



RUSSIA, CENTRAL ASIA AND THE EURASIAN ECONOMIC UNION

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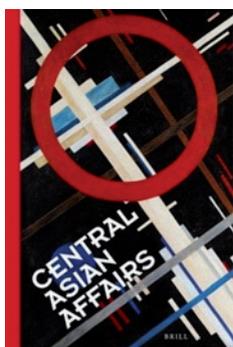
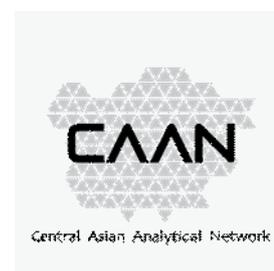


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Impact of the Economic Crisis in Russia on Central Asia

By Nate Schenkkan, New York, NY

Abstract

The 2014 Russian economic crisis caused by Western sanctions and the drop in the global oil price has transformed into a regional economic crisis. Central Asian economies are highly vulnerable to: shocks from low oil and gas prices; the current troubles facing the Russian ruble to which their currencies are closely linked; drops in remittance income from labor migrants working in Russia; and reduced Russian investment. Already in 2014 the impact of the Russian crisis had severely damaged growth in Central Asia and could further destabilize the region in 2015 if the decline becomes more severe. Longer term, the crisis will affect the prospects of the different models of Eurasian regional economic integration that Russia, China, and the United States are advocating.

What started in November 2013 with a small protest in Ukraine, transformed in 2014 into a complex regional economic crisis fed by Western sanctions against Russia and the unexpected plunge in the global oil price. Every country in the former Soviet Union that has not integrated with the European Union is now facing some level of economic crisis as Russia's stumbling economy drags Eurasia down.¹ This brief focuses on the five Central Asian countries and their four main vulnerabilities:

1. Low oil and gas prices, for the hydrocarbon export-dependent states of Turkmenistan and Kazakhstan;
2. Currencies, which are linked to the ruble and are experiencing both devaluations against the dollar, which hurt domestic buying power and threaten defaults on dollar-denominated debt, and increases in value against the ruble, which hurt exports to Russia;
3. Remittance income from labor migrants in Russia, which are already shrinking due to the ruble's lower buying power and will diminish further as the Russian economy contracts;
4. Russian investment and contracts, especially for critical infrastructure projects, which may be frozen or withheld.

Russia's Crisis

The first factor in Russia's economic crisis is the United States and European sanctions in response to the annex-

ation of Crimea and invasion of eastern Ukraine that stoked almost \$75 billion in capital flight in the first-half of 2014. Russian counter-sanctions on European and American food in August added to inflationary pressures, as well as the sense of economic panic.

As large, or larger, a factor in the crisis has been OPEC's decision, led by Saudi Arabia, to allow global oil prices to collapse in order to drive new oil producers out of the market. The plunge of benchmark oil prices from over \$100 per barrel in July 2014 to just above \$50 at the time of writing has eroded the basis of Russian growth. Oil and gas revenues made up more than 68 percent of total export revenues in 2013, with most of that coming from oil and petroleum products.² The original 2015 budget was based on oil at \$100 per barrel. Growth projections have been revised repeatedly downwards. The World Bank in January projected negative 2.9 percent growth for 2015,³ down from negative 0.7 percent just one month before.⁴ As the crisis has intensified, the ruble has plunged, falling nearly 100 percent against the dollar since the start of the Ukraine crisis in November 2013, even as the Central Bank has spent more than \$100 billion in its defense since June.

Kazakhstan

Due to its close economic relationship with Russia and its heavy dependency on oil exports (an estimated 69 percent of exports in 2014⁵), Kazakhstan has been the hardest hit in the region. The World Bank revised Kazakhstan's 2015 forecast down from 5.9% in June 2014 to

1 Belarus implemented a *de facto* devaluation in December 2014 and is locked in a bitter trade dispute with Moscow over re-export of sanctioned goods and a flood of cheap Russian imports; Moldova is desperately fighting runaway devaluation of the leu; Georgia and Armenia, like Tajikistan and Kyrgyzstan, rely on remittances and Russian investment and now have currencies under severe pressure; Azerbaijan is abandoning its currency's peg to the dollar in a *de facto* devaluation. Ukraine, of course, is the hardest hit in the region due to the collapse of the government, war in the east, and the loss of Crimea.

2 "Oil and natural gas sales accounted for 68% of Russia's total export revenues in 2013", *U.S. Energy Information Administration*, July 23, 2014

3 "World Bank cuts Russia growth outlook, warns on global economy", *The BRICS Post*, January 14, 2015

4 "World Bank Revises Its Growth Projections for Russia for 2015 and 2016", *The World Bank*, December 9, 2014

5 "FSU oil producers face tough 2015", *The Economist Intelligence Unit*, January 21, 2015

1.8% in January 2015; the government itself now projects only 1.5% for this year. Astana has been activist in response, but thus far inconsistent and ineffective in stopping the spread of the crisis.

Kazakhstan's first policy move came in February 2014. The crisis was only in its infancy when the National Bank devalued the Kazakh tenge 19 percent without warning, in order to stay ahead of the ruble's decline. The sudden devaluation proved a shock to Kazakhstanis, as those holding tenge awoke to find their savings slashed overnight by almost a fifth, and those holding dollar-denominated debt saw it go up by just as much. The government also announced it would spend one trillion tenge (\$5.4 billion) from the National Fund to stimulate the economy, claiming that its target of 6–7 percent annual growth was still achievable.

Although ostensibly done to prevent panic from spreading, the result of the overnight devaluation has been mistrust in the government's economic plans for tackling the crisis, and even more so in the stability of the tenge. Foreign currency holdings have skyrocketed as more and more people bet on a further devaluation; at the end of 2014 over two-thirds of retail deposits were in foreign currency.⁶ With deposits flowing into foreign currencies, the government is also deeply concerned about tenge liquidity and vulnerability to dollar dependency. On February 11, President Nazarbaev urged state companies to shift their holdings from dollars into the national currency.⁷ This "advice" complements steps outlined in December by the National Bank to incentivize savers to move from dollar to tenge accounts.⁸ There is a serious risk of financial crisis. The National Bank reported in January that non-performing loans made up a dangerous 23.55 percent of total loans nationwide.⁹

The February devaluation failed to keep Kazakhstan competitive. With the tenge now up 80 percent against the ruble from where it was after the February 2014 devaluation, domestic consumption and production are eroding, especially in border regions and manufacturing areas reliant on export to Russia. In February 2015, after months of Kazakhstanis crossing the open border with Russia to buy daily consumer products, foodstuffs, and even cars, the government requested negotiations with Russia to impose restrictions on cross-border

trade.¹⁰ President Nazarbaev has called for a "Made in Kazakhstan" label to encourage patriotic consumption.¹¹

The strong tenge is starting to directly affect wages and employment in key sectors. In February 2015, the Temirtau subsidiary of commodities giant ArcelorMittal announced that it would hold a quarter of its 13,000 local employees' wages in escrow until it had more cash, because the falling ruble had made export of its Kazakhstan-produced steel uncompetitive.¹² The government scrambled to respond, immediately releasing over \$20 million in overpaid VAT to the company.

The government appears unsure whether to pursue stimulus or austerity. In November, President Nazarbaev announced the economic project "Nurly Zhol" (Shining Path), billed as a countercyclical approach to the crisis, including an ambitious new approach to regional and national transportation infrastructure.¹³ Yet the proposal actually only re-allocated funds already promised in February 2014, and the pledge of stimulus has already been undermined by more recent plans. On February 11, 2015 President Nazarbaev called a meeting of the government to lay out a further round of anti-crisis measures. The government announced it would cut annual expenditures by ten percent, or almost \$4 billion, including reductions in spending on prestige projects like the Winter Universiade and EXPO 2017.

Kyrgyzstan–Tajikistan–Uzbekistan: the Fragile Southern Tier

Each country of the poorer southern tier of Central Asia has suffered from a currency that is weakening against the dollar, but not fast enough to avoid strengthening against the ruble. The Tajik somoni is down 13 percent against the dollar and up 45 percent against the ruble; the Kyrgyz som is down 25 percent and up 37 percent.¹⁴ Uzbekistan is notorious for presenting unreliable or incomplete economic statistics, but its underlying issues are the same as in Tajikistan and Kyrgyzstan. The official rate of the Uzbek som is down 12 percent against the dollar and up 75 percent against the ruble.¹⁵ Preventing all-out crashes has been expensive. The Kyrgyz National Bank has spent 17 percent of its foreign

6 "Bank deposits show Kazakhs fear another devaluation", *BNE IntelliNews*, February 12, 2015

7 N. Gizitdinov, "Kazakhstan Tells Companies to Prop Up Tenge in Ruble Rout", *Bloomberg*, February 11, 2015

8 "Kazakhstan considers de-dollarizing its economy", *Tengrinews.kz*, December 29, 2014

9 J. Dettoni, "Kazakhstan Anxious about Another Devaluation", *Eurasianet*, February 5, 2015

10 The same dynamic in Belarus has led to threats from President Lukashenko to leave the Eurasian Economic Union.

11 "N.Nazarbaev predlozhit zapustit' aktsiyu 'Sdelano v Kazakhstane'", *Zakon.kz*, February 11, 2015

12 "ArcelorMittal Temirtau cuts wages by 25% for locals and by 50% for foreigners", *Tengrinews.kz*, February 4, 2015

13 "Nurly Zhol—The Path to the Future", Kazakhstan Embassy in the USA

14 All figures are from November 21, 2013 to February 16, 2015.

15 Most people in Uzbekistan use black market currency traders. The dollar rate on the black market is roughly 50% lower than the official rate, but they tend to move in sync.

currency reserves trying to keep the som steady against the dollar, and late in the year threatened to ban foreign exchange points after accusing them of hoarding dollars and speculating on the som's further decline. The Tajik National Bank spent \$137 million in 2014, more than a fifth of its foreign currency reserves.¹⁶

As in Kazakhstan, strength against the ruble is a curse. Agricultural producers in Central Asia had greeted Russia's food sanctions on Europe with joy, seeing an opportunity to return to a market they had lost to more efficient and closer European producers. But plans announced in August to increase agricultural exports by five (Tajikistan) or fifteen (Kyrgyzstan) times will be hard to pull off with a weak ruble. The argument for Kyrgyzstan's accession to the Eurasian Economic Union was that it would promote access to the Russian market, which looks less profitable now that the ruble has made Kyrgyz goods less competitive. A representative of Kyrgyzstan's textile industry stated in February 2015 that half of the country's apparel producers—one of the only successful finished-goods industries in the country—were idle because of the Russian crisis.¹⁷

The first big unknown for 2015 is how millions of Central Asian labor migrants will react to the crisis. Each country in the southern tier relies heavily on the remittances of labor migrants in Russia, which are equivalent to 31.5 percent of GDP in Kyrgyzstan and are equal to roughly half of Tajikistan's GDP (the country stopped reporting numbers in 2013). Uzbekistan also does not provide official information, but the GDP equivalent is thought to be between 15 and 25 percent. The value of remittances is guaranteed to drop in 2015, as migrants earning in rubles lose dollar purchasing power. What is unknown is how many migrants will leave Russia, or at what pace. New data through January 2015 from Russia's Federal Migration Service shows a decline from 2–4% in citizens of the three countries registered in Russia. However, the enormous degree of informal migration, as well as the large numbers of migrants who have taken dual citizenship, make it hard to rely on these early figures. The scale of return will only be discernible by mid-2015 at the earliest.¹⁸ Tightened Russian visa and immigration rules, especially for non-EEU citizens of Tajikistan and Uzbekistan, could reduce migrants' numbers.

The second big unknown is how the crisis will affect Russian investments in Central Asia. In Uzbekistan, as

in Turkmenistan, Gazprom is drastically cutting its gas imports from the country for this year, purchasing only one quarter of the supply it took in 2014.¹⁹ Kyrgyzstan is in the most danger from a retreat in Russian investment. As the country has drawn closer to Russia by agreeing to join the Eurasian Economic Union, it has also become more reliant on Russian money. Russia's state-owned Inter RAO has not even started work on the Kambarata 1 hydropower plant that it pledged to build in exchange for extending Russia's lease on the Kant military base.²⁰ As part of the EEU negotiations, Russia pledged \$1.2 billion in transition funds to ease Kyrgyzstan's accession, and in January Gazprom announced it would spend half a billion dollars to overhaul the country's gas infrastructure. At least the total figures, if not the investments themselves, are in doubt given the scale of Russia's crisis.

Turkmenistan

Even in the most opaque country in an opaque region, the crisis has already had visible consequences. On January 1, the Central Bank announced an overnight 18.6 percent cut in the manat. Ten days later President Gurbanguly Berdimukhamadov fired the head of the Central Bank, as well as of the national gas company. As in Kazakhstan, the overnight devaluation led to spreading anxiety, with exile-operated independent news outlets reporting long lines at exchange points and limits on conversion.²¹ With minimal exports to Russia, fewer labor migrants, and complete dependence on gas exports, Turkmenistan is likely feeling the pressure more from the drop in natural gas prices as they follow oil downward than from Russia's crisis. There may be knock-on effects however, as Gazprom announced in February that it will slash its purchases of gas from Turkmenistan by three-fifths, to only 4 billion cubic meters (bcm).²² That will leave Turkmenistan even more dependent on its main Chinese purchaser. The government has denounced the cut in unusually strong language, calling Russia an unreliable partner and accusing it of violating contracts.²³

16 "Tajikistan's gold and forex reserves total \$481 million", *The Times of Central Asia*, January 22, 2015

17 "Half of Kyrgyzstan's sewing enterprises standing idle," *The Times of Central Asia*, February 20, 2015

18 D. Trilling, "Central Asians Leaving Russia: Flood or Trickle?," *Eurasianet*, February 8, 2015

19 C. Rickleton, "Gazprom Clarifies Drawdown in Turkmenistan", *Eurasianet*, February 3, 2015

20 C. Rickleton, "Kyrgyzstan: Russia Has Made "No Real Progress" on Hydropower Promises", *Eurasianet*, February 16, 2015

21 C. Rickleton, "Turkmenistan: Rumors Reign as Economic Crisis Grows", *Eurasianet*, February 1, 2015

22 C. Rickleton, "Gazprom Clarifies Drawdown in Turkmenistan", *Eurasianet*, February 3, 2015

23 OilGas.gov.tm

Short-Term and Long-Term Regional Consequences

Because both factors driving the crisis—OPEC's willingness to tolerate low oil prices and the war in eastern Ukraine—are themselves still unpredictable, and because of the opacity of the governments and economies of Central Asia, it is difficult to predict precisely how the crisis will develop in 2015. What is certain is that the crisis is only in its early stages, and that none of the governments in the region have the resources to avoid it. At a minimum, the crisis will cripple public spending and result in more lost years in a region that never recovered from the post-Soviet collapse in infrastructure, social services, and education. At worst, the crisis could lead to violent unrest.

The long-term significance for the region will depend on how long the crisis lasts and how severe it becomes. But long-term consequences for regional economic development are already taking shape. The first is that the Russia-centric regional integration model of the EEU is withering. Russia's counter-sanctions against Europe, which were imposed without consultation within the EEU, have shown the shallowness of its commitment to rules-based regional integration. Kazakhstan is the key defector from the project. Even as President Nazarbayev maintains a rhetorical commitment to the EEU, steps to impose limits on Russian imports, to encourage reliance on the tenge, and to curtail labor migration to Kazakhstan show that the government has gotten cold feet about integrating into an axis that pivots on Russia.

Second, as the EEU regional integration model fails, the China-led model of integration, in which Central

Asia acts as a source of natural resources and a transit zone for Chinese goods to Iran, Europe, and South Asia, will continue to gain ground. The rapid completion of pipelines and transportation infrastructure crossing the entire region has shown that China is not just an alternative investor in Central Asia, but its dominant one. Russia will remain dominant politically so long as China sees no benefit in confronting it. But Russia's levers for economic influence are weakening, especially if large numbers of migrants return to the southern tier. The crisis will hasten the region's turn away from reliance on Russia and towards China.

Lastly, the crisis has reaffirmed how irrelevant the US's plans for the region are. The Afghanistan-centered New Silk Road Initiative, announced with great fanfare in 2011, has failed to produce liberalization in intraregional trade, or major new connections between Central and South Asia that would spur economic development. Its signature CASA-1000 electricity export scheme and the TAPI gas pipeline are both still years, or more likely decades, from completion. Moreover, pressure is building to "de-dollarize" local economies, especially in Kazakhstan, as the price of reliance on the dollar-centric international financial system sinks home. United States assistance to the region badly needs reevaluation to focus on Central Asia in its own right, rather than as a helpmeet to Afghanistan, so that the conceptual framework can engage with actual sources of economic and social dynamism in the region.

About the Author

Nate Schenkkan is a Program Officer for Freedom House, managing the Central Asia and Turkey programs. Before joining Freedom House in 2012, he worked as a journalist in Kyrgyzstan and Kazakhstan. He has a Master's degree in Russian and Eurasian Studies from Columbia University's Harriman Institute.

Kazakhstan's Posture in the Eurasian Union: In Search of Serene Sovereignty

By Marlene Laruelle, Washington DC

Abstract

Among all post-Soviet states, the position of Kazakhstan towards the Eurasian Union project is likely the most complex. The country has managed to keep a good dose of pragmatism within its approach, subtly fluctuating between a façade of serenity, active corridor diplomacy, and reinforcing its sovereignty via its symbolic attributes. Nazarbayev has formulated Kazakhstan's posture on the Eurasian Union project unambiguously and repeatedly. Yet many other symbolic aspects are discreetly at play, and the Kazakh authorities have received and responded to them well, as can be seen from Nazarbayev's announcement that 2015 would be the 550th anniversary of the birth of the Kazakh state.

Among all post-Soviet states, the position of Kazakhstan towards the Eurasian Union project is likely the most complex. The country must strike the right balance between its historical drift of supporting any regional integration project and posturing itself as Moscow's equal partner, with its own distinct voice. The Ukrainian crisis has disturbed this quest for equilibrium and rendered Kazakhstan's posture more fragile. However, the country has managed to keep a good dose of pragmatism, subtly fluctuating between a façade of serenity, active corridor diplomacy, and reinforcing its sovereignty in its symbolic attributes.

The 'Yes, but' of Kazakhstan to the Eurasian Union

Kazakhstan's foreign policy goals have been distinctly stated, and pursued. Russia is Kazakhstan's main strategic and economic partner, but Astana follows a so-called multi-vector policy that welcomes China, the West, and other Asian countries. Kazakhstan has always been an enthusiastic supporter of all integration projects, whether at the Central Asian or larger Eurasian/post-Soviet levels. However, the Kazakh authorities have never explicitly addressed the potential overlap and/or competition between these two orientations. On one hand, prospects for deeper Central Asian integration, despite favorable economic opportunities for Kazakh businesses that this would provide, are seen as above all a burden rather than a blessing, especially due to having difficult neighbors such as Uzbekistan. On the other hand, the Russia-led Eurasian Union project, whose treaty Astana ratified in May 2014 and is now seen through the lens of the crisis in Ukraine, is interpreted as an imbalance that favors Russia rather than Kazakhstan. Both views carry with them their own set of problems.

This was the context for Nazarbayev's February 2014 suggestion to, at some undetermined future point, change the country's name to *Kazakh Eli*, with the goal

of no longer being a *-stan*. The *Kazakh Eli* idea can be seen as drawing a third line to the criteria that the regime promotes. Firstly, it allows Kazakhstan to position itself as a 'neither, nor' by creating its own distinctive brand, rather than being merely a part of a regional entity. Secondly, it highlights the Kazakh ethnic component of the country and the historic destiny of its steppe culture, something that younger generations increasingly support. Thirdly, it uses as its model, Asian countries—such as Singapore, Malaysia, Mongolia—that are perceived as successful in encountering economic modernity and cultural globalization. However, this identity project has raised serious criticism at home and encountered opposition from influential figures, and in any case Nazarbayev has pushed its timeline into the indefinite future.

Nazarbayev has formulated Kazakhstan's posture on the Eurasian Union project unambiguously and repeatedly.

- First, those who would draw a parallel with the Soviet Union, either to denounce the current integration dynamic, or with the hope to revive the defunct Soviet structure, are in the wrong. He has emphasized: "There have been many rumors of Kazakhstan reportedly losing its independence, about the USSR allegedly being revived. Complete nonsense. Those willing to get the USSR revived are not in their right mind. We have gone a long way away from that."¹
- Second, the Eurasian Union is an economic project, not a political one, and the Kazakh authorities have expressed strong reservations towards any supranational institutions or parliament, and joint citizenship. Nazarbayev stated: "Economic interest, rather

1 "Economic Eurasian Union bears no resemblance to USSR: President Nazarbayev," *Tengri News*, December 22, 2014, <http://en.tengrinews.kz/politics_sub/Economic-Eurasian-Union-bears-no-resemblance-to-USSR-President-Nazarbayev-258039/>.

than abstract geopolitical ideas and slogans, is the main engine of the integration processes.”²

- Third, Kazakhstan’s membership is the result of a choice that can be reversed if the country considers its interests are not being upheld. Here too, Nazarbayev expressed plainly: “If the rules which were previously established in the treaty are not fulfilled, then Kazakhstan has the complete right to end its membership in the Eurasian Economic Union. Astana will never be in an organization which represents a threat to the independence of Kazakhstan.”³ He could not be clearer.

An Ambivalent Message Coming from Russia

Yet many other symbolic aspects are discreetly at play, and the Kazakh authorities have received them well. At the Selinger youth camp in August 2014, Putin answered a question about the growth of nationalist feelings in Kazakhstan with an ambivalent statement. He celebrated Nazarbayev, who “has performed a unique feat” because “he has created a state on a territory where there has never been a state. The Kazakhs never had a state of their own, and he created it. In this sense, he is a unique person on the post-Soviet space and in Kazakhstan.”⁴ The statement stirred Kazakh public opinion, especially among young, nationalist-minded elites. Western observers interpreted it—too simplistically—as a signal sent from Moscow to Astana that Kazakhstani statehood could easily disappear. I read Putin’s message as more about the risk of the country facing political instability after Nazarbayev’s presidency ends, than as a threat of it following Ukraine’s destiny of failed sovereignty.

Other more radical, and more marginalized, voices expressed themselves and were widely commented in the Kazakhstani public space. On February 20, 2014, Edouard Limonov, the leader of the (banned) National Bolshevik Party, a beacon of Russian nationalism, and fervent Putin opponent, hoped that both Ukraine and Northern Kazakhstan, which he judged as collapsing, would reintegrate with Russia. This statement raised the ire of the Kazakhstani Ministry of Foreign Affairs, which

demanded an explanation from Russia.⁵ A few days later on Rossiya-24, Vladimir Zhirinovskiy expressed hope that all five Central Asian republics would reintegrate with Russia as a Central Asian federal district with Almaty—which he called by its colonial name, Verniy—as its capital. Astana again sent a diplomatic note to Moscow and declared the LDPR leader *persona non grata* in Kazakhstan, a label he had already received in 2005. Given that Limonov is fiercely opposed to Putin, the Kremlin cannot be held responsible for these remarks, and Zhirinovskiy is known for his imperialist provocations, which have been a part of his political brand for more than twenty years. More disturbingly, but at the margins of Russian political landscape, in April 2014 the president of the Supreme Soviet of Khakassiya, Vladimir Shtygashev, recalled that several districts of the Ishim region, once a part of the Omsk region, were given to Kazakhstan when it acceded to federal republic status in 1936, and could be asked to be returned. But he retracted his statement, citing a misinterpretation by the newspaper that reported his comments.⁶

Kazakhstan’s Answer: Strengthening Sovereignty and Promoting Patriotism

The Kazakh authorities’ response to the ‘Ukrainian’ atmosphere came straightforwardly. Less than a month after the annexation of Crimea, the new Kazakh penal code included an article that made threatening the country’s territorial integrity and calling for secessionism punishable by ten years in prison.⁷ A second measure accelerated access to Kazakh citizenship for Oralmans, the ethnic Kazakhs repatriated from neighboring countries.⁸ Close to one million already have ‘returned’ and the waiting period for citizenship, 6–7 years, will be sped up, probably with the objective of increasing the ethnic balance of the population in favor of Kazakhs, especially in northern regions where Russians dominate.

2 Samat Ordabayev, “Building Eurasian Economic Union on Consensus, Mutual Respect and Benefit,” *The Astana Times*, May 20, 2014, <<http://www.astanatimes.com/2014/05/building-eurasian-economic-union-consensus-mutual-respect-benefit/>>.

3 “Nazarbaev zayavil o vozmozhnom vykhode Kazakhstana iz Evraziiskogo soyuza,” *Newsru.com*, August 31, 2014, <newsru.com/world/31aug2014/nazarbaev.html>.

4 “Seliger 2014 National Youth Forum,” August 29, 2014, <<http://eng.kremlin.ru/news/22864>>.

5 “MID RK gotovit noty Rossi posle ‘predlozheniya’ Limonova o zakhvate severa Kazakhstana,” *Tengri News*, February 20, 2014, <http://tengrinews.kz/kazakhstan_news/mid-rk-gotovit-notu-rossii-predlozheniya-limonova-zakhvate-severa-kazakhstan-250762/>.

6 “Vyskazyvanie o pretenziakh Rossii k Vostochnomu Kazakhstanu prokometirovali v Khakasii,” *Tengri News*, April 10, 2014, <http://tengrinews.kz/kazakhstan_news/vyskazyvanie-pretenziyah-rossii-vostochnomu-kazakhstanu-prokometirovali-253398/>.

7 “Nakazanie na separatizm uzhestochat v Kazakhstane,” *Tengri News*, April 8, 2014, <http://tengrinews.kz/kazakhstan_news/nakazanie-za-separatizm-ujestochat-v-kazakhstane-253259/>.

8 “Repatriated Kazakhs to get Kazakhstan citizenship in 1 year,” *Tengri News*, April 23, 2014, <http://en.tengrinews.kz/laws_initiatives/Repatriated-Kazakhs-to-get-Kazakhstan-citizenship-in-1-year-253095/>.

Probably in response to Putin's ambivalent statement, in October 2014, Nazarbayev announced that 2015 would be the 550th anniversary of the birth of the Kazakh state, embodied by the Kazakh khanate created by Kerey and Zhanibek in 1465. He posits: "It may not have been a state in the modern understanding of this term, in the current borders. ... [But] it is important that the foundation was laid then, and we are the people continuing the great deeds of our ancestors."⁹ December 16 independence festivities were an occasion for more muscular discourse on patriotism. Nazarbayev recalled that "independence was hard won by many generations of our ancestors, who defended our sacred land with blood and sweat. (...) Independence is the unflinching resolution of each citizen to defend Kazakhstan, their own home, and the motherland to the last drop of blood, as our heroic ancestors have bequeathed us."¹⁰ A few days later in his address to the nation, Nazarbayev insisted on the need to develop patriotism among the younger generations, who no longer learn about history from books, and therefore should have it delivered through public commemorations.

Even in a period of economic crisis, the authorities allocated a significant budget to the festivities for the half millennium of Kazakh statehood: 3 billion tenge, or 16 million dollars, will be invested in exhibitions, video productions, conferences, and archeological expeditions, as well as in a large historical reenactment planned for the fall.¹¹ Television is one of the premier channels for this revived patriotic message. On Nazarbayev's order, a series on the history of the Kazakh khanate started production in January 2015.¹² Originally planned for 20 episodes, it was reduced to 10 episodes, probably for planning reasons—it had to be written urgently in order to be broadcast by the end of the year—but then coupled with a series of documentary films and an animated film.¹³ The historical series is being managed by Rustem Abdrashev, a film director well known abroad

for his 'Gift to Stalin', but known to the Kazakh audience for a film celebrating Nazarbayev's youth, entitled 'The Path of a leader'. The mini-series will cover the period from the beginning of the Kazakh khanate with Kerey and Zhanibek, the Kazakh leaders who refused the rule of Khan Abulkhair Sheibanid and moved to the Seven Rivers region, in the southeastern part of the present-day Kazakhstan, to create an independent khanate, to Kenesary, the last khan who tried—and failed—to resist Russian advances in the steppes in the first half of the nineteenth century.

Although the televisual response has been immediate, another longer-term response to narratives undermining Kazakhstan's statehood is also in place, but for an international rather than domestic audience. It consists of an increase in Kazakhstan's cultural legitimacy and uses UNESCO as its main sounding board. The Kazakh state is financing significant archeological expeditions in each province, in order to document all sites that testify to the 'Kazakh past' of Kazakhstan. The objective is to demonstrate the continued occupation of the national territory by Turkic nomads who can retroactively be declared Kazakh (from the Scythes-Sakha of antiquity to the Oghuz tribes of the Middle Ages), especially in the northern regions of the country. Kazakhstan set up the rather ambitious goal of getting around thirty sites classified as Silk Road monuments on the UNESCO's World Heritage List.¹⁴ At present, the country has only two—the Mausoleum of Khoja Akhmet Yassawi and the Tamgaly petroglyphs—both situated in the south, while regions potentially at risk are located in the north and west.

Conclusions

Kazakhstan's situation encapsulates what is at stake with the Eurasian Union. It raises the question of how to maintain sovereignty in a regional integration project where one player is more powerful than the others. This is precisely where Putin's parallel between the Eurasian Union and the European Union does not work.

One can only note the subtle and balanced policy being implemented in Astana, friendly with Moscow, recognizing Russia's key status for the country, and bolstering strategic cooperation in the framework of the Collective Security Treaty Organization (CSTO), all

9 "Kazakhskoi gosudarstvennosti v 2015 ispolnitsia 55 let—Nazarbaev," *Tengri News*, October 22, 2014, <http://tengrinews.kz/kazakhstan_news/kazahskoy-gosudarstvennosti-v-2015-godu-ispolnitsya-550-let--nazarbaev-263876/>.

10 "Den' nezavisimosti prazduet Kazakhstan," *Tengri News*, December 16, 2014, <http://tengrinews.kz/kazakhstan_news/den-nezavisimosti-prazduet-kazahstan-266983/>.

11 "Tri milliarda tenge vydeliat na prazdnovanie 550-letia Kazakhskogo khansta i 20-letia ANK," *Tengri News*, November 19, 2014, <http://tengrinews.kz/kazakhstan_news/milliardatenge-vyidelyat-prazdnovanie-550-letiya-kazahskogo-hanstva-20-letiya-265489/>.

12 "Serial o Kazakhskom khanstve snimut v Kazakhstane," *Tengri News*, November 4, 2014, <<http://tengrinews.kz/cinema/serial-o-kazahskom-hanstve-snimut-v-kazahstane-264593/>>.

13 "Tri seriala k 550-letiu Kazakhskom khanstve snimut v Kazakhstane," *Times.kz*, February 16, 2015, <[http://timeskz.kz/6219-](http://timeskz.kz/6219-seriala-k-550-letiyu-kazahskogo-hanstva-snimayut-v-kazakhstan.html)

[seriala-k-550-letiyu-kazahskogo-hanstva-snimayut-v-kazakhstan.html](http://timeskz.kz/6219-seriala-k-550-letiyu-kazahskogo-hanstva-snimayut-v-kazakhstan.html)>.

14 Galia Shimyrbayeva, "New Projects Unearth Kyzylorda's Ancient Past," *The Astana Times*, March 17, 2014, <<http://www.astanatimes.com/2014/03/new-projects-uneearth-kyzylordas-ancient-past/>>. See the list of archeological projects at <http://www.madenimura.kz/en/culture-legacy/excavation/region/akmola_oblast>.

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.

About the Author

Marlene Laruelle is Director of the Central Asia Program and Research Professor of International Affairs at IERES, George Washington University. She works on identity, nationalism and ideologies in Russia and Central Asia.

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 70th 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 20th 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 dollars¹, 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.² 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.³ 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 20th 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).

About the Author

Dr Sebastien Peyrouse is a Research Professor at the Central Asia Program (IERES, GWU). His main areas of expertise are political systems in Central Asia, economic, social and religious issues, and Central Asia’s geopolitical positioning toward China, India and South Asia.

Tajikistan's Prospects of Joining the Eurasian Economic Union

By Saodat Olimova, Dushanbe

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

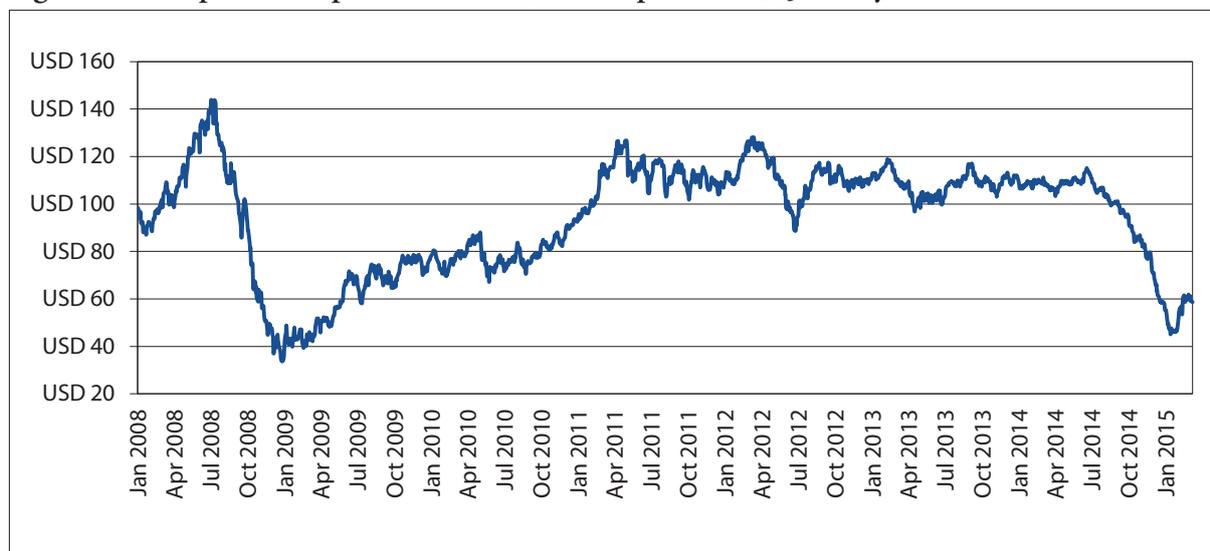
Saodat Olimova is Deputy Director of the Analytical Center Sharq in Dushanbe. She is an expert on labor migration and has published several reports for international organizations on migration and economic development in Tajikistan. She also works on the transformation of Islam in Tajik society.

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

STATISTICS

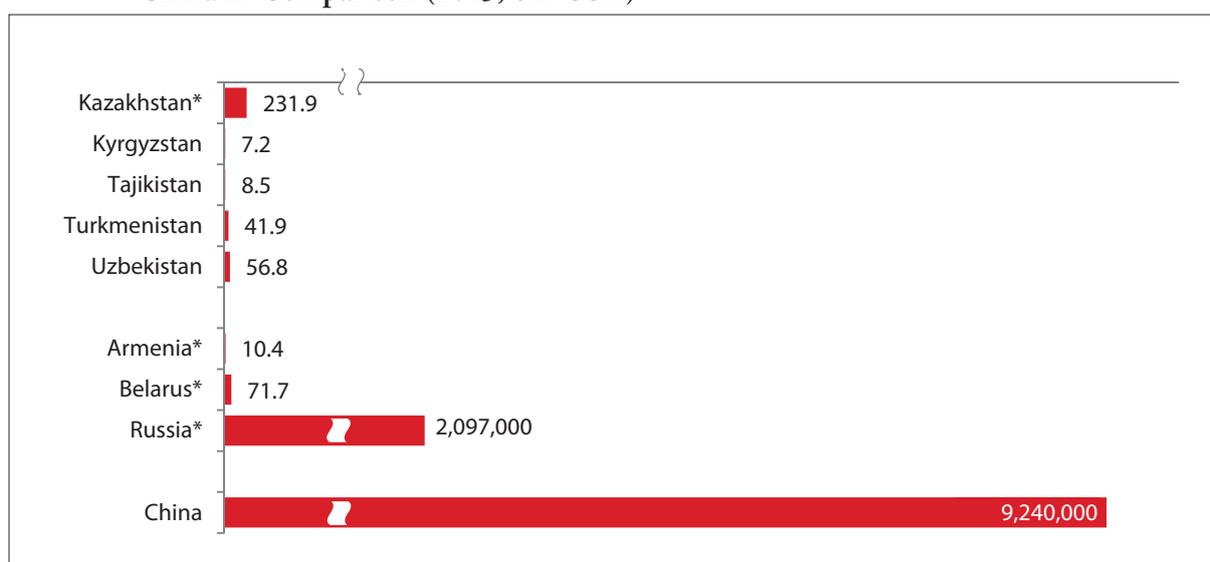
Oil Price, GDP, Exchange Rates, Trade

Figure 1: Europe Brent Spot Price FOB (Dollars per Barrel), January 2008–March 2015



Source: <http://www.eia.gov/dnav/pet/hist_xls/RBRTed.xls>; web site: <<http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PE&t&s=RBRT&f=D>>, accessed 18 March 2015

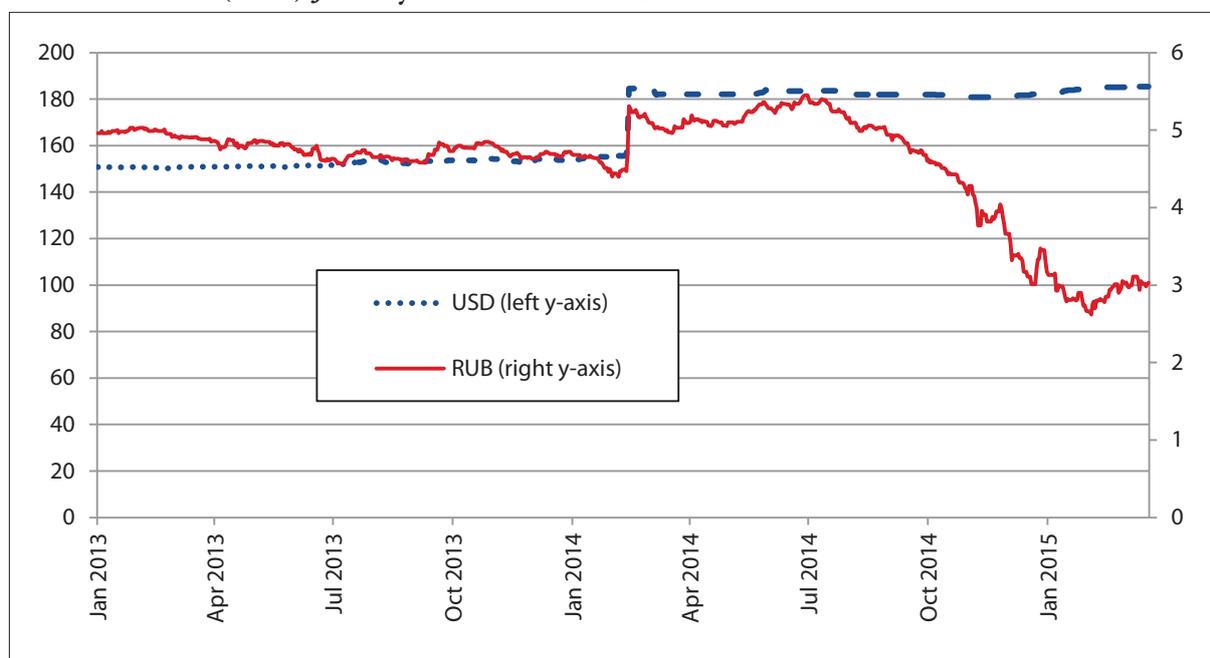
Figure 2: GDP of Central Asian States, Member States of the Eurasian Economic Union, and China in Comparison (2013, bln USD)



* member states of the EEU

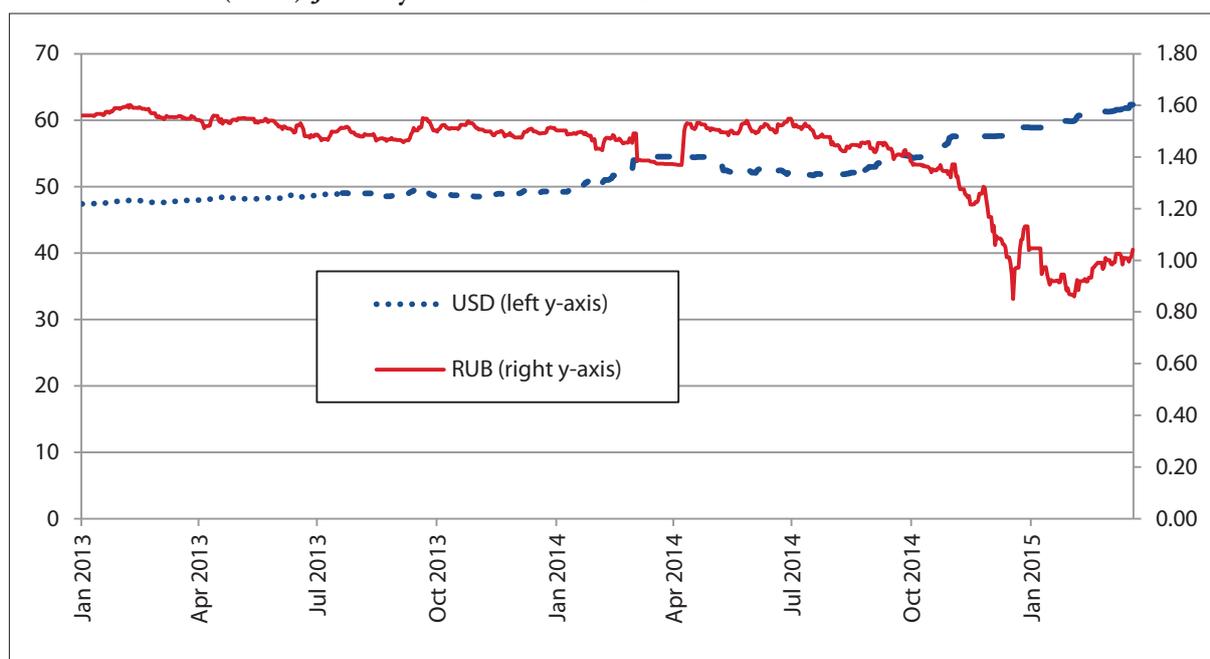
Source: <<http://data.worldbank.org/country>>

Figure 3: Exchange Rate of the Kazakhstan Tenge (KZT) to US Dollar (USD) and Russian Ruble (RUB) January 2013–March 2015



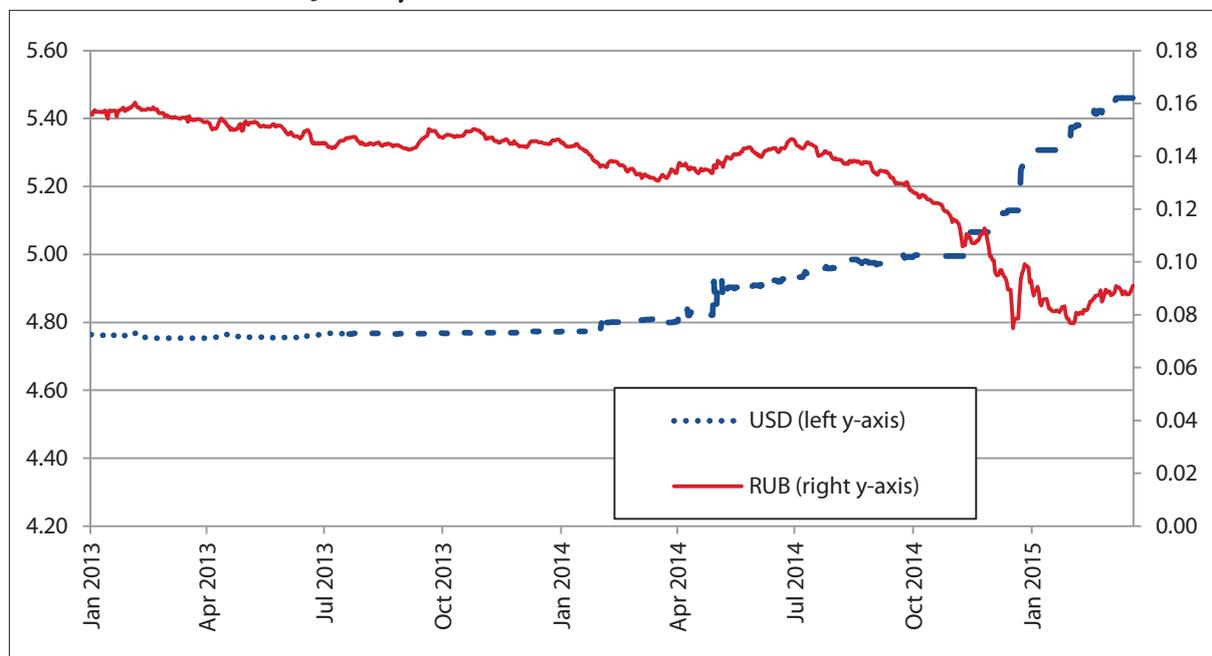
Source: National Bank of Kazakhstan, <<http://www.nationalbank.kz/?furl=cursFull&switch=rus>>, accessed 19 March 2015

Figure 4: Exchange Rate of the Kyrgyzstan Som (KGS) to US Dollar (USD) and Russian Ruble (RUB) January 2013–March 2015



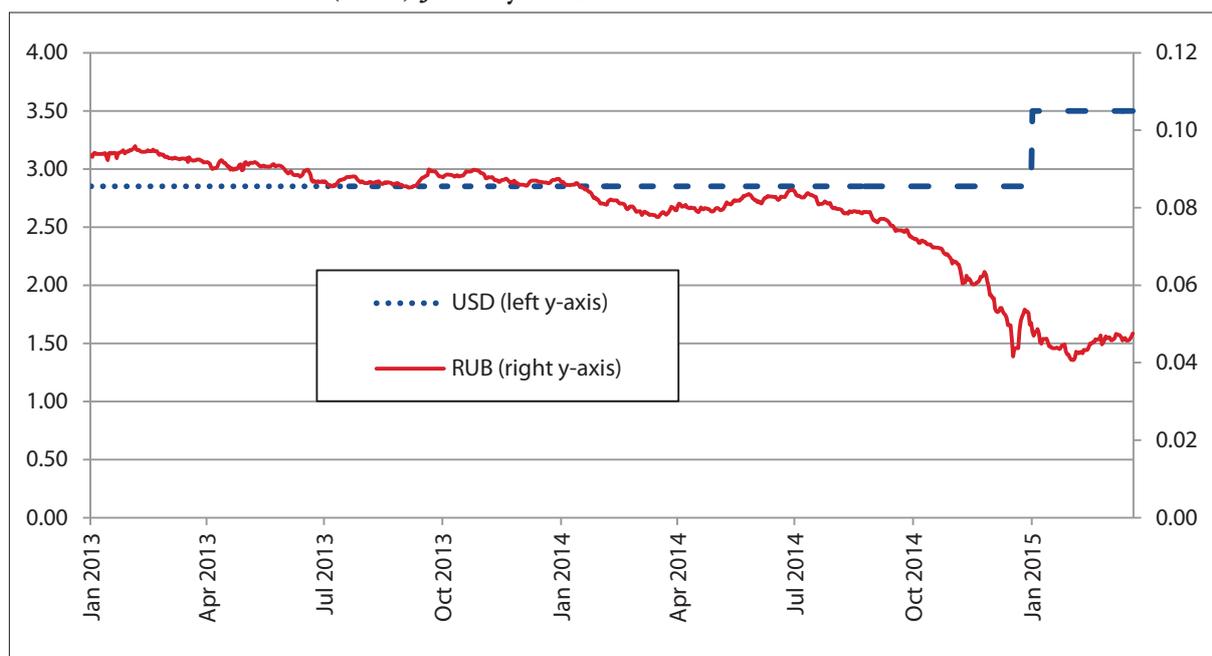
Source: National Bank of the Kyrgyz Republic, <<http://www.nbkr.kg/index1.jsp>>, accessed 19 March 2015

Figure 5: Exchange Rate of the Tajikistan Somoni (TSJ) to US Dollar (USD) and Russian Ruble (RUB) January 2013–March 2015



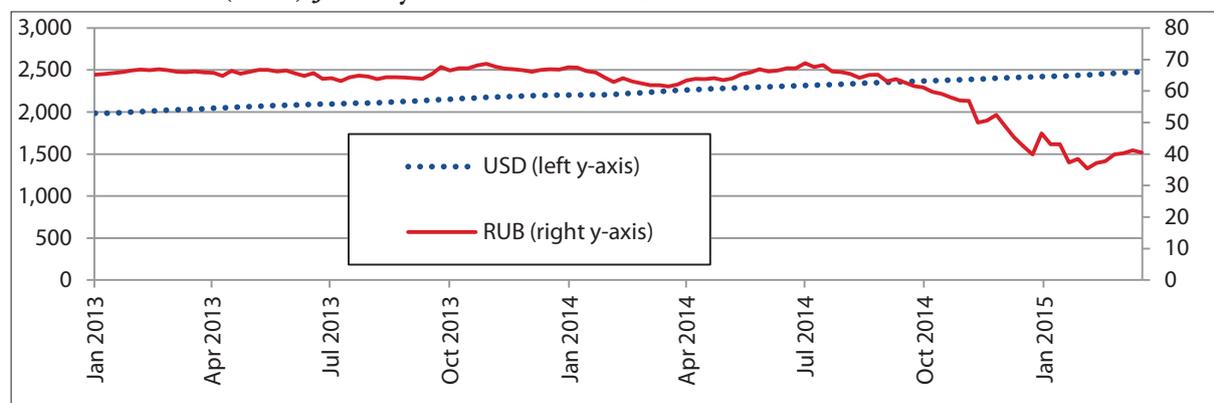
Source: OANDA currency converter, <<http://www.oanda.com/lang/de/currency/historical-rates/>>, accessed 19 March 2015

Figure 6: Exchange Rate of the Turkmenistan Manat (TMT) to US Dollar (USD) and Russian Ruble (RUB) January 2013–March 2015



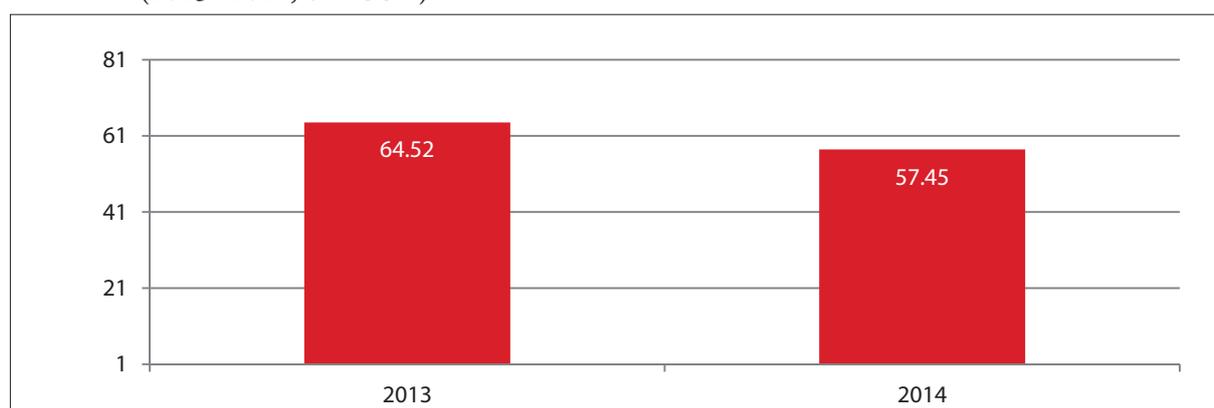
Source: OANDA currency converter, <<http://www.oanda.com/lang/de/currency/historical-rates/>>, accessed 19 March 2015

Figure 7: Exchange Rate of the Uzbekistan Som (UZS) to US Dollar (USD) and Russian Ruble (RUB) January 2013–March 2015



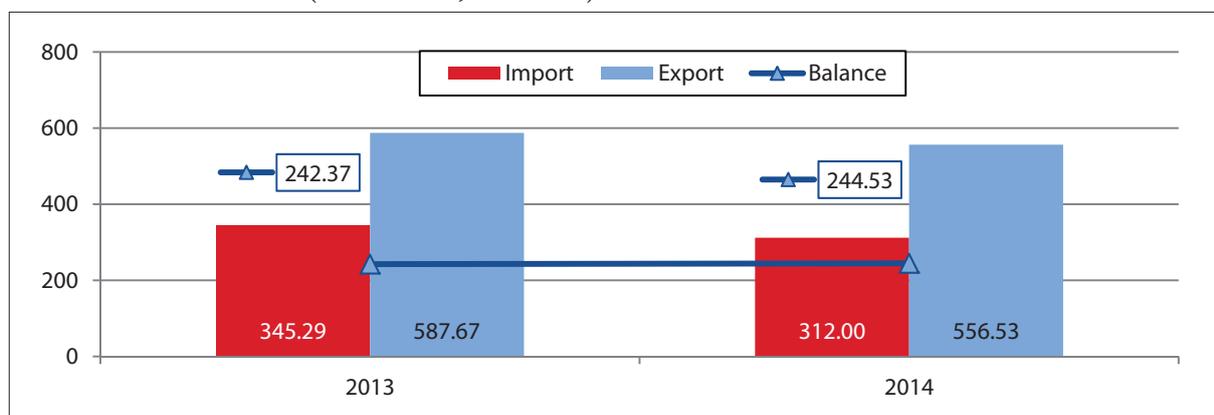
Source: Central Bank of Turkmenistan, <<http://www.cbu.uz/eng/section/rates>>, accessed 19 March 2015

Figure 8: Trade Volume of the Member States of Customs Union and Common Economic Space (2013–2014, bln USD)



Source: Eurasian Economic Commission, <http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/Pages/default.aspx>

Figure 9: Trade of the Member States of Customs Union / Common Economic Space with Other States (2013–2014, bln USD)



Source: Eurasian Economic Commission, <http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/Pages/default.aspx>

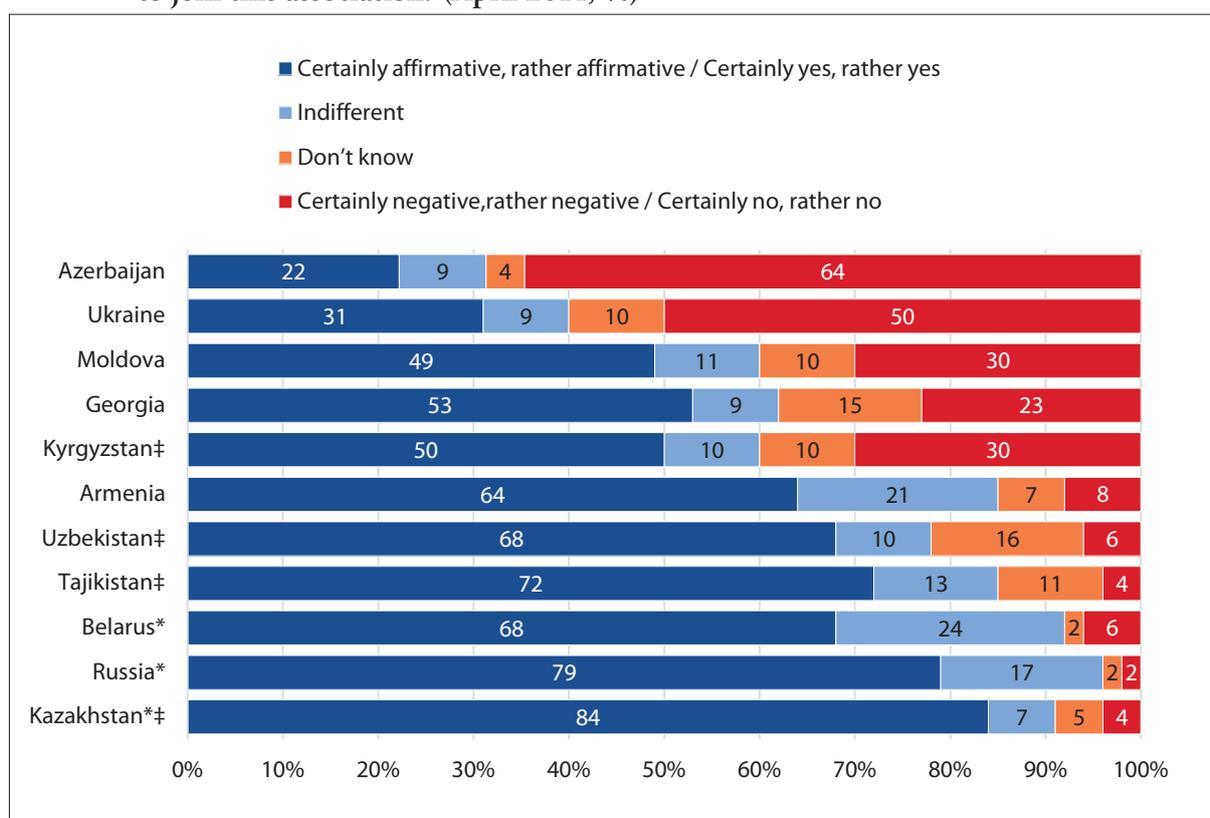
OPINION POLL

Eurasian Integration Barometer 2014

Figure 1: Belarus, Kazakhstan and Russia joined in the Customs Union (CU), which made the trade between the three countries free from duties, and created the Single [Common] Economic Space (in fact a single market of the three countries).

Question for member-states of the CU: What do you think of this decision?

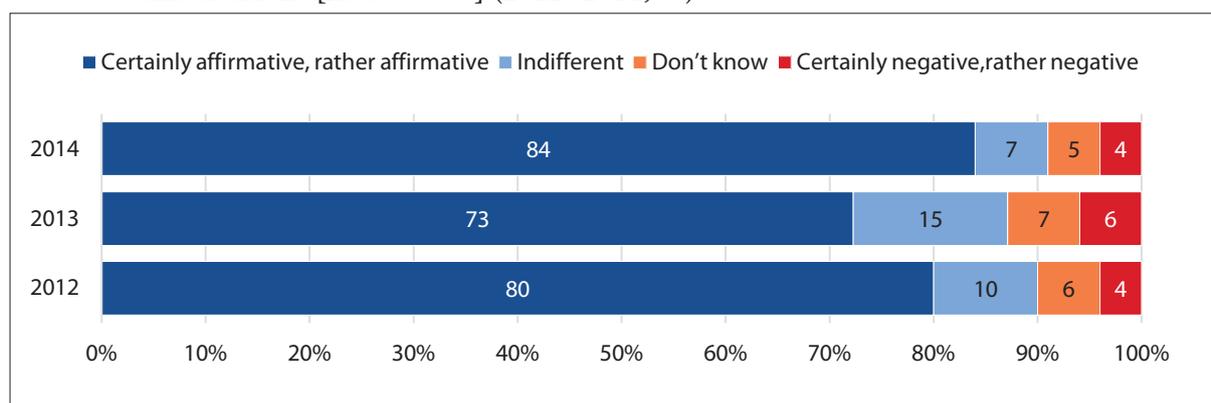
Question for the states outside the CU: Do you think it is advisable for your country to join this association? (April 2014, %)



* member states of the CU; ‡ Central Asian states

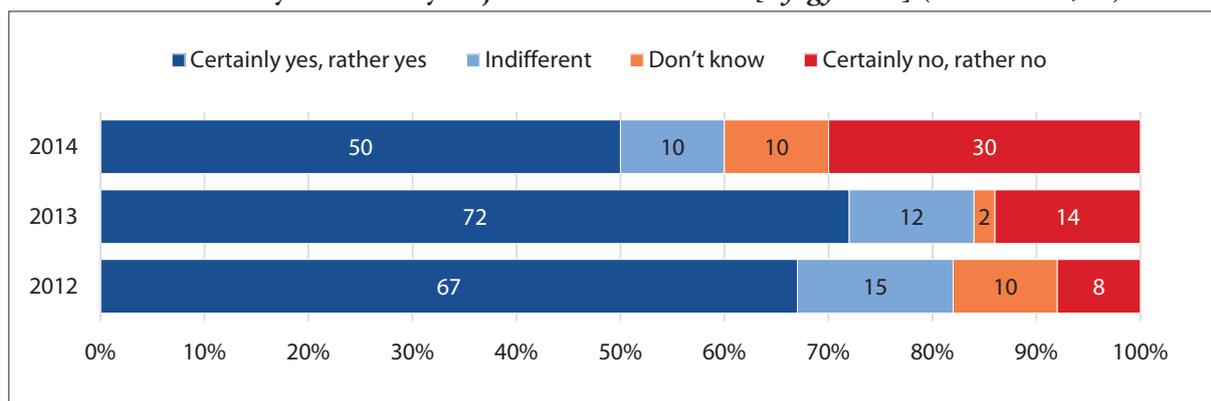
Source: opinion poll by the Eurasian Development Bank in 11 CIS states and Georgia, April 2014; 1,000–2,000 respondents took part in each state. EDB Integration Barometer 2014 (third wave of survey), p. 7, <http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analytical_Summary_Eng.pdf>

Figure 2: Belarus, Kazakhstan and Russia joined in the Customs Union (CU), which made the trade between the three countries free from duties, and created the Single [Common] Economic Space (in fact a single market of the three countries). What do you think of this decision? [Kazakhstan] (2012–2014, %)



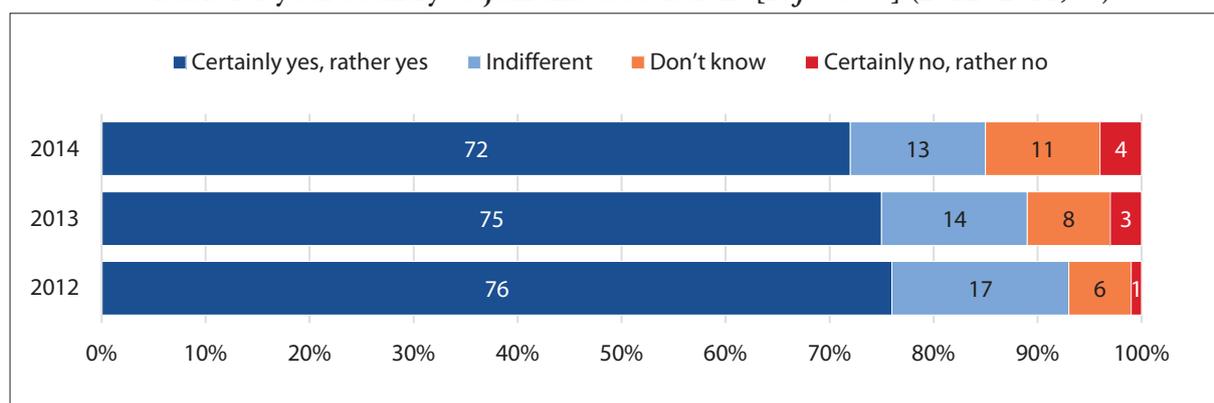
Source: opinion polls by the Eurasian Development Bank in 11 CIS states and Georgia, 2012–2014; 1,000–2,000 respondents took part in each state. *EDB Integration Barometer 2014 (third wave of survey)*, p. 7, <http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analycal_Summary_Eng.pdf>

Figure 3: Belarus, Kazakhstan and Russia joined in the Customs Union (CU), which made the trade between the three countries free from duties, and created the Single [Common] Economic Space (in fact a single market of the three countries). Do you think it is advisable for your country to join this association? [Kyrgyzstan] (2012–2014, %)



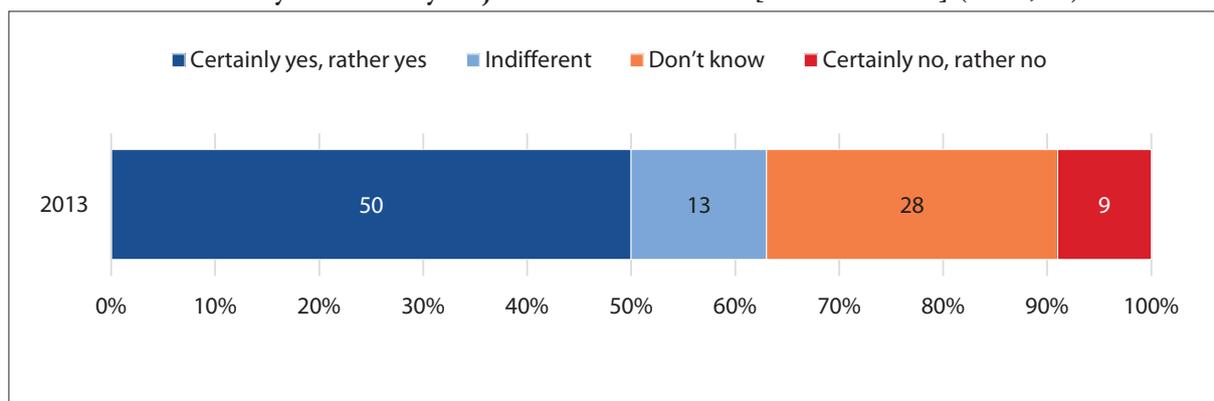
Source: opinion polls by the Eurasian Development Bank in 11 CIS states and Georgia, 2012–2014; 1,000–2,000 respondents took part in each state. *EDB Integration Barometer 2014 (third wave of survey)*, p. 7, <http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analycal_Summary_Eng.pdf>

Figure 4: Belarus, Kazakhstan and Russia joined in the Customs Union (CU), which made the trade between the three countries free from duties, and created the Single [Common] Economic Space (in fact a single market of the three countries). Do you think it is advisable for your country to join this association? [Tajikistan] (2012–2014, %)



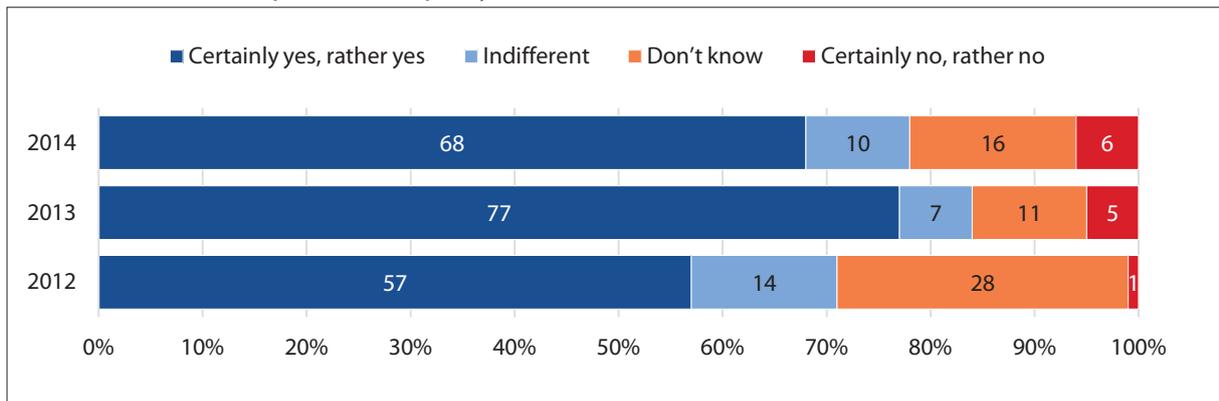
Source: opinion polls by the Eurasian Development Bank in 11 CIS states and Georgia, 2012–2014; 1,000–2,000 respondents took part in each state. EDB Integration Barometer 2014 (third wave of survey), p. 7, <http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analycal_Summary_Eng.pdf>

Figure 5: Belarus, Kazakhstan and Russia joined in the Customs Union (CU), which made the trade between the three countries free from duties, and created the Single [Common] Economic Space (in fact a single market of the three countries). Do you think it is advisable for your country to join this association? [Turkmenistan] (2013, %)



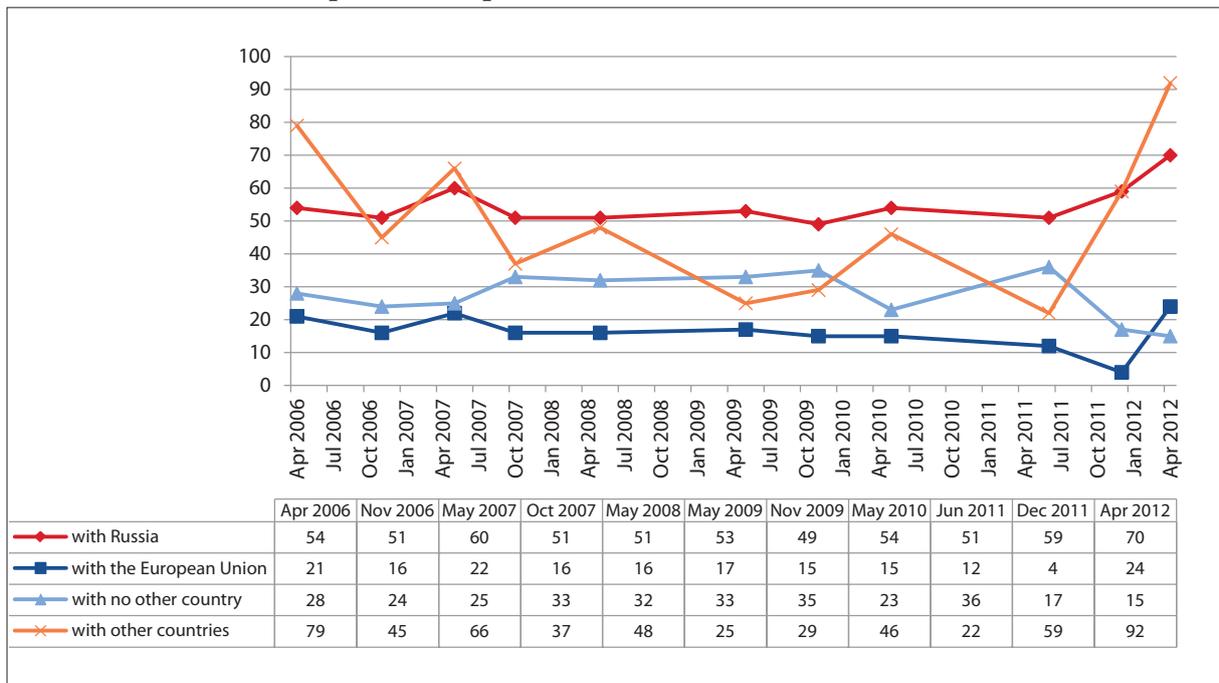
Source: opinion polls by the Eurasian Development Bank in 11 CIS states and Georgia, 2012–2014; 1,000–2,000 respondents took part in each state. EDB Integration Barometer 2014 (third wave of survey), p. 7, <http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analycal_Summary_Eng.pdf>

Figure 6: Belarus, Kazakhstan and Russia joined in the Customs Union (CU), which made the trade between the three countries free from duties, and created the Single [Common] Economic Space (in fact a single market of the three countries). Do you think it is advisable for your country to join this association? [Uzbekistan] (2012–2014, %)



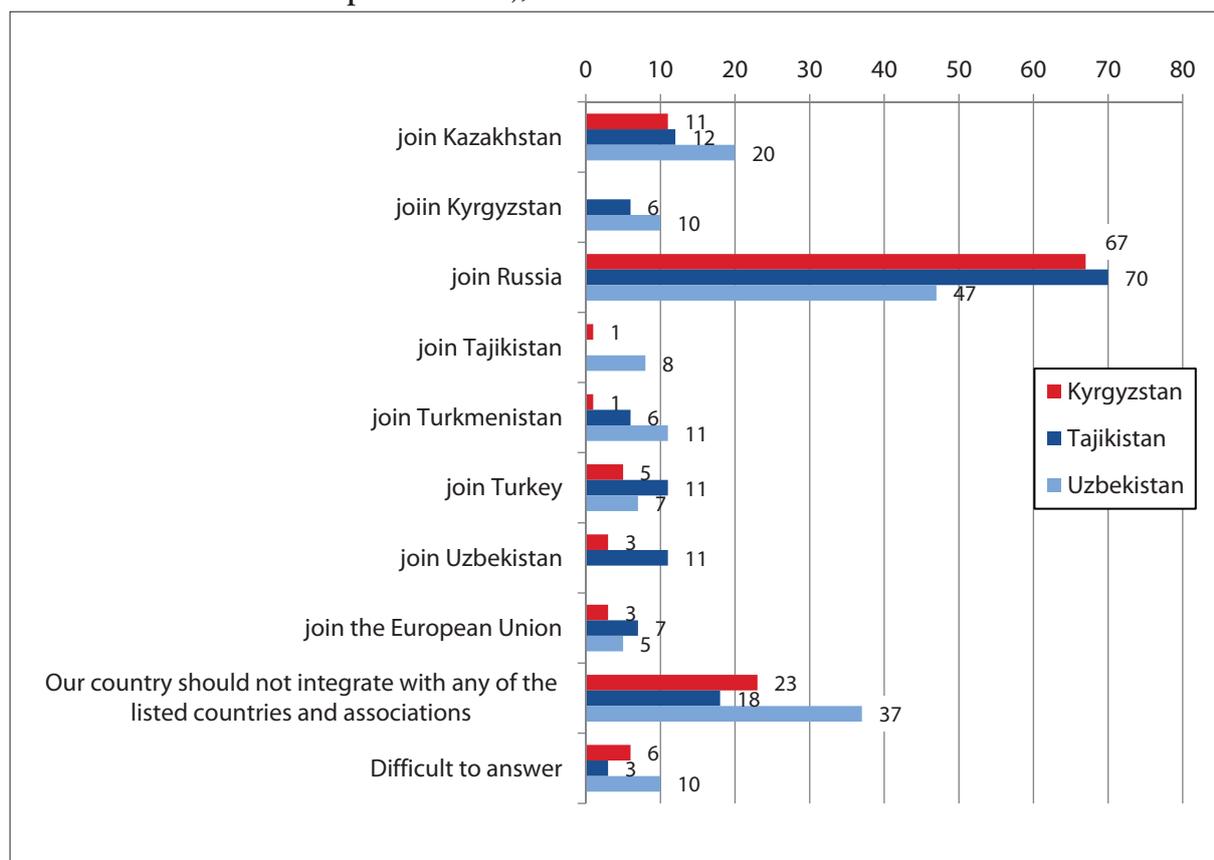
Source: opinion polls by the Eurasian Development Bank in 11 CIS states and Georgia, 2012–2014; 1,000–2,000 respondents took part in each state. EDB Integration Barometer 2014 (third wave of survey), p. 7, <http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analycal_Summary_Eng.pdf>

Figure 7: With which of these countries [sic] should our country [Kazakhstan] be united? (2006–2012, %, multiple answers possible)



Source: opinion polls by the Eurasian Development Bank in Kazakhstan, 2006–2012; Integratsionnyi barometr EABR – 2014 (tret'ya volna izmerenii), [full Russian text of survey], p. 95, <http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Full_Rus_1.pdf>

Figure 8: Currently some countries aim at integration, others, on the contrary, at independence. If you could decide on such matters, which of the countries [sic] listed on the card, in your opinion, should our country join? (Results of the survey of the 21st wave of “Eurasian Monitor”, April–May 2014; in Azerbaijan and Kazakhstan this question was not included in the questionnaire), %



Source: opinion poll by the Eurasian Development Bank in 11 CIS states and Georgia, April 2014; EDB Integration Barometer 2014 (third wave of survey), p. 8, <http://www.eabr.org/general/upload/CII%20-%20izdania/2014/Barometr-2014/EDB_Centre_Report_25_Analycal_Summary_Eng.pdf>

ABOUT THE RUSSIAN ANALYTICAL DIGEST

Editors: Stephen Aris, Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen (<www.forschungsstelle.uni-bremen.de>), the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich), the Resource Security Institute, the Institute of History at the University of Zurich (<<http://www.hist.uzh.ch/>>), the Institute for European, Russian and Eurasian Studies at The George Washington University, and the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language *Russland-Analysen* (<www.laenderanalysen.de/russland>), the CSS analytical network on Russia and Eurasia (<www.css.ethz.ch/publications/RAD_EN>), and the Russian Regional Report. The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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Research Centre for East European Studies • Publications Department • Klagenfurter Str. 3 • 28359 Bremen • Germany

Phone: +49 421-218-69600 • Telefax: +49 421-218-69607 • e-mail: fsopr@uni-bremen.de • Internet: <www.css.ethz.ch/publications/RAD_EN>