

# Economic Survival Strategies in North Caucasus

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## Abstract

As the research of the economic conditions in North Caucasus is limited, this paper aims at giving an overview of the main instruments for economic survival in a region where conflicts are not only an issue of theoretic debate. The paper investigates the relation between each North Caucasian Republic and Moscow, as the main source of income for the local budgets, alongside with an entrepreneurial prospective on the actions of the local governments and population. Quite surprisingly, many of the republics are doing rather well, given the local circumstances, and the explanation for their relative prosperity may be found in the diversity of ways and methods used for economic growths. The study attempts to look beyond statistics, as they may be not that relevant for the case in point.

North Caucasus is a region which, in the last decade, has only become known in the world through the negative experiences that affected the life of its peoples. From time to time such issues as Chechnya, Ingushetia, Daghestan, Ossetia, emerge in exclusively negative contexts: armed conflicts, spread of terrorism, Islamic extremism. Probably many kept asking themselves why conflicts emerged here with the regularity of a Swiss-made watch. The extraordinary mixture and diversity of peoples, nationalities and religions is only one face of the issue. The heritage of the last century may explain many problems that North Caucasus is facing today. The discretionary redistribution of lands, deportations and other punishments meted to entire peoples, overt discrimination and persecution—Stalin's own recipe—are only a few of the brutal interventions that communities in that region had to suffer during the twentieth century.

Conflicts are, as mentioned before, a rule rather than an exception in the area. But, while territorial, ethnic, religious and other issues are often raised and tackled in a manner which is as unusual as it is counter-productive, ordinary people have to keep on living their lives. Besides the problems caused by the increasing number of refugees, people have to find resources for surviving. Survival has become a key-notion here over many years, not only in recent times. North Caucasus gained the fame of a troubled region during not just decades, but centuries. The people in the region developed most sophisticated and often surprising techniques for making a living. In fact, survival has become an art here. Although the methods they use may seem to those who by chance belong to the Western part of the world a mere return to primitive existence, those simple devices managed to ensure the subsistence of numberless people and of entire nationalities in the region.

In order to make sense of the methods used and the actions undertaken for economic survival in North Caucasus they shall be divided into two categories: paternalistic and entrepreneurial.

## **The benefits of the paternalistic approach**

It has become a tradition for the analysts of economic life in the Russian Federation to classify its regions into donors and receivers (*dotatziionniye regioni*). Given the unequal distribution of national wealth, be it industry and services or natural resources, among the different territorial units of Russia, some regions are major donors, while others have to rely on subsidies from a budget which is entirely administered by Moscow. This has its own advantages, as well as its drawbacks. The advantage is that the local leaders can rely upon the budget subsidies, provided they have good connections in the Federal Government. Thus they can win the support of the electorate without too many efforts. The disadvantage is that leaders with a more developed entrepreneurial spirit have to virtually fight wars with the Ministry of Finance for the funding of anything like regional development programs, investments, infrastructure, etc.

The whole region of North Caucasus is a subsidised one. The natural resources of the region are either exhausted or too costly to resume production or to begin an entirely new mining business. The manufacturing industries, poorly developed as they were, were left in shambles after the dissolution of the unified Soviet

market. Agriculture seems to work somehow, but only to the extent of providing some basic food products to the region. The same applies to basic services.

All the autonomous republics and other administrative units in the area make use of central government subsidies as a convenient and easy way of getting some financial resources for their economic survival. The most heavily subsidised republic is Dagestan, with over 80% of its revenues coming from Moscow. The more "successful" territorial units, like Kabardino-Balkaria are still covering some of their needs at the expense of the Federal Budget. Even Chechnya, the black sheep of North Caucasus has received some 800 million rubbles (around 50 million USD) in 1998. Let us see what those resources cover.

The largest piece of the cake is meant to provide a minimum of social protection. Pensions, salaries for state employees, children allowances, various compensations ensure a minimum of income for a large number of families. Electricity, gas and other household services are sometimes provided for free, and their value is deducted from the total sum assigned to a certain republic. Funds for investments and development programs are rarely provided, which is rather strange for a region that the Russian Federation claims is of utmost strategic interest.

Under these circumstances, one may survive but certainly not become rich. North Caucasus is not the only region in Russia, which lives according to this unsophisticated arrangement. Though, the specific history of the region has endowed the leaders with an unusual sense of responsibility toward their respective communities, be it a family or a republic. Moreover, whenever the situation permitted, many of them proved to be highly successful businessmen. In fact, North Caucasus is a region where people take pride in being wealthy. Some local chiefs are competing for the unofficial title of the most successful entrepreneur in the region.

### **State handouts are not enough**

With this we come back to our classification of paternalistic and entrepreneurial methods for economic survival. The dissolution of the Soviet Union was followed by a major re-configuration of the relations between the regional leaders and the Federal Centre. The centrifugal processes of the early 90s induced Moscow to encourage and treasure the loyalty of regional bosses. The subsidies from the Federal budget are only one part of the story. The other part is the arithmetic of power in the regions and between the regions.

The tragic consequences of the inter-ethnic conflicts caused the Caucasian elites to appeal to Moscow for mediation. However, they soon found out that asymmetric arrangements were a favourite tool in the hands of the Moscow politicians. Some of the North-Caucasian republics were liked better by the Kremlin than the others. Ingushetia, for instance, which demonstrated its loyalty to Moscow by not following the Chechen path, eventually felt discriminated during the conflict in the Prigorodny district and has criticised Moscow ever since for taking the side of the Ossetians while enforcing a military administration which was supposed to be neutral.

Still, the asymmetry in the region did not acquire disastrous proportions. For political reasons Moscow felt obliged to reward its historical allies and the most loyal communities in its southern part. The economy, however, left enough room for manoeuvre through compensations. Each leader was allowed to choose the most appropriate strategies suited to the conditions in the respective region.

### State "private" initiative

Which were the methods used by the newly created national elites in order to increase the living standards of their communities? Quite surprisingly, some of them adapted very quickly to the new circumstances by implementing tried and tested market economy instruments. Others made use of their strategic location. Others yet used their connections abroad for getting investments and boosting commerce. But let us see how survival strategies worked in real life.

The President of Ingushetia, Ruslan Aushev, gained a lot of praise not only for his moderate conduct during

the conflict in the Prigorodny district, but also for his inventiveness and perseverance in solving the economic problems of his tiny republic. Following a period of shuttle diplomacy with Moscow, the Federal Government granted Ingushetia the status of Free Economic Zone. In fact, this economic formation resembled much more an off-shore zone, which can be easily understood. What company would make significant investments in an area harbouring around 60,000 refugees and where a new conflict could flare up at any time? The solution: companies registered in Ingushetia but functioning in Moscow or elsewhere in Russia were given huge tax-exemptions. Part of the resulting incomes filled the coffers of the republic. An ideal environment to make financial deals. Incidentally, President Aushev is rumoured to have very good connections within the financial world in Moscow. He is said also to own shares in a giant petroleum company with interests in the Caspian region. But it is not our aim to assess the personal fortune of the Ingush President. What does matter is that by pursuing a responsible and consistent economic policy Mr. Aushev has managed to preserve stability in the republic and to increase the wealth of his co-nationals.

The most visible evidence of the Ingush President's successful economic policy is the new capital Magas, some 15 km from Nazran. An elegant palace, built by a Turkish contractor rises in the middle of nowhere, showing the increasing power and wealth of the newly created Ingush national elite. For the time being, the capital city contains only the President's residence, but offices and housing for the Government are also being built. By decreeing a new capital and building a palace, Mr. Aushev also solved a legitimacy problem for himself and his government. The Chechens and the Ingushs are the only peoples in North Caucasus who have no aristocracy. While the Chechens made their own bid for independence, Mr. Aushev seems to have found an shrewed solution for his legitimacy as a president and for the creation of an Ingush national elite: the attributes shape the identity.

Moving along an east-to-west axis, North Ossetia comes next. The oldest and the most loyal partner of Moscow in North Caucasus, North Ossetia more than once reaped benefits from its geo-strategic location and Christian predominance among its population. Vladikavkaz, its capital, is a large city by Caucasian standards. During the Soviet era, it received significant investments. Large factories were built on its outskirts, the town grew continuously, military facilities were constructed.

The importance of North Ossetia for the federal centre increased exponentially after the emergence of three independent states on the southern side of the Caucasian chain. The only two access routes to Georgia and to the Russian military bases in the republic run through North Ossetia. The military base in Mozdok, a small town in the northern part of the republic, became the headquarters of the offensive operations against Chechnya. North Ossetia benefited not only from the side effects of a huge military presence on its territory, but its elite acquired the key for the most cost-effective and profitable business in North Caucasus. The key lies not far from Brussels, in the harbour of Amsterdam. Freight containers filled with alcohol slipped into the Russian Federation, with virtually no taxes paid, from Amsterdam by sea to the Georgian port of Poti, then further, via the Georgian Military Highway and Vladikavkaz. At a certain moment, the Russian media estimated that the Ossetian alcohol accounted for around 50% of the available raw materials on the market for the production of alcoholic drinks in Russia.

The route seems to have been closed for the moment, but it functioned just long enough to create the starting capital for the local businessmen. Some unofficial figures estimated that the profit rate of that business was around 100% at the beginning, then dropped to 10-20% after its legalisation. That is still a satisfactory figure for a region where money does not fall from the skies.

Moving on to the east, we find Chechnya, the most troubled republic of the North Caucasus. The economic incentives for the Chechen independence are often underestimated. Being a nodal point for transit from Russia to Azerbaijan via Daghestan in terms of road, rail and pipeline transport, Chechnya might have become a flourishing place for the freight and passenger transport business. Instead, the Chechen gangs scared everyone away by robbing the trucks and trains transiting Chechnya, by frequently closing the pipeline Baku-Grozny-Novorossiisk, and by generating an overall feeling of insecurity. During the 1991-1994 period, Chechnya became a place for all kind of illegal economic activities, such as oil theft, bank fraud, transit robberies, smuggling, and many more. After the first Russian-Chechen conflict, the main source of income

for the Chechens should have been the war reparations, in accordance with the agreements that put an end to the fighting. Instead, not only was the Chechen economy left in ruins, but the only things provided by the federal government were some pension payments, free electricity and gas and tiny financing for a few reconstruction projects. Even the state pipeline monopoly Transneft ignored its obligations to pay royalties for the transit of oil through Chechnya. Under these circumstances it is no wonder that the main sources of income for the Chechens became the kidnapping business and the acceptance of the Wahhabyte emissaries, which was generously rewarded with funding from abroad.

Daghestan has won the reputation of the poorest among the North Caucasian republics. Daghestan has an extremely complicated ethnic composition. Small peoples and nationalities (up to 5000 people) are trying hard to make ends meet alongside larger peoples. The national mix is also reflected in the State Council, the main ruling body of the Republic, where representatives of the 14 "main" peoples of Daghestan meet to decide which share goes to which part of the population. Daghestan would certainly win the first prize in a contest for the most subsidised region of North Caucasus and a leading place among the regions of the Russian Federation. More than 80% of its revenues come from the Federal budget.

Moving again westward, the Republic of Kabardino-Balkariya seems to be doing quite well, given the circumstances prevailing in North-Caucasus. No ethnic conflict erupted here in recent years, and the political elite seems to take good care of the law and order. Kabardino-Balkariya remains the most important manufacturing centre of the region, even though many of the industrial facilities there are no longer functional. The republic still receives some subsidies. The food industry has been entirely privatised, while the tourist facilities have only some 25% occupancy rate. Nevertheless, the republic seems to have benefited from the pan-Turkic policy of the Ankara Government. The Turkish investments there, especially in small and medium size enterprises, are quite significant. The main areas are construction materials, textile and leather industry, alcoholic beverages and mineral waters, etc. Research activities at the Nalcik University are entirely financed by partner universities from Turkey. The explanation is that both the Kabards and the Balkars are regarded by Ankara as having common roots with the population in Turkey itself. The emigrants originating from the republic render considerable financial assistance. Members of the diaspora in Turkey, Germany, Belgium and Syria are regularly sending money to their relatives in the homeland.

Karachai-Cherkessia is mostly an agricultural republic, with a considerable part of the economy still subsidised by the Federal budget. After the command system in the economy collapsed, a large part of the native population created their own small farms, using extensive methods of production. The demand for pasture lands increased with the amount of livestock, and it gradually became a political issue. To the present day, the re-distribution of lands within the republic is one of the problems that has contributed to the political conflicts in Karachai-Cherkessia.

The seventh of the North-Caucasian republics, Adygeya, is also relying on subsidies and agriculture. The conditions for agriculture here are by far the best in Caucasus, as Adygeya acquired quite a large territory of fertile lands from Krasnodar region. With the native population constituting a minority of 10%, Adygeya can hardly be called a national republic. The economic problems here resemble more those of the neighbouring Krasnodar region.

To conclude, state entrepreneurship varies from republic to republic. Some of the leaders proved very proficient in exploiting the arguments of their strategic location and loyalty to the Federal Government in Moscow, obtaining not only subsidies, but also the blessing of the Kremlin for a more or less independent economic policy. Other regional leaders were not that fortunate. In general the republics where the local leadership enjoy strong support from the population--that is Ingushetia, North Ossetia and Kabardino-Balkariya--are dealing better with their economic problems, while Daghestan and Karachai-Cherkessia, where the local power is not so strong, face more serious problems. The disastrous economic situation in Chechnya is mostly the result of the 1994-1996 war and the lack of dialogue between Grozny and Moscow.

### Private entrepreneurship

However resourceful the provincial leaders may be, they cannot replace entirely the traditional welfare system

in the Caucasus. Family leaders have always played an overwhelming role in supporting their smaller or larger communities. It is a question of responsibility and pride for the Caucasian men to make every effort in order to ensure a decent existence for their relatives. To the present day the state cannot provide enough for the ordinary people. Of course, state entrepreneurship, which we discussed earlier, involves quite a large number of people in an effort to put into practice the more or less legal economic initiatives of the political elite. It is obvious, though, that they are a minority rather than a majority, and a large number of men have to find their own ways of becoming the breadwinners of their families.

Private economic activities in North Caucasus can be classified from a legal point of view and from a geographical point of view. The geography of the Caucasian private initiative is not at all tied to the homeland. Large numbers of successful businessmen are acting in Russia, as well as in other CIS countries and even in Western Europe. From the legal standpoint we can categorise the economic activities as: entirely legal, the so-called shadow economy, and criminal activities, such as racketeering, kidnappings, etc.

The legal private economic activities in North Caucasus are generated by the privatisation process, which is taking place in several republics. The food processing, textile and leather industries, construction materials, bottling of alcoholic and non-alcoholic beverages, as well as an important number of services have been entirely privatised and account for an important part of the incomes in the respective republics.

But the Caucasian natives have been successful in establishing legal businesses in Russia and the CIS states, too. In general, the starting capital was generated by illegal activities, and many of the former Mafia members have transferred their assets into the legal sphere. Trade and commerce, finances and services, those are the main areas of the Caucasian businessmen. Moscow is a major centre for them, given the huge market potential, the established Diaspora and their potential influence in the Federal ruling bodies. Another major region for their activities is southern Russia, especially the regions neighbouring or close to North Caucasus: Krasnodar, Stavropol, Volgograd, Rostov, etc.

It is generally difficult to draw a neat line between the legal businesses and the shadow economy. The latter can be anything from tax evasion to establishing unregistered facilities for bottling alcoholic beverages. Those activities spread on a large scale in the republics of the Caucasus as well as in other parts of Russia, and the Caucasian natives are by far not the only ones involved in it. In North Caucasus itself the shadow economy is functioning with the benediction of the political elites, who understand the heavy burdens of doing legal business in Russia, be it the overwhelming taxation or corruption and malfunctioning of the administrative system. Here the racketeering is relatively low because of the family and clan connections that exist between politicians, businessmen and the law-enforcing bodies.

On the contrary, criminal activities in which Caucasian nationals are involved are quite numerous in other places in Russia and the CIS. It should be emphasised from the start that native Caucasians are only a part of the plague that is ravaging the Russian economy. For many years they have been disputing their spheres of influence with the Russians and other nationalities in Russia. Just a few words about the areas of their rule. Caucasian natives control to a great extent the open markets in Southern Russia and in Moscow, a great deal of the retail commerce, they are involved in financial deals in Moscow, many have tried their luck in the entertainment industry. Chechen gangs control a large segment of the oil retail businesses in Southern Russia. Of course, the kidnapping business seems to be their speciality. But these are only a few examples of criminal activities. The spectrum of the semi-legal and illegal activities is so large in Russia that it cannot be displayed within the narrow framework of this presentation.

## **Conclusions**

We have seen that the strategies for survival in North Caucasus are differentiated from republic to republic. Politics still play a major role in the distribution of resources among the republics as well as inside each territorial unit. The relations between the local political elites and the Federal centre are overwhelmingly important. Not only do they pre-determine the allotment of the budget expenditures, but they are also crucial for the degree of freedom that every regional leader gets for implementing his own economic policies.

We have seen also that some republics have been more successful in making ends meet than others. Ingushetia, North Ossetia and Kabardino-Balkariya are at the top in terms of economic achievements. Incidentally, these republics have strong elites, while the leadership of the less successful Daghestan and Karachai-Cherkessia is not completely in control of the situation.

Perhaps a smaller degree of political involvement in the economic problems can be witnessed in the illegal sphere, in the so-called shadow economy. Illegal business is undoubtedly not politically correct, but we have to remember that even illegal profits feed the numberless relatives of those involved in it.

The Caucasian traditions demand that every man should take an active part in providing his relatives with the necessary resources for living. That is why we have in this region a double welfare system: the support of the state, which is very modest at the present time, and the active involvement of the male part of the population in one form or another of economic activity.

History and the memories of the most remote and more recent past play a very important role in the behaviour of the communities and their leaders in North Caucasus. We can see that each republic has tried to pursue its own way of improving the situation. Horizontal integration is not possible, yet and the prospects for co-operation between republics, which still have territories and questions of Caucasian pride to dispute among themselves, is also a distant prospect. Still, when it comes to economic survival, the inventiveness of the peoples living there is remarkable. The economic revival of North Caucasus, in each and every republic, will certainly have a positive impact on the political situation in the area.

Let me suggest some possible steps for the improvement of the economic condition in the area.

- Since no horizontal integration is possible yet, each republic should enjoy a separate "special" status, in order to make use of its existing assets, be it oil, other natural resources, strategic location or tourism.
- The vertical welfare system with the state and the family heads being the main providers of well-being should be improved.
- The national elites should be given the entire credit of Moscow, also in the sense of key-keepers to the economic resources.
- The Federal Centre should improve its mediation policies and try to find common interests among the regions. Vertical subordination is good, but a little bit of shuttle diplomacy between the republics, especially those affected by conflicts, may prove even more beneficial.
- Since Russia seems very jealous on any attempt by the international community to take a look in its southern yard, perhaps the wisest thing to do would be to learn from the positive experience of the few foreign investors in the area, especially those from Turkey. Programs of reconstruction and reforms in this region fostered by the international economic organisations and co-ordinated by the Moscow government may actually work. Private investments, on the other hand, need no co-ordination. Little by little, they can become the most effective instrument for the reconstruction of normal economic life in North Caucasus.

The economic strategies for survival in North Caucasus reflect the general situation in the area. The ingenuity of the local elite and the growing business community is remarkable and has led to a relative wealth of at least a part of the population. Still, any sign of sustained development is far remote, and the problems of securing the population of North Caucasus an economic future remain open. In North Caucasus, there is a lot of talk about the ethnic and religious components of the conflicts, active or dormant as they are. We have to bear in mind, however, that economy is crucial for the resolution of the conflicts and for the stabilisation of the area. Something must be done, and must be done until it is not too late.