ECONSTOR
Make Your Publications Visible.

A Service of
ZBW Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Glinkina, Svetlana P.; Rosenberg, Dorothy J.

Working Paper

Social and economic decline as factors in conflict in the Caucasus

WIDER Discussion Paper, No. 2003/18

Provided in Cooperation with:
United Nations University (UNU), World Institute for Development Economics Research (WIDER)

Suggested Citation: Glinkina, Svetlana P.; Rosenberg, Dorothy J. (2003) : Social and economic decline as factors in conflict in the Caucasus, WIDER Discussion Paper, No. 2003/18, ISBN 9291904198, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

This Version is available at:
https://hdl.handle.net/10419/52821

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

United Nations University

WIDER

World Institute for Development Economics Research

Discussion Paper No. 2003/18

Social and Economic Decline as Factors in Conflict in the Caucasus

Svetlana P. Glinkina[1]
and Dorothy J. Rosenberg[2]

February 2003

Abstract

We argue that the conflicts in the Caucasus are the result of the abrogation by the elite of the earlier, Soviet era, social contract. This process was accompanied by the collapse of the formal economy; evidenced by huge national income compression, falling public goods provision, and growing inequality and poverty. In the absence of state provision of basic amenities and governance, ordinary people are compelled to fall back on kinship ties. Declining standards of governance facilitate state-sponsored corruption and criminality in a setting where the shadow economic activity is increasingly important to individual survival strategies. Oil pipelines and the right to control the transit of goods both legal and illegal also underlie conflict in the region. Criminality has replaced ethnicity as the major motivation for conflict and conflict per se has become a lucrative source of income.

Keywords: Caucasus, conflict, natural resources

JEL classification: O10, O53, P51

Copyright © UNU/WIDER 2003

1 Institute for International Economic and Political Studies, Russian Academy of Sciences, Moscow
2 Bureau of Development Policy, UNDP, Bratislava

This study has been prepared within the UNU/WIDER project on Why Some Countries Avoid Conflict While Others Fail? which is co-directed by Tony Addison and S. Mansoob Murshed.

Acknowledgements

The views expressed in this article are those of the authors only and do not represent the policies or positions of their employers. We would like to express our thanks to Mansoob Murshed and Stephen Coelen for their extremely useful comments and suggestions.

The maps are reproduced with the kind permission of Boris A. Alekseev, Department of Physical Geography and Environmental Sciences, and Alexander A. Suchilin, Department of Cartography and Geoinformatics, Geographical Faculty, Moscow State University.

The World Institute for Development Economics Research (WIDER) was established by the United Nations University (UNU) as its first research and training centre and started work in Helsinki, Finland in 1985. The Institute undertakes applied research and policy analysis on structural changes affecting the developing and transitional economies, provides a forum for the advocacy of policies leading to robust, equitable and environmentally sustainable growth, and promotes capacity strengthening and training in the field of economic and social policy making. Work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.

www.wider.unu.edu *publications@wider.unu.edu*

UNU World Institute for Development Economics Research (UNU/WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Camera-ready typescript prepared by Janis Vehmaan-Kreula at UNU/WIDER
Printed at UNU/WIDER, Helsinki

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

ISSN 1609-5774
ISBN 92-9190-418-X (printed publication)
ISBN 92-9190-419-8 (internet publication)

The basic outline of the situation in the Caucasus, a relatively resource rich region of great ethnic and confessional diversity, an uneasy history of conflict, migration, shifting political boundaries and great power overlords, is well-known. For the past decade, the region has been torn by multiple territorial conflicts, which have produced between 2 and 3 million refugees and displaced persons, representing approximately 10 per cent of the population of the region. At present one active war is in progress in Chechnya, more or less stable cease-fires are being observed in Nagorno-Karabakh, Nakhichevan and South Ossetia, while a third of Abkhazia is in shambles and multiple international observer missions are in place in troubled zones throughout the region.

The problems of creating transparency in the formal institutions of the state and accountability of government officials; establishing genuine elections, an independent judiciary and impartial law enforcement; the protection of individual and property rights; control over corruption in economic and political life; and the rapidly expanding role of informal and criminal economic activity, are seen in virtually all transitional and many developing countries. While the former Soviet Union (FSU) as a whole has experienced difficulty in reestablishing a set of institutional norms that are upheld by both sides of the social compact—the state and the population—these problems have been particularly acute in the Caucasus.

As in the Balkans, competing claims either latent or soluble within a larger system integrating ethnic groups, redistributing resources and adjudicating between interest groups, became causes of conflict when the overarching political structure dissolved. In its absence, republics were established to valorize particular ethnic-national identities, but due to their complex geographical terrain and rarely if ever populated by a single or dominant majority group, have found themselves unable to maintain the territorial integrity of their inherited political administrative boundaries.

1 The captured state: kleptocracy and criminalization

The legitimacy of formal political institutions declined sharply in the late Soviet period as they became increasingly visibly colonized by opportunist elements of the elite. Taking advantage of *perestroika* liberalization, some segments of the elite shifted their emphasis from the perquisites attached to positions of political power to private personal enrichment via political position or political connections. While the proximate cause of the collapse of the Soviet Union was a struggle for power between two political figures, the state had already been weakened by widespread institutional atrophy. Boris Yeltsin prevailed over Mikhail Gorbachev because the former was willing to dissolve an empire in exchange for political control over its wealthy core. Throughout his presidency of the Russian Federation, Yeltsin continued to trade economic and territorial resources for political control over an increasingly weakened state. Encouraged by the Yeltsin administration's firesale approach to economic stewardship, the state institutions that controlled financial flows were 'privatized' by certain sub-elites who redirected the ownership or use of national wealth to their members, their patrons and their clients groups (Wedel 2001). The scale of the theft of public resources and the active participation of the Yeltsin administration in undermining the state itself were unprecedented (Reddaway and Glinski 2001).

These events led to the disintegration of economic cooperation within the region and the collapse of the formal economy in most of its successor states.[1] Although Russia and other energy producers have reoriented a significant share of their trade to the West, the majority of the former Soviet countries have been less successful in penetrating new external markets. The tables in Appendix III provide some indicators of the extent of the decline. Buffered by oil and gas revenues, real GDP is slightly over half of its 1989 level in Russia and Azerbaijan, but well below half in Georgia and Armenia, while real wages in all are less than half of their pre-transition level (Appendix Table 2). Real output hovers around half of its 1989 level throughout the region, with industrial gross output suffering the most extreme decline (Appendix Tables 3c and 3d). There has been a parallel collapse in government expenditures, and even more radical reductions in state expenditures on education and health care as a percentage of a much reduced GDP (Appendix Table 6). Not surprisingly, this massive disinvestment in social welfare is evident in declining life expectancy and rising maternal, infant and under-five mortality rates (Appendix Table 7).

The countries of the FSU are characterized by the social contract having been cancelled from above by segments of the elite who are no longer committed to serving the interests of the society at large nor are held in check by the authority of the state. These groups saw an opportunity for immense personal gain in the destruction of the old system of largely egalitarian redistribution and its transformation from a system in which power is concentrated in the hands of a very few to a system of concentration of wealth. Their success in taking control of the sources of national wealth without provoking popular rebellion was in part facilitated by other segments of the elite, which remained committed either to society as a whole or to a personal moral code. As public resource flows drained into private hands, these groups and individuals continued to provide services in the social sector, military, police, etc. despite a decline in funding to well below the levels necessary to maintain them. Public protest was relatively widespread but lacking both experience and effective mechanisms for exerting influence on the political processes or control over the activities of the state administration, it was rarely effective in producing real change. The rapidly deteriorating economic situation was also a strong force re-directing individual energies into pragmatic survival activities.

2 Social devolution

Corruption is a way of life. People don't believe that the state will ever provide services or enforce the law, so they don't pay taxes.[2] This broad-scale failure to serve the public interest—together with rampant corruption and increasing poverty—has delegitimized the central political institutions of the state. 'The population has responded to the cancellation of the social contract from above by withdrawing their participation from below—levels of voter participation, tax payment and expressed confidence in political

---

1 From the equivalent of US$139 billion in 1991, trade among the CIS countries had fallen to US$59 billion in 2000 (*Moscow Times*, 27 August 2001: 8).

2 David Usupashvili, Chairman Georgian Anti-Corruption Commission, cited in Lieven (2001a: 2).

institutions have plummeted.[3] At the same time, virtually all of the informal and most of the formal social institutions of the former system have retained their legitimacy. Educational, health care and social welfare institutions, despite declining levels of service, continue to enjoy broad public support and sympathy of those who work in them as reflected in both survey data and voluntary behaviour.[4] The general population has largely retained its commitment to the egalitarian and meritocratic values of the prior system and expresses strong disapproval of the current ruling elite's violation of them. While some increase in insecurity and inequality is accepted as a trade-off for freedom of expression and movement, the absence of a reliable formal institutional environment (i.e. the rule of law) is not. Despite having been negated by segments of the elite, widely held social norms which could serve as a strong foundation for democratization continue to be upheld by the majority of society. This omission is perhaps the single most serious failure of transition-from-above.[5]

The mutual rejection initiated by a self-interested political and economic elite rapidly produced a 'vicious' cycle of economic crises, declining public revenues, declining public investments, declining public services, and declining willingness on the part of the population to participate in or finance state activities (Azam and Mesnard 2001).

3 Ethnic identity or clans and networks?

Before looking for solutions, we must understand the underlying causes of conflict. Although 'grievances' are plentiful in the region and 'greed' hardly less prevalent (Collier and Hoeffler 1999, 2001) in the current round of the *Caucasian Chalk Circle*, the latter preceded the former and neither initiated the process, which was set in motion by the forces described above.[6]

In response to state failure to provide public goods or social services, the population has fallen back on informal institutions—the pre-existing family and friendship networks on which ethnic and confessional identities are based—as the most reliable forms of risk-sharing, rules and sanctions for the organization of social and economic life available

---

3 In gubernatorial elections (August 2001) in the Nizhny Novgorod and Irkutsk regions only about one-third of eligible voters participated (*Moscow Times*, 31 August 2001: 7).

4 A significant proportion of economic activity has shifted into the 'informal' or 'shadow' economy, reducing taxable formal incomes. Although demands for informal side payments abound, a less well-reported phenomenon has been observed in cases of voluntary self-taxation, which also belies the 'free-rider' problem. For example, the parents of a class of school children commit to paying a regular joint supplement to a teacher's salary, which is less than the subsistence minimum. This type of payment cannot be classified as a bribe, user fee, or privatization of service provision, but is made explicitly to compensate for state failure to adequately fund public services.

5 Among the inherited administrative structures of Russia and the Transcaucasus are Accounting Chambers (*chotnaya palata*), which conduct in-depth investigations into public expenditures (equivalent to the US General Accounting Office). These institutions have remained rigorously honest and provide clear accounting of government misappropriations, unauthorized expenditures, etc. (see UNDP's NHDR (1999) for Armenia, for example). Apparently, in the absence of any fear of sanctions from the judiciary, there has been no reason to bribe or threaten the accountants.

6 The Bertolt Brecht play is framed by a fable about a conflict over rights of control and the responsibilities of public stewardship.

(Azam 2001). The multiple overlays of these patterns of identification and security and their failure to coincide with any formal political or geographical boundaries in the Caucasus, together with the fragmentation of its elites into frequently warring clans, have played a significant, and perhaps decisive role in multiple conflicts.

Attempts to make sense of these conflicts in terms of ethnic nationalism as the principal form of political organization, as well as efforts to anchor the legitimacy of formal institutions by promoting good governance practices on the part of the current state administrations are unlikely to be successful. First, ethnic-confessional nationalism is not currently the dominant form of social political identification in the region, but narrower sub-ethnic relational identity groups, which may unite for a common purpose or may compete for resources in a set of complex interactions.[7] Second, good governance is directly contrary to the immediate interests of the vast majority of the current ruling elites. Thus, plausible solutions appear to lie either outside the regions or in the interests of non-elite segments of the population. Only pressure from one or both of these directions could possibly either shift the medium-term interests of the ruling elites or find non-rent-seeking replacements for them.

4 Regional sovereignty as an accidental state[8]

The nation states of the Trans-Caucasus and the Republics of the North Caucasus are not the products of internal opposition nor are the ethnic-national identities and territorial boundaries on which they are based. They were inherited from the Soviet Union, as were their leaders, with the exception of Armenian President Robert Kocharjan. Prior to becoming president (for life) of Azerbaijan, Heydar Aliyev was director of the Azerbaijan KGB, then First Party Secretary of Azerbaijan and finally a member of the Politburo of the Communist Party and First Deputy Prime Minister of the USSR, returning to Azerbaijan as leader of Nakhichevan.[9] Eduard Shevardnadze, followed a similar career path in the security apparatus, rising to the post of Minister of Foreign Affairs under Mikhail Gorbachev. Dzhokhar Dudayev, the charismatic leader of the first Chechen war (which, in contrast to the current bandit warfare did constitute a

---

7 Religious confession persisted in the region, with some exceptions, as a largely cultural identity. Since the collapse of the Soviet Union, the Russian State has returned property and other resources to the Orthodox Church (including tax-free alcohol and tobacco sales) and supported its efforts to reestablish itself as a social institution. Other religious organizations have moved significant amounts of funding and missionaries into the region. Shamil Basayev, one of the better known Chechen 'Wahhabite' warrior leaders, now believed to be one of the organizers of the Moscow Theater hostage siege (Shermatova 2002), cast considerable doubt on the depth of his Islamic fundamentalism in earlier media interviews in which he noted that his wife had never worn a head scarf, nor had he been an active believer.

8 In a number of these 'titular' republics the official ethnic group was in the minority and although their proportions grew, especially between 1979-89 as Russians and Armenians in particular moved away, in several they remain the distinct minority, for example in Abkhazia and Adigeya.

9 Aliyev's constituency in Nakhichevan and Kocharyan's origins in Nagorno-Karabakh are another factor in the warring parties' intractability (see Appendix I: Caucasus conflicts). While the two leaders have on several occasions been willing to conclude an agreement over the disputed territories, neither has been ready to defy their core constituents' ultimate refusal to accept a compromise.

popular nationalist war of secession), was a Soviet Air Force colonel. Ruslan Aushev, former President of Ingushetia was a Russian Army general.

When the Soviet Union collapsed, these apparatchiks and military leaders returned to their home power bases and began establishing control over territorial resources. Ethnic-national and confessional identities were mobilized ex post facto to substitute for the previous ideology. The returnees, however, found entrenched provincial elites, who were equally willing to mobilize ethnic-nationalist or older, deeper, and more particularist identities in the competition for control over shrinking resources. Rather than society being united in opposition or transformed in the struggle for national sovereignty, the Soviet legacy of both economic structures and political personnel induced a repetition of re-division of control by the elite over political power and resource flows. Without either an external or internal guardian of the rule of law, however, the logic of Soviet territorial units became in many cases unsustainable. The ensuing 'hostile divorces' frequently involved armed conflict and with it, the destruction of transit and trade links throughout the region. Within territorial boundaries, stable or otherwise, captured formal institutions were replaced by informal family and clan ties (with territorial sub-units often controlled by ethnic-confessional clan networks or coalitions), the only instrument available to ensure socially enforceable commitments, safety and the sharing of resources. Where formal inter- and intra-regional trade and transit have ceased, informal or criminal cooperation has often taken over.

While all of the territorial administrations of the Caucasus have accommodated ethnic-clan interests, their success has varied. Daghestan, with a very large number of different ethnic groups, has preserved a system for the division of resources among them. Thus far, despite an armed Chechen incursion into several Daghestani villages and their subsequent destruction by Russian troops, which marked the beginning of the second Chechen war, inter-ethnic cooperation has been maintained. In contrast, in the Armenia-Azerbaijan conflict or the first Chechen war against Russia, ethnic-confessional identities were effectively mobilized as a unifying factor against an identifiable enemy 'other', but ethnic-nationalist coalitions quickly disintegrated into clan-based interest groups in the post-conflict phase. Still, Armenia and Azerbaijan have survived as states, despite armed conflict, large refugee flows and de facto border changes. The violent secession of Abkhazia and South Ossetia, followed by the de facto withdrawal of Adjaria and the assertion of clan control of other areas of the country suggest that Georgia has effectively failed as a unified state (Lieven 2001a; Cohen 2001).

5 The role of the shadow economy in the Caucasus

In the absence of an internally coherent state administration and mechanisms for some form of public oversight and control, the boundary between the informal and the criminal has become extremely vague. Economic activity, especially with a longer-term investment horizon such as manufacturing or natural resource extraction, cannot exist in an institutional vacuum. As formal institutions falter and formal employment declines, previously existing informal institutions and informal economic activities, particularly short-term trading operations, evolve and expand to fill the gap. Where the state does not establish and reliably enforce the rules of the game, informal institutions eventually take over, and corruption and crime flourish. For example, the lack of reliable legal protection of property and contract enforcement forces entrepreneurs to take practical steps to conduct business within this environment, reinforcing a vicious cycle. 'There are only two ways to survive here. To become financially strong yourself, or to place

yourself under the protection of someone who is stronger. But there is no way to be a citizen, there is only a kind of feudalism, in politics, government, and business'.[10]

A first obvious response to non-functional formal institutions is to restrict business relationships to an already established circle of relatives or members of the same ethnic or confessional group, leading to the development of 'kinship clan' networks. Second, in the absence of any effective and transparent control over the state, its revenues become a target for capture and official positions become avenues to rent seeking. The investment of time, money and effort into establishing 'friendly relations' with civil servants who regulate economic activities becomes an unavoidable cost of doing business. Finally, when the police and judicial systems fail, organized criminal groups move into the vacuum. Private arrangements ranging from the hiring of off-duty policemen and private guard services to demands for regular 'protection' payments, enforcement premiums and extortion are forms of 'tax' levied by organized crime. Warfare, especially unstructured, sporadic armed conflict involving irregular and guerrilla units opens a broad new range of opportunities for criminal groups, and the boundaries between guerrilla and criminal activities become extremely fluid.

In a speech in October 2000, Vladimir Papava, former Georgian Minister of Economics, declared, 'Georgia has survived all these years thanks to the so-called *shadow economy*' (Broladze 2000).[11] While any estimate of the size of the informal economy is necessarily problematic, by whatever measure a significant proportion of regional economic activity takes place in the informal, illegal or criminal sphere.[12] The most conservative estimates indicate that at least one-third of all economic activity in Armenia, Azerbaijan, Georgia and Russia is in the shadow sphere, other expert guesses range up to 50 per cent or even 70 per cent (Appelbaum 2001c).

Conflict, which can grow out of struggles for the control of illegal as well as legal resource flows, provides a market (e.g. illegal arms trading), an opportunity (drug and alcohol smuggling, kidnapping and extortion) or a justification (criminal activities abroad to finance patriotic wars at home) for shadow economic activity. The role of criminal groups and 'shady' entrepreneurs in the Caucasian conflict should not be underestimated, and under certain conditions can even be regarded as positive. While Caucasian criminal groups are organized along exclusively ethnic lines, there are no purely national shadow economies. These groups are engaged in cross-border activities and always cooperate with partners in neighbouring states. In an institutional vacuum in which the previous economic ties between enterprises or entire territories have been suddenly disrupted, shadow links can provide an alternate path for transactions to continue. The critical issue, however, is whether a temporary, emergency situation can be allowed to establish itself as the norm.

---

10 David Usupashvili (cited in Lieven 2001a: 2).

11 According to Archvadze, first vice-president of the State Committee for Statistics, 'the shadow economy, as well as humanitarian aid, have saved Georgia in 1992-94, a period characterized by the severest crisis, lack of money, unemployment, absolute production cut-off'. Available at: www://isn.rsuh.ru/imemo/periodic/bulletin/fulltext/ft_zak0398r.htm.

12 A distinction is often made between informal activities which are by nature legal, but unregistered, illegal activities, such as tax evasion, deliberate bankruptcy to avoid payment of debts, etc. and criminal activities such as extortion, kidnapping and drug smuggling.

Shadow activities in the Caucasus include illegal entrepreneurship, racketeering, money laundering, smuggling, criminal privatization, intentional bankruptcy, fraudulent securities, counterfeiting, unfair competition, illegal trade, tax crimes, etc. The majority of companies operating legally engage in large-scale tax evasion through various schemes, including money transfers abroad with fictitious contracts, cash conversion via counterfeit contracts, etc. 'Violation of the administrative code qualifies as corruption, this requires the infringed clause to be precise and unambiguous and the employee infringing it has to receive a profit for himself, his family, friends, tribe, party or another group connected with him' (Tanzi 1999). By this definition, bribery and corruption are endemic.

'The modern sectors of the economy have decayed or collapsed. A large proportion—in several countries, a large majority—of the working population has been pushed out of the formal economy into the informal, grey or black economies. Partly as a consequence, the state's capacity to raise revenue from the economy has declined drastically. Modern public services have decayed or collapsed altogether, from what was often a very high level by the standards of the developing world; state servants, instead of being paid regularly by the state, have taken to preying on the population; and states have lost the fundamental characteristic of a modern state: the 'effective control of their territory and a monopoly of armed force' (Lieven 2001b). The author sees the 'power and strength of the extended family' as the vital stabilizing factor, but notes that this form of social protection has extremely negative effects on the state and modernization. A major drawback of relying on family provision is that it tends to concentrate risk among those least able to cope with it, limiting their access to health care and education and making it increasingly difficult for members of the family group to escape poverty. In addition, family provision tends to reinforce traditional gender hierarchies within the family and to increase inequality along ethnic or confessional lines. Unless supported by state redistribution, private provision can result in the social exclusion of individuals, families, and population sub-groups.

According to (Lieven 2001b), this

> also mean[s] that anyone with access to state funds will feel morally obliged to share them among his relatives, and give those relatives precedence in gaining state jobs. ... This clash of official state ethic and social ethic … is characteristic of much of the 'developing' world [in which] official laws and rules (to which everyone of course publicly pays lip service) co-exist with – and are often subservient to – a whole range of other 'informal' laws centred on family, ethnicity, criminal group or personal allegiance.

While the concept of corruption may be somewhat 'fuzzy' in an environment in which informal ties play a significant role, traditional aid to friends and relatives can still be distinguished from graft and fraud. The structure of an organized criminal group may reflect in practice the kinship clan structure and rely on its traditions and rules, but kidnapping and extortion remain crimes.

6 Poverty and conflict

The link between poverty and conflict is obviously not one of simple or direct causality. Other parts of the Central and Eastern European region, where the dimensions of poverty are similar, have experienced equally severe decline without succumbing to armed struggle. Rather, poverty appears to be an enabling environment, which can become volatile when combined with other factors, such as the presence of clear ethnic and confessional identities in a geographically inter-mixed settlement patterns within which separate groups remain distinct, inequality, contested control over resources, and failure to achieve or maintain a system for the distribution of resources and adjudication of disputes.

Trend dynamics and levels of uncertainty play a central role. A worsening trend, such as increasing inequality, broadening and/or deepening poverty or decaying public services, appears more likely to trigger conflict than widespread and deep poverty which shows gradual improvement or high, but stable inequality. Finally, as demonstrated in many regions, an authoritarian and/or corrupt regime, can maintain itself in power in the face of persistent opposition. Clear, well-enforced rules of the game, even if they are transparently unfair, provide a stable framework within which the majority of the population as well as an organized opposition appear to focus on how to survive and succeed. The uncertainty created by an arbitrary or chaotic state, however, appears to reduce the reluctance of its opposition to risk stepping over the boundary to open conflict and violence.

An unpredictable or incompetent regime combined with a worsening trend, would be most likely to produce repeated or insoluble conflict, a hypothesis borne out by the pattern of conflict in the Caucasus. We have chosen Georgia as the case study in this article because it illustrates this worst-case scenario. Although all of the countries in the region continue to suffer from most or all of the factors described above, including rampant corruption, they have re-stabilized after initial conflict. Thus far, Russia's conflict with Chechnya has not spread to other equally poor or even poorer parts of the North Caucasus, despite repeated attempts by Chechen groups to open other fronts. Armenia and Azerbaijan, despite foreign intervention, widespread corruption and, in the Azeri case, highly authoritarian government, have maintained a stable truce since their initial war of ethnic secession. Although they remain locked in a political stalemate and their economies continue to suffer from very high levels of poverty and inequality, they have neither returned to conflict, nor have their minority populations rebelled or seceded. In contrast, George continues to experience repeated bouts of conflict and the continuing potential for its further spread.

Reviewing the experience of the Caucasus produces several observations: In clan-based systems, the primary methods of resource transfer are inter-marriage or warfare. In much of the FSU, the lack of independent formal institutions capable of guaranteeing rights of ownership and control left few options for the resolution of ownership disputes, as illustrated by the extremely high murder rates during the process of consolidation of Russia's financial-industrial groups and visible most recently in the aluminium and coal industries. When control of resources or territory is legitimized by ethnic or clan identity, the only way to expand the resource share is to take control of another clan's share. In a stagnant or depressed economy, the temptation to resort to violent means of expansion is facilitated by the availability of a mass of alienated young men, whose identify and allegiance are also clan-based.

7 Conflict as a resource

In Russia and Azerbaijan, growth remains heavily concentrated in the energy sector. Oil and gas production in the rest of the Caucasus does not exceed local consumption. Energy sector profits are easily captured by a very small group and have little effect on the wider economy. Despite the post-1998 devaluation and default bounce in Russia, industrial production and employment in the Caucasus remain severely depressed at half of their former levels or less, producing mass unemployment as well as widespread poverty in countries with comparatively young populations (see Tables 2-8, Appendix III).

Under these conditions, the predominant forms of and motives for conflict can mutate. The first phase may be an effort to escape from an unresponsive, unfair or even hostile larger administrative unit in which political self-determination may be at least as important a goal as control over economic resources (e.g. Abkhaz secession, first Chechen War, Nagorno-Karabakh). As these conflicts become entrenched, however, a tendency to shift to narrower political and economic interests can be observed, as political power and with it control of economic resources can become conflict-dependent. Since seceding from Azerbaijan, Nagorno-Karabakh's leadership has asserted a role in Armenian politics and interests not necessarily compatible with those of the nation as a whole.[13]

The existence of a loose coalition of competing interest groups, as seen for example in Afghanistan, Chechnya, and both sides of the Israeli-Palestinian conflict, vastly complicate the process of reaching a settlement. In addition to conflict over the control of resources, conflict itself can become a resource. Geopolitical interest in either stabilizing or de-stabilizing the region, for example, has drawn resource flows as disparate as Islamic fundamentalist funding for Chechen guerrilla groups and international financial institutional support to the government of Georgia. National diasporas in the West (primarily Armenian), as well as more recent emigrants to Russia and other CIS countries, contribute to 'defending the homeland'. In addition, as noted above, conflict provides a favourable environment for organized criminal groups and for irregular armed groups, which engage in both military and criminal activities (kidnapping, drug and arms trading, and money laundering are practised not only by Chechen groups, but also by others throughout the region). Finally, economic breakdown and the collapse of formal employment release large numbers of young men for whom conflict becomes a form of economic activity.

A return to conflict can be avoided only if a stable and predictable system of rules can be established. Reconstruction will be successful if a gradual improvement can be reliably anticipated, even if real reductions of poverty and inequality will only be experienced by the next generation. Once mobilized, ethnic grievances create an enormous barrier, however, grievances should be possible to overcome if the rewards of cooperation are great enough. Finally, agreements, including peace agreements, must be enforceable and the sanctions against violence must be effective to convince the

---

13 On 27 October 1999, Vazgen Sargisian, the Armenian Prime Minister, Karen Demirchian, Speaker of Parliament, and six MPs were assassinated when armed men from Nagorno-Karabakh attacked the Armenian parliament. Although the men were arrested and prosecuted, the attack was never clearly explained. Strobe Talbot, former US diplomat involved in the negotiations between Armenia and Azerbaijan, who had left Yerevan a few hours prior to the attack, stated that the parties had been 'very, very close to peace'. The shootings derailed Nagorno-Karabakh negotiations (Aliev 2001).

members of all social groups that they will benefit and that the rewards of cooperation are reliably greater than those of conflict.

In the absence of either simple territorial solutions or clear economic incentives to peace, stalemates or low-level conflict may be of advantage to most or all of the contesting parties. External resource flows can continue, captured internal resource flows do not have to be shared, state failures can be excused as resulting from the conflict, and the difficult tasks of disbanding armed groups and reviving the economy can be postponed. The majority of conflicts are now low-level stalemates. The most important first step toward conflict resolution in the region is to identify methods of discouraging continued conflict and rewarding cooperative behaviour. This would require commitment on the part of external actors to stop rewarding conflict and begin funding cooperative activity. A further commitment to reducing uncertainty and extending the time horizon of elite calculations would reduce the centrality of asset stripping and conflict as a resource and make mutual cooperation financially more rewarding to the conflicting parties.

The resources of the Caucasus are not concentrated or easily transportable (such as gold or diamonds) and thus cannot be easily captured by any party (Addison and Murshed 2002; Auty 1998). Oil and gas, the highest value resources that do exist, require extensive transport infrastructure, highlighting the fact that the most valuable regional resource is transit itself: *access to markets is a non-substitutable intermediate input*. Although the case of the Baku-Ceyhan pipeline illustrates that the rewards of oil and gas transit can be easily captured by a narrow elite, this capture was enabled by geopolitical players and remains vulnerable to disruption by disgruntled competitors.

The geographical location of the Caucasus is a bridge between Europe and Asia as well as between Russia and the Middle East. The explosive growth of smuggling throughout the region relies on active cooperation between ostensible enemies, to their mutual economic benefit. The key to the economic revitalization of the formal economy is regional economic cooperation to facilitate trade and increased investment to develop other sources of employment. Multilateral agreements are required, because no pair of countries can resolve the transit problem without the cooperation of their neighbours, and are also to be preferred to bilateral solutions as a means of increasing the costs of violation to any individual party.

Current pipeline politics should be seen in this light. The oil and gas sector, as abundantly shown elsewhere (Auty 2001), is perhaps the least likely to prove a positive factor in promoting stability and a return to growth in the absence of a functioning social contract and regional cooperation. A further step in recovery requires a shift away from natural resource extraction and petty trade toward food processing and manufacturing, which would also serve to draw more of the population back into the formal labour force. Activities must be identified which reward cooperative behaviour on the part of two or more ethno-confessional or other competing groups, especially at the sub-elite level, to reinforce non-conflict behaviour and reduce the ability of elite to mobilize ethnic-based grievances. A significant additional problem is posed by the negotiating parties' lack of credibility in commitments to one another and a lack of trust in the authorities on the part of the population (Addison and Murshed 2001; Azam 2001). Here, the experience of other regions with 'commitment technologies' could be of central importance.

Resolution of the conflicts in the Caucasus can be compared to a very complex puzzle. Attempts to solve individual parts of the puzzle in isolation from the rest, to separate the North Caucasus from the Trans-Caucasus, or cut a deal between Georgia and Azerbaijan, while excluding Armenia, will ultimately fail. Any solution will depend on addressing the region as a whole.

References

Addison, T. and S. M. Murshed (2001). 'From Conflict to Reconstruction: Reviving the Social Contract'. Discussion Paper No. 2001/48. Helsinki: UNU/WIDER.

Addison, T. and S. M. Murshed (2002). 'On the Economic Causes of Contemporary Civil Wars', in S. M. Murshed (ed.), *Issues in Positive Political Economy*. London: Routledge, 22-38.

Aliev, K. (2001). 'Minsk Group Seeks to Reinvigorate Karabakh Talks'. EURASIANET NEWS, 21 June.

Appelbaum, A. (2001a). 'Post-Soviet Experience Shows There Are No Easy Economic Solutions for Caucasus, Central Asia', 20 August. Available at: www.eurasianet.org.

Appelbaum, A. (2001b). 'Battle Lines Forming in Struggle over Corruption in Caspian Basin', 20 July. Available at: www.eurasianet.org.

Appelbaum, A. (2001c). 'Mixed Progress Lurking Problems: A Roundup of Regional GDP Results', 28 August. Availalble at: www.eurasianet.org and www.part.ru/newsarchive/gilbo/.

Auty, R. M. (1998). 'Resource Abundance and Economic Development: Improving the Performance of Resource-Rich Countries'. Research for Action 44. Helsinki: UNU/WIDER.

Auty, R. M. (ed.) (2001). *Resource Abundance and Economic Development*. Oxford: Oxford University Press.

Azam, J.-P. (2001). 'The Redistributive State and Conflicts in Africa'. *Journal of Peace Research*, 38 (4): 429-44.

Azam, J.-P. and A. Mesnard (2001). 'Civil War and the Social Contract'. Paper presented at the Royal Economic Society Annual Conference, 9-11 April.

Bit-Suleiman, D. (2001). 'Georgia's anti-corruption Campaign Enters Crucial Phase'. 11 April. Available at: www.eurasianet.org.

Broladze, N. (2000). 'Balcerowicz in the Role of Ariadne'. *Nezavisimaya Gazeta*, 11 October.

Cohen, A. (2001). 'Heritage Foundation', 11 September. Available at: www.eurasianet.org.

Collier, P. and A. Hoeffler (1999). 'Justice Seeking and Loot Seeking in Civil Wars'. *Oxford Economic Papers,* 50 (October): 563-73.

Collier, P. and A. Hoeffler (2001). 'Greed and Grievance in Civil War' (4 January). Washington, DC: World Bank. Manuscript.

Dixon, R. (2001). 'It's not Easy being a Wealthy Shevardnadze'. *The Moscow Times*, 11 October, reprinted from the *Los Angeles Times*, 1-2.

Emerson, M., N. Tocci and E. Prokhorovna (2001) 'A Stability Pact for the Caucasus in Theory and Practice—a Supplementary Note'. Paper presented at Conference on the Caucasus in Yerevan, 23-26 September.

Goskomstat (2000). 'Obshchie itogi migratsii nacelenija' (General Report on Population Migration). Moscow: Goskomstat.

Goskomstat (2001). Komplexnaya Otsenka socialno-ekonomicheskogo razvitiya regionov Rossiskoi Federatsii v 1998-2000. Prilozhenie 4 (Complex Assessment of Social-Economic Development of the Regions of the Russian Federation). Moscow: Goskomstat.

Goskomstat (various years). 'Handbook of Russian Regions'. Moscow: Goskomstat.

IMF (2002). *World Economic Outlook,* 2002. Washington, DC: IMF.

IWPR (International War and Peace Reporting) (2002). Caucasus Reporting Service No. 148, Part II: 1.

Kosikov, I. G. and L. S. Kosikova (1999). 'Severnii Kavkaz: Sozial'no-Ekonomicheskii Spravochnik'. Moscow: Center for the Study and Management of Conflict. Institute of Ethnology and Anthropology, Russian Academy of Sciences.

Lieven, A. (2001a). 'Georgia: A Failing State?'. Washington, DC: Carnegie Endowment for International Peace. Available at: www.eurasianet.org.

Lieven, A. (2001b). 'The Caucasus and Central Asia Ten Years after the Soviet Collapse'. 21 August. Available at: www.eurasianet.org.

Moscow Times (2001). 27 August: 8, and 31 August: 7.

Reddaway, P. and D. Glinski (2001). *The Tragedy of Russian Reforms: Market Bolshevism against Democracy*. Washington, DC: US Institute of Peace Press.

Russian Ministry of Energy (2000). 'Infotex Monthly Bulletin No. 2'. Mintopenergo. Moscow: Ministry of Energy. In Russian.

Russian State Committee for Statistics (1992-2000). 'Narodnoe Khozyaistvo Rossisskoy Federatsii' (National Economy of the Russian Federation). Moscow: Russian State Committee for Statistics.

Severnii Kavkaz (2000). 'Chast' Shestaya: Ekonomika I Sotsialni Sfera'. September. Available at: www.kavkaz.ru.

Shermatova, S. (2002). 'Moscow Tragedy: More Questions than Answers'. International War and Peace Reporting. Caucasus Reporting Service No. 153, 1-4.

Socor, V. (2001). The World Bank's Bad Medicine for Gas. *Wall Street Journal Europe*, 7-9 September: 9.

Stability Pact for the Caucasus (2000). 'Working Document No. 145, Annex B'. May. Brussels: Center for Economic and Policy Studies.

Stern, D. (2001a). 'Azerbaijan and Georgia Seek to Unblock Gas Line'. *Financial Times*, 11 September: 8.

Stern, D. (2001b). 'Azerbaijan Signs Gas Pipeline Deal with Georgia'. *Financial Times*, 1 October: 8.

Suny, R. G. (1993). *The Revenge of the Past. Nationalism, Revolution and the Collapse of the Soviet Union*. Stanford: Stanford University Press.

Tanzi, V. (1999). 'Corruption, Governmental Activities and Markets'. WP/94/99(R). Washington, DC: International Monetary Fund.

Timofeev, L. (2000). 'Corruption Has Saved Russia'. *Moscow Times,* 11 November.

TransMONEE database (2000 and 2002). Florence: UNICEF, Innocenti Research Center.

UNDP (various years). Human Development Report.

UNDP (various years). National Human Development (NHDR). Reports for Armenia 1999; Azerbaijan 1999 and 2002; Georgia 1999 and 2001-2002; Russia 1999 and 2001.

Wedel, J. (2001). *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*. New York: Palgrave.

Zubov, A. (2000). 'Politicheskoe Budushchyee Kavkaza: Oput Retrospektivnoe-Sravnitel'nogo Analiza'. Institute of Ethnology and Anthropology, Russian Academy of Sciences. Unpublished manuscript.

Appendix I: Corruption: the case of Georgia

> Corruption has long since become the norm in economic and social behaviour. This is neither bad nor good. It is an historically established norm (Timofeev 2000).

Georgia is a case in which geopolitical interests and the 'social ethic' intersect. This leads to conflicts, which in turn provide a fertile environment for shadow activity. The oil and gas industry, the most profitable sector of the formal economy, provides an example of how both serve the interests of the elite, at great cost to the vast majority of the population.

After the Russian defeat in the first Chechen war, the US expanded its activities in the Caucasus, supporting Georgia and Azerbaijan against Russia. Georgia was instrumental in establishing the US-sponsored GUUAM group as a counter to the CIS, participated in NATO's Partnership for Peace programme and declared its desire to join NATO. Georgia also strongly endorsed the US-backed Baku-Ceyhan pipeline project, which is designed to deny Caspian oil transit to both Russia and Iran, at significant added cost of construction. Georgia has become, on a per capita basis, the third largest recipient of US aid, and currently has World Bank projects worth over US$100 million, as well as assistance from other international donors (Socor 2001: 9). As Lieven (2001a) notes, 'Unfortunately, the greater part of this aid appears to have been stolen or otherwise squandered by the Georgian ruling elites'.

Georgia has three major business groups active in this sector, all associated with President Eduard Shevardnadze. The state oil company, Gruznefteprodukty, is run by a political associate of the president, who 'routinely conceals information about oil profits'.[14] The Inaco Company, a large petrol importer, is directed by Giorgy Akhvlediana, brother of Shevardnadze's daughter-in-law. Inaco formed a joint-stock company with Gruznefteprodukty, after which the joint board of directors transferred the shares held by the state-owned company to Inaco, leaving Gruznefteprodukty nearly bankrupt. Iveria Plus, the largest petrol transporter in Georgia, is owned by Nugzar Shevardnadze, nephew of Eduard, who has been accused of defrauding a Greek oil firm of US$5 million (using a false intermediary), smuggling and tax evasion. Investigations did not result in charges. According to Usuprashvili, head of the Georgian Coordinating Council to Combat Corruption, 'You can't be doing business in oil and gasoline in Georgia and not be to at least some extent involved in smuggling or selling smuggled gasoline' (Dixon 2001: 1-2).

A review of import documentation showed that only the US Embassy in Georgia, which imported gasoline from Azerbaijan for its own needs, had paid customs duties on the real price of US$260 per ton. In 1999 the customs service contributed US$277 million to the state budget. Experts estimate that collusion between smugglers and customs inspectors cost the budget double that amount annually, or more than the annual state budget of US$500 million.[15] Georgia's tax collection rate of 15 per cent of GDP is one of the lowest in the region and its public services correspondingly under-funded, with catastrophic effects on health and education (UNDP's NHDR for Georgia 1999: 48-9).

---

14 Will James, PA Consulting cited in Appelbaum (2001b).

15 From: www.geocities.com/geo_corruption/Bullet'artic2.htm.

Western disillusionment with Shevardnadze after his massively rigged April 2000 re-election, led to increasing pressure to confront endemic corruption. In March 2001, Shevardnadze signed a decree forming a 12-member Coordinating Council to Combat Corruption to carry out the 'task of eradicating this horrible disease from our society' and the Minister of State Property Management was dismissed, not charged with corruption, but for 'inability to prevent others from indulging in illegal activity connected with state assets' (Bit-Suleiman 2001).

Since then Shevardnadze has publicized various measures to combat corruption with funding from USAID and other Western aid organization. Little, however, has changed. Reform efforts, such as a proposed law for the confiscation of illegally gained property, has failed to be enacted. The leaders of the reform faction of the Citizens Union of Georgia of which Shevardnadze was the chair, including the Minister of Justice and the Minister of Finance, have resigned in protest and gone into opposition after Shevardnadze abandoned them in favour of friends and family previously exposed as corrupt.

In August 2001, a letter from Judy O'Connor, the World Bank country director for Georgia, to Mr Shevardnadze was leaked to the press (Stern 2001a: 8). Ms O'Connor wrote objecting to an agreement setting the transit fee through the Georgian section of the proposed Baku-Ceyhan pipeline at US$2.00 per 1,000 bcm, noting that comparable world market rates were a minimum of US$5.00 per 1,000 bcm, rising to US$10 over the 20 year life of the contract. Ms O'Connor noted that the lower tariff would reduce revenues to the Georgian budget (Socor 2001).

US Assistant Secretary of State, Elizabeth Jones, immediately intervened, stating that:

> The tariff is, in a certain sense, a side issue, and it is unfortunate that the World Bank … completely and totally missed the point. Georgia is a critical element in the energy transportation route from the Caspian Sea/Azerbaijan to Turkey and Europe. The strategic position of Georgia is priceless. The World Bank cannot compare Georgia to any other country in terms of the tariff. It is a completely different situation (Socor 2001).[16]

Ilham Aliev, vice-president of the Azerbaijani State Oil Company (SOCAR) and son of Azeri President Haidar Aliev, (and his designated successor as president) also expressed his displeasure with the World Bank stating, 'it should not interfere in this sort of thing' (Socor 2001).

In September 2001, Azerbaijan and Georgia signed an agreement on the transit, transport and sale of natural gas for planned pipeline with a maximum transit tariff of US$5 per 1,000 bcm of gas over 20 years (Stern 2001b: 8). In September 2002, an official ceremony in Baku marked the beginning of construction (IWPR).

In Azerbaijan, the clan state has been more successful in preserving its territorial integrity than in Georgia, but no more dedicated to serving its citizens. Although state

---

16 Although one might think that a 'priceless' strategic position would result in a higher price, this was not Ms Jones' intended meaning.

oil funds designed to bankroll social projects have experienced difficulties elsewhere, the IMF pledged US$100 million into Azerbaijan's oil fund in July 2001 (Appelbaum 2001b). A month later, the Azerbaijani government announced that its oil fund would devote US$3.40 per month to feeding the over 500,000 persons displaced in the war with Armenia (Appelbaum 2001a: 3).

Appendix II: Caucasus conflicts

Armenia—Azerbaijan: Nagorno-Karabakh, Nakhichevan and the Lezghins

Nagorno-Karabakh autonomous region

Armenian ethnic majority pocket in southwestern Azerbaijan that is entirely surrounded by Azeri territory. In addition, Nakhichevan autonomous republic, bordered by Armenia, Turkey and Iran, is an Azeri ethnic majority province and administratively part of Azerbaijan but physically separated from it by Armenia. By 1989, virtually entire ethnic Armenian population had left the enclave.

Background: Centuries of mixed settlement patterns and population movements. In 1850, 80 per cent of population within the current boundaries of Armenia were Azeri; in 1900, the majority of the population of Baku was Armenian and Russian (Suny 1993; Zubov 2000). Bloody clashes and Azeri mob attacks on Armenians and Jews in Baku in 1905 and 1918. Late-Soviet riots in Sumgait in 1988, in which a number of Armenians were injured and several killed by Azeri mobs, produced a first wave of Armenian refugees to Armenia. Armenians in Nagorno Karabakh formally requested transfer of the region to Armenia in 1988, which Moscow rejected. In 1989, Armenia called for reunification with Nagorno-Karabakh. After a short period of direct rule from Moscow, Nagorno-Karabakh voted for full independence in January 1992 (Armenian ethnic population constituted 75 per cent). In response, Azerbaijan abrogated Nagorno-Karabakh's autonomous status, which triggered open warfare in 1992-93. Nagorno-Karabakh forces, supported by Armenia, took control of seven adjacent Azeri districts (10 per cent of Azerbaijani territory) including those districts separating it from Armenia. Since 1994, Nagorno-Karabakh has functioned as an unrecognized state with its own president and a federated part of Armenia (Emerson *et al.* 2000).

Current situation: Truce has held since 1994. Armenia currently holds approximately 10 per cent of Azerbaijan's territory. Azerbaijan has received 250,000 ethnic Azeri refugees from Armenia and 576,000 displaced persons from occupied territories as well as 50,000 Meskhetian Turks who fled ethnic conflict in Uzbekistan. Armenia received 380,000 ethnic Armenians primarily from Azerbaijan, as well as Georgia. Refugee groups remain poorly integrated.[17] The 1999 peace negotiations ended with the murder of the Speaker of the Armenian Parliament (Karen Demirchian) and several deputies in

---

17 'The refugees inability to speak the mother tongue often complicates the integration process. ... The successful integration of the refugees was also hindered by the fact that urban residents overwhelmingly outnumbered rural residents among those who moved to Armenia from Azerbaijan. The Armenian authorities proposed two options to these refugees: a hostel in Yerevan or a private house in a rural area. However, the latter implied a loss of any opportunities for vocational employment ... by choosing to stay in town, the refugee for many years was doomed to live in a hostel and to hold a menial job due to severe unemployment. The final choice and decision for many refugees ... was emigration to Russia and Western countries' (UNDP's NHRD for Armenia 1999: 28, 29, 44-5).

'Azerbaijan's IDP's and refugees are entitled to free housing and utilities ... The economic crisis and the Government's limited revenue-raising capacity, however have made it impossible to fulfill this commitment ... The majority of the displaced have inadequate shelter, poor access to clean water and sanitary services and severely limited supplies of energy' (UNDP's NHDR for Azerbaijan 1999: 48-9).

a terrorist attack. The 2001 negotiations, reported close to resolution, have again ceased. Armenia remains blockaded by Azerbaijan to the east and Turkey to the west.

The Lezghins

A distinct linguistic and ethnic group of approximately 400,000 (1989 census) which straddles the border between northeastern Azerbaijan and the Russian Federation Republic of Daghestan. Since the collapse of the Soviet Union and the independence of Azerbaijan, the Lezghins have organized politically to protest discrimination by the Baku government, objecting to their physical separation by the new border and requesting independent status. In 1993, Lezghin demonstrations led to violent clashes with the Azeri police. Already at war with Armenia, the Azeri government agreed to cooperate with Daghestan on Lezghin issues and reached an agreement on an informal border regime with Daghestan and Russia.

Economic situation: In 1999 Armenian GDP was 43.4 per cent of its 1989 level (see Appendix Table 2). In addition to the costs of economic transition, war, a major earthquake and the 1998 Russian economic crisis, the Turkish and Azerbaijani blockades have put pressure on Armenia's only accessible neighbours, Georgia and Iran. Georgia has taken advantage of the situation by further increasing transport charges on Armenian goods shipped through its territory. Armenia has received support from several international donors supplementing that of the Armenian Diaspora. Re-established trade with Russia and increased trade with the Middle East created trade deficits, resulting in large negative current account balances (25.5 per cent of GDP in 1998). Investment levels remain low and corruption and shadow economic activity are major problems.

Azerbaijan's 1999 GDP was 51.2 per cent of its 1989 level, from a low point of 42 per cent in 1994/5 (see Appendix Table 2). An IBRD/IMF stabilization and reform programme initiated in 1995 brought inflation and budget deficits under control, however the country ran a 33 per cent of GDP current account deficit in 1998, financed by FDI flows of approximately US$1 billion, primarily into the expanding oil and gas sector. Azerbaijan has also received significant international aid, totalling US$369 million between 1992 and 1999 (Stability Pact 2000). Despite Azerbaijan's current oil incomes and strong foreign aid and investment record, general government expenditures are extremely low and public services minimal. Real wages are significantly lower in comparison to 1989 than in Armenia or Georgia, inequality has risen rapidly, and a large proportion of the population lives in severe poverty. Malnutrition and anaemia are common in children, especially among refugees and displaced persons. Transparency International lists Azerbaijan as among the most corrupt countries in the world.

Georgia—Abkhazia, Adjaria, Javakheti, South Ossetia and the Pankisi Gorge

Background: Abkhazia—Georgian and Abkhaz nationalities both have old, well-established ethnic identities, cultures and religions (Eastern Orthodox and Muslim, respectively). During the Soviet period Abkhazia, the northern coastal zone including the port of Sukhumi, was an autonomous republic within the Georgian republic. The Abkhaz leadership, prior to the dissolution of the USSR, made several attempts to be reassigned from Georgian to Russian administration. The population of Abkhazia in the last Soviet census of 1989 was 18 per cent Abkhaz, 45 per cent Georgian (Stability Pact 2000), the remainder being Russian and other North Caucasus ethnic groups.

The April 1989 clash between Soviet troops and a Georgian mob Abkhaz delegates walking out of the parliament and declaring independence. Efforts of the Zviad Gamsakhurdia government to maintain territorial integrity led to open warfare in 1992 in Abkhazia and South Ossetia between Georgian troops and the Confederation of the Peoples of the Caucasus, led by V. Ardzinba, which received support from Russian troops stationed in Abkhazia. After Georgian troops were defeated, between 250,000 and 300,000 Georgian ethnic refugees fled the region.

Current situation: A UN observer mission was deployed in 1993 to monitor a ceasefire, although there are occasional armed clashes. A Russian peacekeeping force is stationed in Abkhazia, mostly patrolling the Gali region, the population of which was 90 per cent Georgian before the war. Despite an agreement on non-use of force signed by Shevardnadze and Ardzinba in 1997 under UN auspices, Georgian paramilitary groups, tolerated by the Georgian government, are active in Gali and neighbouring regions. After protracted unsuccessful negotiations on future status, Abkhazia held a referendum on 3 October 1999 (contested because much of the pre-war population did not participate), and subsequently formally declared independence. Abkhazia is not recognized by any state and is officially under blockade by both Russia and Georgia.

In August 2001, Abkhazia withdrew from UN-sponsored peace talks after two terrorist attacks were blamed on Georgian guerrilla groups. In late August a concentration of several hundred Chechens guerrillas and Georgian paramilitaries was detected near the Abkhaz border. Their subsequent movement into the Khodori gorge, which runs between Abkhaz and Georgian territory, was denied by Georgian officials until a helicopter carrying UN observers was shot down on 8 October, killing nine. Two days later 14 villagers were killed in a guerrilla raid, provoking active combat. Georgia accused Russia of violating its airspace and demanded that Russian peacekeeping troops withdraw and be replaced by a UN force. Abkhazia asked to affiliate with Russia, claiming to have bombed and repulsed the Chechen and Georgian guerrillas itself. Russia stated that its planes were not involved, that it respects Georgia's territorial integrity and will withdraw troops as requested. As of this writing, Georgia and Abkhazia have returned to the negotiating table.

Adjaria

An autonomous region located in the southwest coastal zone bordering Turkey including the port of Batumi, with a population of 400,000, of whom 392,000 (1989 census) were Muslim, many of whom speak a Turkic dialect. There has been no armed conflict, but significant tensions over economic and political issues, including non-transfer of federal payments and parallel non-transfer of port and customs duties. Adjarian President Abashidze encourages the presence of Russian military bases in Batumi, while Tbilisi denies Batumi transport projects. Adjaria is de facto beyond Georgian administrative control.

South Ossetia

An autonomous region located in north central Georgia, directly to the south of the North Ossetian autonomous republic, and a member of the Russian Federation. Prior to 1989, of a total Ossetian population of 600,000 (1989 census), 350,000 lived in North Ossetia, with the remainder divided between South Ossetia, Georgia and Chechen-Ingushetia. In the late 1980s South Ossetia began to push for greater autonomy, requesting promotion to the status of autonomous republic in 1989. The response of

Georgian nationalist militias led to open warfare in 1991-92, as a result of which approximately 100,000 ethnic Ossetians fled Georgia for either North or South Ossetia. many South Ossetians also fled north and the ethnic Georgian population of South Ossetia withdrew to Georgia proper. South Ossetian referendum in favour of unification with North Ossetia within the Russian Federation in 1992 was supported by many Russian leaders and nearly led to war between Georgia and Russia. The June 1992 meeting between Yeltsin and Shevardnadze produced a cease-fire and a joint Russian-Georgian-Ossetian peacekeeping force. By late 1997, communication links between Georgia and South Ossetia were reopened, however, agreed refugee repatriation has not taken place and South Ossetia is de facto independent. The North-South Ossetia corridor is a major route for smuggling illegal alcohol and tobacco into Russia.

Samskhe-Javakheti

Located in southwestern Georgia bordering Armenia, over 90 per cent of the population of Javakheti is ethnic Armenian (approximately 235,000). Demands in the late 1980s for the preservation of Armenian culture and economic support from Tbilisi escalated into calls for autonomy or incorporation into Armenia. Tensions rose in 1994 when Javakheti was merged with Meskhet and an ethnic Georgian was appointed to represent the region. There has been no open conflict and Armenia has played a very cautious role, as Georgia provides its only transport route north, but strongly supports Russia's military presence in Akhalkalaki. Georgia continues to demand the closure of the base, the only remaining large employer in the region.

The Pankisi Gorge

Located in the mountainous region of eastern Georgia on the border with Chechnya, the area hosts a concentration of Chechen refugees. Despite official Georgian denials, the Pankisi gorge was a safe haven for Chechen guerrillas who turned it into a no-go area for Georgian security forces. Use of the area as a base for kidnapping and other criminal activities inside Georgia has led to demonstrations by the local Georgian population, demanding that the government take measures against Chechen criminals. After multiple incidents and Georgian protests at Russian violation of their territory, the US Equip and Train programme provided US$62 for the Georgian military. The death of a British journalist, Roderick Scott, on 26 September 2002 during a cross-border foray into Ingushetia left a film record of the use of Pankisi as a Chechen base area. Georgia and Russia subsequently agreed to join patrols of the area (IWPR 2002).

Economic situation: Georgia has lost control of its lucrative tourist regions as well as its trade and transport links north. The major land corridor north (road and rail) runs through Abkhazia and is blockaded, while the alternate road routes are controlled by South Ossetia. Of its three Black Sea ports, Sukhumi is in Abkhazia, Batumi is in Adjaria, which has declined to transfer port and customs duties, and Poti, the only port in Georgian ethnic majority territory, is controlled by a clan not sympathetic to the Shevardnadze administration. In addition to the ethnic conflicts described above, Shevardnadze came to power in 1992, after orchestrating a coup to depose President Zviad Gamsakhurdia. The October 1993 defeat in Abkhazia was followed by a renewed revolt in western Georgia by Gamsakhurdia supporters. Georgia was essentially in a state of civil war until Gamsakhurdia's death in 1995 under unclear circumstance. During this period, the country was effectively divided into a series of territories controlled by armed militias and clans.

In 1999, Georgian GDP was 32 per cent of its 1989 level (although as throughout the region, the extent of shadow economic activity is significant) and the budget is dependent on international donors. Georgia had received US$510 million in IBRD assistance by 1999 as well as EU, World Bank and other IFI assistance. In 1993, the Georgian government virtually ceased funding health care and education (and only a fraction of those funds budgeted reach their intended recipients, as documented in the 1999 NHDR, see notes to Appendix Table 6). Corruption is endemic and the level of public services has declined to the point that there are frequent water and power outages even in the capital, Tbilisi. While there is no open conflict at present, the central government's control, even of those areas with majority Georgian population, is tenuous.

Russia—North Caucasus: Chechnya, Ingushetia-North Ossetia, Karachai-Cherkessia

Chechnya

First Chechen War 1994-96—Escalating demands for increased autonomy from the Russian Federation after the collapse of the Soviet Union led to a unilateral declaration of independence in 1994. Russia responded with a military invasion, and Chechen irregular forces united under Dzhokhar Dudayev. After Dudayev's death in a missile attack, Chechen forces began to splinter into semi-autonomous group commanders. A peace agreement negotiated by Russian General Alexander Lebed, postponed the question of official independence, but allowed Chechnya broad de facto autonomy. Aslan Maskhadov, a moderate Islamist, was elected president in February 1997 and attempted to establish a government of national unity and control over armed groups. The resignation of Shamil Basayev, one of the more recognized field commanders, as defence minister signalled Maskhadov's failure to establish central control and a devolution to clan control. By 1998, Maskhadov controlled two districts of Grozny, while the rest of Chechnya was divided among clan 'commanders'.

Second Chechen War 1999—Began with an incursion into Dagestan by an armed group led by Shamil Basayev and Khattab in September/October 1999, asserting the independence of the villages of Botlikh and Novopolakskovo as part of an 'Islamic Republic'. Prior to the beginning of this round, 45 per cent of the Chechen population (approximately 1 million in 1994) had fled, with the largest refugee population in Ingushetia. The current war is possibly the result of a Russian provocation connected with Putin's presidential candidacy, possibly a Chechen strategy to leverage outside resources, possibly an outside provocation by Islamic groups or oil interests, geopolitical players interested in unrest on Russia's southern flank, or all of the above.

Current situation: After two years of continuing warfare, the majority of the pre-war civilian population has left Chechnya for relatives or refugee camps in other parts of Russia or the FSU. Virtually no formal economy remains. What is left of the civilian population is engaged in subsistence farming or is in some way involved in conflict-related shadow or criminal economic activities. The distinctions between militias, guerrillas and bandits are vague, at best. Since the first war, these groups financed their activities most visibly through kidnapping for ransom, eventually forcing business interests, international aid groups, and news media to withdraw their personnel. However, their primary targets have been other Chechens. Other major sources of income are arms and drug smuggling, money laundering, remittances from Chechen organized crime groups in Russia and Europe, and foreign donors.

Ingushetia-North Ossetia

Historical background: The deportation of Chechen and Ingush (among other) nationalities in 1944-45 for collaboration with the German occupation and the resettlement of Ossetians and Russian, produced tensions over land rights when the Chechen and Ingush were allowed to return in the mid-1950s. Open clashes in 1990-91, associated with unrest in general as well as the Chechen uprising in particular, produced a wave of Ossetian refugees fleeing Ingushetia, primarily for North Ossetia. Despite repeated attempts at resolution, these refugees have not been allowed to return. When Chechnya declared independence, Ingushetia, which until then had been part of the Chechen-Ingush autonomous republic, declined to secede from the Russian Federation. Ingushetia has since absorbed the majority of Chechen refugees.

Karachai-Cherkessia

Experienced some clashes, but no open warfare between the three major ethnic groups in the region—the Karachai, Circassians and Kazaks—apparently due to the abrogation of a trilateral power- and resource-sharing agreement which had been in place throughout the Soviet period.

Economic situation: The North Caucasus comprises roughly 2 per cent of Russian territory and is one of Russia's more densely settled regions. It is also one of the poorest. Per capita income in the North Caucasus in 1998 was slightly less than two-thirds and monthly wages were 57 per cent of the Russian averages.[18] While all of the North Caucasus administrative units discussed here (except Krasnodar) have per capita GRP, average wages, and industrial production levels well below the Russian average, there is considerable variation within the region, with the ethnic republics among the poorest in the Federation. Stavropol, Krasnodar and Adigeya, with mixed economies of light industry, agriculture and tourism and Kabardino-Balkaria with agriculture and food processing industry are around the regional average. Karachai-Cherkessia's well-established small and medium agricultural production also places it near the regional average. North Ossetia has sustained a moderate standard of living on the basis of an extremely large Russian military presence and its role as the transit corridor for tax-free alcohol from Europe via Georgia to Russia. Daghestan and Ingushetia have the lowest standards of living in the region and at about 20 per cent of the average, and rank among the very poorest members the Russian Federation (see Appendix Tables 1 and 5). Ingushetia, which has absorbed the majority of Chechen refugees, obtained special status as an offshore zone and with it trade and financial operations incomes. Daghestan receives over 80 per cent of its revenues as transfers from the federal budget intended to guarantee minimal social protection and regional stability in a region mostly dependent on subsistence agriculture and small trading. The social and economic situation in Chechnya can best be described as catastrophic (Kosikov and Kosikova 1999; Severnii Kavkaz 2000). In one author's delicate phrase, 'In all of the above cases, politics continue to play a crucial role in the legal and semi-legal distribution of resources organised by local political elites' (Stability Pact 2000: 11).

---

[18] North Caucasus per capita monthly income 616 rubles compared to 970 rubles Russian average; average monthly wage 635 rubles North Caucasus compared to 1095 rubles Russian average. Federal Targeted Programme for the Economic and Social Political Development of the North Caucasus to 2005, p. 21.

Appendix III: Social and economic situation in the Caucasus

Appendix Table 1
Basic data

	1999 Population millions	Area in km^2	1990 GDP/capita in 1995 US$	1998 GDP/capita in 1995 US$	2000 GDP/capita PPP in US$
Armenia	3.1	29,743	1,541	892	2,559
Azerbaijan	7.9	86,600	1,067	431	2,936
Georgia	5.4	69,700	2,115	703	2,664
Russia	146,516	17,075,280	3,668	2,138	8,377

Russian republics			1997 GRP at PPP/USD	1997 GRP/capita Russia = 100	2000 GRP/capita Russia = 100
Adigeya	447,900	7,600	2,028	43	39.1
Chechnya	500,000 est.	12,800*	n.a.	n.a.	n.a.
Daghestan	2,142,700	50,300	1,649	21	32.5
Ingushetia	314,900	6,500*	859	20	15.8
Kabardino-Balkaria	785,500	12,500	2,162	35	70.2
Karachai-Cherkessia	431,300	14,100	2,211	41	43.7
Krasnodar krai	5,076,000	76,000	3,328	65	107.4
North Ossetia	670,100	8,000	1,496	37	53.9
Stavropol krai	2,659,800	66,500	2,952	72	68.0

Sources: Data for 1995 and 1998 for Armenia, Azerbaijan, Georgia and Russian Federation, Russian Republics are from UNDP's Human Development Report (2000: 179) and the data for 2000 from Human Development Report (2002: 191) (calculation method changed from constant dollars to PPP). Data for the Russian republics are from Russian State Committee for Statistics (1992-2000) and Goskomstat (2001); real per capita GDP in USD are from UNDP's NHDR for Armenia 2000.

Note: * The Chechen-Ingush Autonomous Republic divided into two separate republics in 1991, exact boundaries between the Chechen Autonomous Republic and the Republic of Ingushetia have not been established.

Resources

The Caucasus is one of the poorer regions of the FSU. The level of industrial development is relatively low, but a comparatively profitable sub-tropical agriculture, enoculture and tourism on the Black Sea coast, and to a much lesser extent on the Caspian are significant sources of income. None of its resources are compact, high value and easily transportable (such as gold and diamonds). In addition, they are very unequally distributed. Azerbaijan has significant oil and gas (proven reserves of one billion tons, as estimated by British Petroleum-Amoco). Between 1995 and 1998 fuel constituted roughly half of total Azeri industrial production, with 1998 revenues of US$474,900,000. Georgia produced roughly 200,000 tons per year and pre-war Chechnya was also a net oil exporter. Armenian claims to have found oil remain unconfirmed. Oil and gas production in the rest of the Caucasus (natural resources map) serves primarily local energy needs.

The region's major economic and political resource is its geographical location, which is reflected in relatively dense endowment of roads, rail and pipeline transport networks and ports as well as oil processing facilities (see transport map). Control over legal and especially illegal trade flows plays a major role in regional conflicts.

Appendix Table 2
Real GDP growth/real average wage growth (1989 = 100)

Real GDP	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Armenia	100	92.6	76.8	44.7	40.7	42.9	45.9	48.6	50.2	53.8	55.6	59.0	63.1
Azerbaijan	100	88.3	87.7	67.9	52.2	41.9	37.0	37.4	39.6	43.6	46.8	52.0	56.2
Georgia	100	67.6	69.6	38.4	28.6	25.4	26.0	28.7	31.8	32.7	33.7	34.4	35.4
Russia	100	96.0	91.2	78.0	71.2	62.2	59.6	57.5	58.0	55.2	58.2	63.0	66.5
Real wage growth													
Armenia	100	107.7	72.3	39.6	6.3	16.8	20.0	29.0	26.2	31.9	35.1	39.8	n.a.
Azerbaijan	100	101.1	80.0	95.0	62.4	24.8	19.8	22.5	34.4	42.0	50.2	59.3	n.a.
Georgia	100	111.2	76.5	50.5	24.1	33.5	28.3	42.2	57.0	71.5	73.2	89.7	n.a.
Russia	100	109.1	102.4	68.9	69.1	63.7	45.9	52.0	54.5	47.2	38.2	46.1	n.a.

Source: TransMONEE database (2002).

Appendix Table 3a
Oil and gas production

	1998 tons	1999 tons
Chechnya	845,700	118,400
Dagestan	359,800	360,000
Ingushetia	123,000	137,100
Kabardino-Balkaria	5,600	10,100
Krasnodar	1,570,800	1,322,400
Stavropol	907,000	919,000

Source: Russian Ministry of Energy (2000).

Appendix Table 3b
Regional economy B industrial gross output rates

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Armenia				-28.0	5.6	2.6	1.2	0.9	-2.5
Azerbaijan	-6.3	-8.9	-30.4	-19.7	-24.8	-21.4	-6.7	0.2	2.2
Georgia		-24.4	-43.3	-21.0	-39.1	-9.9	6.8	8.1	-
Russia	-0.1	-8.0	-18.0	-14.1	-20.9	-3.3	-4.0	1.9	-5.2

Source: TransMONEE database (2000).

Appendix Table 3c
Regional economy—share of agricultural sector in GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Armenia	17.3	20.1	28.7	46.3	41.8	36.7	31.7	30.2	34.2
Azerbaijan	26.0	30.4	25.9	26.9	32.2	25.1	24.7	20.0	
Georgia			54.5	67.7	28.7	38.0	31.0	28.2	26.1
Russia			13.4	8.5	6.8	9.6	9.8	7.1	6.5

Source: TransMONEE database (2000).

Appendix Table 3d
Real output ratio 1999/1989

Armenia	0.48
Azerbaijan	0.47
Georgia	0.31
Russia	0.55

Source: IMF (2002).

Unemployment

The relatively low figures for registered unemployed shown in Appendix Table 4 reflect the fact that unemployment registration systems have only recently been introduced in these countries and that the level of unemployment benefits is extremely low.

Appendix Table 4
Registered unemployment: as a percentage of the economically active population
(Russian regional figures for the end of each year)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Armenia	-	-	-	1.6	5.3	6.1	6.6	9.3	10.6	9.3	11.2	11.7
Azerbaijan	-	-	0.1	0.2	0.5	0.6	0.8	0.9	1.0	1.1	1.2	1.2
Georgia	-	-	0.2	2.3	6.6	3.6	2.6	2.4	5.0	5.0	5.5	5.9
Russian average	-	-	0.1	0.8	1.1	2.2	3.2	3.4	2.8	2.7	1.7	1.4
Adigeya										2.9	1.4	1.3
Chechen												
Daghestan										5.6	6.6	6.0
Ingushetia										17.4	12.2	13.5
Kabardino-Balkaria										3.1	2.1	2.6
Karachai-Circassia										1.4	1.2	1.4
Krasnodar krai										1.5	0.8	0.7
North Ossetia										3.7	2.7	2.5
Stavropol krai										1.5	1.1	0.9

Source: TransMONEE database (2000); Goskomstat (Handbook, 1998) and Goskomstat (2001).

For example, registered unemployment rose sharply in Armenia in early 1999 when family allowances were introduced, because registration of unemployed status was a condition of eligibility. In addition, informal and shadow economic activities are widespread. Real unemployment is estimated as considerably higher than the registered level in all of these countries. In several of the Russian Republics (in particular Ingushetia, Dagestan and Kabardino-Balkaria) estimates using ILO methods (which count those with any hours of formal employment as employed), suggest rates of over 52 per cent and up to 85-90 per cent among ethnic Balkarians. Youth unemployment in the formal economy is a major problem, with rates in the North Caucasus ranging up to 70 per cent.

Poverty

While it is obvious that poverty and inequality in the region have increased sharply, accurate assessments of both income poverty and real poverty are hampered throughout the region by the lack of accurate and comparable data. Given the prevalence of informal economic activity, wages frequently represent only a fraction of household money incomes and in-kind incomes may represent a major additional resource. The clearest picture of real poverty levels is provided by household data surveys, which in many areas remain to be conducted. In their absence, infant and maternal mortality rates and other health data such as rising preventable disease and death rates or declining primary school enrolments provide indications of declining living standards. Together with sharply reduced public health and education expenditures (even where the share of GDP remains steady, GDP itself has been reduced by more than 50 per cent) and inadequate government transfers, these factors can produce extreme and socially destabilizing declines in social welfare and social cohesion.

According to the Georgian Center for Strategic Research and Development, approximately 49.6 per cent of Georgian residents earn less than the monthly subsistence wage (102 lari) and the number of families with less than a below-poverty line 300 lari/month constituted 74 per cent of all households (UNDP's NHDR for Georgia 1999: 16). The poverty headcount in Georgia remained at 46.1 per cent in 2001, 45 per cent of the population had incomes sufficient to provide less than 2,100 Kcal/day (UNDP's NHDR for Georgia, 2001-02). In Armenia, the average salary amounts to roughly half of the subsistence minimum (which is divided 47:53 into food and non-food components). The minimum wage and minimum pension are equal to between 8-11 per cent of the subsistence minimum. According to the Armenia NHDR, 41 per cent of Armenian families have an average per capita income of less than 47 per cent of the subsistence minimum (that is, less than sufficient to purchase minimally adequate nutrition, ignoring non-food expenses), and another 43 per cent have incomes below the full subsistence minimum (UNDP's NHDR for Armenia 1999: 29-30). The situation in Azerbaijan is less well quantified. Since 1994, food has comprised nearly 70 per cent of total average household expenditures, without being sufficient to ensure a healthy diet. A 1996 survey conducted jointly by USAID, WHO and UNICEF found nearly one quarter of Azeri children to be malnourished and more than 40 per cent suffering from anaemia. Sharp and contradictory swings in maternal mortality and infant mortality rates, not reflected in life expectancy statistics create doubts as to the reliability of various indicators (UNDP's NHDR for Azerbaijan 1999: 29, 34, 35). In 2000, Azerbaijanis continued to dedicate an average of 64.3 per cent of household

income to food purchases, indicating continuing high rates of poverty (UNDP's NHDR for Azerbaijan 2001: 34).

The Russian figures in Appendix Table 5 are official government statistics, which shows roughly 20 to 30 per cent of the population below the subsistence minimum. The UNDP's NHDR for Russia (1999, 2000 and 2001) suggest significantly higher figures of those in poverty, about double those of Goskomstat (UNDP's NHDR for Russia 1999: 158 and 2001: 43). This variation can be explained by the application of different definitions of poverty. Official data released in October 2000, showed 36.7 per cent of the population, or 52 million people, with incomes below the subsistence minimum (itself less than US$1 per day, 67 per cent of which is required for minimal nutrition), although another calculation method for the same period produced a total of 44 million. This is partly the result of an extremely low official minimum wage which affects all public sector employees. As indicated in Appendix Table 5, income poverty rates in the Caucasus have consistently been more than double the Russian average, in some cases triple or higher.

Appendix Table 5
Poverty in the North Caucasus: percentage of the population with incomes below the subsistence minimum (of the regional population)

	1994	1995	1996	1997	1998	1999	2000
Russia	22.4	24.7	22.1	20.8	29.9	29.1	27.6
Adigeya	46.3	46.4	56.7	42.0	45.1	54.8	28.0
Chechnya							
Daghestan		71.2	64.7	53.8	60.6	63.2	46.4
Ingushetia					79.0	95.1	72.1
Kabardino-Balkaria	36.7	42.5	40.7	40.5	46.3	46.6	34.0
Karachai-Cherkassia	28.3	45.7	55.3	40.3	55.1	64.6	42.8
Krasnodar krai	23.7	32.4	25.1	25.0	26.5	35.3	24.5
North Ossetia	33.1	42.8	38.5	34.2	36.2	31.2	30.1
Stavropol krai	36.5	39.6	30.3	34.8	37.9	45.2	35.5

Source: Kosikov and Kosikova (1999); Goskomstat (Handbook, 2000 and 2002); Goskomstat 2001.

Government expenditures

As with all other statistics in the region, opinion varies as to what they actually mean. UNDP's NHDR for Armenia (1999), for example, shows a much lower percentage of GDP spent on health care than the official government statistic and notes that between 87 per cent and 89 per cent of that amount is private expenditure. The UNDP's NHDR(1999) for Georgia examines actual spending on health care and education and finds that less than 65 per cent of budgeted funds were actually disbursed, of which up to 85 per cent failed to reach its intended destination in schools and up to 30 per cent was lost en route to hospitals and clinics (UNDP's NHDR for Georgia: 41-55). All countries in the region share the compounded problem of sharp declines in GDP and sharp declines in government expenditures as a share of GDP, reflected in (with the possible exception of Russia), sharp declines in the share of GDP spent on health care and education.

Appendix Table 6
General government expenditures and spending on education and health as a percentage of GDP

General expenditure	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Russian av.	n.a.	n.a.	58.4	43.6	45.1	39.1	42.4	44.4	41.4	38.4	35.8
Armenia	n.a.	28.0	46.7	82.9	44.1	28.8	24.4	21.1	22.2	25.5	21.6
Azerbaijan	n.a.	40.7	48.4	55.9	45.9	22.5	20.3	20.8	21.2	23.7	20.8
Georgia	n.a.	33.0	35.7	35.9	23.5	12.3	21.1	21.0	19.1	22.1	17.9
Health	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Russian av.	n.a.	2.8	2.7	3.6	4.6	4.3	4.2	4.4	3.7	3.0	3.0
Armenia	2.4	3.2	4.4	3.2	2.1	1.7	1.6	1.6	1.6	n.a.	n.a.
Azerbaijan	2.3	3.0	2.2	5.1	2.3	1.2	2.3	1.9	2.2	1.9	n.a.
Georgia	3.1	3.5	2.2	0.2	0.2	0.5	0.8	1.1	1.1	0.6	0.4
Education	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Russian av.	3.7	3.6	3.8	4.3	4.5	3.5	n.a.	n.a.	3.6	3.2	n.a.
Armenia	n.a.	7.5	8.9	5.2	2.5	3.3	2.0	1.7	1.8	1.9	n.a.
Azerbaijan	n.a.	6.9	6.7	7.6	4.9	3.5	3.7	3.6	3.6	4.2	n.a.
Georgia	6.1	6.4	4.0	0.6	0.5	0.9	1.2	1.3	2.2	1.9	n.a.

Source: TransMONEE database (2002).
[a] UNDP's NHDR (1999: iv) for Armenia; [b] UNDP (2001: 159).

Appendix Table 7
Social indicators: maternal/infant/under 5 mortality; birth rate and average male/female life expectancy at birth, percentage of children in population

		Russian average	Armenia	Azerbaijan	Georgia
			1990		
Life expectancy:	Male	63.8	68.4	67.0	68.7
	Female	74.3	75.2	74.8	76.1
	Birth rate	13.4	22.5	25.5	17.1
Mortality:	Maternal	47.4	40.1	9.3	20.5
	Infant	17.4	18.5	23.0	15.8
	under 5	22.3	23.8	40.5	19.9
			1998		
Life expectancy:	Male	61.3	70.8	67.9	82.0
	Female	72.9	78.1	75.0	74.2
	Birth rate	8.8	10.4	15.7	8.7
Mortality:	Maternal	44.0	25.4	41.1	44.8
	Infant	16.5	14.7	16.6	15.2
	under 5	20.4	18.4	33.2	17.5
			2000		
Life expectancy:	Male	59.0	70.5	68.6	73.0
	Female	72.2	74.5	75.1	78.1
	Birth rate	8.7	9.0	14.5	8.0
Mortality:	Maternal	39.7	52.5	37.6	56.9
	Infant	15.3	15.6	12.8	14.9
	under 5	19.2	19.2	25.8	16.6

Source: TransMONEE database (2002).
Note: Maternal mortality per 100,000 births, infant and under 5 mortality and crude birth rate per 1,000 and life expectancy at birth.

Russian regions	2000 Life expectancy at birth	2001 Infant mortality rate
Adigeya	68.2	8.4
Chechnya		
Daghestan	70.7	18.1
Ingushetia	74.0	25.6
Kabardino-Balkaria	68.1	15.3
Karachai-Cherkassia	68.5	19.3
Krasnodar krai	66.8	13.0
North Ossetia	68.5	11.3
Stavropol krai	67.8	14.5

Source: Goskomstat (Handbook 2002).

Note: Life expectancy at birth not gender disaggregated in this source.

Appendix Table 8
Housing amenities

	Running water	Central heating	Hot water supply	Gas
Russian average	72.0	69.6	57.0	69.4
North Caucasus	67.0	52.6	44.8	79.6
Armenia				
Azerbaijan				
Georgia				

Source: Russian State Committee for Statistics (1992-2000).

Migration: Conflict related or economic migration?

As an indication of the difficulty in establishing the accuracy of population and migration figures, the Armenia NHDR 1999 gives the population as 3,798,239 on page 10, and on page 28 as 3,820,000 according to official data, but according to numerous surveys as really only 3,100,000. The NHDR 1999 suggests that Armenia has lost 18 per cent of its population between 1988 and 1998. Zubov suggests that the number is closer to 40 per cent in Armenia and roughly 30 per cent in Azerbaijan and Georgia (Zubov 2000: 36). Other sources suggest net population losses in Azerbaijan and Georgia on the order of 25 per cent. Azerbaijan claims population growth of 900,000 between 1989 and 1999, although it registered a sharp decline in the birth rate to close to the level of simple reproduction, very high infant and under 5 mortality rates, and a total inflow of only 300,000 refugees. Georgia claims an absolutely stable population over the decade. Part of the difficulty is caused by the lack of data on emigration and the very significant number of citizens who are non-resident, but who may occasionally, or eventually return. Much of the uncertainty is due to poor data collection, chaotic conditions, etc. All numbers should be regarded as indications.

Appendix Table 9a
Population

	1991	1999	2000	2001
Armenia	3,600,000	3,100,000 +/-	3,344,336	3,336,190
Azerbaijan	7,200,000	7,949,300	7,748,163	7,771,092
Georgia	5,400,000	5,400,000	5,019,538	4,989,285
Russian republics				
Adigeya	437,000	447,900		444,900
Chechen/Ingush	1,307,000			624,600
Daghestan	1,854,000	2,142,700		2,179,500
Ingushetia		314,900		466,300
Kabardino-Balkaria	777,000	785,500		782,000
Karachaevo-Cherkessia	427,000	431,300		428,600
Krasnodar krai	4,738,000	5,067,000		4,987,600
North Ossetia	643,000	670,100		678,200
Stavropol krai	2,499,000	2,659,800		2,642,600

Source: Data for Russian republics from Russian State Committee for Statistics (1992, 2000); for Armenia and Azerbaijan from UNDP's NHDR (1999, 2000, 2001), and TransMONEE database (2000).

Appendix Table 9b
Migration (in thousands)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Armenia	17.4	40.8	23.0	-6.3	-20.9	-19.1	-7.8	-6.4	-8.5	-8.2	-6.9	-11.2
Azerbaijan	2.1	70.5	-40.1	-14.2	-12.2	-11.0	-9.8	-7.4	-8.2	-5.1	-4.3	-5.6
Georgia	-14.1	-39.0	-44.0	-41.6	-30.3	-31.5	-20.2	-11.7	-0.5	-0.2	-0.9	-1.3
Russia	115.3	183.8	16.7	252.9	440.3	809.6	502.4	343.5	349.0	278.6	129.2	189.8

Source: TransMONEE database (2002).

Russia received from	1998	1999
Armenia	14.4	12.4
Azerbaijan	18.3	12.1
Georgia	18.1	17.0
Russian republics		
Adigeya	+1,487	+1,135
Chechnya	-21,024	-19,258
Daghestan	+288	+290
Ingushetia	+517	-35
Kabardino-Balkaria	-1,291	-1,695
Karachaevo-Cherkessia	-573	1,986
Krasnodar krai	+21,219	+28,582
North Ossetia	+1,523	+1,931
Stavropol krai	+15,741	+12,060

Source: Goskomstat (2000).

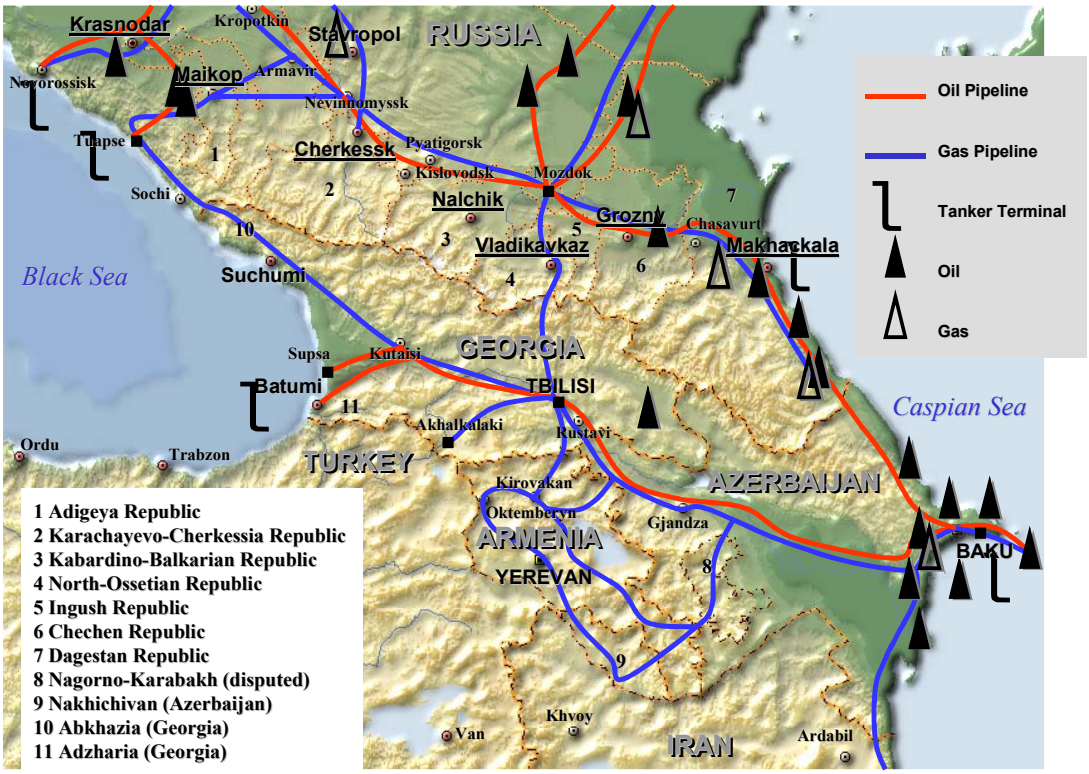
CAUCASUS REGION

MSU Department of Geography 2001

Conflict Zones

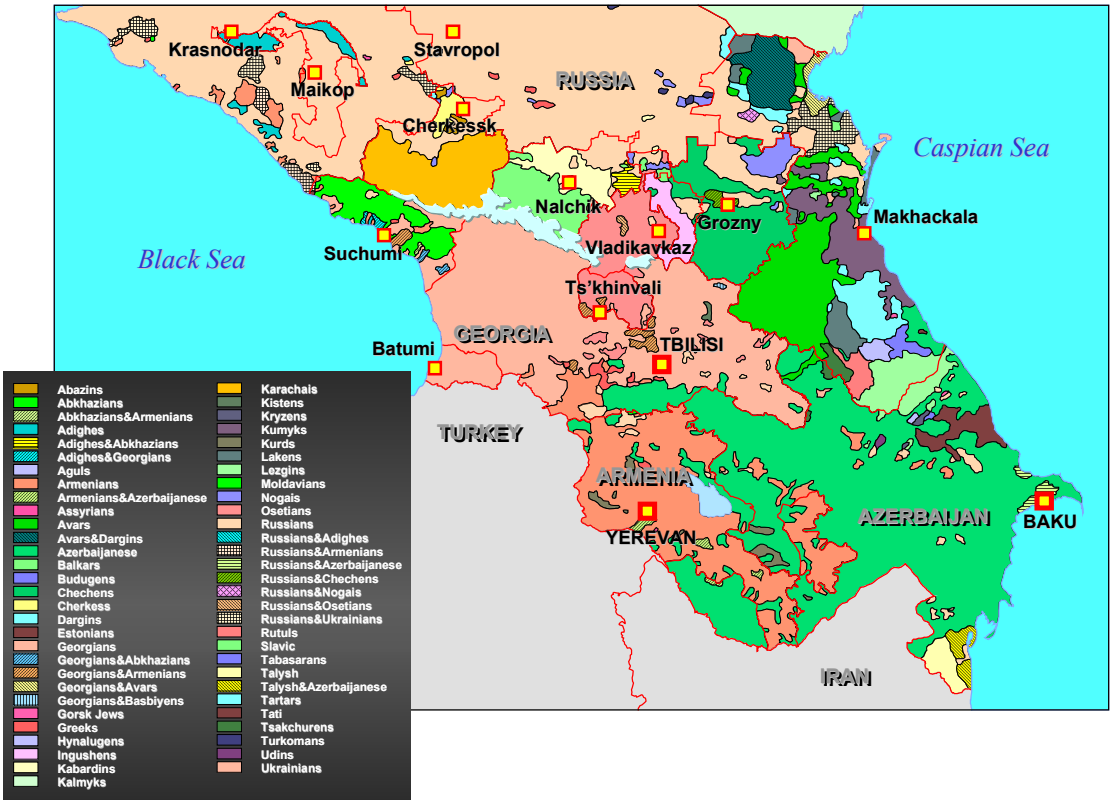
Natural Resource Extraction

Main Pipelines & Terminals



Main Railroads & Roads

The Caucasus: Families of languages



The Caucasus: Families of languages

The Caucasian Family of Languages

Kartavelian Group of Languages
Georgians

Adighe Abkhazian Group of Languages
Abkhazians
Abazins
Kabardins
Cherkess
Adighes

Nakch's Group of Languages
Chechens
Ingushens
Kistens
Basbiyens

Dagestani Group of Languages
Avars
Lakens
Dargins
Tabasarans
Lezgins
Aguls
Rutuls
Tsakchurens
Hynalugens
Kryzens
Budugens
Udins

Indo-European Family of Languages

Slavic Group of Languages
Russians
Ukrainians

Armenian Group of Languages
Armenians

Iranian Group of Languages
Osetians
Kurds
Talysh
Tati
Gorsk Jews

Greek Group of Languages
Greeks

German Group of Languages
Germans

Romance Group of Languages
Moldavians

Altai Family of Languages

Turk Group of Languages
Azerbaijanese
Karachais
Balkars
Kumyks
Nogais
Turkomans
Tartars

Mongolian Group of Languages
Kalmyks

Semite-Hamite Family of Languages

Assyrians

Ural Family of Languages

Finnish Group of Languages
Estonians