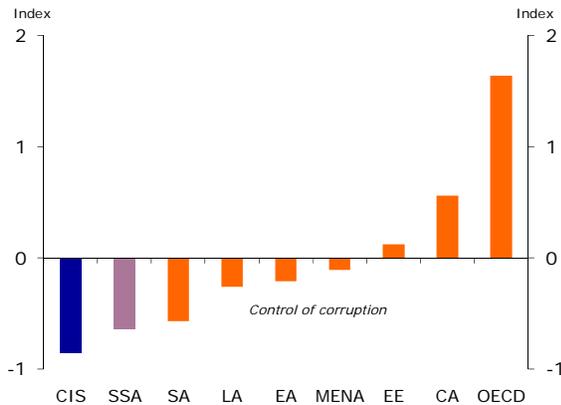


# Emerging markets monitor

## The CIS countries: another 'Africa'?

*While Europe is being dragged into the Greek tragedy, the former Soviet Union is facing completely different challenges. In this article we compare this region with Africa and conclude that there are some striking resemblances.*

**Figure 1: Control of corruption**



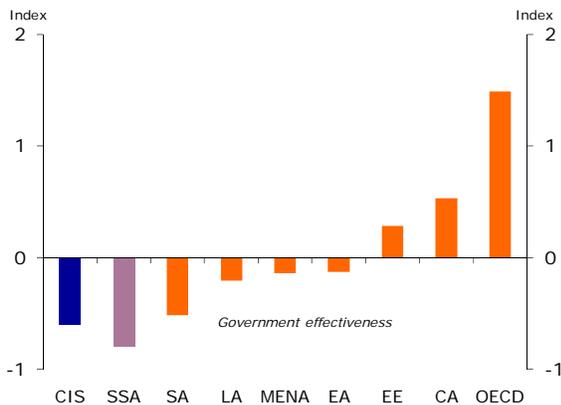
CIS = Commonwealth of Independent States  
 SSA = Sub-Saharan Africa  
 SA = South Asia  
 LA = Latin America  
 EA = East Asia  
 MENA = Middle East and North Africa  
 EE = East Europe (minus CIS)  
 CA = Caribbean countries  
 OECD = OECD-countries  
 Source: World Bank

Comparing the CIS countries (Commonwealth of Independent States, i.e. the former member states of the Soviet Union minus the Baltic States) with Sub-Saharan Africa (SSA) may seem far-fetched at first sight. For decades, the Soviet Union was a superpower that competed with the United States and was the first country to send a man (and a dog) into space. The main country of the CIS region, Russia, is moreover now often classed under the BRIC banner as one of the emerging political and economic superpowers. For many people, Sub-Saharan Africa by contrast still represents hunger, stagnation, conflict and poverty. And yet the main problems of these regions are very similar. They are poor governance and dependence on natural resources.

### Poor governance

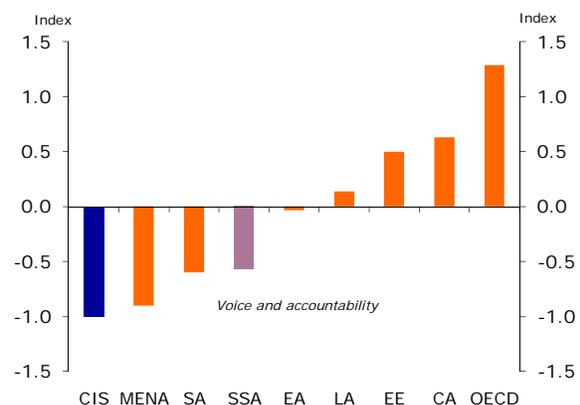
In the area of poor governance, the CIS region and Sub-Saharan Africa score roughly equally badly. Both regions rank at the bottom end, together with southern Asia, based on their average score on the six indicators formulated by the World Bank for good governance and institutions. On three of the six indicators (control of corruption, rule of law and

**Figure 2: Government effectiveness**



Source: World Bank

**Figure 3: Voice and accountability**

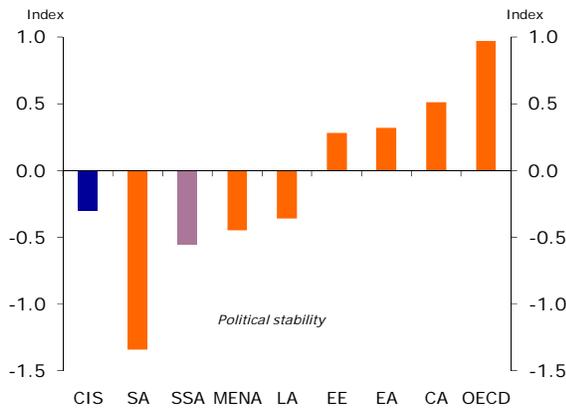


Source: World Bank

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degree to which citizens have a voice in the governance of the country and the government is accountable to the population) the CIS region is in fact the lowest-scoring region. The CIS likewise scores poorly in the areas of regulatory

**Figure 4: Political stability**



Source: World Bank

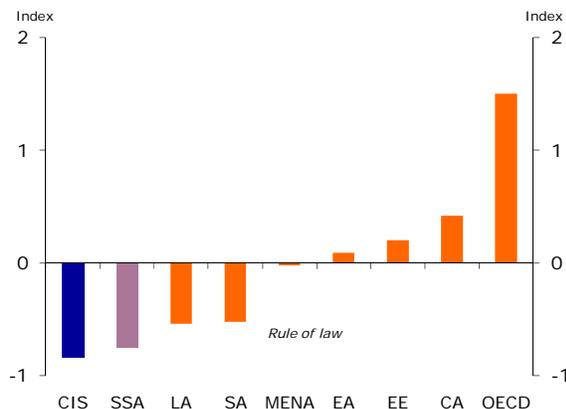
quality and government effectiveness. It is a middle-ranking region only in terms of political stability, which is attributable to its numerous firmly-established autocratic regimes. The CIS region often also scores poorly in other rankings. For instance, the CIS countries and the Sub-Saharan countries in Africa score similarly poorly in the *Corruption Perception Index* of *Transparency International*. In the World Bank's *Ease of Doing Business* ranking the CIS, by contrast, fares better as a middle-ranking region (although Russia ranks only a modest 120 out of 183), whereas most African countries score very badly on this. In the field of freedom of the press, the CIS, according to *Reporters without Borders*, on average scores far worse than Sub-Saharan Africa. The

general performance of both regions in the institutional arena is poor, therefore.

## Natural resources

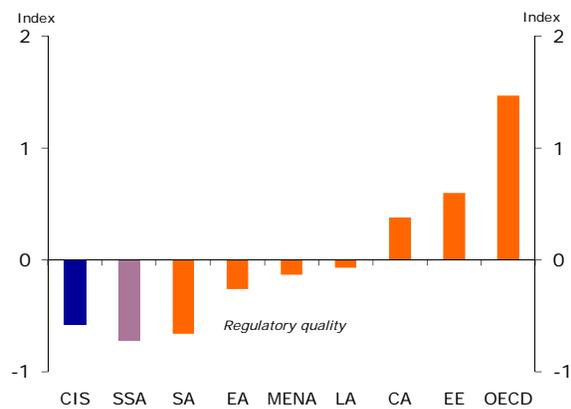
In terms of their dependence on natural resources, Sub-Saharan Africa and the former member states of the Soviet Union also closely resemble each other. Whereas in 2006, 68% of the exports of Sub-Saharan African countries consisted of natural resources, the corresponding percentage for Russia was 74%, and for Kazakhstan and Azerbaijan it was as much as 88% and 93% respectively. Both regions therefore also score worse than natural resources

**Figure 5: Rule of law**



Source: World Bank

**Figure 6: Regulatory quality**

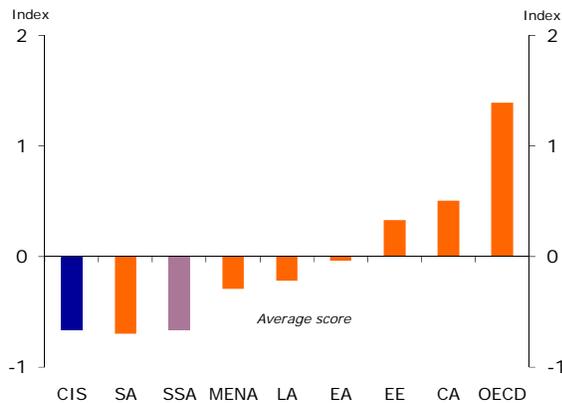


Source: World Bank

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producer Latin America, where natural resources account for some 50% of exports. Of the larger countries in the CIS region, only the Ukraine is an exception to this, with a percentage of 27%. Yet with its dependence on the steel industry, the economy of the Ukraine is also little-diversified.

Figure 7: Average score



Source: World Bank

## Other factors

There are major differences in prosperity between the CIS and SSA. With per capita income of USD 11,400 (adjusted for differences in purchasing power) in 2009 the CIS countries are on average almost four times as wealthy as the countries of SSA. Still, the differences here are less wide than it may seem at first sight. For example, a number of CIS countries in Central Asia (such as Kyrgyzstan and Tajikistan) are typical low-income countries, while countries such as Botswana and South Africa on average enjoy fairly high standards of living. The CIS and

SSA also have a number of political factors in common. Both regions have an imperial inheritance. It is well-known how colonial powers in Africa left behind countries in which many different ethnic groups were forced to live together. The fall of the Soviet Union led to a similar situation in many CIS countries, given that in the Soviet period an active migration policy had – sometimes very forcibly – been implemented for ethnic groups and borders were sometimes changed rather arbitrarily. As a result, there are many conflicts and tensions in the CIS as well that feature a strong ethnic component, such as in Georgia, the Kyrgyz Republic and between Armenia and Azerbaijan. In addition, the CIS has its share of 'big men', while in Africa, by contrast, a continent often associated with autocratic rulers, there was a certain degree of democratisation in the 1990s in particular.

## Consequences for economic development

That weak institutions and dependence on natural resources often go hand in hand is no coincidence. High income from natural resources disrupts political and economic processes: political and economic competition in that case often both come down to a non-productive struggle for wealth in terms of natural resources, instead of creating prosperity and welfare. Moreover, the government in a country with rich natural resources is much less dependent on taxes. As a consequence, citizens become less critical of the government, as they contribute less to the budget. Economists have accordingly often postulated a correlation between a dependence on natural resources and unsound institutions as well as economic performance.<sup>1</sup> This poor economic performance is exacerbated by a number of other processes. The 'Dutch disease', for example: high income

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from exporting natural resources leads to an increase in the real exchange rate, causing other sectors to lose their competitiveness in the world market. This impedes diversification and economic development, as the natural resources sector is characterised by low productivity growth and job opportunities. Another problem is the marked volatility of the prices for natural resources, which often have a destabilising impact on an economy.

## Conclusion

Even as the economies of the CIS countries posted rapid growth in the years before the global crisis, the development of those countries since the fall of the Soviet Union has been disappointing in many ways. For instance, per capita GDP in many CIS countries is barely higher than in 1990, owing to the sharp downturn of economic activity in the 1990s. In the Ukraine, it is in fact far lower. What is more, developments in the fields of education and healthcare are worrying. After Sub-Saharan Africa, the CIS region is, for example, the lowest-scoring region on premature deaths of men between fifteen and sixty years of age despite its much higher GDP per capita. This is attributable to the collapse of healthcare and to alcoholism.

Does the comparison between Sub-Saharan Africa and the CIS countries suggest, then, that both regions are doomed to continue to play a marginal role? Not by definition: being an exporter of natural resources does not equate to poverty. Russia and Kazakhstan have fairly high standards of living and that applies even more to a country such as Saudi Arabia. The question is, however, how lasting such prosperity is, given the lack of diversification in these economies. The emergence of China and India is a mixed blessing in this regard: on the one hand it increases demand for natural resources, on the other hand the competitiveness of those countries complicates the diversification of economies based on natural resources. A country does not need perfect institutions for rapid growth. Economic growth champion China for example is afflicted by significant corruption, as is India, which in addition has to deal with a domestic rebellion. What matters is that institutions must be of a certain minimum level. This is still a major challenge for economies based on natural resources, owing to the political and economic processes discussed above. Furthermore, Africa should no longer be synonymous with economic stagnation. Since the mid-1990s many countries on the continent have achieved very satisfactory economic growth. And even during the financial crisis, growth in Africa has kept up fairly well, to a far greater extent than in the CIS countries. Therefore, a comparison of the CIS countries with Sub-Saharan Africa – perhaps surprisingly – provides reasons for optimism as well.

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<sup>1</sup> See for instance *The Bottom Billion* (2007) by Paul Collier.