Central Asia, the Eurasian Union and Crisis Management

By Michał Romanowski

Central Asia’s strategic position at the crossroads of Europe and Asia is both a blessing and a curse. Key global players eye the region’s resources and devise grand schemes to include Central Asia. However, there is a risk that the region may simply be exploited in the drive for a new Eurasian order, writes Michał Romanowski. Russia wishes to use its Eurasian Economic Union to strengthen its relations with the former satellite states in Central Asia, but they are rightly wary of Moscow’s intentions.

AS EUROPE lurches from one crisis to another, global political and economic winds shift in favor of Asia. An Asian Century unfolds in front of our eyes. There are, however, those who are caught between the two — the European and the Asian — and they seem to like it this way. A Central Eurasian momentum is currently in play with the former Soviet satellites in Central Asia being key pillars in some ongoing global processes. The region is viewed by many, primarily Russia and China, as an area of growing opportunity.

Beijing is planning to invest staggering financial resources into rejuvenating the old Silk Road, a system of commercial routes linking the continents of Asia and Europe. Moscow, for its part, is striving to tie the states of the region more firmly to itself through the Eurasian Economic Union (EEU). This grouping encompasses — under the Russian umbrella — Armenia, Belarus, Kazakhstan and Kyrgyzstan, aiming to beef up their economic performance and deregulate their markets.

The EEU, officially launched in January 2015, has been the most successful attempt to fill the post-Soviet integration vacuum. But it also — if not primarily — serves Russia’s geopolitical ambition as the dominant player within the bloc to control the so-called near abroad. Finally, the union is a useful ideological tool against the supremacy of the West and the increasing role of China.

In recent years the EEU has had little economic reason for optimism. Trade between the members has been falling since 2013, and in 2015 alone it tumbled nearly 26 percent. It is also unevenly distributed — Russian trade with Belarus and Kazakhstan accounts for 90 percent of total intra-EEU commerce. The output of the remaining members is of marginal importance. Moscow makes the union politically and economically viable. But the Central Asian states are a fundamental component of the initiative. Without them, the bloc would not be truly “Eurasian.”

Also, in terms of economics and energy the countries of this region — Kazakhstan and non-EEU members Turkmenistan and Uzbekistan in particular — have much to offer. Lastly, Central Asia serves as a primary base for new adherents of the Kremlin’s union.

This article explores the role of the Central Asian countries in the EEU. It will discuss the opportunities and the pitfalls the project faces and the importance of the region in the Eurasian partnership. What political and economic leverage does Central Asia bring to the table? And what is the state of the Eurasian rhetoric within these countries?

CENTRAL ASIA’S PROGRESS REPORT

For landlocked Central Asian republics, pursuing regional and economic co-operation with the outside world has been a major plank of their foreign policies. Adopting an open-door approach after the USSR dissolved contributed to the region’s overall economic success. Though multiple trade barriers still exist, Central Asia in the past 25 years has gone through a partial transformation resulting in long-term economic growth.

The region is often described as an oasis of stability. It is true that due to the longevity of local leaders and the lack of civil protest, Central Asia has enjoyed a period of relative political tranquility. However, looking under the surface one can see genuine issues in these states and their institutions, only one of which is rampant corruption. Central Asia has run out of easy ways to sustain its development. Low oil and gas prices highlight the weakness of economies dependent on energy exports. The local currencies, strongly linked to the Russian ruble, have been highly depreciated. Finally, declining remittances from Central Asian labor migrants working in Russia add to a picture of approaching hard times.

The Asian Development Bank notes that every Central Asian country suffered an economic slowdown in 2015. The governments had to act. Kazakhstan has already increased utility rates and withdrawn bread subsidies. Turkmenistan, until recently providing free gas, electricity and water to its citizens, now collects modest payments for its development. low oil and gas prices highlight the weakness of economies dependent on energy exports. The local currencies, strongly linked
Due to its strong economic relations with Russia and the low prices of raw materials, Kazakhstan was hit hard by the recent recession. Revenues from oil and gas constitute 60 percent of the national budget. To cushion the adverse economic impact, the authorities have started to reduce the role of the state in the economy. Central expenditures are being cut as international loans to support the budget are secured. Furthermore, there are plans to sell shares in 65 key state companies within the next four years.

The Kazakh record within the EEU is equally bleak. Astana’s trade turnover with the union continues to fall and in 2015 was down by one-third. In the first two months of 2016, it dropped by another 34 percent in comparison with the same period the previous year.

A number of trade disputes between the bloc’s members also complicates matters. Both Russia and Kazakhstan are limiting mutual imports of certain products or use quasi-customs checks to control phytosanitary standards. In March 2015, for example, Astana stopped five tons of Russian meat at the border. What Kazakhstan genuinely fears is an inflow of cheap Russian products. The falling Russian ruble has already made Kazakh exports uncompetitive. While Kazakhstan has a prominent role in the EEU, Astana wants to perform it on its own terms. The Kazakh government did not join Russian anti-West sanctions and it reserves “the complete right to end the EEU membership,” as Nazarbayev once stated. In the long-term, Kazakhstan could greatly benefit from the union, but the political tug of war with Moscow will continue.

THE CENTER OF EURASIA
Kazakhstan’s standing when it comes to Eurasian integration is the most ambiguous of all the Central Asian states. On one hand, Astana is a founding member of the union and ardent supporter. On the other hand, however, President Nursultan Nazarbayev often distances himself from the EEU. He undermines the political nature of the grouping, calling it, as he did in April in Washington, “a purely economic project.”

Astana is known for its multi-vector foreign policy. Apart from Moscow, it fully engages with the European Union and China. Half of its trade is bound for Europe, and Kazakhstan is delivering increasing amounts of oil and gas to Beijing. Having declared its independence 25 years ago, Astana is concerned about its sovereignty. It comes as no surprise, especially after Vladimir Putin’s ambivalent statement regarding Kazakh statehood two years ago. There are more than 4 million Russians in the country. They pose no imminent threat to the unity of Kazakhstan, but the authorities remain on the lookout for any signs of separatism. A new penal code has been introduced, and in 2015 Kazakhstan celebrated the 550th anniversary of the formation of its first khanate.

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LEFT WITH NO CHOICE
Kyrgyzstan President Almazbek Atambayev most accurately encapsulated his country’s view on
the EEU, calling it a “lesser evil.” He said Bishkek joined the bloc because it had no alternative. This perspective is anything but optimistic, similar to Kyrgyzstan’s first months in the union. Not only did Kyrgyzstan join out of necessity, it was in fact blackmailed into doing so. Bishkek is dependent on Russian gas and energy infrastructure investments. There are also more than half a million Kyrgyz labor migrants in Russia who send money home. Until recently, foreign remittances amounted to one-third of the country’s GDP.

This small rent-seeking state has, however, capitalized to the fullest on its position. Before joining the EEU in August 2015, Bishkek secured substantial concessions from Russia. A Russia-Kyrgyz Development Fund was created with US$1.2 billion and Moscow also promised gas deals and investments in hydropower plants and border checkpoints. But what looked good on paper turned sour in reality. Hydroelectric projects are stalled, and in January 2016 the parliament cancelled contracts with Russian companies due to lack of progress. The fund that was supposed to stimulate the economy works slowly and ineffectively.

In trade, the situation is alarming; Kyrgyz commerce has rapidly slowed. The country had been a regional hub for the re-export of cheap Chinese goods — a business worth US$1.5 billion three years ago — but its prospects are now greatly diminished.

Although Bishkek joined the EEU, its trade with Kazakhstan — a key market to which Chinese products were sent — dropped by 50 percent in 2015. Trade with Beijing fell by nearly one-fifth. Minister of Economy Arzybek Kozhoshievblamed the abolition of customs controls within the union, saying Chinese commodities now go directly to Kazakhstan. This has a profound impact on the small and medium businesses that dominate this sector of the economy.

Central Asia is not homogeneous. In addition to the countries willing to integrate under the EEU, both energy-abundant Uzbekistan and Turkmenistan resist integration. Russia has limited leverage over the former and almost none over the latter.

More bad news is the 30 percent drop in remittances sent to Kyrgyzstan from Russia in 2015. In the past, these flows covered a significant portion of domestic consumption.

The results of joining the union have been mixed at most, with the Kyrgyz EEU membership only highlighting Bishkek’s dependence on Russia and the weakness of its economy. Putting aside the trade statistics, EEU officials claim that the union has brought some positive outcomes. Relaxed migration regulations have allowed for the free flow of labor from which Kyrgyzstan can benefit. But while legally speaking that might be the case, Moscow still seeks to regulate migration within the EEU bilaterally to keep Bishkek in check.

UNDER PRESSURE

Tajikistan is believed to be next in line to apply for EEU membership. Currently, the authorities are assessing the pros and cons of joining the union. Due to multiple similarities, officials are studying the cases of Armenia and Kyrgyzstan for valuable clues. However, the final decision to enter or not might have already been taken for them in Moscow.

Over the past decade, Dushanbe has enjoyed steady economic growth fueled to a large degree by the aluminum sector, remittances from Russia and direct investments from Moscow and Beijing. With an economic hurricane sweeping through the region, Tajikistan is now suffering its share of losses. Growth has slowed, foreign trade turnover decreased in 2015 by a fifth and the country is discussing a possible IMF loan of US$500 million.

In this context, the debate in Tajikistan on EEU membership is becoming even more predictable. A single labor market with Moscow is particularly important for Dushanbe, since remittances from Tajik workers abroad accounted for almost half of the country’s GDP in 2014. With economic stagnation in Russia and tougher restrictions on non-EEU migrants introduced last year by the Kremlin, Tajikistan is backed into a corner. Foreign transfers fell by 30 percent in 2015 and 135,000 Tajik migrants returned home as a result of the new constraints and the crippled Russian economy.

Dushanbe will probably aim to negotiate a package of Russian investments similar to Kyrgyzstan’s efforts. Yet Moscow might not fully deliver on its promises and the cost of EEU membership could be higher than the profits.

There is also the security component, which cannot be underestimated in the case of Tajikistan joining the union. Tajikistan shares a 1,300-kilometer border with Afghanistan which is both perilous and porous. Recently, Moscow provided Dushanbe with US$1.2 billion of military aid. Also, the country hosts the largest Russian army contingent abroad. Moscow as the only guarantor of Tajikistan’s security might eventually use some hardball tactics and blackmail to convince President Emomali Rahmon to sign the accession treaty.

Tajikistan is in no position to withstand Russian economic and political pressure for long. Neither, being the poorest country in Eurasia, will it provide the EEU with a high value-added member. In fact, only 14 percent of Russians would like to see Dushanbe join the bloc. The Kremlin, however, needs the union to grow. And accepting an extra EEU member is in Russia’s view better than losing a potential, if fragile, candidate.

TWO REGIONAL REBELS

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Uzbekistan’s President Islam Karimov has said that his country “will never join the EEU.” In the past, Tashkent has taken part in different Russia-sponsored economic or security initiatives such as the pre-EU Eurasian Economic Community or the Collective Security Treaty Organization, but it has never stayed for long. Despite the fact that the EEU accounts for 30 percent of Uzbek trade, Karimov does not wish to jeopardize the country’s sovereignty. And for him, a union with Russia is synonymous with total submission to Moscow.

Uzbekistan keeps a safe distance from the Kremlin, but theoretically it also has some weak spots. There are around 1.8 million Uzbek working in Russia, who send billions of dollars home. Karimov, however, cuts himself off from migrants leaving to work abroad, calling them “lazy.”
As for Turkmenistan, the country has long pursued a path of neutrality and isolationism. It is not a member of any regional framework and it is highly unlikely that Moscow would waste energy trying to bring Turkmenistan into the fold.

The massive hydrocarbon sector in the country — accounting for 80 percent of budget revenues — bolsters president Gurbanguly Berdymukhamedov’s confidence. A decline in global gas demand is a major risk for Turkmenistan. Russia previously imported significant amounts of Turkmen gas, but cancelled all purchases in January 2016. In response, Ashgabat has harshly criticized Moscow for being an unreliable partner.

Interestingly, a new gas deal between Russia and Uzbekistan was signed the same month and Tashkent is supposed to deliver 3.1 bcm of product this year. It might be an attempt to sow discord between the two neighbors, though Turkmen exports, which are becoming more diversified, will not be seriously endangered.

WHAT DO PEOPLE THINK?
For a better insight into the Eurasian dynamics one should examine the social component as well.

Russia appears to be decisively more attractive for Central Asia than the other way around. The Kremlin has a political interest in the EEU, but its population — on a practical level — chooses Europe, not former USSR satellites.

The 2015 Eurasian Barometer found strong popular support for the Eurasian Economic Union within Central Asian societies. Also, nearly 80 percent of Russians say they are in favor of the EEU. However, the more detailed results of the survey concerning labor markets, education or purchasing foreign products show that the Russian population is not overly fond of integration.

The vast majority of Russians are against the free movement of labor with Central Asia. Only 2 percent would see themselves working in a former Soviet country and there is virtually no appetite among Russians to study abroad within the Commonwealth of Independent States.

THE EEU’S FUTURE
Central Asia is crucial for the EEU to succeed. It provides the bloc with the necessary legitimacy and offers opportunities for development. The union, in return, might improve the region’s competitiveness and liberalize its economies. This is only possible under one condition — Russia cannot exercise its dominance and use the Central Asian states as pawns on its geopolitical chessboard. Only then will the EEU be a force to be reckoned with.

What the union currently misses is optimism. Since its inception, the EEU has been in constant crisis-management mode. There is no genuine desire to seek a collective good and every country seems to be concentrating on its own objectives. Some of the local elites in Central Asia are also wary of union with Moscow, being aware that this could adversely impact both national sovereignty and their own private fortunes.

Rapid expansion is thus not an optimal solution for the EEU. It first needs to consolidate and identify clear goals that will be accepted by all the members. It should also send a positive message that the union is more than just the reminiscence of the past.

Michał Romanowski has worked at the German Marshall Fund of the United States since 2011. Recently, he has testified before the Committee on Foreign Affairs of the European Parliament presenting the 21st-century Silk Road strategies of Russia, the United States and China.