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Economic and Social Transformations in the Caspian 'Rentier States'

Zarys treści: Artykuł porusza kwestię różnych wyzwań i uwarunkowań transformacji ekonomicznej i społecznej poradzieckich państw regionu kaspiańskiego. Efektywna transformacja gospodarcza była tu ograniczona znacznym uzależnieniem w tym wymiarze od Rosji oraz brakiem współpracy regionalnej. W ostatnich latach nowo powstałe państwa regionu w dużej mierze koncentrowały się na eksportie surowców energetycznych. Państwa regionu kaspiańskiego są tym samym przykładem zjawiska "paradoksu bogactwa" w związku z nacjonalizmem energetycznym. Państwa produkujące surowce kontrolują branżę energetyczną, która umożliwia im realizację określonych celów politycznych i społecznych.

Outline of Content: The article raises the issue of various challenges and conditions related to the economic and social transformation of post-Soviet countries in the Caspian region. Effective economic transformation was limited by significant dependence on Russia in this respect and the lack of regional cooperation. In recent years, the newly established countries of the region have largely focused on exporting energy raw materials. All countries in the Caspian region are examples of the "paradox of wealth" phenomenon related to energy nationalism. Countries producing fossil fuels control the energy industry, which enables them to pursue specific political and social goals.

Słowa kluczowe: państwa kaspiańskie, państwo-rentier, paradoks bogactwa, transformacja gospodarcza, transformacja społeczna

Keywords: Caspian states, rentier state, paradox of wealth, economic transformation, social transformation



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Conditions and Background of Economic Transformation

After independence, the reform packages introduced by the Caspian states had various effects. The considerable dependence in this respect on Russia and the lack of regional cooperation limited the effective economic transformation here. In recent years, the newly established states of the region have primarily focused on exporting fossil fuels. The economic growth was mainly due to hydrocarbon exports. At the same time, the economies of the region's countries were exposed primarily to crises from outside. They were also dependent on foreign investment. Thus, the states did not have sufficient internal potential to stimulate economic development. There was no chance of strengthening cooperation as part of some form of economic union within the region.¹

It should be noted that creating a state is a costly process related to the reconstruction or organisation of the bureaucratic system. At the same time, an effective tax system was needed to invest in developing the necessary infrastructure. The high dependence on export revenues made governments focus their attention outside, which also did not accelerate the state-building process.²

The economies of Azerbaijan, Kazakhstan and Turkmenistan differed in productivity, demographics and access to work from other countries that left the USSR in 1991.³ Since their incorporation into the Russian Empire, their economies were mainly focused on producing cotton and hydrocarbon feedstocks for domestic consumption under Stalin's autarky policy of the 1930s. After the Second World War, most of the pipelines transported Azerbaijani and Central Asian oil and gas to the north, to the centre of the USSR. The region's railroad exports along the eastern Black Sea and western Caspian coasts focused on cotton, hardware, oil and gas. On the other hand, industrial and food products were imported. In Soviet times, political antagonism towards southern neighbours (Turkey, Iran) prevented the development of ties with these countries in favour of relations with the Slavic republics. In the case of Kazakhstan, trade relations with China have had variable dynamics and were also dependent on Sino-Soviet relations.⁴

After regaining independence, the high dependence on exports was largely the cause of the progressive economic recession in the Caspian countries. Therefore, the newly established countries tried to diversify the directions of trade. A frequent phenomenon was also the overestimation of GDP indicators. Such a 'shadow economy' did not translate into social expenditure; it caused a deepening inequality

¹ E. Rumer, 'Fear and Loathing in the "Stans"', *Science Monitor*, no. 92 (2000), p. 11.

² J. Anderson, *Kyrgyzstan's Island of Democracy?* (Amsterdam, 1999), p. 61.

³ M. Kaser, 'The Economic and Social Impact of Systemic Transition in Central Asia and Azerbaijan', in: *Central Eurasia in Global Politics Conflict, Security, and Development*, ed. M.P. Amineh, H. Houweling (Boston, 2005), pp. 145–60.

⁴ Ibid.

of incomes.⁵ However, despite this, economic progress was clear in Kazakhstan and Azerbaijan, mainly due to the inflow of foreign investment. This influx made their economies dependent on the export of hydrocarbons. In all authoritarian and corrupt countries in the region, governments attracted foreign investment, but only in Azerbaijan and Kazakhstan state funds were created to collect income from various sources.

The cause of the collapse of the USSR was the economic crisis. To a large extent, it resulted from the low economic growth and the ineffectiveness of the workforce on which the state's income depended. Six post-Soviet states, stretching from the Caspian region to the Hindu Kush mountains, left the USSR in 1991, finding themselves in a completely different economic and social situation than the post-Soviet Slavic states. The countries of Central Asia and the Caucasus showed a surplus of employment. In addition, labour productivity in the Caspian republics and Central Asia in 1970–90 was lower than in other Soviet republics: 2.6% in Azerbaijan, 1.5% in Kyrgyzstan, 1.2% in Uzbekistan, 0.8% in Tajikistan, 0.7% in Kazakhstan, and Turkmenistan this indicator was negative: – 0.3%.⁶ Due to the combination of demographic pressure and low labour productivity, the Caspian region was in the Russian economic sphere for many decades. The three Caspian states and Uzbekistan were the leading producers of the needs of Soviet/Russian industry. Strategic economic ties were symbolised by four transport routes in the imperial period: the oil pipeline from Baku to Batumi (from 1906), the trans-Caspian railway from Krasnovodsk to Turkestan (later to Dushanbe in Tajikistan), the TurkSib railway, built under Stalin's First Five-Year Plan, and the Orenburg-Tashkent line, under the Third Five-Year Plan.⁷

During the first decade after independence, industrial employment was protected in Turkmenistan and Uzbekistan. Data has been published that, on average, about 50% of the population was employed in this industry in the newly established countries in the Caucasian region, compared to the level in the late Soviet period.⁸ The unemployment level in these countries has risen compared to the first years of independence.

Emigration was an important element of the economy of the post-Soviet countries in the first half of the 1990s. Then, 1.5 million Slavs, 245 thousand Germans and 102 thousand Jews left the states of Central Asia.⁹ Descendants of these ethnic groups served in the tsarist army and participated in Soviet industrialisation and administration. In Kazakhstan, about half of the total number of employees were immigrants. Kazakhstan was also a major destination for prisoners and forced

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ UNECE, *Economic Survey of Europe* (Geneva–New York, 2004), <https://unece.org/DAM/ead/pub/042/042c0.pdf> (accessed: 15 Oct. 2024).

⁹ Kaser, 'The Economic and Social Impact', p. 150.

labourers. In 1953–56, many young Slavs settled in Kazakhstan as part of Nikita Khrushchev's "virgin zone campaign".¹⁰ According to the 1989 census, the Russian population in Kazakhstan accounted for 37% of the population, 1/10 of which left its territory. In the remaining countries, where the Russian population constituted 7–9%, 1/5 left Turkmenistan and Uzbekistan. Chechens, Ingush and Crimean Tatars were deported by Stalin to Kazakhstan and Uzbekistan in 1943 and then allowed to return in 1957. However, the return was not permitted in the case of deported Germans living in the Lower Volga region and southern Russia, in Kazakhstan, Kyrgyzstan and Tajikistan from the eighteenth and nineteenth centuries, and almost a quarter of a million Germans immigrated to Germany after 1990.¹¹

After independence in 1991, it turned out that the newly established states of the region were largely dependent on trade, which was directed to the former USSR. This addiction, due to the emergence of new partners, had to be transformed. For the five countries of Central Asia and the Caucasus, the trade-to-GDP ratio in 2001 was similar to that in 1990. In the case of Azerbaijan, it was 31% (35% in 1990), Kazakhstan – 39% (43% in 1990), and Turkmenistan – 35% (44% in 1990).¹²

The rational reaction of the CIS countries (Commonwealth of Independent States) was to look for export markets outside this structure. Thus, between 1995 and 2003, Azerbaijan transformed its exports to non-CIS markets from 55% to 87%, Kazakhstan from 45% to 77%, Kyrgyzstan from 34% to 65%, Tajikistan from 66% to 83%, and Uzbekistan from 61% to 72% in 2002. On the other hand, Turkmenistan showed no change in this dimension: 51% in 1995 and 54% in 2003.¹³ In the case of Azerbaijan, the reorientation of exports resulted from a reduction in trade with its neighbours, which was, among other things, a consequence of the conflict over Nagorno-Karabakh. The exchange between the Caucasus states fell to 3%. Also, among Central Asia's neighbours, exchanges account for only 13% of the total.¹⁴ The explanation for these percentage changes in the first decade of transformation was the change in trading partners after the collapse of the USSR. After 1990, new trade relations emerged with countries outside the region, such as Turkey, Singapore, India, and China.

In addition, new economic phenomena occurred in the region, such as progressing privatisation, market normalisation, and payment liberalisation. Trade control has decreased along with the diminishing importance of the Soviet ruble within the CIS. The exclusion of the Central Asian and Caucasus states from the ruble zone in 1993 changed the trade relations between them and other CIS states. At the same time, the initiation of own national currencies also caused economic problems, resulting from the emergence of another wave of inflation. In 1996, Turkmenistan

¹⁰ Ibid., p. 148.

¹¹ Ibid. pp. 145–60.

¹² A.S. Wengle, *Post-Soviet Power* (Cambridge, 2015), p. 23.

¹³ Kaser, 'The Economic and Social Impact', p. 149.

¹⁴ Ibid., p. 148.

and Uzbekistan initiated a protectionist policy, which led to a crisis in relations with international organisations such as the IMF (International Monetary Fund), the World Bank or the EBRD (European Bank for Reconstruction and Development). At the same time, the region's countries, despite their efforts to liberalise, did not build appropriate structures without which these processes could not be completed successfully.

Kazakhstan is an example of a country with the most significant influx of foreign investments: since independence – USD 15.7 billion, USD 1094 *per capita*. In the case of Azerbaijan, it was USD 7.2 billion, USD 873 *per capita*, and USD 1.6 billion in Turkmenistan, USD 269 *per capita*.¹⁵ In the case of these countries, most investments were allocated to the development of the energy or metallurgical industries. Economies in transition, very often corrupt, charge proportionally less taxes than in the case of a free market economy.¹⁶

The countries of Central Asia and the Caucasus region, in the economic dimension, rely on raw materials, especially crude oil. Relying on the exploitation of fossil fuels causes economic problems, especially in the case of production, but is also associated with the 'Dutch disease', that is, a large surplus in raw material exports resulting in a lack of diversification in the case of exports of other goods.

After 1991, there was a crisis in the manufacturing industry in the Caspian states. This resulted from the decline in demand in the post-Soviet states, which, until now, have been largely dependent on mutual trade. Because the industrial development index also takes into account the extraction of hydrocarbons, it underestimates the scale of the industrial decline in other dimensions.

An industry that did not show development was the armament industry, which was dependent on the USSR in the Cold War period. There was also a temporary collapse in food production in the newly established post-Soviet countries. However, this industry has been rebuilt. In Kazakhstan, the development of transnational "industrial and financial groups" with the participation of Russian enterprises resulted in increased productivity and expansion into new export markets.¹⁷

The greatest challenge faced by the newly established states of the Caspian region was building a national economy based on free market foundations. This issue was no longer a theoretical debate but directly impacted the lives of citizens and the regime's survival. At the same time, there was no time for a discussion on the possible development models, and the situation in individual countries was largely determined by external forces. The new reality was, therefore, chaotic and unpredictable. Nevertheless, the new states coped with the new post-Cold War challenges. They introduced economic reforms, privatisation, restructuring and

¹⁵ The Word Bank Data, 2022, <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=KZ> (accessed: 9 Nov. 2023); Kaser, 'The Economic and Social Impact', p. 150.

¹⁶ EBRD, *Transition Report, European Bank for Reconstruction and Development* (London, 1994).

¹⁷ Kaser, 'The Economic and Social Impact', p. 157.

liberalisation.¹⁸ Attempts were made to create a new institutional system. The issue of regional cooperation and integration within the international community was also considered.¹⁹

The newly established states also had a specific potential resulting from human resources or the raw material base, which made them believe they could carry out a painless political and economic transformation.²⁰ However, the reality turned out to be much more complicated. After the emotions related to gaining independence subsided, it turned out that the newly established states had deeper systemic problems that would make political and economic reforms difficult. The economic problems of the states were also reflected in society through increasing unemployment and pauperisation.

The specificity of post-Soviet adaptation results primarily from local conditions related to the culture, ethnic structure and diversity of society. In the first years of independence, it turned out that each country followed its own development path due to the specificity resulting from the conditions mentioned above. At the same time, there were similarities between them, mainly in the political sphere. An important element in the functioning of these countries was the approach to the Soviet heritage. In this context, instead of a drastic break with the past, as might be expected from the collapse of an empire, authoritarian rule often mirrored the Soviet experience.

All the countries of the Caspian region are an example of the phenomenon of the “paradox of wealth” in connection with energy nationalism.²¹ Raw material-producing countries control the energy industry, which enables them to achieve specific policy goals. The Caspian Sea states economically depend on oil and gas (see Table 1). The governments of Azerbaijan and Kazakhstan gained large income from hydrocarbon extraction, which was associated with the inflow of capital and a reduction in unemployment. Both countries carefully counteracted the possible consequences of resource depletion by creating national funds.²² These were pragmatic measures to compensate for the lack of income related to the depletion of raw materials.

The Idea of a “Rentier State”

The rentier state theory is part of the resource wealth theory or the “wealth paradox”. A rentier state is an economic policy concept of social relations in states which derive most of their revenues from the energy sector. The theory assumes that such

¹⁸ EBRD, *Transition Report*.

¹⁹ S. Akiner, ‘Political Processes in Post-Soviet Central Asia’, in: *Central Eurasia in Global Politics*, pp. 117–45.

²⁰ Ibid.

²¹ T.L. Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley, 1997), p. 13.

²² Kaser, ‘The Economic and Social Impact’, pp. 145–60.

Table 1. Energy potential of the Caspian region countries

State	Proven oil reserves (billions barrels)	Proven oil reserves (share in global reserves, %)	Oil production (barrels per day)	Oil production (global share, %)	Proven gas reserves (trillions m ³)	Proven gas reserves (share in global reserves, %)	Gas production (billions m ³)	Gas production (global share, %)
Azerbaijan	7.0	0.4	779	0.8	2.8	1.4	24.3	0.6
Kazakhstan	30.0	1.7	1931	2.0	2.7	1.3	23.4	0.6
Turkmenistan	0.6	?	264	0.3	19.5	9.8	63.2	1.6

Source: *BP Statistical Review of World Energy*, 2020, <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf> (accessed: 15 Oct. 2024).

revenues impact democratisation processes, economic development, and security and social development issues.²³ The revenue generated by the energy sector does not favour democracy; on the contrary, it limits it to a large extent, as it makes political elites richer, who effectively fight all forms of opposition. Many states in the world which produce important energy resources experience the “wealth paradox,” the “resource curse”, a situation whereby the resource wealth of a state does not translate into social and political development. Such states very often face economic and political problems related to system transformation.

Richard Auty was the first researcher to initiate the “wealth paradox” theory in *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. He stated, “New evidence suggests that not only are many developing and resource-rich countries not benefiting from their wealth, they are often worse off than countries that lack energy resources. This is the basis for thinking in terms of the wealth paradox”.²⁴ In addition, Jeffrey D. Sachs and Andrew M. Warner’s studies on the economic achievements of resource-rich states in the 1970–1989 period significantly contributed to this theory’s development. They proved the cause-and-effect relationship between energy resources and economic growth.²⁵

Before the 1980s, there were theories about a positive relationship between the possession of energy resources and economic development. Norton Ginsburg stated that “the possession of natural resources is a significant element of a country’s

²³ A. Almaz, ‘Testing the Rentier State Theory: The Case of Azerbaijan’, *Journal of Global Analysis*, vol. 5 no. 1 (2015), pp. 60–72.

²⁴ R. Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis* (London, 1993), p. 193.

²⁵ J.D. Sachs, A.M. Warner, ‘Natural Resource Abundance and Economic Growth’, *Journal of Developed Economics*, vol. 59 (1995), pp. 43–76, <https://www.nber.org/papers/w5398> (accessed: 15 Oct. 2024).

development towards economic growth".²⁶ A similar vision was represented by the well-known development theorist Walter Rostow: "The resource wealth enables developing countries to implement an effective industrialisation process, such as Australia, the USA and Great Britain".²⁷ Many authors have confirmed the link between the ownership of raw materials and the economic growth of developing countries.²⁸ At the same time, there were more and more pessimistic concepts in this dimension, represented by economic policy researchers.

In the 1980s, literature challenged the traditional approach, assuming that countries with significant natural resources experienced poor economic development, low democracy, and internal and international conflicts.²⁹ Hazem Beblawi, defining a given state as a rentier state, distinguishes some of its characteristic features, such as the domination of income from trade in raw materials in the economy or the involvement of a narrow elite in producing this income. Beblawi argues that there are wealthy states, such as Saudi Arabia and Kuwait, that are wealthy because of their oil revenues, describing them as "perfect rentier states". At the same time, countries like Libya, Nigeria and Venezuela are typical states-rentiers.³⁰ A rentier state can be defined as "in which the income is paid by external actors who operate in a given state, but only a few of them are involved in generating it; the majority operate in the dimension of distribution and utilization".³¹ It should be emphasised that although the definitions define "annuities" as the effects of loans or aid provided by external actors, the concept of the rentier state most often applies to countries that generate their income from the possession of natural resources.

When defining the concept of a rentier state, it is essential to determine how it causes the "wealth paradox" and how it translates the effects of such a strategy into the political, social and economic situation. Research by Michael Ross should be

²⁶ A. Rosser, 'The Political Economy of the Resource Curse: A Literature Survey', *Working Paper*, no. 268 (2006), p. 7, <https://www.ids.ac.uk/download.php?file=files/WP268.pdf> (accessed: 15 Oct. 2024).

²⁷ W. Rostow, *The Stages of Economic Growth: A Non-communist Manifesto* (Cambridge, 1961), pp. 4–16.

²⁸ P. Drake, 'Natural Resources versus Foreign Borrowing in Economic Development', *Economic Journal*, no. 327 (1972), pp. 951–62; B.A. Balassa, *The Process of Industrial Development and Alternative Development Strategies* (Princeton, 1980); A. Krueger, 'Trade Policy as an Input to Development', *American Economic Review*, vol. 70 no. 2 (1980), pp. 288–92.

²⁹ R. Auty, 'The Political Economy of Resource Driven Growth', *European Economic Review*, vol. 45, no. 4–6 (2001), pp. 839–46; M.L. Ross, *The Oil Curse. How Petroleum Wealth Shapes Development of Nations* (Princeton, 2012), pp. 325–61; id., 'Does Oil Hinder Democracy?', *World Politics*, vol. 53 (2001), pp. 325–61, <https://www.sscnet.ucla.edu/polisci/faculty/ross/papers/articles/doesoil.pdf> (accessed: 15 Oct. 2024); P. Collier, A. Hoeffler, 'On Economic Causes of Civil War', *Oxford Economic Papers*, no. 50 (1998), pp. 563–73.

³⁰ H. Beblawi, 'The Rentier State in the Arab World', in: *The Arab State*, ed. G. Luciani (Berkeley, 1990), pp. 85–99.

³¹ Almaz, 'Testing the Rentier State Theory', p. 65.

included here. According to his interpretation, the effects of rentier states' actions can be categorised as the effect of pensions, the effect of repression and the effect of modernisation. The governments of energy-rich countries tend to use the revenues from this industry to reduce social pressure and thus gain greater independence *vis-à-vis* society.³² The behaviour of a rentier can, therefore, be interpreted in terms of: "tax effect", "expenditure effect", and "group formation effect".³³

The "tax effect" is that because the state budget receives significant revenues from the export of energy resources, the government collects less taxes and even ceases to collect them. As a result, society shows less demand for democratisation, accountability and transparency. This regularity is because the increase in civic aspiration and awareness is directly proportional to the level of taxation introduced by governments. In short, without tax, there is no representation in rentier states. The low level of taxation prevents citizens from meeting the needs related to the processes of democratisation and political participation. So the government can act more freely, causing corruption or nepotism.

The "spending effect" causes governments to use their income for social education and health programs, subsidise specific sectors of the economy (such as energy and agriculture), and create employment opportunities in the mining sector. Such actions strengthen the stability of the regimes.³⁴ Governments are investing in the energy sector, not in free elections, and are trying to eliminate civil society.³⁵ Society becomes more obedient to the authorities in the face of the benefits of introducing social programs. It is worth noting that such a system may persist in a situation of a constant inflow of income from the energy sector.

The "group-building effect" is that the rentier state uses its "generosity to prevent the formation of social groups independent of the state and display a need for political rights".³⁶ In other words, the emergence of the opposition is subject to repression by the government, which perceives such a phenomenon as a threat to the state's security. Kiren Chaudhry believes that the lack of civil societies in energy-rich countries is an example of the "group-building effect" in the framework of the rentier state theory.³⁷ The pension state thus undermines the indispensable foundations of democratisation and civil society.³⁸ When analysing the phenomena of the rent effect, taxation and group formation, it can be concluded that the income generated

³² Ross, 'Does Oil Hinder', pp. 325–61.

³³ Almaz, 'Testing the Rentier State Theory', pp. 60–72.

³⁴ H. Meissner, 'The Resource Curse and Rentier States in the Caspian Region: A Need for Context Analysis', *German Institute of Global and Area Studies (GIGA)*, 2010, <http://www.jstor.org/stable/resrep07645> (accessed: 17 Oct. 2024).

³⁵ Ross, 'Does Oil Hinder', pp. 325–61.

³⁶ Ibid., p. 329.

³⁷ K. Chaudhry, 'Economic Liberalization and the Lineages of the Rentier State', *Comparative Politics*, vol. 27, no. 1 (1994), p. 19.

³⁸ Almaz, 'Testing the Rentier State Theory', pp. 60–72.

by the export of energy resources strengthens authoritarian rule. Countries of this type are less democratic than those that finance their activities from taxes.

Rentier states spend a lot on activities in the field of internal security to eliminate pro-democratic aspirations in society. At the same time, protecting activities related to the exploitation of energy resources is a priority for states, as the revenues from this industry constitute the basis for their functioning. Thus, the rentier states focus on expanding the security apparatus system.³⁹ An important aspect of the functioning of this type of state is a strong army, guarding the security of raw materials and strengthening the authoritarian regime. After Michael Ross: There are two reasons for a strong army in the rentier countries. Firstly, rentier governments are more inclined to eliminate any social unrest that threatens the stability of power, so the more military forces, the easier it is to fight the opposition. Secondly, the richness of energy resources can cause internal and international conflicts.⁴⁰ This is because energy resources are concentrated in regions inhabited by different ethnic groups, which can compete with each other for related profits. In such a situation, central governments must ensure energy infrastructure security.

Thus, the effect of modernisation is not directly related to the country's resource wealth. In this perspective, democracy is "a conglomerate of social and cultural changes, including employment, urbanisation and a higher level of education, resulting from economic development".⁴¹ In other words, if economic development resulting from abundant energy resources does not cause social and cultural changes, democracy does not exist. According to Michael Ross, a higher level of education leads to greater awareness of society, and professional specialisation may create greater independence of working groups from the ruling elite. In such a situation, the state may become more democratic.⁴²

Main Economic and Social Indicators

In analysing the peculiarities of the societies of the Caspian countries, we should pay attention to various indicators that determine it: the structure of the population, social development and the problem of social activity (see Table 2, 3, Chart 1). Nowadays, an increase in the population of each state is observed. In the case of Turkmenistan, the population aged up to 14 years represents 24.63% of the population, 15–24 years – 16.48%, 25–54 years – 44.14%, and the population aged over 55 represents 8%. The same figures for Kazakhstan are, respectively, 26.13%, 12.97%, 42.23% and 10%, and for Azerbaijan, respectively, 25.26%, 13.17%, 45.29%,

³⁹ P. Le Billon, *The Geopolitics of Resource Wars: Resource Dependence, Governance and Violence* (New York, 2005), p. 15.

⁴⁰ Ross, 'Does Oil Hinder', pp. 329.

⁴¹ Ibid.

⁴² Almaz, 'Testing the Rentier State Theory', pp. 60–72.

and 11%. Individuals aged over 65 in Azerbaijan represent only 7.29% of the population, 8.43% in Kazakhstan and 5.38% in Turkmenistan.⁴³

Table 2. Population of the Caspian states

State	2000	2004	2005	2008	2011	2012	2016	2018	2020
Azerbaijan	7748163	7868385	7911974	8177717	8372373	9493600	9872765	10046520	10205810
Kazakhstan	16733230	15143700	15185840	15340530	15522370	17522010	18360350	18744550	19091949
Turkmenistan	4518268	4863169	4952081	5179571	4997503	5054828	5291317	5411012	5528627

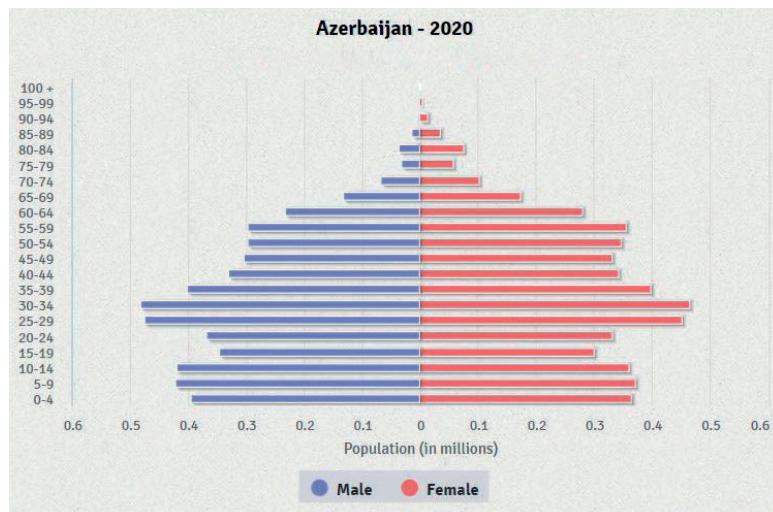
Source: <https://www.indexmundi.com/g/g.aspx?v=89&c=aj&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=kz&l=e>; <https://www.indexmundi.com/g/g.aspx?v=89&c=tx&l=en>; <https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html> (accessed: 12 Sep. 2020).

Table 3. Percentage population growth in the Caspian states

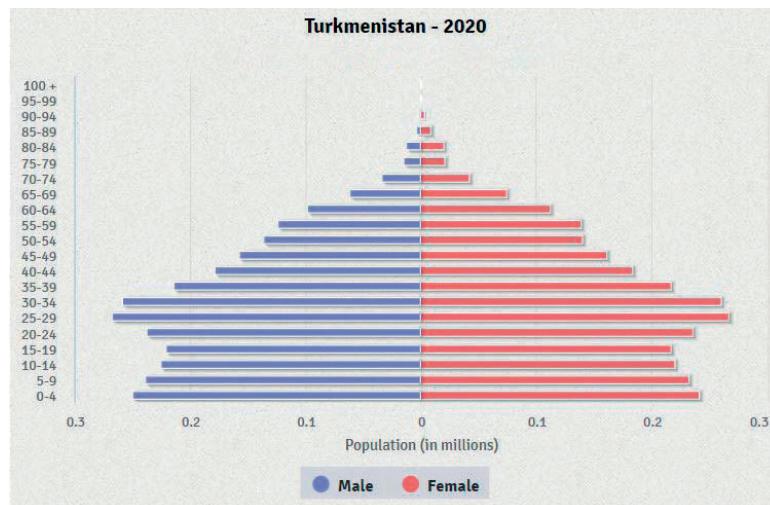
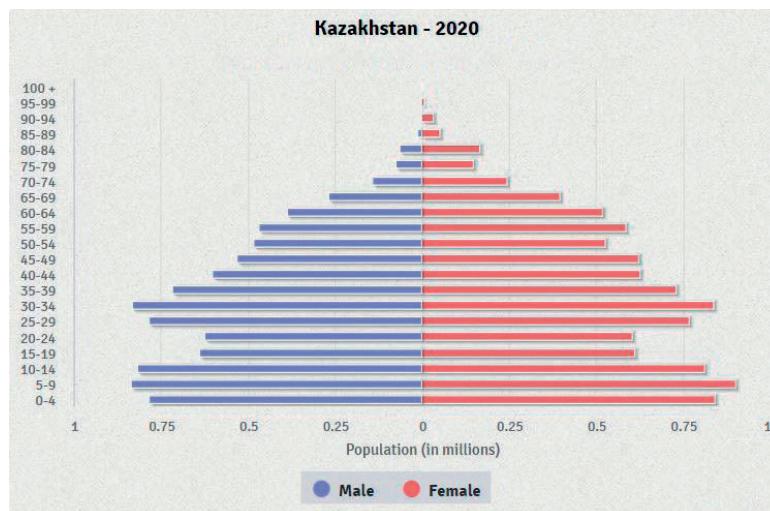
State	2000	2002	2003	2004	2006	2007	2008	2009	2010	2013	2014	2016	2018
Azerbaijan	0.27	0.38	0.44	0.52	0.66	0.69	0.72	0.76	0.81	1.01	0.99	0.92	0.83
Kazakhstan	-0.05	0.1	0.17	0.26	0.33	0.35	0.37	0.39	0.4	1.2	1.17	1.09	0.98
Turkmenistan	1.87	1.84	1.82	1.81	1.83	1.62	1.6	1.14	1.14	1.15	1.14	1.13	1.1

Source: <https://www.indexmundi.com/g/g.aspx?v=89&c=aj&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=kz&l=e>; <https://www.indexmundi.com/g/g.aspx?v=89&c=tx&l=en> (accessed: 12 Sep. 2020).

Chart 1. Population structure of the Caspian states



⁴³ CIA World FactBook, 2024, <https://www.cia.gov/the-world-factbook/countries/> (accessed: 10 Oct. 2024).



Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html>; <https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html>; <https://www.cia.gov/library/publications/the-world-factbook/geos/tx.html> (accessed: 12 Sep. 2020).

The Human Development Index UNDP considers issues such as life expectancy, literacy, education and economic development.⁴⁴ The values this indicator considers for Central Asia and the Caucasus countries relate to the problems of human capital and *per capita* income. Considering the indicators of socioeconomic development, Kazakhstan is a country with “medium development” and ranks 50th in the world (the highest among the Caspian countries). Turkmenistan and Azerbaijan come

⁴⁴ *Human Development Report 2002. Deepening Democracy in a Fragmented World*, <https://hdr.undp.org/content/human-development-report-2002> (accessed: 15 Oct. 2024).

108th and 87th, respectively, in this respect.⁴⁵ Human Development Reports UNDP compared spending on education, health and defence as part of GDP. Data for countries undergoing transformation are not precisely defined. The share of expenditure on education in the GDP of individual countries in the 1990s ranged from 3% to 5%.⁴⁶ The number of teachers and medical staff in the Caspian countries has decreased. Currently, Azerbaijan spends 4.3% of its GDP on education, Kazakhstan 4.5% of its GDP, and Turkmenistan 3.1%. In the case of Azerbaijan, spending on the health sector amounts to 4.6% of GDP, while Kazakhstan spends 3.8% and Turkmenistan 6.9%.⁴⁷

The Caspian states achieved the highest GDP values between 2003 and 2013 (Table 4, 5), when the largest infrastructural investments in the region took place. The crisis caused by the fall in oil prices on the world market resulted in a drastic drop in their income. Analysing the data on GDP per capita, it is clear that this indicator shows systematic growth. The society of all newly emerging Caspian states is slowly but surely getting richer. This tendency is most pronounced in the case of Kazakhstan. The percentage of the impoverished population has also decreased in all Caspian countries. The best situation in this respect is in Turkmenistan, and the worst is in Azerbaijan. The level of unemployment in the region's countries varied depending on the economic situation in individual countries and amounts to around 5%.

The macroeconomic stability of the Caspian region results from the diversification of production, which is not related only to the extraction of energy resources. Based on the consumer price index, the post-Soviet Central Asian and Caspian states are more economically stable than in the 1990s. In 2003, inflation in Azerbaijan fell to 2.2%, in Turkmenistan to 6.5%, and in Kazakhstan to 6.4%.⁴⁸ Currently, the inflation rate is 6.65% in Azerbaijan, 6.75% in Kazakhstan and 8% in Turkmenistan.⁴⁹ An optimistic tendency is also to reduce the number of people living in poverty (Table 6). The unemployment level in the Caspian countries dropped significantly at the beginning of the twenty-first century. Then, it increased in Azerbaijan in 2009 and 2013, related to the international crisis. For Kazakhstan, on the other hand, the downward trend was smooth (Table 7).

The societies of the Caspian states are primarily open to economic and political support from Western states. Organisations of a social and non-governmental nature, such as the Soros Foundation, the Eurasian Partnership Foundation, the German Marshall Fund of the US, and projects under the EU's neighbourhood

⁴⁵ Human Development Report 2019. *Beyond income, beyond averages, beyond today: Inequalities in human development in the 21st century*, <https://hdr.undp.org/content/human-development-report-2019> (accessed: 15 Oct. 2024).

⁴⁶ Ibid.

⁴⁷ CIA World FactBook, 2024.

⁴⁸ Kaser, 'The Economic and Social Impact', pp. 145–60.

⁴⁹ CIA World Fact Book, 2024.

policy encouraging cross-border cooperation, have started to operate in this region, albeit to a limited extent.⁵⁰ Various social groups functioned in post-Soviet societies, represented by environmental, women's, artistic and academic organisations.

Table 4. GDP real growth (%) in Caspian countries

State	1999	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2015	2016	2018	2020
Azerbaijan	7	11.4	6.1	11.2	9.8	26.4	34.5	23.4	10.8	9.3	5	0.1	2.2	5.8	1.1	-3.8	0.1	0.1
Kazakhstan	1.7	10.5	9.5	9.2	9.1	9.5	10.6	8.5	2.4	1.2	7	7.5	5	5	1.2	1	4	6.13
Turkmenistan	9	16	6	23.1		7.5	6	6	10.5	6.1	9.2	14.7	11	12.2	6.5	5.3	6.5	6.5

Source: <https://www.indexmundi.com/g/g.aspx?v=89&c=kz&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=aj&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=tx&l=en> (accessed: 12 Sep. 2023).

Table 5. GDP *per capita* (USD) in the Caspian countries

State	1999	2000	2002	2003	2004	2005	2006	2007	2008
Azerbaijan	1.770	3.000	3.500	3.400	3.800	5.400	7.500	8.000	9.500
Kazakhstan	3.200	5.000	6.300	6.300	7.800	8.300	9.400	11.000	11.500
Turkmenistan	1.800	4.300	5.500	5.800	5.700	7.900	8.500	5.300	6.200
State	2009	2010	2011	2012	2013	2015	2016	2017	2018
Azerbaijan	10.400	10.900	10.300	10.700	10.800	18.000	17.700	17.500	
Kazakhstan	11.800	12.700	13.200	14.100	14.100	24.300	25.700	26.300	
Turkmenistan	6.700	7.500	7.900	8.900	9.700	16.400	17.300	18.200	

Source: <https://www.indexmundi.com/g/g.aspx?v=89&c=kz&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=aj&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=tx&l=en> (accessed: 12 Sep. 2020).

Table 6. Percentage of population in Caspian states living in poverty (%)

State	1999	2000	2002	2005	2009	2012	2015	2018	2019
Azerbaijan	60	60	49	24	11	6	4.9	4.9	4.9
Kazakhstan	35	26		19	8.2	5.3	2.7	2.6	2.6
Turkmenistan	58	34.4	58	30		0.2		0.2	0.2

Source: <https://www.indexmundi.com/g/g.aspx?v=89&c=aj&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=tx&l=en> (accessed: 12 Sep. 2020).

⁵⁰ L. Alieva, 'Globalization, regionalization and society in the Caspian Sea Basin: Overcoming geography restrictions and calamities of oil-dependent economies', *Southeast European and Black Sea Studies*, vol. 12, no. 3 (2012), pp. 443–453.

Table 7. Unemployment rate (%) in Caspian states

State	1999	2002	2003	2004	2005	2006	2007	2008	2009	2010	2012	2013	2015	2016	2017
Azerbaijan	20	16	16	1.1	1.2	1.1	1.2	0.8	6	0.9	1	6	5.3	5	5
Kazakhstan	13.7	10	8.8	8	8.1	7.4	7.3	6.6	6.3	5.5	5.3	5.3	5	4.9	5
Turkmenistan			60									11			

Source: <https://www.indexmundi.com/g/g.aspx?v=89&c=aj&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=kz&l=en>; <https://www.indexmundi.com/g/g.aspx?v=89&c=tx&l=en> (accessed: 12 Sep. 2020).

However, the role of non-state actors in state policy and in the framework of transregional cooperation depended on their specificity. In this context, one should consider the political and social heritage going beyond the Soviet period, the type of political regime and the level of support from foreign actors. It is also important to cooperate with international structures like the EU and NATO and superpowers like the USA. However, external players – state and non-state – rarely promoted reforms and democratisation in individual countries, focusing mainly on strategic and energy issues.

The issue of civil rights, freedom and political reforms has become the domain of the so-called civil society. In Azerbaijan, civil society, the opposition and the media focused on integration with European and Euro-Atlantic structures. In 2006, the Open Society Institute in Azerbaijan initiated the establishment of the Azerbaijan National Committee for European Integration (ANCEI).⁵¹ This non-governmental organisation promoted integration with the EU and monitored the implementation of the agreement between Azerbaijan and the EU under the European Neighbourhood Policy. In this context, it prepared reports and expert opinions emphasising the lack of progress or regression in some areas. Similarly, a group of NGOs founded the Euro-Atlantic Council in July 2011. Its goal this time was the integration of Azerbaijan with NATO. Another non-governmental initiative in Azerbaijan was the cooperation of various independent economic experts who organised a campaign for Azerbaijan's membership in the WTO.⁵² However, it should be noted that the activity of this type of actors in the post-Soviet region was limited.

Access to the Internet is an important aspect of social life.⁵³ In the 2000s, the number of its users in the countries of the Caspian region showed an upward trend. The only exception in this respect was Turkmenistan. The Internet has become a powerful tool for influencing public mood, which meant that it was treated by the regimes of the newly established Caspian states as a threat to stability and the

⁵¹ Ibid.

⁵² Ibid.

⁵³ S. Oates, *Revolution Stalled: The Political Limits of the Internet in the Post-Soviet Sphere* (Oxford, 2013), p. 34.

realisation of their interests.⁵⁴ The websites of young activists, Facebook, and other forms of social mobilisation on the Internet have become the targets of attacks and censorship in Azerbaijan, Kazakhstan, Russia, Iran, and Turkmenistan. In Azerbaijan, two bloggers, Emin Milli and Adnan Hacizada, were sentenced to two years for inciting “hooliganism”.⁵⁵ They were released in December 2010 as a result of pressure from the international community. Repressions of this type were in contradiction with the adopted direction of changes and technological modernisation in the newly created countries of the region. There were transnational companies in the telecommunications market of the Caspian countries.

The societies of the region, inspired by the events of the Arab Spring, began to use social media more intensively to promote freedom and political reform. However, their actions were often constrained by authoritarian regimes. In May 2011, the Azerbaijani government sentenced the young activist Jabbar Savalan to two years in prison. It called for democratisation and change, trying to mobilise young people through social media.⁵⁶ Internet posed a double threat to authoritarian regimes: as a mobilisation tool not only in the internal dimension but also as an element of interference by the international community. Social networks try to influence the state elite and constitute an element motivating cooperation at the regional and subregional level between NGOs and pro-democratic political activists.⁵⁷

It can be concluded that the transformation in the socio-economic dimension was primarily related to energy security policies in the countries of the Caspian region. Economic development was conditioned by resource wealth, but paradoxically, it did not translate into social development towards democratisation and pluralism. On the contrary, the revenues from the export of hydrocarbons strengthened the possibilities for authoritarian regimes to influence society by introducing repressive policies.

Conclusion

Based on the presented analysis, it can be concluded that the Caspian region is exposed to many potential threats to economic and social security. Weak and vulnerable political and economic systems of the post-soviet states will not be able to stop any conflicts that may arise. In the short term, authoritarian systems may guarantee public order, but they do not ensure long-term economic development and state stability. In addition, the transformation towards deeper authoritarianism or democratisation weakens states even further and increases the likelihood of a conflict breaking out.

⁵⁴ Alieva, ‘Globalization, regionalization’.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Ibid.

The newly established Caspian states faced various challenges. Four main areas can be distinguished here. Firstly, there is a need to protect and strengthen civil liberties and, at the same time, to combat serious threats (such as terrorism or organised crime). Secondly, the problem is political succession. In most Caspian states, leaders can rule for a very long time, but there must be a transfer of power in some situations. However, fair and universal elections are still a mechanism alien to the specificity of political systems in the region. The way to select a new leader is usually to "anoint" him by the previous one. Third, the problem is the limited relations between the countries in the region. Efforts to build regional institutions are often breakneck, and the risk of conflicts between states increases.

Consequently, the situation in the Caspian region seems more unstable than during the collapse of the USSR. Internal and external pressures make the former republics vulnerable. National and state-building processes are exposed to various challenges that states have not always coped with. Sensitivity to external crises is a phenomenon influencing the prospect of socio-economic development in the Caspian region. They may result in a reduction in the demand for raw materials. For economies focused on oil exports, the problem is their dependence on world prices of this commodity. They determine their income from exports and the rules of trade. In addition, a crisis situation may limit access to capital markets. Good economic times and high oil prices may, in turn, lead to a deepening of the "Dutch disease".

The inhibition of economic development in the newly established countries of the Caspian region may cause social discontent and, as a result, become the cause of a possible conflict. The probability of a conflict is greater in the process of social and economic modernisation. If modernisation in the social dimension progresses faster than in the economic dimension, society's frustration level increases. Thus, social groups seek to change this situation by increasing political participation to exert greater influence on the rulers. However, conflict can break out when legal channels of influence are ineffective. Therefore, economic and political inequality can intensify the mobility of a society that is increasingly aware of its situation. In the long run, development leads to a fairer distribution of wealth, while in the short run, it causes corruption and frustration in various social groups.

The main element of this argument is the combination of an increase in expectations that are not met and a lack of political institutions that could be a channel for the expected changes. A weak state, where institutions do not have social legitimacy, is a potential source of conflict. In addition, when socially perceived injustice is associated with specific social, ethnic or economic groups, it can lead to societal tension and provoke actions directed against the state. Such a situation may result in a national conflict. The Caspian states were classified into a group of countries with strong leadership, weak financial positions, and an excluding regime. They do not have institutions that could solve problems and respond to the aspirations of various social groups.

Abstract

The Caspian region was underdeveloped economically and socially compared to other areas of the USSR. Therefore, the republics of this area were more dependent on structures and subsidies from Moscow. The interruption of budget transfers from the central government and the elimination of internal trade and transport links worsened the situation of the Caspian region even more because after regaining independence, the newly established states were to be deprived of subsidies from the USSR budget. After the fall of the Soviet Union, the newly established states of Central Asia and the Caucasus opened up to foreign investment and became significant players in the global energy markets as "rentier states", which derive most of their revenues from the energy sector. Therefore, the research goal of the study is to analyse the main determinants of the economic and social development of the Caspian countries (Azerbaijan, Turkmenistan, and Kazakhstan) in the context of challenges, threats and prospects. The factor method was useful for identifying, classifying, and prioritising both the internal and external conditions of the economic and social transformation of the Caspian states.

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