

Low Grades for Petro States in the Former Soviet Union

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(1) Overview

Nearly 17 years have passed since the demise of the Soviet Union and the subsequent independence of the former Soviet republics in the South Caucasus and Central Asia. This essay offers a comprehensive report card on a number of measures of economic, social and political progress. We conclude that these countries have made few advances on the road to economic growth, freedom and democracy, and two countries are at serious risk of Dutch Disease. Some countries have actually retrogressed from their status before independence. In addition, the region is becoming increasingly militarized. The risks of military conflict have grown, both between and within countries, as shown by the recent hostilities in Georgia. Our examination includes the oil-and-gas rich Caspian countries of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan. It addresses neither Tajikistan nor Kyrgyzstan, since neither is an oil or gas province, but includes Georgia since it is a key link in energy transport even though it is itself not rich in energy resources. In our view, Turkmenistan and Uzbekistan have each earned an overall D, with the remaining countries competing for C's or less. In general these governments – all one bullet regimes – have brought almost no well-distributed progress to their countries, despite evidence of rising GDPs. Repressive and corrupt leaders have kept their countries impoverished and have avoided economic and social reforms. Hostilities may yet occur between them, and civil unrest may erupt within countries, in the course of the next five to 10 years.

This essay looks at the selected Caucasus and Central Asian countries as a group from a variety of perspectives. We examine seven indicators of economic and two indicators of social progress. The first three economic indicators are GDP, GDP per capita, and GDP real growth rates. The fourth is evidence of actual or incipient Dutch Disease coupled with inflation. The fifth is evidence on income distribution, poverty, and population age distribution. The sixth examines data measuring economic freedom. The seventh considers evidence on corruption, a severe and pervasive problem in all these countries. From a social perspective, we look lastly at two indicators of human development and human rights. On nearly all counts, these countries have made little progress.

(2) Methods

Based on our research and survey of the literature, we offer our own informed judgments and projections.

(3) Results

The Caspian region is marked by authoritarian control and desperate poverty, despite some countries' mounting petroleum revenues. Income inequality has grown since independence, as some of the population did very well, but the majority did not. Large fractions of the population continue to live at or below the World Bank's poverty levels. Despite oil and gas revenue inflows, poverty is likely to last well into the future. Caspian economies have performed poorly in most of the years since independence and their record on human development and human rights is dreadful. We give overall grades in the C range to Azerbaijan, Georgia and Kazakhstan, and D grades to Turkmenistan and Uzbekistan.

The region has no tradition of democracy, and democratic governance has yet to take root. Despots currently masquerade as democrats. The issue that may be far more important than the richness of the hydrocarbon base is whether these nations will become democracies, or whether they will continue to succumb to strong-man rule, corruption, no rights of popular expression, and no popular participation in public affairs. Our judgment is that they will follow the latter route, likely delaying indefinitely the time when they may rightly be called "emerging democracies." This path will spell disaster as the young population cohorts face no promising economic future and in desperation may be driven to extremism and to assault continued strong-man rule.

(4) Conclusions

We give the countries under examination the following report card:

	Azerbaijan	Georgia	Kazakhstan	Turkmenistan	Uzbekistan
Real GDP	B+	C-	B+	n/a	C-
Real GDP per capita	B+	C	B+	n/a	D
Real GDP Growth Rates	A	B+	B+	n/a	B+
Dealing with Dutch Disease	C	n/a	C	n/a	n/a
Income Distribution & Poverty	C	C	C+	C-	D
Economic Freedom	C-	B-	B-	F	D
Corruption	D	C-	D	F	F
Human Development	C	C+	B-	F	F
Child Mortality	D	D	D	D	D
Human Rights	C-	B-	C-	F	F
OVERALL GRADE	C	C+	C+	D	D

Large oil and gas revenues have not materially improved the lot of the populations at large. The leadership extracts the rents for their own purposes and transparency in the disposition of these revenues is far from the rule. Moreover, the producing countries are at risk of the vicissitudes of Dutch Disease, as their exchange rates have appreciated. Monetary policy is weak and inflation has taken hold.

Corruption flourishes as kleptocratic officials routinely use their public positions for private gain and power. With the possible exception of Georgia, these countries are widely viewed as among the most corrupt countries, where bribes, abuse and repression are used to maintain power. It is not surprising in corrupt societies to find that country leaders are thoroughly corrupt; the name of the game is to maintain power, fleece the state, buy favors, and line pockets.

Moreover, the area has simmering external or internal conflicts of a military, ethnic or religious nature that could again ignite, particularly with the ongoing increasing militarization. The area's instability makes it extremely risky for hydrocarbon development, and the governmental rules are always subject to change. Those who enter the oil/gas exploration, production and transportation fray expect the rewards to compensate the political and economic risks.

The tensions on land and sea are about territory and power, not just about oil or gas. Even if conflicts are neither large nor long, they could halt both oil and gas exploration and development, as well as disrupt oil and gas pipelines. It is certainly not in these countries' interest to reduce the flow of actual or potential oil and gas, but rational behavior is not likely the norm. Our judgment is that as oil and gas revenues build in the years ahead, internal unrest and conflict will also build. The leaders we now know may have a relatively short future as a result of their unwillingness to compromise, share power or open their societies. But their ultimate disappearance does not necessarily assure that the conditions will be right under future leaders for moving toward democracy and widespread prosperity.

(5) Selected Sources

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