

Tajikistan's Prospects of Joining the Eurasian Economic Union

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Abstract

This article considers the current debate within Tajikistan about the pros and the cons of potentially joining the Eurasian Economic Union (EEU). While the majority of the population is in favor of joining, as they hope it will lead to fewer restrictions on Tajiks working in Russia, the government is still conducting a cost-benefit analysis, with its primary concerns revolving around the impact on trade relations with non-EEU countries and a loss of freedom in foreign policy.

Introduction

The Republic of Tajikistan's economy is small and open. The country's relative remoteness, its isolation from global transport infrastructure, its mountainous terrain, and its being landlocked, all serve as disadvantages for its economic and geographical situation. In order to overcome these adverse circumstances, Tajikistan maintains an open door policy, and supports a variety of integration projects, from the World Trade Organization (WTO) and the Shanghai Cooperation Organization (SCO) to the Chinese "New Silk Road".

After the cessation of the Eurasian Economic Community (EurAsEC) in October 2014 and the formation of the Eurasian Economic Union, the Tajik President, Emomali Rahmon declared it necessary to study the economic basis and legal documents of this new Union to the end of joining it in the future.¹ To better understand the pros and cons of Tajikistan joining the EEU, and provide a cost-benefit analysis, the Tajik government established six working groups made up of representatives from government, business, and science. These groups have been working under the Ministry of Economy and Development of Tajikistan.² Alongside these official working groups, there is growing debate about the pros and cons of joining the EEU in the Tajik and amongst its populace.

Characteristics of the Tajik Economy: Why Join the EEU?

Tajikistan is an agrarian-industrial economy. Its main agriculture sectors are cotton, crops, livestock, and its industrial sectors are machinery, aluminum, fertilizers, textiles and light industry, energy and consumer goods. Tajikistan's economy is characterized by a high level of internal and external risk, weak infrastructure for enterprises, a low supply of resources, illiberal economic

legislation, and opaque legal practice. All these factors explain the very low-level of investment in the country, and particularly of foreign direct investment (FDI).

Despite this, since 1998 Tajikistan has seen economic growth. Over the last ten years GDP growth has ranged from 8 to 10 percent, while growth in 2014 stood at 6.7%. In terms of GDP per capita, in 2013 this amounted to 1050 US dollars. Indeed, the poverty rate has been halved over the past ten years.

The basis for this economic growth is the export of goods (mainly aluminum and cotton), and growing domestic demand, primarily as private consumption. Private consumption is driven by migrant remittances from abroad, primarily from Russia. A large proportion of private consumption is of imported goods, including food. Remittances stimulate the consumer market, as well as the construction and services sectors.

Tajikistan's economy is extremely dependent on external factors: Remittances from abroad make up almost 50% of GDP (2013) and over 10% of budget revenue is made up of loans and grants from international organizations and foreign governments, the sources of which include the IMF, the EBRD, the EDB, the World Bank, the ADB, the EU and the OPEC Fund. While 77% of Tajikistan's foreign obligations are based on bilateral loans from China.³ Tajikistan's main trading partner is Russia, accounting for 29.8% of foreign trade turnover in 2014, followed by China (14.1%), Kazakhstan, and Turkey.⁴

Labor Migration to Russia: The Basis of Tajikistan's Economy

The main driving force of growth in Tajikistan is the export of labor. Tajikistan's population is rapidly growing. Every year 150,000 people enter the labor market. However, the job growth rate is unable to absorb these numbers. Therefore, labor migration has been the most

1 Guzel Maytdinova, "Tajikistan's real problems and real interests," article from November 29, 2014, <<http://www.centrasia.ru/newsA.php?st=1417243320>>.

2 Payrav Chorshanbiyev. "Tajikistan analyzes the possible effects of joining the Eurasian Economic Union," article from January 14, 2015, <<http://www.asiaplus.tj/ru/news>>.

3 Ministry of Economy and Development of the Republic of Tajikistan <http://www.ved.gov.ru/exportcountries/tj/about_tj/eco_tj/>.

4 Farhad Milod, "Between the four seas. Tajikistan does not know which bank of the stick?" article from September 24, 2014, <<http://www.centrasia.ru/newsA.php?st=1411579140>>.

important element for the country during its period of economic and political transition. According to a survey conducted in January 2012, 53% of households in Tajikistan had at least one member who had worked in Russia in the previous ten years. For 63% of young people in Tajikistan, their first job was abroad.⁵ As a result, the development of the national state, as well as of its political and economic reforms, has occurred in a context of growing labor migration to Russia.

Labor migration has become a structural feature and a basis for economic growth in Tajikistan. In 2013, migrants transferred 4 billion USD, a volume equal to almost 50% of GDP.⁶ Labor migration to Russia plays a key role in reducing poverty, achieving social security, and ensuring the country's development. If there were no remittances, the rate of extreme poverty in the country would rise on average from 32.2% to 54.5%. Remittances also reduce income inequality. If households were not to receive remittances, the Gini inequality coefficient would increase in the capital, Dushanbe, from 0.36 to 0.59, and in rural areas from 0.37 to 0.55.⁷

Benefits of Integration: What Can Tajikistan Get from EEU Membership?

1. *The main benefit of Tajikistan's joining the EEU is that it will be part of a single labor market.* Upon joining the EEU, Tajik migrants would be able to work in Russia without any formal restrictions or additional payments; they will also enjoy the same social rights as Russian citizens. At the same time, we must bear in mind that a significant number of Tajik migrants work in Russia's vast informal labor market. And, the scale of informal employment of Tajik migrants in Russia is unlikely to decrease greatly. It can be anticipated that after joining, there would be an increased influx of labor from Tajikistan into Russia of around 15–20 percent. As for remittances, it is difficult to predict their dynamics given the current uncertainties in Russia. In any case, Tajikistan's integration into the EEU will ease the country's labor market tensions, and will also help support the wellbeing of Tajik households.
2. *Tajik economists and businessmen hope for investments from EEU countries.* Tajikistan's enormous reserves

of water and mining resources would, with an appropriate amount of investments, boost reindustrialization and agriculture based on irrigated farming. Major Russian and foreign companies are committed to large-scale investment projects in hydropower. In Tajikistan, it is hoped that the EEU would support the Rogun hydropower plant, but this issue has not yet been resolved conclusively. Expectations of EEU investments are also associated with a projected growth in remittances and investments from the Tajik diaspora. It is presumed that remittances can be a driving source of development for small and medium-sized businesses, particularly in agribusiness.

3. *Revival of domestic production.* The EEU represents a huge market, in which Tajik products such as fruits, vegetables, cotton, textiles, energy, and non-ferrous, rare, and precious metals would be in demand. Also, participation in the EEU may contribute to the growth of new industries in Tajikistan: cheap imports from third countries will be restricted, thus acting to protect domestic producers. This may contribute to the growth of new industries, which can make use of the rapidly growing low-cost labor force in the country. Hence, there will be a learning effect from production and the usage of labor resources would become more efficient.
4. *A significant advantage for Tajikistan will be the lower prices for imported hydrocarbons.*
5. *There are also non-economic benefits of joining the EEU:* There are three main types of benefit. The first includes extra security on the southern borders of Tajikistan, the neutralization of the negative influence of the Afghan factor, and support in combating international terrorism sponsored by ISIL. The second includes a dramatic reduction in drug trafficking, which in turn will improve safety, quality of governance, and Tajikistan's development as a whole. The third includes the possibility it would provide Tajikistan to balance between the EEU and China, in order to avoid total absorption by the latter. Under certain conditions, Tajikistan may become a "gateway" to a huge EEU market for goods from China, India, and Pakistan. An increase in import duties would not be critical due to the proximity of the prevailing average Tajik customs tariffs and those of the EEU's. This will only apply to imported goods for sale, without affecting goods for transit.

Costs of Integration: What Can Tajikistan Lose from EEU Membership?

A major concern in estimating the effects of accession to the EEU is the problem of matching tariffs. Tajikistan's tariff schedule is significantly more uniform than the

5 Unpublished Household survey by the Center Sharq, Tajikistan, conducted January 2012.

6 Ministry of Economy and Development of the Republic of Tajikistan, <http://www.ved.gov.ru/exportcountries/tj/about_tj/eco_tj/>.

7 Brown R., Olimova S., and Boboev M., (2008). "Country Report on Remittances of International Migrants in Tajikistan", *Study on International Migrants' Remittances in Central Asia and South Caucasus*. Asian Development Bank, Manila. Accessed at: <<http://www.adb.org/Documents/Reports/Consultant/40038-REG/40038-04-REG-TACR.pdf>>.

EEU's. Tajikistan's tariff schedule contains six different levels, while the EEU's includes twenty-three. EEU membership may thus adversely affect Tajikistan's foreign economic administration. Taking into account Tajikistan's commitments to the WTO, the country's average tariff rate at the end of 2013 was 8.71%,⁸ which is slightly lower than the average EEU tariff of 9.45%.⁹ In addition, there are differences in approach to non-tariff regulations.

Non-tariff regulations of international trade in Tajikistan are largely aimed at monitoring compliance with technical and sanitary measures, which are generally up to international standards. In contrast to the EEU, Tajikistan does not use any special measures (anti-dumping duties and investigations, protective measures, quotas on import and export of goods).¹⁰ Although entry into the EEU and tariff harmonization should not lead to a significant trade diversion in favor of EEU participating countries, there are concerns that this may have a negative impact on turnover from trade with non-EEU countries.

It is safe to predict that imports would become more expensive from non-EEU member countries, primarily China, Iran, and Turkey. Overall, the prospects for trade development and economic cooperation with Tajikistan's south may deteriorate. Tajikistan may also lose some customs duties, which will lead to a smaller state budget and possible issues in meeting the state's social obligations.

Extending the EEU's customs border to the Tajik border will also reduce smuggling from China, Pakistan, and Iran. The cheap goods that fill domestic markets and maintain the welfare of the poorest people of Tajikistan would thus disappear. It is probable that the volume of re-export of Chinese goods would decrease, which in turn would have a negative impact on small-medium enterprises, and on small-scale trade. Reorientation to the north may also obstruct technological development in the field of small and medium enterprises.

There are also fears of a non-economic nature: EEU integration might put Tajikistan in a strategic bind that will limit its maneuverability in terms of foreign policy. This is dangerous because Tajikistan's leadership has demonstrated its unwillingness to follow Russia in its current confrontations with the West.

Barriers to EEU Integration

The main obstacle to EEU integration is the lack of necessary transport (roads) and market infrastructure (ware-

houses and markets) to link Tajikistan with EEU countries. All major trade routes to and from Tajikistan pass through Uzbekistan; about 90% of Tajikistan's total turnover transits via rail, whose trackage runs through Uzbekistan. Rail transit through Uzbekistan is tied with high levies on the border, frequent rises of transit cost, and unpunished cargo theft.¹¹ The high price of transit through Uzbekistan, thus, reduces the benefits of foreign trade. Possible solutions to reduce such transport costs include: a) the building of regional railways along a route China–Kyrgyzstan–Tajikistan–Afghanistan or Tajikistan–Kyrgyzstan–Kazakhstan–Russia; and b) building a regional highway from Dushanbe to Kyrgyzstan. In the latter case, it would be necessary to establish logistics centers along the way. This is because the volume of foreign trade that passes through the common border with the Kyrgyz Republic is currently extremely low.

Limited Potential for Integration With the EEU Beyond Labor Exports

Tajikistan's most intensive trade development is with the Central Asian countries of Kazakhstan and Kyrgyzstan.¹² As this trade largely comprises the re-export of Chinese goods, its high intensity of trade with Kyrgyzstan may decrease after the creation of a common EEU customs border.

Tajikistan's integration into the EEU may also be slowed down by the looming recession in Russia. Should this recession take hold, it could lead to a reduced demand for Tajik goods and services, as well as to a smaller demand for labor from Tajikistan, and a consequent decline in remittances from migrant workers. At the present moment, the crisis in Russia has already begun to have negative impacts on the Tajik economy, including:

- a reduction in the numbers of Tajik migrants in Russia; according to various estimates remittances have decreased from between 10% and 22%;¹³
- a drop in aggregate demand due to a reduction in remittances, as well as the Tajik Somoni's (TJS) lower exchange rate against the ruble;
- a reduction in trade volume;
- a decrease in profitability for companies working with Russia;
- deposits in Russian rubles are losing their value, which is having a destabilizing effect on the Tajik banking system, increasing its vulnerability;

8 Tajikistan became a full member of the WTO on March 20, 2013, and joined on sufficiently favorable terms.

9 "Evaluation of the economic effect of the Republic of Tajikistan's accession to the CU and the CES." Eurasian Development Bank. Centre for Integrative Studies. St. Petersburg, 2013, p. 46

10 Ibid.

11 Bahridin Karimov. "Tajikistan and the Customs Union—pros and cons," <<http://www.centrasia.ru/newsA.php?st=1320092940>>.

12 Ministry of Economy and Development of the Republic of Tajikistan, <http://www.ved.gov.ru/exportcountries/tj/about_tj/eco_tj/>.

13 Information from Agroinvestbank RT.

- problems with maintaining the balance of payments are becoming more acute, since most of the country's foreign exchange earnings (up to 80%), particularly remittances received, are in Russian rubles, while imports are made in US dollars.

The slowdown in Russia is forcing its partners, including Tajikistan, to approach the West, which in turn significantly increases the latter's support programs in Central Asia, including the provision of financial and investment resources. Should the country engage in greater exchange with the West or China, this may increase Tajikistan's dependence on these actors, narrowing the role and importance of EEU integration.

Public Opinion: Groups “For” and “Against” EEU Membership

In 2014 and in January–February of 2015, we conducted an opinion poll among the Tajik population regarding EEU membership.¹⁴ The poll raised questions about the prospects of joining the EEU. In general, the population of Tajikistan supports EEU integration. In 2014, 82.4% approved of joining the Customs Union, 12% were undecided, and only 4.8% stood opposed. In February this year, after the events in Ukraine, we conducted a survey among young people aged between 14 to 29 years. 72% of respondents were in favor of joining the EEU, 11% against, and 17% undecided. Focus-interviews with government officials, businessmen, academics, and migrants showed that the most consistent advocates for EEU integration are migrants, as well as

businessmen of different levels, especially manufacturers and farmers.

Those who are “against” include representatives of the ruling elite, afraid of the possibility of having to give up some of their power to multinational bodies and the big businesses of EEU countries. Moreover, bankers and nationalist intellectuals also have a negative attitude towards EEU integration.

What the people of Tajikistan expect from joining the EEU can be seen in the responses of young people: 24% of respondents expect barriers to labor migration to be eliminated, 20% consider that there will be a revival of trade due to the removal of customs barriers, 9% hope to see various kinds of subsidies, 25% all of the above, and 22% were undecided.

Conclusion

The vast majority of the Tajik population supports joining the EEU. The key reason is that they hope that barriers and restrictions for Tajik labor migrants in Russia will be removed. This would then provide employment and income for a rapidly growing army of workers in Tajikistan.

Nevertheless, the Tajik government is aware that EEU integration is a very difficult process and that the entry price is high, while the benefits are questionable. As a result, we are currently now entering a “waiting period”, during which cost-benefit analyses can be undertaken and negotiations conducted, before any conclusive decision is made on EEU membership.

About the Author

Saodat Olimova is Deputy Director of the Analytical Center Sharq in Dushanbe. She is an expert on labor migration and has published several reports for international organizations on migration and economic development in Tajikistan. She also works on the transformation of Islam in Tajik society.

14 The two surveys were conducted in April–May of 2014 (1500 respondents) and January–February 2015 (1000 respondents), respectively, among nationally representative samples.