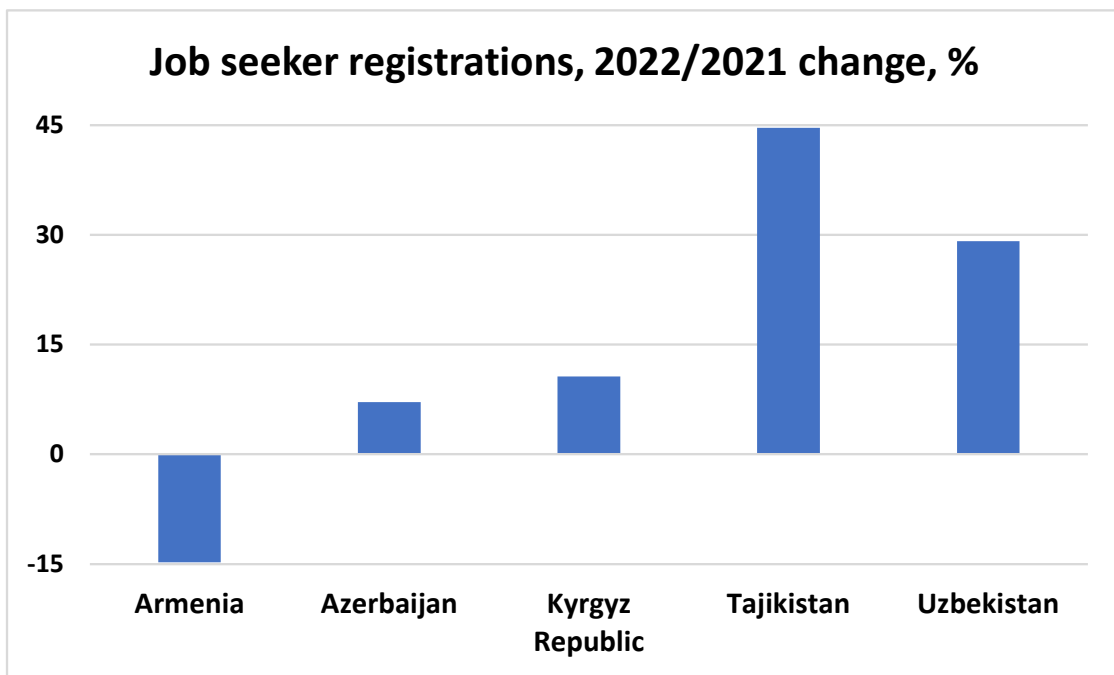
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