

while seeking to preserve its strategic autonomy. However, this has all declined in just a few months.

Moreover, Kazakhstan has found itself in the same situation as Russia. It must face an ongoing economic crisis that could impact the legitimacy of the regime, which is based on a social contract of improving the population's standards of living. Although Kazakhstan does not have to manage the vast infrastructure network

that weighs on the Russian budget, it remains marked by oil dependency, difficulties in diversifying economic capabilities, and a population that does not want to postpone the steady improvement of its well-being. The Eurasian Union project will be called to prove itself on economic terms. But the question remains of whether the bathwater of the economic crisis will carry with it the baby of the Eurasian Economic Union.

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## ANALYSIS

# Kyrgyzstan's Membership in the Eurasian Economic Union: A Marriage of Convenience?

By Sebastien Peyrouse, Washington DC

## Abstract

Kyrgyzstan's membership in the Eurasian Economic Union (EEU) is presented as an essential step toward its development, with the government currently unable to get the state, economically and socially, back on its feet. The EEU has, however, rallied analysts and parts of the population that are critical of the economic and political risks associated to it: inflation on basic foodstuffs and goods; the possible loss of Kyrgyzstan's status as a key re-exporter of Chinese products; and increased Russian influence on Kyrgyz affairs.

On 23 December 2014, the president of Kyrgyzstan, Almazbek Atambayev, signed a membership agreement with the Eurasian Economic Union (EEU), set to come into force in May 2015. The choice of these two dates is highly symbolic: the first commemorates, give or take a couple of days, the decision to terminate the Soviet Union, the second, the 70<sup>th</sup> anniversary of the end of the Second World War. The symbolism of the agreement is supposed to indicate the definitive erasure of the dark episodes of the 20<sup>th</sup> century, as well as the beginning of a period of development and peace in the Eurasian space. For Kyrgyzstan, it is presented as an essential step toward its development, with the government currently unable to get the state, economically and socially, back on its feet. This argument, nevertheless, does not enjoy unanimous support: between the stakes for Kyrgyzstan's future and political instrumentalization, the EEU issue has rallied analysts and parts of the opposition, as well as of the wider population, that are critical of the economic and political risks associated to this union.

## The EEU to the Rescue of Kyrgyzstan?

Kyrgyzstan was one of the poorest republics of the Soviet Union and remains very poor to this day. Its GDP, at only 7.2 billion dollars<sup>1</sup>, is among the lowest in Central Asia. The economy of this small state of fewer than 6 million inhabitants essentially relies on the gold operations at the Kumtor mine (today prey to several politico-juridical imbroglios that have considerably slowed its operation), remittances (more than 500,000 Kyrgyz leave each year to go to work in Russia and Kazakhstan), and the imports of goods from China, which are then re-exported to other post-Soviet countries. Since independence, Kyrgyzstan has endured endemic social and economic problems (poverty, unemployment, failing education and health systems, etc.), which, combined with political games of predation and corruption, have led to regular social unrest, the most serious incident being that in the Fergana Valley in June 2010, which led to the deaths of several hundreds of people.

1 World Bank Data, <<http://data.worldbank.org/country/kyrgyz-republic>>.

To work towards solving this difficult situation, Kyrgyzstan has supported several multilateral integration projects. By joining the EEU, Kyrgyzstan will enter into its integrated energy market, an important incentive given that each year it struggles to supply its population with gas and electricity, which is a crucial source of social unrest. Unable to pay its gas debts to Uzbekistan, its main supplier, it has had its supply switched off on several occasions. Kyrgyzstan's decision to join the EEU was certainly conditional on Moscow committing itself to guaranteeing the supply of gas. This commitment implied Russia's re-taking control of Kyrgyzstan's gas sector, with Gazprom's 2014 purchase of KyrgyzGas for the symbolic price of 1 dollar, in exchange for the 600 million dollars of investment necessary for modernizing the country's entire gas infrastructure, which is today in a state of disrepair.

The EEU ought to guarantee migrants free travel, which is an essential element for a state in which 28% of GDP is made up of remittances. Indeed, remittances have not stopped increasing for more than ten years (except after the 2008 crisis). Lastly, the EEU is supposed to bring Kyrgyzstan substantial financial support. Moscow has promised Bishkek aid of 1.2 billion dollars (a considerable amount for a state with an annual budget scarcely more than 2 billion dollars), in order to develop cooperation in the industrial sector (sewing and textile industries, processing, mining and metallurgical industries, transport, housing construction, development of entrepreneurship and infrastructure). A special development fund of 500 million dollars is to be created, though its functions and statutes have yet to be defined. An additional 200 million is to be freed up for Kyrgyzstan to meet the conditions linked to its membership in the Union, and Kazakhstan has promised the country 170 million dollars.

### **A Threat to the Foundation of the Kyrgyz Economy?**

This rosy picture, propagated by Atambayev and the two main heralds of the EEU, Putin and Nazarbayev, is cause for debate. Several analysts point out the likely negative economic effects linked to Kyrgyz membership. For starters, the increase in import tariffs, which will be mostly set in line with the higher level of Russian tariffs, will lead to inflation on basic foodstuffs and goods. For a country in which food security is not guaranteed, this is seen to be a real concern.

For some economists, however, the major risk stems from the possible loss of Kyrgyzstan's status as a key exporter of Chinese products to the surrounding region, which was already undermined by Kazakhstan's signing of the Customs Union agreement in January 2010. The

new import tariffs for goods from areas outside the EEU, which are higher than Bishkek's current tariff regime, may threaten Sino–Kyrgyz trade relations. Moreover, through the reinforcement of its border security, illegal trade between China and Kyrgyzstan is also bound to decline. By supplying the Kyrgyz market with Chinese products of far lower cost than Russian, Turkish, or Iranian goods, trade with China contributed to limiting inflation. According to Kyrgyz statistics, in 2013 this trade rose to 1.5 billion, though Chinese sources claim it rose to 5 billion, a discrepancy explained by the fact that a majority of products are not declared at Kyrgyz customs. Moreover, since 2000 Sino–Kyrgyz trade has rendered possible the opening of numerous markets, including the giant ones of Dordoi (Bishkek) and Karasu, creating tens of thousands of jobs (some 60,000 persons were directly or indirectly employed by the Dordoi market in 2014). A significant decline in this trade, whether legal or parallel, would threaten all the infrastructure linked to these trade exchanges and the possible closure of bazaars would significantly increase unemployment figures.

Several solutions have been envisaged to halt the eventuality of declining trade with China and its impact on Kyrgyz society. According to Andrei Slepnev, EEU Trade Minister, Kyrgyzstan has a special set of regulations that enable it to apply import tariffs differentially, which would enable it to stock up on the Chinese goods necessary for its domestic consumption.<sup>2</sup> In addition, Beijing is looking at increasing the presence of its enterprises within Kyrgyzstan and at manufacturing goods on Kyrgyz territory for export to Eurasian space, thus avoiding import tariff conditions on its products, since they would then be produced within the EEU. China has already expressed interest in the cable factory in Kaidinskii, the sugar factory in Belovod, the milk factory in Tokmak, and the mechanical factory in Kara Balta.<sup>3</sup> Although these projects may further fuel the spread of Sinophobic tendencies by Kyrgyz nationalist milieus and some of the media, they could be beneficial to Kyrgyzstan, whose means of investing in the transformation of its industry are limited. Already, for over ten years, more than 80% of Chinese exports to Central Asia have been of finished products, while imported goods are of raw materials, an imbalance about which all countries in the region are essentially concerned. Such projects would contribute to re-

2 C. Rickleton, "Kyrgyzstan Hurrying Toward Eurasian Union Accession," *Eurasianet.org*, December 1, 2014, <<http://www.eurasianet.org/node/71146>>.

3 "Kitai nameren vyiti na rynek EAES cherez Kyrgyzstan," *Kapital*, January 28, 2015, <<http://kapital.kz/world/37085/kitaj-nameren-vyjti-na-rynok-eaes-cherez-kyrgyzstan.html>>.

directing Sino–Kyrgyz trade policy, however modestly. The figures of Chinese production in Central Asian territory are bound to remain limited—at least over the short term—given the colossal production capacities situated in the People’s Republic of China.

Some other economists offer a more positive or nuanced picture. Roman Mogilevski mentions several elements that could benefit the Kyrgyz economy. The adoption of the Common Customs Tariff (CCT) of the EEU will mean a substantial increase in the most favorable nation tariff applied to the imports from all non-EEU and non-CIS trade partners, and the budget is going to gain from higher collections of VAT. Moreover, the agriculture and food processing sector, as well as the garment industry, may receive some boost from easier access to its target export markets in Kazakhstan and Russia.

### **Underlying Political and Geopolitical Agendas**

Officially an economic body, the EEU is above all a guarantee of security, one that is based on political as much as on economic priorities. Faced with recurrent tensions with Tashkent, the border reinforcements that the Union will bring constitute an additional guarantee of security for a state that regularly fears the reactions of its neighbor, and its political and military intrusions. Kyrgyzstan’s membership in the EEU amounts to an unofficial approval of Moscow becoming further involved in the security of the country.

With Putin’s having qualified the fall of the Soviet Empire as “the greatest geopolitical catastrophe of the 20<sup>th</sup> century,” Moscow is suspected of wanting to reconstitute an updated Soviet Union and, to this end, of using methods to blackmail the most fragile states such as Kyrgyzstan. For example, by threatening to reduce the official quotas of migrants able to work in Russia, a measure heavy in consequences for a state in which remittances constitute an essential pillar of social stability. The Russian leadership’s levers of influence will thus be economic as much as political, and could be expressed by bringing greater pressure to bear in terms of the choice of political system, as Moscow, along with the regimes of other states in the region, was opposed to the establishment of a parliamentary system in Bishkek in 2010. Several

questions arise, however: what choice does Kyrgyzstan have but to join the EEU, given the frailty of its economy and the fundamental threat to its future presented by social problems?

On the economic level, China’s exponentially growing influence has given rise to continual debates on the necessity of achieving a better balance between the external forces active in the economy. While the West has broadly withdrawn from the region and invested little into it, Russia is essentially the key external actor, both in terms of political economy and security. Kyrgyzstan probably has no other choice: the weakness of its economy, its social fragility, and the risks of destabilization and unrest do not permit it the possibility of development as an independent entity in the Eurasian space, as both its Uzbek neighbor or indeed Turkmenistan are attempting to do. It is likely, regardless of its choice, that Russia’s political influence on Kyrgyzstan would increase, and that its entry into the EEU is merely the continuation of a process of institutionalizing a Russian stranglehold that began many years ago. The real stake is, however, certainly less about the necessity or otherwise of joining, and more about the viability of the EEU, which remains confronted with several difficulties in terms of decision-making and economic regulations.

In this context of heated debates, the EEU will inevitably become an electoral issue, and indeed one about Kyrgyzstan’s political future. The country will hold its next parliamentary elections in late 2015, local elections in 2016, and have a presidential race in 2017. The success or failure of its EEU membership will be a test for the Atambayev administration. The opposition, in particular the nationalist circles, who fear a loss of national sovereignty, will not lose any time in linking future economic and social failures to the consequences of EEU membership, even if such circles do not offer a clear alternative to resolving all the country’s difficulties. Indeed, Kyrgyzstan’s general political and economic conjuncture is linked to a number of other factors, primarily domestic (political and social stability, investment conditions, corruption) and external ones (consequences of the Ukrainian crisis, Western sanctions against Russia, and, above all, the Russian economic crisis and the devaluation of the ruble).

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