former soviet union countries at twenty-five: social and economic trends

by mariya pak, phd
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Section 1. Introduction

Twenty-five years ago, on December 25, 1991, the Soviet Union was formally dissolved. The world’s first and most powerful communist country broke up into fifteen independent states, each free to pursue its own national goals and policies. This report examines the social and economic developments that have occurred in the fifteen Former Soviet Union (FSU) countries since their independence.

To understand how the FSU states have evolved, we must recall their Soviet pasts. Founded in 1922, the Soviet Union was a federal state with a heavily centralized government and economy controlled by the Communist Party. Before the breakup – from the end of World War II until the 1980s – the Soviet Union and the United States of America (USA) were the world’s two superpowers. Since the two countries were founded upon opposing ideologies – communism and capitalism – they competed in virtually all sectors: from sports, to arms, to space. Additionally, the Soviet Union and USA fought proxy conflicts in third countries and competed for greater international influence. This competition shaped much of the Soviet Union during that period.

The Soviet Union invested heavily in many areas in order to achieve its goal to outcompete the capitalist West. The socialist government provided free social services for all. Quality healthcare and education were free; education and literacy levels were high. The Soviet Union built the largest armed forces in the world totaling about 4 million service members in the army, navy, and air force. In 1961, the Soviets sent the first human into space. The Soviet Union also was the largest country in the world by area; it covered more than half of Europe and about two-fifths of Asia. Population-wise it was the third largest country in the world after China and India.

Despite its achievements and advancements, the Soviet Union faced a crisis in the 1980s. Industrial growth faltered and the flow of petrodollars declined due to the global energy crisis. The centrally controlled economy, where the state owned most of the property, also contributed to the social issues within the Union due to misallocation of resources and mismanagement. Satisfying consumer demand and providing adequate services was not a priority for state planners. This led to frequent shortages of many consumer goods as well as housing, resulting in declines in quality of life. Reforms to reverse the declines backfired and resulted in the eventual dissolution of the Union.

In their twenty-five years of existence, the FSU nations made efforts – to varying degrees – to improve the lives of their populations. The approaches have been very different, and in this report, we examine the results of the social and economic policy changes that have occurred; we also examine the quality of life in the FSU states. Section two of this report provides a brief overview of the FSU states in
terms of population. Section three examines Gross Domestic Product (GDP) in the FSU states. Section four focuses on inequality and human development. Section five examines human health and education. Section six provides insight on employment. Section seven examines migration and remittances. Section eight looks at economic reforms and their outcomes. Section nine considers energy consumption. Section ten examines happiness in the FSU countries.

For logistical and comparative purposes, the Former Soviet Union states are divided into five geographic and cultural groups:

- South Caucasus states: Armenia, Azerbaijan, Georgia
- Baltic states: Estonia, Latvia, Lithuania
- Slavic states: Belarus, Russia, Ukraine
- Moldova
- Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan

Most of the data used for this analysis are obtained from World Bank Databank website. The data, especially for the early 1990s, are not always precise. This research is conducted with the best available data.

➤ Section 2. Population

Growth and Decline

When the Soviet Union broke up in 1991, the country’s population was the third largest in the world. If the Soviet Union existed today, it would have ranked fourth in population, after China, India, and the United States. Overall, the number of people living in the FSU states increased from 289,113,315 people in 1991 to 293,566,843 million in 2015 (see Table 1). The most populous FSU countries today are Russia (144,096,812), Ukraine (45,198,200), Uzbekistan (31,299,500), and Kazakhstan (17,544,126). The annual population growth for the FSU countries during the past twenty-five years has been decreasing. The average annual population growth rate has decreased from 1.5 percent for the twenty-five-year period prior to 1991 to an average of 0.1 percent after 1991. The only countries that are currently experiencing growth are the five Central Asian states and Azerbaijan.
Table 1. Population changes in FSU countries

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>3,017,712</td>
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<td>-0.6</td>
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<td>1,311,998</td>
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<td>-0.7</td>
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</tr>
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<td>Latvia</td>
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<td>1,978,440</td>
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<td>-73</td>
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<td>-10</td>
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<tr>
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<td>17,544,126</td>
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<td>5,957,000</td>
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<td>1.2</td>
<td>-114</td>
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<tr>
<td>Tajikistan</td>
<td>5,417,554</td>
<td>8,481,855</td>
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<td>1.9</td>
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<td>Turkmenistan</td>
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<td>-25</td>
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<tr>
<td>Uzbekistan</td>
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<td>31,299,500</td>
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<td>1.7</td>
<td>-195</td>
</tr>
<tr>
<td>TOTAL</td>
<td>289,113,315</td>
<td>293,566,843</td>
<td></td>
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<td>556</td>
</tr>
</tbody>
</table>

Source: World Bank

Net Migration

Migration plays a huge role in the socio-economic life of the FSU countries. Often, people travel within the FSU territory pursuing better living and working conditions (read more in Section 8 on migration and remittances). The Slavic states and Kazakhstan – countries with stronger economies – were the only countries that had positive net migration during the 2010-2015 period. The rest of the countries experienced net loss, with Georgia recording the greatest net loss at 296,323 people during this period. Overall, there is positive net migration into the FSU region, with over half a million more immigrants than emigrants.

Birthrate

In general, there has been a clear decrease in fertility in FSU countries since independence (Figure 1). Central Asia and Azerbaijan have had, and continue to have, the highest birthrates. This explains why they are gaining population despite negative net migration. In most FSU countries, the fertility rate is below the replacement value, resulting in aging populations. In the Slavic states the influx of immigrants offsets the decreases in fertility. The Baltic states, on the other hand,
experience negative net migration and a decrease in fertility rates, resulting in some of the greatest declines in population of all the FSU states.

**Figure 1. Fertility rate per country**

![Fertility Rate Chart]

Source: World Bank

**Population Age**

Countries with aging populations face the growing problems of poverty eradication, pension system sustainability, and health care availability. Currently, the population distribution by age in all FSU countries is the following: 68 percent are between 15 and 64, 11 percent are 65 and older, and 21 percent are under 14 (Figure 2). The highest distributions of young people—between 27 and 35 percent—are found in Central Asia, unsurprising given their fertility rates. The highest distributions of older people—19 percent—are found in the Baltic states. In 2015, the United Nations Report on World Population Aging ranked the Baltic states among the top 16 nations in the world, whose elderly (aged 60 or over) make up 25 or more percent of their population. Slavic states, with elderly making up more than 20 percent of their populations, were in the top 44.
As workers get older and retire, their countries will have fewer young people entering the workforce to support the retiring generation. This issue is further compounded by the fact that people live longer in the Baltic states compared to Central Asia (Figure 3). The increase in life expectancies means that any country failing to replace their population through a combination of births or immigrants, will see older people make up a greater percentage of their populations. This situation has been observed in many developed countries and appears to be an issue in most of the FSU countries, excluding Central Asia.
Population distributions in the FSU countries are uneven. There is a growing, young population in Central Asia and Azerbaijan compared to the aging populations of the Baltic states, the Slavic states, Moldova, Armenia, and Georgia. As these populations become increasingly aged, the countries will need to design new policies and public services that target elderly issues, including housing, assisted living, health care, and social protections.

➢ Section 3. GDP as an Indicator of Economic Growth

The Soviet economy suffered economic stagnation for at least two decades before the breakup of the Union. The government was aware of the ineffectiveness of the centrally planned economy, but its reforms in the 1960s and the 1970s were unsuccessful. By the 1980s the quality of life started slowly declining: the demand for consumer goods did not meet the supply and problems with transportation, medical services, and education became more frequent. On the larger scale, overall industrial production declined. Outside income, largely derived from petrodollars, declined in the 1980s due to the world energy crisis. The budget deficit increased due to the war in Afghanistan.

When the Soviet Union was dissolved in 1991, people in the new independent states embraced the opportunities that a market economy could provide. They desired to improve their living standards and have access to quality consumer products. The FSU countries adopted divergent economic and political reforms and implemented different policies, therefore each state achieved different outcomes. This section looks at Gross Domestic Product (GDP) to compare the economic outcomes of reforms implemented in each country (Figure 4).
Figure 4. GDP PPP for the FSU countries


GDP is the basic criteria to compare levels of economic development; it is the total market value of all goods and services produced within a country over a period of one year. Criticism of GDP is that it can be misleading because currency exchange rates fluctuate between countries, distorting the actual wealth. To provide a better measurement of true economic development, economists calculate GDP based on purchasing power parity (PPP). PPP factors in the cost of living to GDP to give a better understanding of the true wealth of a nation. Given the dramatic differences between the countries’ GDPs and population, examining GDP per capita gives a better understanding of economic growth and allows us to better compare the economies of the FSU countries.
Figure 5. GDP per capita, PPP

![GDP per capita, PPP (current international $)](image)

Source: World Bank

Figure 5 uses the GDP per capita PPP data to show the change in economic development between 1991 and 2015. In 1991, the difference in GDP between the country with the highest GDP—Kazakhstan ($8,034)—and country with the lowest GDP—Uzbekistan ($1,972)—was about four times. The GDP per capita PPP for all of Europe and Central Asia for 1991 was $11,712. Today, the difference between the top GDP holder Estonia ($28,095) and the bottom GDP holder Tajikistan ($2,780) is about tenfold.

The Baltic states have been the most successful sub-region, as far as GDP per capita growth is concerned. They have benefitted from their geographic and political closeness to the European countries. Azerbaijan, Belarus, Russia, Kazakhstan, and Turkmenistan are the countries with the second highest GDPs in the region. Armenia, Georgia, Ukraine, and Uzbekistan had moderate economic gains; some of these countries have also been plagued by conflicts: Armenia and Azerbaijan with each other, and Georgia with Russia. Moldova, Tajikistan, and Kyrgyzstan have poor economic gains. As seen, the results are very different, and they are primarily attributed to countries’ resource (un)availability and size of population.

Generally, most of the FSU countries experienced economic growth. However, there are significant differences in development among the varying FSU regions and between the specific countries. Baltic states are the leading FSU sub-region in terms of GDP growth. In Central Asia, there is high GDP-holding Kazakhstan, medium GDP-holding Turkmenistan, and low GDP-holding Tajikistan. To
understand these differences, in the following sections, we will examine how various factors such as inequality (Section 4), health and education (Section 5), employment (Section 6), migration and remittances (Section 7), economic reforms (Section 8), and energy resources (Section 9) have contributed to the varying degrees of economic success of these economies.

- **Section 4. Inequality and Human Development**

**Gini Index**

Since independence, inequality between the new independent countries has grown significantly: Tajikistan’s GDP over the past twenty-five years grew by 26 percent, compared to Estonia’s growth of 342 percent. Inequality within many of the new independent states did not change significantly, per their Gini indices (Table 2). Gini index is a measurement of how the wealth is distributed among a population; a Gini ranking of zero representing perfect equality, while perfect inequality ranked as 1. The general trend for the FSU countries is that in 1988, while still under communist rule, countries showed a low Gini index. This is to be expected as communist countries should have much less inequality compared to market economies.

Inequality in FSU countries has grown since independence. The extreme example is Kyrgyzstan, where Gini index grew from 0.26 in 1988 to 0.54 in 1993. In more recent years, many FSU countries have shown slight decreases in inequality. Although the data record on inequality is incomplete, the partial data show that the changes in inequality have been minor in recent years compared to a large increase immediately after independence. This is because rapid market reforms usually increase inequality, but over time, if the incomes of the middle and low-income families rise, the declining trends in inequality are observed. The most unequal FSU countries today are Georgia and Russia; however, their Gini indices are comparable to those of the US and China.
Table 2. Gini Index over time

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Armenia</td>
<td></td>
<td>..</td>
<td>..</td>
<td>33.03</td>
<td>29.58</td>
<td>31.48</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td></td>
<td>..</td>
<td>..</td>
<td>18.81</td>
<td>31.79</td>
<td>..</td>
</tr>
<tr>
<td>Georgia</td>
<td></td>
<td>..</td>
<td>39.53</td>
<td>41.74</td>
<td>40.09</td>
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<td>22.76</td>
<td>21.6</td>
<td>28.82</td>
<td>27.69</td>
<td>27.18</td>
<td></td>
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<td>40.69</td>
<td>39.69</td>
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<tr>
<td>Ukraine</td>
<td>23.31</td>
<td>28.93</td>
<td>28.66</td>
<td>25.32</td>
<td>24.09</td>
<td></td>
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<tr>
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<td>26.99</td>
<td>36.53</td>
<td>34.83</td>
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<td>32.91</td>
<td>26.83</td>
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<td>32.99</td>
<td>28.79</td>
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<td>32.72</td>
<td>30.77</td>
<td>30.76</td>
<td>..</td>
<td></td>
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<td>Turkmenistan</td>
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<td>35.38</td>
<td>40.77</td>
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<tr>
<td>Uzbekistan</td>
<td>24.95</td>
<td>..</td>
<td>35.27</td>
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</table>


Human Development Index

All of the FSU countries have seen an increase in their GDPs since independence. The growth in GDP might imply that people are better off today than they were before. To identify whether this assumption is true, we are going examine the Human Development Index (HDI). HDI goes beyond exploring the amount of wealth in the society and its distribution, but it also assesses the overall well-being of the people. HDI values and rankings take into the account three main parameters of education, long and healthy life, and standard of living (measured by income).

HDI values indicate that the socio-economic disparity between the FSU countries grew significantly. The most current data on HDI identifies that the Baltic states have very high levels of human development; the Slavic states, the South Caucasus states, and Kazakhstan have high human development; Moldova, Turkmenistan, Uzbekistan, Kyrgyzstan, and Tajikistan have medium human development. Figure 6 shows the 2014 HDI values and overall global ranking of the fifteen FSU countries. In 2014, within the FSU group, Estonia ranked the highest (global rank 30), and Tajikistan ranked the lowest (129). Central Asia, except for Kazakhstan, has the lowest HDI. Kazakhstan, despite having higher GDP per capita than Latvia (Figure 5), has a lower HDI ranking. This is because human well-being factors, excluding GDP, are ranked higher in Latvia than in Kazakhstan.
Recent research on HDI data showed that unequal access to education, healthcare, and income (quality of life) distorts a nation’s true HDI value. The impact of inequality on HDI is taken into account in the inequality-adjusted HDI value, which provides a better indication of a nation’s HDI. Table 4 shows the inequality-adjusted HDI for FSU countries for 2014. Notice the percent value loss in the inequality-adjusted indices and how this is reflected in the inequality-adjusted HDI values and rankings. For example, in inequality-adjusted HDI, Belarus ranks higher than Latvia. Despite the HDI losses due to inequality, almost all of the FSU countries gain in global HDI ranking. This indicates that even with these inequalities, the FSU countries have less inequality compared to most other countries; a lingering impact of their recent communist past versus the long established free market economies in much of the rest of the world.
Table 3. Inequality-adjusted HDI for FSU countries in 2014

<table>
<thead>
<tr>
<th>Global HDI Rank</th>
<th>Country</th>
<th>HDI Value</th>
<th>Inequality-adjusted HDI Value</th>
<th>Overall HDI loss due to inequality (%)</th>
<th>Difference to global HDI rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
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<td>0.733</td>
<td>0.658</td>
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<td>50</td>
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<tr>
<td>50</td>
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<td>10.5</td>
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<tr>
<td>81</td>
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<td>16</td>
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<tr>
<td>30</td>
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<tr>
<td>46</td>
<td>Latvia</td>
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<td>37</td>
<td>Lithuania</td>
<td>0.839</td>
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<td>10.1</td>
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<td>107</td>
<td>Moldova</td>
<td>0.693</td>
<td>0.618</td>
<td>10.8</td>
<td>20</td>
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<td>56</td>
<td>Kazakhstan</td>
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<td>0.694</td>
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<td>120</td>
<td>Kyrgyzstan</td>
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<td>0.56</td>
<td>14.5</td>
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<tr>
<td>129</td>
<td>Tajikistan</td>
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<td>0.515</td>
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<td>109</td>
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<td>0.675</td>
<td>0.569</td>
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</table>


Percent inequality in the three HDI components are closely examined in Figure 7. One of the important factors to consider is that inequality in health and education impact inequality-adjusted HDI score more than inequality in income. Notice that the inequality in life expectancy is high in the South Caucasus states and Central Asia, which may be attributed to their larger rural populations (see Section 6 Employment). These people may not have access to the same quality of medical treatment available in urban centers. Inequality in education is generally low, indicating that students in FSU countries can get the same quality of education regardless of their income.
There are significant differences in socio-economic development between the FSU countries. The countries that ranked the highest per their inequality-adjusted HDI values are the same countries that have the highest GDPs—the Baltic states. Four Central Asian states: Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan ranked the lowest out of the fifteen FSU countries; their GDP values are relatively low and inequality values are relatively high. Kazakhstan is ranked sixth, after the Baltics, Belarus, and Russia. This is because Kazakhstan has a high GDP value and relatively low inequality values, compared to the other Central Asian countries. The comparative analysis in this section showed the relationship between inequality and HDI. The following section will examine in depth the other two components of HDI: health and education.

Section 5. Health and Education

Health Expenditure

Health and education are the two of the three main components of HDI. This section will examine health and education from the development perspective. Figure 8 shows the relationship between GDP per capita at PPP and health expenditure. Health expenditure is the sum of public and private health spending. It covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health, but does not include provision of water and sanitation. In general, the graph shows a positive relationship between GDP and health expenditure per capita, however,
some deviations can be observed. For example, resource-poor Moldova has lower GDP per capita than Turkmenistan, but still spends more on healthcare. Kazakhstan’s GDP is closer to Russia’s, but it spends far less on healthcare. In fact, Kazakhstan is spending about as much as Azerbaijan and Belarus—countries with much smaller GDPs. Kazakhstan does, however, spend far more on healthcare than the other Central Asian states, which explains why it has higher equality of life expectancy compared to the rest of the region (Figure 7).

**Figure 8. Health Expenditure and GDP per capita at PPP**

![Relationship between GDP per capita at PPP and health spending for 2014](image)

Source: World Bank

**Longevity**

Longevity is an important indicator of the health and development in any given country. Long life expectancy is observed in the Baltic states (Figure 3), which also have the least inequality in life expectancy. This correlates with their high health expenditures. Russia, however, despite having one of the highest health expenditures per capita, has one of the shortest life expectancies, exceeding only Tajikistan, Turkmenistan, and Uzbekistan. Compared to Kazakhstan, Russia spends nearly 70 percent more per person on healthcare, yet its population’s life expectancy is about year shorter. Armenia and Georgia, despite having some of the lowest expenditures on healthcare, have some of the longest life expectancies,
comparable to the top spenders of Latvia and Lithuania, and exceeding Russia by over 4 years.

Mortality

Statistical data of causes of death may help explain the differences in the life expectancies among the FSU countries (Figure 9). We see that all the four types of causes of death examined in this section: coronary heart disease, cancer, alcohol, and suicide, occur at similar rates in the Slavic nations and Moldova. These rates are similar despite Russia's increased spending on healthcare.

Figure 9. Select causes of death per 100,000 people* in 2012

Source: World Health Organization. *Note: scale 1: coronary heart disease and all cancers; scale 2: suicide and alcohol attributed

If the causes of death are directly related to choices made by the individual, healthcare spending has less impact on reducing mortality. Suicide rates are high (relative to the global average) in all the European FSU countries, as well as Kazakhstan and Turkmenistan. Of the suicide rate, it is interesting to note that the highest ratio of women to men committing suicide occurs in the Central Asian countries and Azerbaijan.7

Alcohol consumption has a significant impact on mortality. Because cause of death can be directly and indirectly related to the alcohol consumption, the World Health Organization calculates alcohol-attributed factors to death. Figure 8 shows a clear pattern where the alcohol consumption in the European FSU countries is having a
significant impact on mortality, especially when compared to the Central Asian and South Caucasus countries.

The rates of fatal coronary heart disease are high in all the FSU countries. The incidence rates in this region range from 2.5 to 7 times the world average. A possible explanation for these high numbers is that these economies are in transition, and their health systems are not sufficiently financed to respond to a high demand for disease treatment.\textsuperscript{8} Out-of-pocket health care expenditures are often hard to afford for patients. The Baltics countries, which have the highest healthcare spending, have less incidence of death from coronary heart disease, indicating better care. Cancer deaths conform to global average and are somewhat consistent throughout the FSU.

**Education Spending**

When communists gained control over the FSU territory, most of the population living there was poor and uneducated. The Communist Party strongly promoted education, which resulted in a near 100 percent literacy rate. This tradition of supporting education has been kept in the FSU countries, which still have the highest literacy rates in the world, all over 99 percent.\textsuperscript{9} Figure 10 shows the relationship between GDP and government expenditure on education per capita PPP. As with healthcare (see Figure 7), the Baltic states and Russia have the highest spending per capita. The South Caucasus states, relative to their GDPs, spend less on education. Azerbaijan, despite having one of the higher GDPs per capita, spends about as much on education per person as much poorer countries.
One metric to assess the strength of a country's education system is its publishing record. The SCImago Journal and Country Rank lists the number of documents published by country. Documents published per capita show a correlation between the countries that spend the most on education and those that publish the most per person. The Baltic states lead in publications per capita (Table 4). Armenia and Georgia outpublish all of the non-Baltic countries except Russia, despite spending less per capita on education than many of these countries. Azerbaijan and Turkmenistan are both on the lower end of education investment versus GDP, correlating with smaller publishing numbers. Fewer documents are published in Central Asia. For example, Turkmenistan put out 9 documents in 2015. The number of publications can be related to cultural and social components in these FSU countries where their academia have much less of a "publish or perish" mentality. A drawback of document publication per capita data is that it focuses on the academic aspects of education; it also does not evaluate the overall quality of the publications, and does not identify unique authors. Therefore, there is no distinction between fewer authors publishing more, or more authors publishing less.
Table 4. Documents Published in 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of documents</th>
<th>2015 Population</th>
<th>Documents per 100,000 people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>953</td>
<td>3,017,712</td>
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</tr>
<tr>
<td>Azerbaijan</td>
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<tr>
<td>Georgia</td>
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</tr>
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<td>Belarus</td>
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<td>Russia</td>
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</tr>
<tr>
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<tr>
<td>Uzbekistan</td>
<td>426</td>
<td>31,299,500</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: SCImago journal and country rank

➢ Section 6. Employment

Employment by Sector

In the early nineteenth century, industrialization took place in Europe. The agriculture sector, which mainly consists of activities in farming, hunting, forestry and fishing, was replaced by the industry sector that focuses on mining and quarrying, manufacturing, construction, and public utilities (electricity, gas, and water). In the past fifty years, the developed countries shifted from industry and manufacturing economies to postindustrial, service-based economies. In the post-industrialist world, most of the employment is concentrated and profits are made in the services sector. Services sector includes work that involves finance, insurance, education, transportation, healthcare, communication, etc. Post-industrialization
occurs when industrial production migrates outside the advanced country in search for cheaper labor markets and lower overhead costs.

Post-industrialization is happening in the developing countries as well, and globalization is accelerating this process. Figure 11 shows the change in employment by sector in FSU countries. Notice, in the countries where the data available both for 1996 and 2013, the services sector grew, while the agriculture sector shrank. Employment in the agriculture sector is still quite large in many FSU countries.

**Figure 11 Employment by Sector**

![Bar chart showing employment by sector in FSU countries, comparing 1996 and 2013.](chart)


The general trend that we see is a shift from agriculture and industry to the services sector (Figure 11). The countries with the largest agriculture sectors have also seen modest growth in their industry sectors as well. Figure 12 shows the relationship between people employed in a given sector and the value added to the GDP by that sector. We see that agriculture is adding less value to GDP than the industry or services sectors. Notice how the agriculture sectors in Georgia, Tajikistan, and Turkmenistan employ about half the population, but its contribution to GDP is low: 9 percent for Georgia, 27 for Tajikistan, and 15 for Turkmenistan. Services and industry sectors, for the most part, add more value to
the GDP. For many countries, the industry sector provides an outsized portion of their GDP relative to employment in that sector. This is largely due to the high value petroleum, mining, and manufacturing industries set up during and after Soviet times.

**Figure 12 Value Added (% of GDP) and Employed in Sector (% of total)**

![Graph showing Value Added and Employment by Sector](chart)

Source: World Bank, CIA factbook. Note: Data for value added % GDP for Turkmenistan are from 2010; data for employment for Georgia are from 2007, for Tajikistan from 2009, for Uzbekistan from 2012, for Turkmenistan from 2004.

**Employment by Education**

Both industrialization and post-industrialization change the demands for labor force: employees are expected to have higher levels of skills and education. Figure 13 shows the relationship between levels of education and unemployment based on education. More than 50 percent of the Armenian and Russian labor forces have college degrees. Comparing Russia and Armenia, we can see that a college-educated person in Russia is more likely to be employed than a college-educated person in Armenia: 53 percent of the unemployed labor force in Armenia hold tertiary degrees, compared to 37 percent in Russia.
The differences discussed above between Russia and Armenia should be examined in the context of education spending and major economic sectors. The Baltic states, Russia, and Belarus are the FSU countries that invest the most into education (Figure 9). These countries have a large number of people working in services and industry sectors and need the labor forces to support these economies. The countries of Central Asia, South Caucasus, and Moldova still have a substantial share of their work forces in the agriculture sector; so it makes sense that their investments in education are lower. These countries also have larger numbers of people living in rural areas (Figure 13). This corresponds with the large number of people being employed in the agriculture sector.
Figure 14. Proportion of Urban and Rural Population


On average, more people in Central Asia and South Caucasus countries are employed in industry and agriculture and live in rural areas. The reverse is true for countries in the European part of the FSU (except Moldova). Most of the income of Central Asia and South Caucasus countries comes from the industry and services sectors. Azerbaijan and Turkmenistan’s industry sectors make up an astonishing 50 percent or more of their GDPs.

The strongest economies are those where a large percentage of the workforce is well-educated and employed in the services sector, which contributes the most value to GDP of the three sectors. Even though the Baltic states lack high value natural resources (see Section 8), they still manage high GDPs. The other countries need to increase their employment in the services sector in order to catch up. Most of these countries already have well-educated work forces, but the employment opportunities are lagging.

➤ Section 7. Migration and Remittances

Migration

Migration in the FSU region plays an important socio-economic role. The motivations for migration are complex. In population-losing countries, migration is primarily forced by economic conditions, demographic pressures, conflicts, and unemployment. In the migrant-receiving countries, the incentives are higher wages, more jobs, and family members that already live in the destination country. When the Soviet Union broke up in 1991, Russia gained 3.7 million people and became a
Almost twenty-five years later, Russia continues to receive large numbers of migrants. In 2015, it provided home to the third largest number of migrants in the world after the United States and Germany.\textsuperscript{12}

**Figure 15 Net Migration in 1992 and 2012**

Figure 15 shows the change in net migration in the FSU countries between 1992 and 2012. In 1992, Armenia and Georgia each lost about half a million people, while Uzbekistan lost four hundred thousand. One and a half million people left Kazakhstan in 1992. In fact, Kazakhstan experienced a major brain drain as its substantial German population emigrated to Germany; many Russians also left, returning to Russia.\textsuperscript{13} In 2012, the Slavic states, led by Russia, were the main-migrant receiving countries. Resource rich Kazakhstan also became a destination for many international migrants. Such a change in migration patterns can be attributed to the fact that soon after the Union broke up, migration was driven by ethnic strife and conflict, while in 2012, people migrated for economic reasons. As the disparity in GDP per capita grew between countries (see Figure 5), people decided to move from low-income countries to high-income ones.
Remittances

Remittances, or personal transfers and compensation of employees, are the most important source of external financing in the FSU countries. Figure 16 shows how the amount of personal remittances changed over the past twenty-five years in the FSU region. For many poor people in the region, remittances provide a safety cushion against economic and political instabilities. Within the FSU region, the general remittance patterns follow the migration patterns: countries with higher GDP per capita are the main destinations for the migrants and are thus the main sources of remittances.

Figure 16 Average Remittances for the FSU region

![Average Remittances for the FSU region](image)


Figure 17 shows remittances received in 2013 as percent of GDP and in US dollars equivalent. Remittance flows in the FSU countries in 2013 exceeded $43 billion (For comparison, India was the largest remittance-receiving country, with an estimated $71 billion, followed by China with $60 billion). Most of the remittances were received by the three most populous counties: Ukraine ($9.7 billion), Russia ($6.8 billion), and Uzbekistan ($6.7 billion). As a percentage of GDP, however, the top recipients of remittances were Tajikistan (50 percent), Kyrgyzstan (31 percent), and Moldova (27 percent).
The role of migration and remittances in the economies of the FSU countries is immense. Remittances have the potential to improve the standards of living, especially in the poorer countries. If the governments in the remittance-receiving countries create good institutional frameworks, these outside incomes could potentially enhance economic growth. Additionally, if managed properly, remittances can help alleviate poverty and offer equalization between FSU societies.

Section 8. Economic Reforms

Market Reforms

Twenty-five years ago, after the fall of communism in the Soviet Union, the new independent states wanted to establish separation between the state and their economies. Countries had to establish supply and demand driven markets and privatize state-owned property. One should understand that privatization at such a grand scale had not taken place before. Quantifying the value of state-owned assets in countries where no market existed before was challenging. Privatization eventually took place in all FSU countries. Depending on the country’s economic assets and leadership, privatization and economic reforms were adopted differently: some countries undertook rapid privatization while others proceeded slowly.

In addition to privatization, countries had to create markets where the value of goods, services, and property would be defined by their competition. As with
privatization, countries took different routes in marketization. Some, fearing that rapid marketization would lead to high inflation and harm the new economy, decided to transform gradually. Others, interested in swift termination of state control over the market, proceeded with rapid market reforms. The policy of rapid marketization is known as shock therapy.

**Figure 18 Transition process Index FSU countries**

![Transition Progress Index (average of six indices)](image)

Source: European Bank for Reconstruction and Development

**Transition Progress Index**

The economic reforms undertaken by the FSU countries are measured by the Transition Progress Index (TPI) developed by the European Bank for Reconstruction and Development (EBRD). This report analyzed six indicators developed by EBRD: large scale privatization, small scale privatization, governance and enterprise restructuring, price liberalization, trade and forex system, and competition policy. Each indicator is measured on a scale from 1 to 4+, where 1 represents little or no change from a rigid centrally planned economy, and 4+ represents the standards of an industrialized market economy. Figure 18 shows the averages of all six indicators mentioned above.
After independence, most of the countries started with low TPI scores. By 1993, the Baltic states started approaching a rating of 3. Russia and Kyrgyzstan followed, scoring above 2, but everyone else was below 2. In 2014, the Baltic states are still in the lead with scores close to or exceeding 4. Most of the other countries are clustered in the middle between 3 and 3.5. Turkmenistan, Belarus, and Uzbekistan have the lowest TPI scores.

Figure 19 Relationship between TPI, Inequality-adjusted HDI Value, and GDP PPP per capita HDI

![Diagram showing the relationship between TPI, inequality-adjusted HDI value, and GDP PPP per capita HDI. The Baltic states have high TPI scores, high HDI values, and high GDP per capita. Turkmenistan, which has a low TPI score, has a higher GDP PPP per capita and HDI ranking than Kyrgyzstan, which has a higher TPI rating. Azerbaijan and Belarus, which have similar GDPs, have quite different HDI values and TPI scores. This raises the question: Why is this theory true for the Baltic states, and not for the rest of the FSU countries?](image)

Source: World Bank. European Bank for Reconstruction and Development. Note: Bubble size indicates GDP; HDI value for Turkmenistan is not equality adjusted.

The processes of privatization and price liberalization should lead to better economies. Figure 19 shows the relationship between the TPI scores, HDI, and GDP PPP in the FSU countries. It is clear that the early and steady reformers, the Baltic states, have high TPI scores and therefore high HDI values, and high GDP per capita. However, this theory does not hold for the other countries. Turkmenistan, which has a low TPI score, has a higher GDP PPP per capita and HDI ranking than Kyrgyzstan, which has the higher TPI rating. Azerbaijan and Belarus, which have similar GDPs, have quite different HDI values and TPI scores. This raises the question: Why is this theory true for the Baltic states, and not for the rest of the FSU countries?
Opportunities and Obstacles for Reform

The difference in development and reform in FSU countries can be explained by the opportunities (natural resources availability, availability of infrastructure, and closer ties with Western Europe) and by obstacles (political instability and lack of political will). As soon as they gained independence, the Baltic states wanted to integrate into Europe. Estonia undertook the most radical reforms: in June 1992, it broke out of the ruble zone and established its own currency with substantial support from the International Monetary Fund. Latvia and Lithuania followed Estonia’s lead to break off from the ruble zone. The countries started their efforts to integrate with the rest of Europe by adopting international agreements that reinforced trade and liberalization. The most important agreements signed are the Trade and Economic Cooperation Agreement (in force since 1993) and the Free Trade Agreement (in force since 1995). In 1995, all three states formally applied for European Union (EU) membership. In 2004, the Baltic states became part of the EU. Powered by national determination, these countries completed their transition from centrally-planned economies to market economies in roughly 13 years.

Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Uzbekistan are resource rich countries. The past ten-year (2005-2014) average rents from natural resources for these countries have ranged from 25 to 50 percent of their GDPs (Figure 20). Countries that have high natural resource wealth are less likely to reform, as the reforms might limit their elites’ ability to appropriate those rents. In Kazakhstan and Azerbaijan, initially the natural resources were not developed, so they had to attract international investors in order to develop their infrastructure. Therefore, these countries conducted more economic reforms and have higher TPI scores. Belarus and Ukraine had control over Russia’s key energy transit routes. Like energy rents, infrastructure rents were disincentives for economic reforms in Belarus and Ukraine. Given the recent conflict between Ukraine and Russia, the situation for Ukraine might change as Russia develops new transit routes.
Figure 20. Total natural resources rents

Source: World Bank. Note: average data for Turkmenistan are from 2009-2014, for Uzbekistan are from 2006-2014. Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents.

Armenia, Georgia, Kyrgyzstan, Moldova, and Tajikistan are countries that do not have the strong political will to change, do not have natural resources reserves that would promote domestic development, and/or do not have their natural resources developed. These countries could create a favorable climate to attract Foreign Direct Investments (FDI), which would provide a crucial flow of capital necessary for development. Foreign investors can invest in local businesses and promote economic growth by introducing new technologies and creating jobs. FDI currently provides some income to these countries on a small scale, but the opportunities are immense. For example, China is building new rail infrastructure in Tajikistan and Kyrgyzstan, and it has many more projects planned as part of its “One Belt, One Road” initiative. A setback, however, is that investors are reluctant to go to these countries as they have poor infrastructure, restrictive regulations, and most importantly, long-term political instabilities.

Resource poor countries have faced political challenges during the past twenty-five years. Armenia has a long-standing conflict with Azerbaijan over Nagorno-Karabakh. Georgia experienced the Rose Revolution in 2003, and had a war with Russia over the control of South Ossetia in 2008. Kyrgyzstan had the Tulip Revolution in 2005 and the Second Kyrgyz Revolution in 2010. Moldova has an ongoing conflict with the breakaway region of Trans-Dniestr. Tajikistan had a civil war up until 1997, and another internal conflict between 2010 and 2012. These and other instabilities discourage many foreign investors from funding the vast opportunities in tourism, transportation, construction, agriculture, real estate, hydropower, and commerce.
The change in TPI scores over time shows how the countries have implemented economic reforms. The Baltic states from the very beginning had a clear vision: they wanted to reintegrate with Europe. To do so, they performed radical economic and structural reforms and joined the European Union. Resource rich countries, and countries whose economies tied them to these countries, did not make a serious attempt at implementing economic reforms. After independence, the ruling elites in these countries accumulated wealth and power, thus they had little incentive for liberal reforms which would have meant a redistribution of these. Resource poor countries fail to attract foreign capital that could promote development due to political instabilities.

➢ Section 9. Energy

Energy Consumption

Energy use and economic growth have a direct relationship. The economic crisis experienced by the Soviet countries after the fall of the Soviet Union resulted in a drastic decline of both energy production and consumption. The decline continued into the late 1990s when the per capita power consumption began to increase again (Figure 21). The energy crisis of 2008 caused a brief decline, but rates picked up again after 2009. For most of these countries, the kilowatt hours per capita of power consumption has not returned to Soviet era levels, despite the progress seen in their economies. This could be explained by the declining contribution of manufacturing and industry to the GDPs in many of these countries (Figure 11).
Figure 21. Electric power consumption in kilowatt hours per capita


Energy Security

The energy sectors of the FSU countries were highly interdependent, with energy exporters (Russia and Central Asia) supplying the energy importers, who also acted as transit countries to supply energy to Western Europe. Thus, the focus immediately after independence was energy security and self-sufficiency. Energy exporters sought out new markets to expand into, while the importers sought new supply chains. Most countries have made progress towards self-sufficiency and there is a reduced reliance on energy imports (Figure 22). With the exception of Lithuania, which lost an important domestic power source when decommissioned its last nuclear power plant in 2009, all former Soviet countries are importing a smaller percentage of their utilized energy. Several countries with significant hydrocarbon resources have increased their production to become major energy exporters, a particularly dramatic change for Azerbaijan, which went from being a net energy importer during Soviet times, to an exporter, delivering more than three times its domestic energy use.
Energy security has also been obtained in part by pursuing renewable energy sources. Most FSU countries have more than doubled their consumption of renewable energy, which includes hydropower, biofuels, solar, and wind power (Figure 23). Renewable energy is especially critical for countries that lack fossil fuel reserves. Hydropower is by far the greatest source of renewable energy for these countries, particularly in Kyrgyzstan and Tajikistan. For example, Tajikistan is building the 3,600MW Rogun hydropower plant. Most of the countries that are less dependent on renewables either have significant hydrocarbon resources (Azerbaijan, Russia, Kazakhstan, Turkmenistan, and Uzbekistan) or use nuclear power to help meet their energy needs (Armenia, Russia, and Ukraine).\footnote{15}
Figure 23. Percent of total final energy consumption that comes from renewable energy sources


➤ Section 10. Happiness

The breakup of the Soviet Union and independence for the successor nations brought hope to the people of these countries that their lives would improve. In this report we have so far looked at several development, economic, and wellness indicators which tell us about how these countries have transformed since independence. What these indicators do not tell us is, however, how the citizens of these countries feel about their lives today.

To determine the level of happiness of the FSU peoples, we examined the World Happiness Report put out by the United Nations Sustainable Development Solutions Network. The authors of the report see happiness as the proper measure of social progress and a better indicator of human welfare than income, poverty, education, health, and good government. In their report, researchers polled three thousand individuals from 157 countries between 2012 and 2015 and had them rate their lives on a scale of 0 to 10, with 10 being the best life possible for them.

The researchers identified six key factors as contributing to respondents’ rankings: GDP per capita, healthy years of life expectancy, social support (having dependable friends and family to count on when you’re in trouble), trust (perception of a lack of
corruption), perceived freedom to make life decisions, and generosity. Of these six, the three biggest contributors to happiness were found to be income, healthy years of life expectancy, and social support. It was also found that people are happier when there is less inequality of happiness within the population.

Nine of the FSU countries exceeded the mean global population-weighted distribution of happiness score of 5.353 (Figure 24). Comparing the FSU countries to all countries in the study, Uzbekistan ranked the highest with a score of 5.987, placing it at 49th happiest country overall. The lowest ranked country was Georgia with a score of 4.252, placing it at 126th. The FSU countries were fairly clustered, with eleven ranked between 49th and 85th places, and three were between 123rd and 126th places. It is interesting to note that people living in countries with higher GDPs and more democratic reforms are just as happy as people living in poorer countries under authoritarian regimes. Based on what we see in the FSU countries, political instability appears to be a common factor in lowering happiness. Since independence, four of the lowest ranked countries have experienced violent revolutions or civil wars (Georgia, Kyrgyzstan, Tajikistan, and Ukraine). It is also interesting to note that of the FSU countries with the highest suicide rates (Figure 9), many of them also have higher happiness scores (the Baltics, Belarus, Russia, Moldova, Kazakhstan, and Turkmenistan).

Since the results are subjective and self-reported, it is possible that people living in more repressive countries might have lower quality of life expectations and thus rate their lives higher than people living in freer countries who have greater expectations and aspirations for how their lives could be. It may also be that people living in less free countries may be more hesitant to give a poor response out of fear of possible retaliation from authorities and thus reported a higher score than they truly believed.
Figure 24. Happiness rankings by country (2012-2015)

Source: United Nations Sustainable Development Solutions Network

➢ Section 11. Conclusion

In this report, we have examined a variety of developments that have taken place in the Former Soviet Union countries over the past twenty-five years. We compared economic growth, health, education, employment, migration, remittances, economic transition, energy use, and happiness. The general trends that we observed among the countries and regions can be attributed to social (leadership, political stability, and culture) and geographic (resource distribution and physical location) factors.

The socio-economic differences between the FSU countries are much bigger today than they were twenty-five years ago. The FSU countries have large differences in their GDP per capita, HDI, level of education, quality of healthcare, economic reform, and general happiness. Based on these criteria we can classify the FSU countries into three tiers:

1. Baltic States. These countries are characterized by high TPI scores and rank high in GDP PPP per capita and HDI. These countries have service-based economies.

2. Slavic States, Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan. The countries are rich in resources or closely linked to the resource-rich economies through infrastructure, such as transit pipelines. These commodities contribute to higher overall GDPs. These countries haven’t undertaken the same level of economic reforms as the Baltic states, therefore their TPI scores range from medium to low.
3. Armenia, Georgia, Kyrgyzstan, Moldova, and Tajikistan. These countries are either poor in resources, unable to develop their resources, or unable to attract external investments. Therefore, these countries have lower overall GDPs. TPI indices for these countries range from 3 to 3.5, medium level. These countries undertook more reforms than most of the tier two countries.

All countries in the FSU region face socio-economic challenges. The populations of the Baltic states, the Slavic states, Moldova, Armenia, and Georgia are increasingly aging. These countries will need to address the issues of the elderly and how to stabilize their populations. The populations of Central Asia and Azerbaijan are growing; these countries will need to provide jobs and opportunities for their growing populations. The tier three countries need to develop their economies by attracting foreign investors and/or developing their natural resources.

This report has shown where the fifteen FSU countries stand in the world today—twenty-five years after the collapse of the Soviet Union. These countries, based on their resources, infrastructure, and political will, have chosen different paths for socio-economic development. While inequality in economic prosperity between these countries has existed since the days of the Soviet Union, these inequalities have greatly increased over time.
References

6 World Health Organization Global Health Expenditure database (see http://apps.who.int/nha/database for the most recent updates).