

**SOUTH CAUCASIAN COUNTRIES:
SOCIOECONOMIC DEVELOPMENT AND
DEMOGRAPHIC POTENTIAL
IN THE NEW GEOPOLITICAL CONDITIONS**

Elena PISMENNAYA

*D.Sc. (Sociol.),
Professor at the Department of Sociology,
Financial University under the Government of the Russian Federation
(Moscow, Russian Federation)*

Sergey RYAZANTSEV

*D.Sc. (Econ.), Corresponding Member of
the Russian Academy of Sciences, Professor,
Head of the Department of Demographic and Migration Policy,
Moscow State Institute of International Relations (MGIMO University) of
the Ministry of Foreign Affairs of the Russian Federation;
Head of the Center for Social Demography of the Institute of
Socio-Political Research, Russian Academy of Sciences
(Moscow, Russian Federation)*

Oleg PICHKOV

*Ph.D. (Econ.), Dean of the School of
International Economic Relations, Moscow State Institute of
International Relations (MGIMO University) of
the Ministry of Foreign Affairs of the Russian Federation
(Moscow, Russian Federation)*

Artyom LUKYANETS

*Ph.D. (Econ.), Associate Professor at the Department of
Demographic and Migration Policy, Moscow State Institute of
International Relations (MGIMO University) of the Ministry of
Foreign Affairs of the Russian Federation; Leading Research Fellow
at the Center for Social Demography of the Institute of
Socio-Political Research, Russian Academy of Sciences
(Moscow, Russian Federation)*

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ABSTRACT

The article considers the specific features of socioeconomic and demographic development in the three South Caucasian countries in the new geopolitical conditions. It identifies the demographic trends in Armenia, Azerbaijan and Georgia, shows the specific factors behind these trends, and describes fertility, mortality and migration processes in the three countries. In particular, it shows the specific patterns of emigration from the South Caucasian countries, including to the Russian Federation, as well as the new geographical destinations for migrants from the region. The authors note that the diasporas formed as a result of emigration have contributed to socioeconomic stability in the region. Thanks to material support from the diasporas, their home countries have managed to stabilize

the socioeconomic situation, maintain the income level of a significant part of the population, and avoid mass unemployment and poverty.

As the socioeconomic situation has stabilized, the development of the South Caucasian countries has become more uneven. The best situation is in Azerbaijan, which is relatively rich in fossil fuel, while the situation in Armenia and Georgia is much worse. Demographic processes in the Southern Caucasus also differ from country to country: the most favorable demographic situation is in Azerbaijan, and the least favorable in Georgia. Azerbaijan also has the most balanced age and sex structure of the population. Armenia and Georgia, despite rising birth rates, still have negative population growth due to migration outflows.

KEYWORDS: *Southern Caucasus, Armenia, Azerbaijan, Georgia, socioeconomic development, labor market, employment, unemployment, demographic potential, labor resources.*

Introduction

The three South Caucasian countries are unique in historical, political, sociocultural and economic terms. Economic transformations have significantly changed employment patterns, income levels and living standards in these countries and have influenced the sociodemographic situation in the region. The lifting of restrictions on emigration and employment abroad against the background of a sharp reduction in the number of jobs and a decline in production in the South Caucasian countries have induced many specialists and workers to emigrate. Their main destinations are Russia, Turkey, and other countries (the U.S., European states) with established diasporas from the respective countries. Diasporas have been a stabilizing factor for the socioeconomic situation in the region, since the material support provided by diaspora members has made it possible to maintain the income level of a significant part of the population in the home countries and to avoid mass unemployment and poverty. The best situation is in Azerbaijan, which is relatively rich in fuel and energy resources, while the situation in Armenia and Georgia is much worse. The socioeconomic and demographic situation in the region has also been compounded by ethnic conflicts and local wars, which have erupted in the Southern Caucasus with varying degrees of intensity since the early 1990s.

The geo-economic position of the region is primarily determined by its energy resources. This applies, in the first place, to Azerbaijan's oil and gas. The region also has other mineral, natural,

recreational, demographic, and human resources, which can eventually make its economies competitive, possibly even on a global scale.

Methods and Materials

This study is based on official statistics from the three states on the key indicators of socioeconomic and demographic development for the period from 1991 to 2016. We also used population census data from the three South Caucasian countries and the Russian Federation, as well as statistical data from the Federal Migration Service (FMS) of Russia, which existed until the middle of 2016 and kept a record of the number of permits and patents issued to foreign citizens. Some FMS statistics used in this study were adjusted based on information obtained from expert and public opinion surveys, including surveys of migrant workers living outside of the South Caucasian countries. Another major source of information is the World Bank, which estimates the amount of money transfers flowing into a country from abroad. Most of these funds are remittances from diaspora members and migrants working outside of their home country.

Results

Socioeconomic development and demographic potential of Azerbaijan. Azerbaijan is the only South Caucasian country that has not only been able to maintain the size of its population after the breakup of the U.S.S.R., but has actually increased it. From 1991 to 2016, the country's population grew at an average annual rate of 1.1%, from 7.22 million in 1991 to 9.85 million in 2017. In 2015, the birth rate was 17.4 per 1,000 population (‰), and the mortality rate was 5.7‰. The population structure in Azerbaijan is characterized by a slight prevalence of females (50.1%) over males (49.9%). Azerbaijan also has a young age structure: 22.5% of the total population are under 14 years of age; 71.3% are aged 15-64 years, and 6.2% are aged 65 and over. Young people aged 14-29 constitute 27% of the total population. In 2015, life expectancy at birth was 75.2 years, including 72.7 years for males and 77.6 years for females.¹ As a result, the demographic structure of the population in Azerbaijan is currently progressive, balanced, and more favorable than those of the other South Caucasian countries.

The demographic structure of the population determines the country's significant labor potential. In 2015, its labor resources totaled 6.3 million people, having increased by 915 thousand over the previous ten years.² The economically active population was 4.9 million, having increased by 532 thousand in ten years. In 2016, the number of people employed in the economy of Azerbaijan was 4.7 million, having increased by 610 thousand. The labor force is mainly concentrated in agriculture: in 2015, 36% of all economically active people were employed in that sector. Employment in trade (15%), education (8%), public administration, defense and social security (6%), and industry (5%) is also important for Azerbaijan's economy.

Despite the country's economic successes, the problem of unemployment remains significant, though less acute than in the neighboring countries. In 2015, the number of unemployed persons was 244 thousand, and the unemployment rate was 5% of the economically active population. The un-

¹ See: The State Statistical Committee of the Republic of Azerbaijan, available at [<http://www.stat.gov.az>].

² See: *Labor Market. Statistical Yearbook 2016*, State Statistical Committee of the Republic of Azerbaijan, available at [http://www.stat.gov.az/menu/6/statistical_yearbooks/source/labour_2016].

employment is due, on the one hand, to the economic consequences of the disintegration of the single economic space of the U.S.S.R., including the rupture of economic ties between enterprises that were once part of a single production complex, the loss of material suppliers and buyers of products. On the other hand, Azerbaijan's largely obsolete technologies prevent its enterprises from producing world-class products and entering new markets. Investments are sector-specific: most of them go into the oil industry. This makes it impossible to diversify the economy and thus to diversify employment opportunities. The crisis in global commodity markets, which caused a drop in world oil prices, led to an insignificant increase in the number of unemployed in 2015 (by 6 thousand persons).

Another factor that reduces tensions in the national labor market of Azerbaijan is labor migration. A significant part of the economically active population (about 2 million persons) work abroad and live there temporarily or permanently.³ Russia continues to be the main destination country for migrant workers leaving Azerbaijan, although migration flows to countries of the Persian Gulf, other Middle East countries, Europe, and the United States are increasing. According to the 2010 All-Russia Population Census, 600 thousand ethnic Azerbaijanis and 150 thousand citizens of Azerbaijan were permanently resident in Russia, and another 12 thousand Azerbaijani citizens were living in Russia temporarily.⁴ But it is difficult to say how far these categories overlap, because the technique used to collect census data has been widely criticized. According to the U.N. Population Division, the total number of Azerbaijani citizens living abroad in 2015 was about 1.2 million.⁵ Experts estimate the number of Azerbaijanis in Russia at 0.5 million to 1.2 million.⁶ Many Azerbaijanis have been able to acquire Russian citizenship. Under Russian laws, Azerbaijani citizens wishing to enter the Russian labor market require a patent, a special document that is not subject to the quota system. In 2013, according to the FMS of Russia, 50 thousand citizens of the republic obtained patents in Russia; in 2014, the figure nearly doubled.⁷ Azerbaijanis live in different regions and cities of Central Russia, Siberia, the Far East, the North, and the Northern Caucasus. The largest Azerbaijani communities have formed in the Moscow Region (from 200 thousand to 800 thousand persons) and in St. Petersburg and the Leningrad Region (up to 200 thousand persons).⁸

In the last few years of the Soviet Union and right after its breakup, the ethnic niche of Azerbaijanis in Russia included trade in fruits and vegetables in the public markets of big cities and public catering.⁹ But they have gradually diversified their activities. Many Azerbaijanis who are citizens of Russia have their own businesses in trade, catering, transport, construction, and agriculture. Many qualified specialists work in education, administration, and healthcare. According to the FMS of Russia, migrant workers from Azerbaijan are employed in construction (34%), the service sector (28%), and trade (5%). It should be noted that Azerbaijanis tend to live in clusters in some big cities and regions of Russia. According to World Bank estimates, remittances from the diaspora to the home

³ See: *Away from Azerbaijan, Destination Europe: Study of Migration Motives, Routes and Methods*, IOM, Geneva, 2001, 59 pp.

⁴ See: All-Russia Population Census of 2010, available in Russian at [http://www.gks.ru/free_doc/new_site/perepis2010/croc/Documents/vol8/pub-08.04.pdf], available at

⁵ See: *International Migrants by Country*, U.N. Population Division, 2015 [<http://www.pewglobal.org/interactives/migration-tables/>].

⁶ See: *Migration Trends in Eastern Europe and Central Asia: 2001-2002*, Review, IOM, Geneva, 2002, pp. 59-61; A.S. Yunusov, "Trudovaia emigratsia iz Azerbaidzhana: strategii integratsii v rynki truda i riski," in: *Trudovaia migratsia v SNG: sotsialnye i ekonomicheskie efekty*, ed. by Zh.A. Zaionchkovskaya, Moscow, 2003, pp. 121-132.

⁷ See: *Trud i zaniatost v Rossii v 2013 godu*, Rosstat, Moscow, 2014, 550 pp.

⁸ See: S.V. Ryazantsev, A.S. Lukyanets, "Transformation of Labor Markets of the Southern Caucasus Countries in New Geopolitical and Economic Conditions," *International Journal of Economics and Financial Issues*, No. 6 (8S), 2016, pp. 90-95. EID: 2-s2.0-85004073518.

⁹ See: M. Lyange, "Delovoie litso 'kavkazskoi natsionalnosti,'" *Ogoniok*, No. 2, 1997, pp. 25-29.

country reached a maximum of \$1,846 million in 2014. Later on, however, remittances began to decline because of the economic crisis: in 2016, they totaled 643 million, including \$374 million from Russia.¹⁰ Despite the significant reduction in remittances, the Azerbaijani diaspora takes an active part in the economic and social life of Azerbaijan, supporting families and relatives in the home country. Thanks to migrant workers, Azerbaijan obtains significant resources for the development of the national economy.

Socioeconomic development and demographic potential of Armenia. The population of Armenia rapidly decreased from 2000 to 2015. In ten years, it shrank by 217 thousand people (6.7%) to 3 million.¹¹ The decline was mainly due to rising mortality and migration outflows. The death rate in Armenia rose from 7.5‰ in 2000 to 9.3‰ in 2015, while the birth rate rose in that period from 10.6‰ to 13.9‰, which amounted to a slight natural population increase. But the country's total population decreased rapidly due to significant migration losses.

In 2015, Armenia's labor resources totaled 2.4 million people, with 64% of them living in cities. Women made up more than half of the labor resources: 56%.¹² The economically active population decreased from 1.5 million (61% of labor resources) in 2010 to 1.3 million (63%) in 2015. The employment rate rose by 1.3% in 2010-2015, while the unemployment rate declined by 0.5%.

The largest share of the population in Armenia is employed in agriculture: about 35% of all employed persons, although the figure is gradually declining (in 2005, it was 46%). Other significant employers include trade (11%), education (9%), public administration and defense (8%), and healthcare (5%). A large informal sector and a high rate of informal employment are a specific feature of the Armenian economy. This sector includes paid domestic workers, employers and self-employed persons who have their own informal enterprises, and other categories. In 2015, about 584 thousand persons worked in the informal sector of the Armenian economy, including 71% in agriculture.

A high rate of unemployment is a serious socioeconomic problem for Armenia, threatening economic growth and public welfare. The situation in the Armenian economy is heavily dependent on the state of the Russian economy. Since the beginning of the latest economic crisis in Russia, unemployment in Armenia has increased. In 2015, the highest unemployment rate was in the 20 to 24 age group (52%). A national peculiarity in Armenia is a roughly equal unemployment rate in different education groups: 18% for people with a tertiary, specialized secondary or general secondary education, and 16% for those with a vocational education.

Massive labor emigration is a specific feature of the socioeconomic situation in Armenia. According to experts, about 1.5 million citizens of Armenia have left the country since 1991. Today, a third of Armenia's permanent population (36%) is abroad, mainly for the purpose of work.¹³ According to the National Statistical Service of the Republic of Armenia, push factors driving people to emigrate are unemployment (46% of men and 24% of women), lack of employment in certain occupations (5% of men and 3% of women), the impossibility of ensuring a decent standard of living (19% of men and 13% of women), and family reunification (7% of men and 40% of women). Emigration has significantly enlarged the Armenian diaspora, which currently numbers about 7 million persons, far outnumbering the population of Armenia itself.¹⁴

¹⁰ See: Data Base of the World Bank, available at [<http://www.worldbank.org/en/topic/labormarkets/brief/migration-and-remittances>].

¹¹ See: Data of the National Statistical Service of the Republic of Armenia, available at [<http://www.armstat.am/>].

¹² See: *Statistical Yearbook of Armenia 2015*, National Statistical Service of the Republic of Armenia, Yerevan, 2016, 350 pp.

¹³ See: Data of the National Statistical Service of the Republic of Armenia.

¹⁴ See: R. Pannossian, "Courting a Diaspora: Armenia-Diaspora Relations since 1998," in: *International Migration and Sending Countries: Perceptions, Policies and Transnational Relations*, ed. by E. Ostergaard-Nielsen, Palgrave, 2003, 142 pp.

According to the U.N. Population Division, the number of Armenian citizens living outside of their country in 2015 was around 940 thousand.¹⁵ The 2010 All-Russia Population Census estimated the number of ethnic Armenians permanently resident in Russia at 1.2 million, with another 12 thousand citizens of Armenia living in Russia temporarily.¹⁶ But the latter estimate is obviously too low. In 2014, according to the FMS of Russia, Armenian citizens in Russia were issued 31 thousand work permits and 150 thousand patents. Thus, the number of Armenian migrant workers in Russia was at least 180 thousand. Since 2015, Armenian citizens are not required to obtain authorization to work in Russia due to the establishment of a single labor market within the framework of the Eurasian Economic Union (EAEU).¹⁷

Studies show that Armenian communities in Russia formed in Soviet times have become “cores” around which new migrants settle.¹⁸ Armenian communities tend to settle in relatively compact clusters across Russia, primarily in Moscow and the Northern Caucasus (Krasnodar Territory, Rostov Region, and Stavropol Territory).

In 2014, according to the FMS of Russia, more than half (54%) of migrant workers from Armenia were employed in construction, 16% in the service sector, and 10% in transport. Most work patents were issued in Moscow, Moscow Region, regions of the Northern Caucasus, Samara Region, and Yakutia. Studies on the Northern Caucasus note the existence of strong family, ethnic and homeland ties as vectors that determine the destination for migrants from Armenia.¹⁹

Many Armenians are also employed in public administration, education, healthcare, and other sectors of the Russian economy. The range of Armenian business activities in Russia is fairly wide. In many regions, Armenians have opened numerous stores, cafes, restaurants, shoe repair shops, consumer service centers, commercial companies, etc. Many have become Russian citizens. Armenia’s entry into the EAEU will evidently further increase the outflow of labor from Armenia to Russia.²⁰ The World Bank estimates total remittance flows from the diaspora to Armenia in 2016 at \$1,382 million, including \$879 million from Russia.²¹ The Armenian diaspora has a serious stabilizing effect on the socioeconomic situation in Armenia.

Socioeconomic development and demographic potential of Georgia. In 2017, the population of Georgia was 3.7 million, with another 300 thousand people living in Abkhazia and South Ossetia, which Georgia considers to be part of its territory. The most complicated demographic situation in the South Caucasian region is precisely in Georgia. Although the crude birth rate rose from 10.7‰ in 2005 to 15.9‰ in 2015, the crude death rate also increased significantly: from 9.3‰ to 12.2‰. Life expectancy at birth fell from 74.3 to 72.9 years. Natural population growth in 2005-2015 was positive, but overall the population decreased. The main factor behind the population loss in that period was emigration. In 15 years, the country’s population shrank by 722 thousand people (or by 16%).²² This is the most significant population decline in the South Caucasian region.

¹⁵ See: *International Migrants by Country*, UN Population Division, 2015 [<http://www.pewglobal.org/interactives/migration-tables/>].

¹⁶ See: All-Russia Population Census of 2010, available in Russian at [http://www.gks.ru/free_doc/new_site/perepis2010/croc/Documents/vol8/pub-08.04.pdf].

¹⁷ See: *Trud i zaniatost v Rossii v 2013 godu*.

¹⁸ See: L.A. Arutyunian, “Novye tendentsii migratsii v Armenii,” in: *Migratsionnaia situatsia v stranakh SNG*, Kompleks-Progress, Moscow, 1999, pp. 72-80.

¹⁹ See: S.V. Ryazantsev, “Etnicheskoe predprinimatelstvo kak forma adaptatsii migrantov,” *Obshchestvennye nauki i sovremennost*, No. 5, 2000, pp. 80-90; idem, *Sovremennyyi demograficheski i migratsionnyi portret Severnogo Kavkaza*, Servisshkola, Stavropol, 2003.

²⁰ See: S.V. Ryazantsev, A.S. Lukyanets, op. cit.

²¹ See: Data Base of the World Bank [<http://www.worldbank.org/en/topic/labormarkets/brief/migration-and-remittances>].

²² See: Information from National Statistics Office of Georgia [http://www.geostat.ge/index.php?action=page&p_id=146&lang=eng].

In 2005-2015, Georgia's economically active population remained sufficiently stable at around 2 million people. Its labor force was mainly concentrated in agriculture (51%), in the service sector and trade (32%), and in industry (10%).²³ Agriculture is the main sector of the Georgian economy: it accounts for 9% of GDP, although labor productivity in this sector remains low. In recent years, services related to trade and tourism have been developing rapidly. The number of self-employed persons has been growing, while the number of employees has remained virtually the same. Most people working in some sectors of the economy are self-employed workers, and not employees. In 2015, for example, 85% of all employed persons in agriculture worked on their own farms.²⁴

Unemployment and the lack of well-paid jobs seriously slow down Georgia's socio-economic development. In 2015, the unemployment rate slightly declined to 12%, but it varied significantly across the country. For example, in rural areas it was 5% compared to 22% in the cities. The territorial differences are due, among other things, to better registration of unemployed persons in the cities. High youth unemployment is a pressing problem: in 2015, the highest rate was in the 20-24 age group (32%), followed by the 25-29 and 30-34 age groups (21% and 15%, respectively).

According to the U.N. Human Development Report, unemployed persons with a secondary or tertiary education in Georgia make up 74%.²⁵ This means that most specialists with a high education level do not contribute to the country's economic development, while its labor resources are used extremely inefficiently.

There has been a significant outflow of working-age people from Georgia for the purpose of work. Active emigration of different ethnic groups from the republic began after the breakup of the U.S.S.R. In 2015, the U.N. Population Division estimated the number of Georgian citizens living outside of their country of birth at 840 thousand.²⁶

According to the All-Russia Population Census, in 2010 there were 200 thousand ethnic Georgians and 50 thousand citizens of Georgia permanently resident in Russia, and another 1.5 thousand Georgian citizens were living there temporarily. These figures do not reflect the real picture of labor migration from Georgia to Russia. FMS data show that in 2000-2015 the number of migrant workers from Georgia obtaining work permits in Russia varied from 3 thousand to 7 thousand persons. A third of Georgian migrant workers in Russia (33%) are employed in construction, 17% in the service sector (catering, restaurants, cafes, etc.), and 12% in the transport sector. Georgian restaurants are particularly popular in Russian cities.

Such small numbers of Georgian migrant workers in Russia show that many of them have moved into the informal (unregistered) employment sector. This has taken place against the background of strained political relations between the two countries: in 2008, Russia introduced a visa regime for Georgian citizens. Since 2008, the number of Georgian migrant workers in Russia has declined because of the political tensions and the visa regime. However, the amount of remittances to Georgia has not decreased, but has actually risen as many migrant workers have found informal jobs in Russia while many others have headed for the United States, Italy, Greece, Turkey, and other countries. In 2009, according to the World Bank, Georgia received \$1,112 million, and in 2016, \$1,641 million (including \$893 million from Russia).²⁷

²³ See: Information from the International Labour Organization (ILO) [<http://www.ilo.org>].

²⁴ See: Information from National Statistics Office of Georgia.

²⁵ See: *Human Development Report 2015*, United Nations, Geneva [http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf].

²⁶ See: *International Migrants by Country*, UN Population Division, 2015 [<http://www.pewglobal.org/interactives/migration-tables/>].

²⁷ See: Data Base of the World Bank [<http://www.worldbank.org/en/topic/labormarkets/brief/migration-and-remittances>].

Migrant remittances have supported many households in Georgia and have made it possible to ensure minimum living standards for a significant percentage of families.

Conclusion

Socioeconomic and demographic indicators vary widely among the South Caucasian countries. The most developed country is Azerbaijan, whose economy is based on oil resources, while Armenia and Georgia are less developed. In geo-economic terms, their development models and vectors point in totally different directions. Azerbaijan is largely oriented toward cooperation with Turkey, the U.S., and countries of the Middle East; Georgia toward Europe and the U.S.; and Armenia toward Russia.

At present, the specificity of national labor markets in the region tends to increase. Despite similar features and common problems (youth unemployment, low labor productivity, labor migration to Russia), the South Caucasian countries differ in many key parameters of their labor markets.

Demographic processes in the South Caucasian countries are also uneven. The most favorable demographic situation is in Azerbaijan, and the least favorable in Georgia. Azerbaijan has the most balanced age and sex structure of the population. Armenia and Georgia continue to lose population despite rising birth rates, which is due to migration outflows.

Russia remains the main destination for migrants, although in recent years there has been a diversification of migrant destinations as more and more migrants have gone to Europe, the United States, the Persian Gulf countries, and other countries of the Middle East. The diasporas formed as a result of migration have had a significant stabilizing effect on the socioeconomic situation in the South Caucasian countries.

Despite the socioeconomic development peculiarities of the South Caucasian countries, one can suggest a number of universal approaches to developing the labor market and promoting employment. This includes active efforts to create new jobs. It is necessary to develop business based on public-private partnerships, which can be a spur to the development of economic sectors into which private entrepreneurs cannot enter or are wary of doing so. The main obstacles to starting a business and doing business in the South Caucasian countries are a lack of financial support at the startup stage, inflation, and low-skilled labor due to migration outflows, as well as bureaucratic barriers erected by the state.