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WHITHER DEVELOPMENT? THE EFFECTS OF THE EURASIAN UNION ON THE CENTRAL ASIAN REPUBLICS

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ABSTRACT

In this paper I analyze the impact of the Eurasian Union on the Central Asian republics, with a focus on remittances trends. To this end I review at first the literature regarding the effects of the Customs Union on its members. Then, I assess the current state of the economies most likely to be affected by membership in the Eurasian Union, i.e. Tajikistan and Kyrgyzstan, whose specificity is their dependency on remittances. Secondly, I present a plausible scenario in regard to the influence of the formalization of this regional organization on the emerging Central Asian regional security subcomplex. I argue that the EEU is a hindrance towards the five Central Asian Republics' evolving towards a regional security complex. Not only has it already distorted trade in the region, but it can also turn some presently frozen conflicts into security hotspots. I hold that the only way to spur development in the region is, internally, to diversify the economy, and, externally, to bring the five republics closer. I try to show that the Central Asian Republics should simultaneously pursue a switch from a balance of threat to regional integration and sustainable national development. Nonetheless, the EEU will have at best mixed effects when it comes to these necessities. Alternatively, China and the New Silk Road initiative that it endorses might contribute to de-securitizing some of the existing issues.

KEYWORDS

- Development
- Migration
- Regional Security Complex
- Remittances
- Securitization
- Trade creation
- Trade diversion

Following the collapse of the Soviet Union, its former republics had an opportunity to become once again integrated in the world economy. However, the legacy of the USSR precluded this to a certain extent^[1] and, instead of openness and liberalization, there was isolation and perpetuation of corrupt ruling classes. What should have been a departure from the Soviet system was only a simulacrum in key aspects. Furthermore, ethnic tensions erupted, culminating with a Civil War in

1 I thank an anonymous reviewer for pointing out to me that we cannot explain the current state of affairs solely by referring to the inheritance of the Soviet Union. Nonetheless, as I will show in my discussion on security issues in the region, this inheritance has been highly influential for the subsequent development of the countries in the region and this is why I mentioned it here (with the caveat that it is not the only factor to be considered).

Tajikistan. Instead of seizing the opportunity created by the dissolution of the Soviet Empire and increased cooperation^[2], the Central Asian Republics proved unable to desecuritize contentious issues that had previously been fuelled by the former USSR. Today, the region is divided, with no significant organization to meet their specific needs (thus excluding the Commonwealth of Independent States, the Shanghai Cooperation Treaty and so forth). In the last couple of years, China's influence has begun to change the tide to a certain degree. However, the purported New Silk Road is still far from being a tangible reality, and the security issues associated with the resurgence of extremism (take ISIS as the most eloquent example) pose new threats to an incipient regional cooperation. Meanwhile, a significant event, which is due, for better or for worse, to fundamentally impact the region, is the formalization of the Eurasian Union.

In this paper I will try to assess the potential effects of the Eurasian Union on the Central Asian Republics, with a main focus on Kyrgyzstan and Tajikistan. These are the countries that lack natural resources (with the significant exception of hydropower) and are most dependent on remittances. Discussing the potential impact of the Eurasian Union on these landlocked countries is justified by the fact that most of the migrants from these countries work in one of the EEU countries, namely the Russian Federation. Further, the hitherto evolution of the Customs Union has already influenced both the economy of the two aforementioned Central Asian Republics and the migration patterns. New requirements have been imposed by Russia for immigrants, partially aiming at increasing the attractiveness of the EEU, whose members are exempt from those requirements.^[3] Thus, the future of the peoples in Central Asia is partially depending on the configuration of the EEU.

Secondly, I will try to assess the prospects for regional cooperation in Central Asia, specifically whether it can evolve towards a Regional Security Complex.^[4] This is inextricably linked to the desecuritization of certain areas of manifest or latent conflict. I argue that the existence of the Eurasian Union is detrimental to the long-term security of the Central Asian Republics, hindering the desecuritization processes and impeding regional cooperation. I will also hold that, normatively, the policies of the EEU should be repudiated, since they can diminish the welfare of the Central Asian residents, which is manifest when it comes to remittances.

What the aforementioned domains (security and economy) have in common is the fact that they will be influenced to a certain degree by the EEU membership status of some of the countries in the region and by their prospective development. These seemingly separated topics are brought together in the light of the Eurasian Union, which has the potential to be a game-changer for the region, for better or for worse.

The paper will be structured as follows. In the first section, I will provide

2 This would have been an efficient solution, given the problems that these countries faced at the time. Integration would have contributed to alleviating the balance of threat, instances of which can be seen in the nervousness with which its neighbors perceive Uzbekistan's military capabilities. For the concept of balance of threat, see Walt (2003, pp. 21-6). Walt claims that the balance of threat can be affected by „geographic proximity, offensive capabilities and perceived intentions” (p.5), all of which have been documented in Tajikistan's strategy regarding Uzbekistan: „Therefore, to deter Uzbekistan from becoming a regional hegemon Tajikistan has aligned with Russia in order to balance any possible violations or acts of aggression toward Tajikistan's territorial integrity and national security” (Garbien: 2003).

3 <http://www.eurasianet.org/node/71471>, accessed on 9th of January 2015

4 Regional Security Complex theory considers that a regional security complex emerges once a certain degree of security interdependence has been established (Buzan and Waever: 2003, pp. 47-8).

a historical overview of the Eurasian Union. In the second section, I will present the economic situation of the Central Asian Republics, focusing on some significant indicators and, as mentioned, on two of the republics, i.e. Tajikistan and Kyrgyzstan. In the third section, I will discuss the problem of remittances, their advantages and their drawbacks. This theoretical discussion will be doubled by a presentation of Kyrgyzstan and Tajikistan's situation, both countries with considerable shares of GDP represented by remittances. Kyrgyzstan's recent admission to the Eurasian Union, as well as Tajikistan's wavering between China and Russia will probably change the remittance patterns. This and the implications these changes might have on the welfare of the people in the region represent the reasons why I analyze these matters separately. In the fourth section I will attempt to prove why the Eurasian Union can be deleterious to the economies of the Central Asian Republics. I shall show that some of the disadvantages are not related to the recent crisis provoked by Western retaliation to Russian aggression in Ukraine and thus that they are not contingent on these specific circumstances. In the fifth section I will present the regional security complex theory and I will discuss whether or not Central Asia could represent such a security complex. I will also analyze what effects the EEU could have on the evolution of the region towards such a security complex. Section six concludes.

From the Customs Union to the Eurasian Union

At the beginning of January 2015, the Eurasian Union has been officially launched. In spite of initial enthusiasm, what should have been the continuation of “the most important trade policy change in Central Asia in recent years” (Mogilevskii: 2012, p. 6), i.e. the Customs Union, has been widely criticized. Whereas, in the years preceding the Ukrainian crisis, the Customs Union has not lacked its share of criticism, this next stage of intensifying economic integration in the post-Soviet space^[5] is facing both centrifugal and centripetal tendencies. Centrifugally, the recession^[6] that Russia began facing following the Western-backed sanctions and the falling oil prices have determined Belarus to resort to conversion of savings to dollars and euros. At that time, the Central Bank of Belarus introduced a 30% tax on all foreign currency purchases, also raising interest rates.^[7] Centripetally, extension towards Armenia and Kyrgyzstan came at the price of the union's coherence (Schenkkan: 2014). One of the founding members, Kazakhstan, is already at odds with Armenia's disdain for a core principle of the treaties, i.e. the enforcement of borders. Nursultan Nazarbayev, who has been until recently one of the fiercest defenders of the Eurasian integration project,^[8] has conditioned Armenia's membership on excluding the disputed Nagorno-Karabakh from the agreements signed. Albeit Armenia formally agreed to impose customs controls with Nagorno-Karabakh, in practice the borders remain open (Schenkkan: 2014). Kazakhstan's insistence should come as no surprise, taking into account that it

5 <http://en.ria.ru/russia/20120101/170583110.html>, accessed on 9th of January 2015. The recession in Russia has recently been worsened by China's depreciating economy. See <http://www.rferl.org/content/moodys-forecasts-russian-recession-will-extend-into-2016/27215184.html> (accessed on 16th of September 2015). On China's August market crash, see <http://www.economist.com/news/business-and-finance/21662092-china-sneezing-rest-world-rightly-nervous-causes-and-consequences-chinas> (accessed on 18th of September 2015)

6 <http://www.economist.com/node/21636720>, accessed on 9th of January 2015

7 <http://manilastandardtoday.com/2014/12/31/russian-crisis-hits-ex-soviet-republics/>, 9th of January 2015

8 He was one of the earliest proponents of Eurasian integration. See for instance his speech from 1994, the fragment of importance being reprinted in Yiigit: 2013, p. 56

and Azerbaijan are culturally similar, are both oil and gas exporting countries and thus face similar opportunities and challenges. Furthermore, whereas bilateral trade between Kazakhstan and Azerbaijan amounted to over \$430 million dollars^[9], it barely reached \$7 million dollars between Kazakhstan and Armenia.^[10] Likewise, Armenia does not share a border with one of the members of the Eurasian Union, the free movement of capital, goods and services depending mostly on Georgia.^[11] An interesting, though perilous geopolitical game might follow, given the dependency of Armenia on Georgia for transit, the conflict over Nagorno-Karabakh and the unsettled legal status of the Caspian Sea which might eventually reverberate and set at odds Kazakhstan and Azerbaijan. Add to this already convoluted equation the emergent Turkey-Azerbaijan-Georgia trilateral^[12] and we have the ingredients for a full-scale power game in the wider region.

Whilst Armenia disregarded its own agreements, customs issues continued to divide Minsk and Moscow,^[13] further contributing to what has slowly become a consensus regarding the Eurasian Union's dire fate. For various reasons, the Russian Federation did not express concern for Armenia's stance. For one, it could be that Moscow had shown increasing contempt for international norms, violating the World Trade Organization rules repeatedly and imposing trade blockades on a regular basis. Some analysts recommended that at least Russia show a more cooperative stance within the Customs Union, and renounce trade barriers, such as that which was imposed on milk products originating in Belarus (Dreyer and Popescu: 2014). Nonetheless, these problems have not sufficed to deter Kyrgyzstan from becoming the fifth member in August 2015.

In order to better understand where the Eurasian Union might go from now, it is necessary to look at its origins. The idea of Eurasian integration is old, going back to the demise of the Soviet empire and at the first attempts of its successor state, the Russian Federation, to maintain its geopolitical relevance. However, the Commonwealth of Independent States was a loose organization and could not contribute to Russia's struggle to be relevant in a world increasingly shaped by the United States. Economic integration was not possible under CIS (Weitz: 2014, p.31), which later led to the establishment of the Eurasian Economic Community (EurAsEC). Reuniting Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan (and shortly Uzbekistan from 2006 to 2008), the EurAsEC was ambitious at its commencement, reducing some tariffs and aiming to establish a common market among its members^[14]. Uzbekistan joined the Community in 2006, following waves of criticism from the West pertaining to the Andijon massacre.^[15] As Uzbekistan sought rapprochement with the West once again,

9 \$73,094,589 (imports from Azerbaijan to Kazakhstan) and \$361,217,226 (exports from Kazakhstan to Azerbaijan). See <http://comtrade.un.org/data/>, last accessed on 7th of January 2015

10 <http://comtrade.un.org/data/>, last accessed on 7th of January 2015

11 <https://iwpr.net/global-voices/armenia-grapples-economics-union>

12 http://www.jamestown.org/regions/thecaucasus/single/?tx_ttnews%5Bpointer%5D=6&tx_ttnews%5Bttnews%5D=42079&tx_ttnews%5BbackPid%5D=54&cHash=b5145384153a07f616cd3a3ff5e735ba#.VK3H8.ldWSp

13 <http://thediplomat.com/2015/01/eurasian-economic-union-dead-on-arrival/>, accessed on 7th of January 2015

14 http://www.atimes.com/atimes/Central_Asia/JL19Ag01.html, accessed on 8th of January 2015

15 For an argument that this is why Uzbekistan joined the EurAsEC, see http://www.atimes.com/atimes/Central_Asia/JL19Ag01.html (accessed on 8th of January 2015). In 2005, a series of protests took place in Uzbekistan, following a government decision to levy high tariffs and to restrict the activity of bazaar traders. The action that ignited

it withdrew from an organization whose existence was mainly formal.^[16] Undoubtedly, the decision was motivated in part by regional hegemonic desires of president Karimov. Whether or not this was the reason behind Uzbekistan's withdrawal, portraying such a hegemonic ambition can lead to the appearance of a security issue where in reality there is none. Reality is constructed by this securitization process, to which Russia undoubtedly contributes.

In 2006, Belarus, Kazakhstan and Russia, aiming at improving their trade relations, opted for "a full-fledged customs union" (Mogilevskii: 2012, p.7). One key aspect that has been emphasized in the literature is that customs unions are less desirable than non-discriminatory trade liberalization, since the latter does not involve trade diversion (Pomfret: 2014, p. 52). A customs union agreement always entails a tariff-free internal trade and a common external tariff. Trade is encouraged in two ways: on the one hand, duty-free trade among the signatories will lead to lower prices, increasing domestic demand. At the same time trade gets diverted from external suppliers who have to pay the external tariff to internal competitors who are exempt from it (Pomfret: 2014, p. 49).

On the 1st of January 2010, a common customs tariff has been adopted, leading to increasing import duties in Kazakhstan. As Mogilevskii mentions, tariffs on imports from the other Central Asian Republics to the countries of the Customs Union have not changed once the latter was formed. The free trade regimes established in the 1990s continued to remain in force, the only affected parts being China and other countries that have not entered into such arrangements (Mogilevskii: 2012, p.8). However, things changed from July 2010, when customs procedures in Belarus, Kazakhstan and Russia were harmonized, including here a "stricter implementation of rules of origin for goods imported to Kazakshstan, veterinary and phytosanitary controls, control over quantities of goods by individuals" (Mogilevskii: 2012, p.8), tampering with informal trade in the region, which had long been an important source of revenue for poor residents. Finally, in July 2011, the customs moved to the external borders of the Customs Union, making informal cross-border trade even more difficult, even though on the positive side it reduced shipping time and costs (Mogilevskii: 2012, p. 9).

From the beginning, Kazakhstan had to make a choice that hindered its economic integration with the rest of the world. After the common external tariff was adopted, it was weighted towards the Russian tariff, leading to major increases. For instance, Russia kept 82% of its customs tariffs, lowered 14% and raised 4%, whereas Kazakhstan had to raise 45%, lower 10% and keep unchanged 45%. Furthermore, the new sanitary and phytosanitary rules could have had the potential to make it harder for Kyrgyzstani farm exports to reach Kazakhstan (Pomfret: 2014, pp.52-3).^[17] This was a choice made *nolens volens* by Kazakhstan, which nonetheless had a pernicious effect on its becoming a WTO member. In the latest report on the negotiations with Kazakhstan, it has been mentioned by the Working Party of WTO that unsolved problems relate to "state-owned enterprises, tariff rate quota volumes, export duties, discriminatory VAT preferences, technical regulations", all of which have been

the events in Andijon was a staged trial of 23 local businessmen, supposedly Islamic terrorists, a fact that was never proved. This led to a massive crowd breaking into the Andijon prison, followed by a harsh governmental response. Almost 750 people died, most of them being unarmed civilians. For a complete account of the events, see <http://www.crisisgroup.org/en/regions/asia/central-asia/uzbekistan/B038-uzbekistan-the-andijon-uprising.aspx>, accessed on 8th of January 2015

16 http://www.atimes.com/atimes/Central_Asia/JL19Ag01.html, accessed on 8th of January 2015

17 However, Kyrgyzstan joined the Eurasian Union in August 2015.

worsened by the Customs Union's provisions.^[18] Being farther from WTO membership, Kazakhstan makes it more difficult for the situation to evolve to an open regionalism, which would be beneficial for countries which are for the moment suffering from the new hindrances they face in the relations with the Customs Union members.^[19] Accordingly, some have argued that Kyrgyzstan and Tajikistan could ultimately benefit from regularization of the status of migrant workers and better access to health and other social services (Pomfret: 2014, p. 57).

When in January 2012 the Common Economic Space was implemented, it aimed at creating a common market in goods, services, labor, capital, at coordinating financial and monetary policies and developing infrastructure (Pomfret: 2014, p.56). This has long been one of Belarus' concerns, stemming from the fact that it involved it continuing to pay duties to Moscow on its exports of oil products based on oil imported from Russia.^[20] On the other hand, the prices that Belarus pays for oil are insignificant compared to those applied to some European countries. Belarus is for the moment in a sensitive position, depending on Russia's giving it oil at lower prices, whilst Moscow still resorts to what is known as an oil tax maneuver. Specifically, Russia announced that it would cut export duties, but increasing the mineral extraction tax^[21]. This comes after in May 2014 Belarus negotiated a \$1.5 billion discount on its oil tariff payments for the next year, which was utterly replaced by the new oil extraction tax.^[22] However, Belarus has resorted to legal schemes on its own. In 2012, authorities from Minsk disguised oil products as solvents, afterwards exporting them to European countries. According to official data, Belarus managed to save almost \$2 billion dollars this way, since solvents are not classified by the CU legislation as oil products and thus are exempt from the tax that was in force back then.^[23] The most potent leverage Belarus has against Russia is the Druzhba oil pipeline, which transits almost half of Russian gas exports to Central and Western Europe (especially Poland and Germany) (Daly: 2014, p.86). It is unclear, however, if Alexander Lukashenko would be willing to use this instrument. One may wonder how the Eurasian Union intends to survive with this kind of schemes undertaken by each of its members, in a generalized mistrust that prevents developing a real, efficient Union. For, in spite of the looming financial crisis, which might be transient, the greatest obstacle to the development of the Eurasian Union's markets is legal uncertainty. Although in the literature this is purported to impact foreign investors (Daly: 2014, p.96), I believe that the member states are the ones which will be most affected by this climate of indeterminacy. Searching for loopholes in order to get the best deal at the expense of your neighbor is not the way

18 http://www.wto.org/english/news_e/news13_e/acc_kaz_23jul13_e.htm, last accessed on 7th of January 2015

19 However, in November 2015 it was officially announced that Kazakhstan would become a full fledged member of the World Trade Organization in December 2015. See <http://en.trend.az/casia/kazakhstan/2459195.html> (accessed on 28th of November 2015) . See the following article on *The Diplomat* for a brief analysis of why Kazakhstan's WTO accession might be at odds with its Eurasian path: <http://thediplomat.com/2015/11/does-kazakhstans-wto-accession-hinder-eurasian-integration/> (last accessed on 28th of November 2015)

20 <http://www.themoscowtimes.com/business/article/for-russia-eurasian-union-is-about-politics-not-economy/501126.html> , accessed on 6th of January 2015

21 <http://belarusdigest.com/story/belarus-threatens-spoil-inauguration-eurasian-economic-union-19554>, accessed on 6th of January 2015

22 <http://belarusdigest.com/story/unwanted-economic-union-exchange-money-%E2%80%93-digest-belarusian-economy-19898>, accessed on 6th of January 2015

23 <http://belarusdigest.com/story/belarus-threatens-spoil-inauguration-eurasian-economic-union-19554>, accessed on 6th of January 2015

a viable regional organization should function.

Armenia joined the Eurasian Union at the beginning of January 2015, purportedly attracted by the offer of Russian authorities to provide gas supplies at the same price paid by Belarus^[24]. The table has been set for a long time by Russia, which in 2002-2003 acquired most of Armenian's power plants, including its sole nuclear reactor. This meant that Russia achieved control of over 90% of the Armenian energy market (Starr and Cornell: 2014, p. 73).

The Kyrgyz Republic joined the EEU in August 2015, after a lot of promises that allowed it to negotiate trade preferences and receive transitional aid from its well-off neighbors (Schenkkan: 2014). This tardiness came as no surprise, as this has long been a defining characteristic of the Kyrgyz Republic, which has promoted since the mid 90's a "multi-vector foreign policy" (Engvall: 2014, p.111). Former president Askar Akaev, who was toppled after the Tulip Revolution in 2005, tried to extract benefits from a variety of diplomatic and military alliances. After all, Kyrgyzstan is the only country which so far hosted both Russian and US troops^[25].

Challenges and opportunities for the Central Asian Republics

In this section I offer an overview of the economic and financial situation of the five Central Asian Republics. I present their comparative advantages, the challenges they have to face and the opportunities that have emerged in recent years. I consider that in order to imagine plausible scenarios in the context of a changing institutional regional framework it is necessary to know how these countries' economies look like, since the status quo is due to have effects on their future development. Furthermore, the section will make clear an important aspect, that all countries in the region have untapped potential, which nonetheless cannot be harnessed unless steps are taken for regional integration. For instance, the most important field in which the countries cooperated, the oil and natural gas sector, has contributed massively to their recent development. Similar results could be obtained if cooperation in other sectors were increased.

Similar and yet different, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan have been the "recipient of a third wave of foreign direct investments inflows"^[26], benefiting from near universal literacy and abundant natural resources. Kazakhstan holds considerable reserves of minerals, iron, steel, the Kyrgyz Republic exports gold, whilst Tajikistan has significant reserves of copper^[27], as well as uranium, petroleum, coal and silver (Penev: 2007, p.37). Uzbekistan specialized in exports of automobiles, while Kyrgyzstan has for the last couple of years begun to make use of its tourist potential, by considerably improving its services.^[28] As a region, Central Asia produced 5% of the world wheat producer in 2009. Uzbekistan and

24 About \$170 to \$180 per 1,000 cubic meters, <https://iwpr.net/global-voices/armenia-grapples-economics-union>, accessed on 6th of January 2015

25 In 2014, the Kyrgyz Government decided not to prolong the US lease of the Manas Airbase, while it extended until 2032 the deal with Russia, which leased the Kant airbase (Engvall: 2014, p. 111).

26 Competitiveness and Private Sector Development: Central Asia 2011, Competitiveness Outlook, 2011, accessed online at http://www.keepeek.com/Digital-Asset-Management/oced/finance-and-investment/competitiveness-and-private-sector-development-central-asia-2011_9789264097285-en#page161, p. 20-1

27 *Ibid.*, pp. 11-13

28 Connecting Central Asia with Economic Centers. Interim Report, Asia Development Bank, 2014, accessed online at <http://www.adb.org/sites/default/files/publication/41794/connecting-central-asia-economic-centers.pdf>, p. XII

Turkmenistan are the largest exporters of cotton in the region, while Tajikistan has the potential to become one.^[29] However, in the last couple of years, agriculture has been somewhat neglected. In spite of the massive inflows of foreign direct investments, little to no of that money was oriented towards agriculture. The services sector thus already accounts for about half of the value added to GDP.^[30] Although usually foreign direct investments are seen as a positive aspect for the development of a country, for the Central Asian republics these have contributed to a significant degree to the lack of diversification of the economy. Accordingly, the structure of FDI inflows to the Central Asian Republics points to the underdevelopment of other economic sectors (more on this below). For instance, in Kazakhstan, activities related to the energy sector (including here geological explorations, extraction of gas and oil and mining) account for 48% of the total investments, in Turkmenistan for 77% and in Uzbekistan for 77%.^[31]

Regarding relevant macroeconomic indicators, all countries in the region managed to reduce inflation in comparison to the beginning of the millennium, though progress can still be made. Kazakhstan's inflation (measured in consumer price index) has been reduced from 6.4% in 2003 to 5.1% in 2012, Kyrgyzstan's from 3.1% to 2.8%, Tajikistan's from 13.7% to 6.4%, Turkmenistan's from 5.6% to 5.3%, and Uzbekistan's from 10.3% to 7.2%.^[32] Unemployment is likewise diminishing, although in 2012, with the exception of Kazakhstan and Kyrgyzstan (with 4.3% and 7.4% unemployment among male labor force and 6.4% and 9.6% female labor force unemployment), it has remained stable around 11%.^[33] Besides this, there is near universal literacy (99%), in spite of some limitations. For instance, experts from OECD claim that education is not aligned with job market needs.^[34] In time, there are two ways to solve this misalignment. First, there could be spillover effects from the massive amount of FDI received, which would contribute to developing new skills among the young workers. Further, research conducted among those who have migrated temporarily in Russia for work and returned home show that they have gained new skills, which are later used in the national labor market (Tynaliev and McLean: 2011, pp.209-210). However, a precondition would be the adoption of a public policy aimed at solving the issue of the poorly developed secondary and tertiary education.

However, other indicators do not give too many reasons to be optimistic. For one, domestic markets are low-sized, and, due to the low per capita GDP, the purchasing power is equivalently low (Penev: 2007, p.38). The region is not integrated on the international financial markets, with the partial exception of Kazakhstan. In 2007 a first foreign bank began to operate, the Italian Unicredit, as a retail bank. However, the banking crisis of 2007-2008 required money from the National Fund

29 Competitiveness and Private Sector Development : Central Asia 2011, Competitiveness Outlook, 2011, p. 20

30 Connecting Central Asia with Economic Centers. Interim Report, Asia Development Bank, 2014, p. 10

31 *Ibid.*, pp. 40-43

32 *Ibid.*, p. 8

33 For male labor force unemployment, see the data from World Bank, which can be found at <http://data.worldbank.org/indicator/SL.UEM.TOTL.MA.ZS> (last accessed on 15th of January 2015). For the female labor force unemployment, see <http://data.worldbank.org/indicator/SL.UEM.TOTL.FE.ZS> (last accessed on 15th of January 2015). Both statistics are measured using the ILO formula, which takes into account only those willing and able to work and who are « Actively searching for work ». Thus, the real numbers may be higher, albeit this aspect cannot be caught by official data.

34 See <http://www.oecd.org/globalrelations/psd/46973993.pdf> (Accessed on 15th of January 2015)

for the bail out of most of the banks. This is emphasized as one of the positive aspects of the Customs Union, which facilitated “cross border penetration of Russian and Kazakh banks.”^[35] Moreover, when it comes to the percentage of population aged over 15 holding an account with a formal financial institution, only Kazakhstan approaches the relative majority threshold with 42%, whilst the Kyrgyz Republic (4%), Tajikistan (3%) or Turkmenistan (0%) lag far behind.^[36] According to the International Labor Organization, only Kazakhstan is classified as an Upper Middle Income country, with Uzbekistan as a lower middle-income country and Tajikistan and Kyrgyzstan as low-income countries.^[37]

International financial flows have contributed a great deal to maintaining stability in Central Asia. In Kazakhstan, Turkmenistan and Uzbekistan, FDI has been the most important source of development. For Kyrgyzstan and Tajikistan, remittances have the lion’s share, which is also reflected in their ratio to GDP. As such, over \$2.3 billion in remittances have entered the Kyrgyz Republic, and over \$3.3 billion Tajikistan. Remittances as shares of GDP reflect their dependency on their migrants: 48% of GDP in the case of Tajikistan, and 31% in the case of the Kyrgyz Republic.^[38] For these two countries, Official Development Assistance has also been more substantial than FDI.^[39]

Although for a long time their landlockedness had been considered a setback, recent lines of thought stressed the significance of their geopolitical position, especially their closeness to three of the five BRICS.^[40] The most important has been the growing trade with China, especially for Kyrgyzstan, which used to re-export Chinese imports to the other countries in the region.^[41] The Eurasian Union regulations are not as lenient, so this might put at danger an important source of revenue for Kyrgyzstan.

Reliance on hydrocarbon exports has been a source of growth for Kazakhstan and Turkmenistan so far. However, the increasing dependency on oil and gas exports and the lack of diversification poses new threats, especially since the price of oil is incessantly falling. Uzbekistan’s situation is more complicated. The country has significant reserves of oil (594 million barrels) and of natural gas (65 trillion cubic feet). The lack of foreign direct investments and the fact that most enterprises are state-owned was translated into an underdevelopment of energy infrastructure. There is one major project which intends to improve the infrastructure necessary for exploiting gas fields, i.e. the Kandym-Khausak-Shady-Kungrad project, two of the signatories being Lukoil and Uzbekneftegaz (Fedorenko: 2013, p.29). China is the leading country in terms of energy trade for Kazakhstan and Turkmenistan. Of interest here are the Kazakhstan-Xinjiang oil pipeline and the Turkmenistan-Uzbekistan-Kazakhstan-China natural gas pipeline (also known as the Central Asian Gas Pipeline), which might

35 Connecting Central Asia with Economic Centers. Interim Report, Asia Development Bank, p. 56

36 *Ibid.*, p. 56, note 12

37 See http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_214476.pdf (accessed on 15th of January 2015). No data is available for Turkmenistan. Access to official data for Turkmenistan is notoriously difficult.

38 Connecting Central Asia with Economic Centers. Interim Report, Asia Development Bank, p. 68

39 Kyrgyzstan has received \$0.47 billion as Official Development Assistance, whereas FDI amounted to \$0.37 billion. For Tajikistan, the corresponding numbers are \$0.39 billion and 0.2\$. For these numbers and for the data regarding international financial flows, see *Ibid.*, p. 58, Table 4.1

40 *Ibid.*, pp. 65; 73

41 *Ibid.*, p. 74

represent the beginning of a fruitful regional cooperation (Guillet: 2008, p. 70). On the other hand, energy production developed state dominated patrimonial institutions “that are antithetical to the flourishing of democratic processes and an independent civil society” (Ross: 2001). This has been on several occasions detrimental to the national interests of those countries, like the sanctions administered to Uzbekistan after the events of 2005 or the postponement of a European Union-Turkmenistan trade deal, because of human rights violations (Cooley: 2008, p. 1182). This is what makes commercial relations with China increasingly interesting for the Central Asian states. They come with few strings attached, lacking the conditionality of the “normative power” European Union (Manners: 2008) deals and the security risks associated with the assertiveness of the Russian Federation. Whether it is investment terms or lending terms, China is known for its “absence of political strings, competitive interest rates, flexible repayment schedules” (Economy and Levi: 2014, p. 82). China’s involvement in Central Asia can be easily seen. For instance, it holds a larger share of oil production in Kazakhstan than in any other country (Economy and Levi: 2014, p. 151). I mentioned earlier that a setback to Uzbekistan’s usage of its vast hydrocarbon resources was its lack of adequate infrastructure. China has contributed a great deal to developing energy-related infrastructure along the Central Asian Gas Pipeline (Economy and Levi: 2014, p. 152).

Summing up, Central Asia has begun to take advantage of its endowments. Conversely, lack of extensive and intensive regional cooperation represents a hindrance towards a boost in development. Relying on energy exports and on remittances might work for the moment, but unless structural reforms are undertaken, the situation might become critical in the near future. The Dutch Disease may strike at any point. What seems to happen today, with the currencies being devalued, is an equivalently bad outcome. I will analyze whether the Eurasian Union can improve or deteriorate things in the following sections. Considering that Central Asia is at the heart of China’s New Silk Road Initiative^[42], which aims at connecting Europe and China, the stakes in a potential gambit between opting for China and opting for Russia are high enough. Indeed, for the moment, no such choice has yet to be made (Horak: 2014, 166-179). If that were to be made, Tajikistan is the only one to have already affirmed its preference for the China-backed New Silk Road.^[43]

The case for remittances. An overview of Tajikistan and Kyrgyzstan’s situations

In the previous sections I have attempted to provide an overview of the Eurasian Union and on the economic and financial *status quo* in Central Asia. In this part I will present the benefits and the disadvantages commonly associated with remittances and I will apply these considerations on the remittance-receiving countries of Central Asia, *i.e.* Tajikistan and Kyrgyzstan.

Remittances represent “private financial transfers from migrant workers back to their countries of origin” (Barry and Overland: 2010, p. 1181). While some authors consider that they play an important role in development and poverty-reduction (Barry and Overland: 2010, p. 1182) it is widely admitted that the empirical circumstances

42 Also commonly refer to as the New Silk Road Economic Belt, See, *inter alia*, <http://www.eastasiaforum.org/2014/08/16/building-silk-roads-for-the-21st-century/> and <http://www.eastasiaforum.org/2010/08/23/central-asias-new-silk-roads/> and <http://www.eastasiaforum.org/2013/10/26/central-asias-new-silk-road-paved-by-china/> (last accessed on 16th of January 2015)

43 <http://www.eurasianet.org/node/70891> (accessed online on 13th of January 2015)

under which remitting occurs hinder the hidden developmental potential of that money: either because remittances are subject to an unfavorable tax regime, (Barry and Overland: 2010, p. 1207) or because of problems related to migration, such as quotas or difficulties in obtaining visa. I leave the latter issue aside.

Throughout the globe, remittances have superseded other kinds of financial transfers, such as official development assistance or foreign direct investments. This could be a consequence of the fact that exclusionary trade blocs make more difficult for FDI to get in member states (Jones: 1998, p.9). Likewise, globalization and the increasing interconnectedness could have contributed to their emergence as well. The dissolution of the Soviet Union and the fall of the Berlin Wall have catalyzed migration, which led to rising amounts of money being sent back home. For comparison, whereas in 1990 the amount of outward remittances from both developing and developed world was \$6.1 billion, in 2005 it reached \$232.3 billion (Brown: 2006, p.58), with estimates for 2008 of \$338 billion (Barry and Overland: 2010, p. 1181).

Remittances are purportedly more attractive than other types of financial transfers because they have a positive impact on the balance of payment of recipient countries, reducing trade deficits and controlling external debt (Appleyard: 1989, p.492), they reach the poor who are disadvantaged by official aid which most of the times remains with the venal elites (Tynaliev and McLean: 2011, p. 200), they reach regions which are extremely underdeveloped even for the developing world (Jones: 1998, p.8). They represent “an essential non-debt creating, safety-net vehicle administered by extended families and local communities rather than provincial and national governments” (Brown: 2006, p. 55), thus leading to decentralization and instilling the first seeds of subsidiarity in countries which are otherwise hierarchical and centralized. Besides these direct benefits, there are also a number of indirect benefits. Among these, remittances reduce poverty, by reducing the burden of unemployed people (Betti and Lundgren: 2012, p. 406), making population less dependent on the state for aid and social help, which on the long term might even lead to institutional reform (Barry and Overland: 2010, pp. 1884-5). Their superiority in the face of other types of financial aid consists in their being adjusted specifically to the needs of the poor. Barry and Overland invoke the old Hayekian argument regarding the inability of the state to know everything, and thus its susceptibility to make computational errors and fallacious reasoning (Hayek: 1997). They, however, apply this reasoning to private or state donations, which fail to reach their target on a regular basis (Barry and Overland: 2010, p. 1886).

There are also non-economic advantages of remittances, such as contributing to preserving rural places and traditional ways of lives, which otherwise would disappear, due to rural exodus to the cities: “The flow of remittances enables migrants to maintain their rural roots even as they depend on the modern, high-technology sector for their livelihoods” (Jones: 1998, p.23).^[44]

Looking at the other side of the coin, remitting implies sometimes that the highest-earning-potential adults go abroad- a phenomenon known as “earner drain” (Barry and Overland: 2010, p. 1187). More generally, there is a widespread concern

44 Jones bases his arguments on a research conducted in Zacatecas, Mexico. An anonymous reviewer pointed out to me that only because this was true for Mexico does not mean that it will apply to Central Asia. I do not hold that this can be applied straightforwardly to Central Asia. I only mention a series of studies that have been conducted on remittances. Different institutional, political, cultural and geographical contexts can lead to very different results, but I believe that reviewing significant literature on this topic is useful for knowing what could happen in similar (to a certain extent) scenarios (that is, it makes the situation a little more predictable).

pertaining to the “brain drain” phenomenon, which enlarges the pool of unskilled workers (Brown: 2006, p. 57). This happens especially if those who are migrating cease to send money back home, for one of two reasons: their families go to leave with them, if the migrant manages to obtain a stable and secure workplace, or, following a rational calculus, the migrant ceases to send money home. There could be several reasons for this: she cannot find a job to ensure a decent standard of living for herself, the tax regime is not favorable, unofficial channels for money transfers become less secure. In the literature, the situation is more complicated, depending on whether the researcher uses altruist behavior as an explanation for why migrants send remittances or whether the migrants are seen as rational actors, undergoing a cost-benefit analysis (Tchouasi: 2010, pp.2-3). Those who resort to the latter explanation operationalize the migrants as risk-averse economic actors. Empirical proof has been brought which showed that remitters postpone money transfers during periods of currency turbulence: “remittances slow during periods of rapid home country currency depreciation and increase one such currency movement stabilize in order to maximize the local currency equivalent of US dollar remittance payments” (Tchouasi: 2010, pp. 62-63).^[45] This could constitute a problem for Kyrgyzstan and Tajikistan, whose currencies are under pressure due to the fall of the ruble. In January 2015, the Kyrgyz som weakened against the dollar by 4.5% - at the same time becoming for the first time more valuable than the ruble, which lost 55% of its value against the dollar. Accordingly, money transfers, mostly done in ruble,^[46] were threatened^[47]. Another risk is that remittances might rise labor costs and contribute to inflationary pressures “to a certain degree”, hurting especially those households which do not receive remittances (Appleyard: 1989, pp. 493-5). Although the author does not explain, I believe this is a consequence of the fact that remittance-receiving households had different currencies. However, as it is the case today with Kyrgyzstan and Tajikistan migrants, they send back almost valueless rubles, which is an opposite, though equally pernicious consequence.

However, the claim that remittances benefit the poor has been recently contested. Kazuhiro Kumo, in a study which used household survey forms in Tajikistan, found that there was no correlation “between household income levels and amounts of money received from abroad”, and that there was a higher probability for a migrant to come from a household with high income than from one with poor income (Kumo: 2012, pp. 87-8). He further claims that his findings contest the altruistic explanation for remitting and that migration can be considered pro-poor (Kumo: 2012, pp. 91; 105).

Other authors used empirical data to repudiate another core thesis of remittance proponents. That thesis concerns human capital development, which is supposedly enhanced by migration (Brown: 2006, p. 62). However, authors who highlight this aspect focus on the improvement of the skills of those who migrate (Tynaliev and McLean: 2011, pp. 201; 211). Kroeger and Anderson claim to have discovered a statistical correlation between remittances and the low school turnout of children aged 14-18 in Kyrgyzstan. Likewise, they hold that their empirical results prove that remittances have negative effects on human capital development, a feature that is “attributable to the loss of adult labor in the household” (Kroeger and Anderson: 2014, pp. 770-

45 The models could become even more elaborated, further dividing those rational actors in maximizers and satisficers. To my knowledge, no one has resorted to such a taxonomy when it comes to remittances. I leave this aside, for it in itself could constitute the subject of a paper.

46 99% of the Tajik migrants work in Russia (Sultonov: 2013, p. 418).

47 <http://thediplomat.com/2014/12/ruble-collapse-a-problem-for-central-asia/>, accessed on 15th of January 2015

785). To make matters worse, in southern Kyrgyzstan (the Osh, Djalalabad and Batken oblasts), where most migrants originate from, younger girls tend to be malnourished if they come from a transfer receiving household (statistically, though, this is only a correlation, not implying causality). All these negative effects occur because extended pressure is exercised on the remaining members of the family (Kroeger and Anderson: 2014).

Just in one quarter of 2011, Kyrgyzstan received \$400 million dollars from Russia as remittances.^[48] Irrespective of the pros and cons mentioned beforehand, in the case of Tajikistan and Kyrgyzstan remittances have been propitious for their growth and for the welfare of the citizens. Tajikistan has undergone a reduction of its population living under the absolute poverty line of \$2.15 per day per person from 81% in 1999 to 41% in 2007 (Betti and Lundgren: 2012, p. 403). While I acknowledge that the \$2.15 threshold is arbitrarily set, the improvement can be easily noticed.^[49]

However, overdependency on remittances is dangerous. What's more, most of the remittance money is spent on consumer goods, housing, land, and not invested (Appleyard: 1989). Tynaliev and McLean claim otherwise. Their main finding is that migrant workers are likely to start their own business upon returning home (2011: p. 203). However, they have conducted qualitative research on a small sample (n=14) (Tynaliev and McLean: 2011, p. 208), so their findings cannot be considered representative. Nonetheless, it seems obvious that the most beneficial way to take advantage of this inflow for a household would be to invest it. However, as I have mentioned earlier, the banking system in Central Asia is not well-developed. Accessing further capital is difficult, which might partially explain why investments are less preferred.

Tajikistan and Kyrgyzstan both validate hypotheses according to which inflation and unemployment in the home country are important determinants of remittances (Sultonov: 2013, p. 420). As it has begun to be noticed recently^[50], Kyrgyzstan and Tajikistan might be affected by the recession that will hit Russia in 2015. This confirms other claims made by Sultonov, that remittances depend on the international economic environment, which, by influencing the economy of the host and home countries "may affect the migrant incomes and their financial behavior" (2013: p.429). Globalization, which has facilitated migration, is now striking back at the migrants.

I reviewed in this section the literature on remittances and appealed to a series of studies conducted in Kyrgyzstan and Tajikistan. These two Central Asian republics are highly dependent on remittances and thus any change in the remittances/migration regime will be significant. Since the Eurasian Union will lead to institutional changes, with a more formalized migration regime, I have considered necessary to make known these countries' dependency in order to offer a better picture of the stakes involved in their joining the Eurasian Union.^[51]

Is the Eurasian Union a win or a loss for the Central Asian Republics?

In this section I intend to show why joining the Eurasian Union might not be

48 <http://www.ilo.org/public/english/region/eurpro/moscow/news/2011/1011.htm>, accessed on 13th of January 2015

49 For a normative criticism of such poverty thresholds see Pogge (2005, p.32)

50 <http://www.economist.com/news/asia/21639564-rouble-plunges-central-asia-feels-pain-contagion>, accessed on 16th of March 2015

51 In section IV I explain how migration will be affected by the Eurasian Union legislation

a safe bet for the Central Asian Republics. The experience of Kazakhstan should be up to a point useful. However, the structure of the economies of the other Central Asian states is different from Kazakhstan's, and thus the impact of the Eurasian Union is due to be different. With this *caveat* in mind, I will take for granted the assumption that the Eurasian Union, in its current form, makes more sense geopolitically than it makes economically.^[52] After Ukraine has signed the Association Agreement with the European Union and thus Moscow's chance to co-opt it in its own organization has been lost, this is even more pertinently to claim. The Eurasian project is dominated institutionally and economically by Russia (Schenkkan: 2014). Thus, Russia's economic situation plays a major role in the development of the Eurasian Union and of its member states. However, the purpose of this section is to show that, notwithstanding the current crisis that Russia is undergoing, the Customs Union and the subsequent Eurasian Union is a risky bet for the Central Asian Republics.

For starters, migrants from Central Asia have always encountered problems when traveling for work in Russia. There is a complicated process of re-qualification, which takes over a year and more than \$1000 to fulfill – and this, most of the time, leads to them joining the unskilled and low paid labor in Russia (Tynaliev and McLean: 2011, p. 209). Of course, their wages are still higher than those in the home countries, but the discriminatory treatment is obvious. This is further displayed in the regular abuses of Russian militiamen and in the widespread xenophobia.^[53] On January 1, Russia imposed new requirements for admitting labor migrants: they have to pass tests on Russian language, history and legislation basics, undergo medical examinations and buy insurance, which are to cost the migrant more than \$500 dollars. According to some analysts, this puts further pressure on the non-EEU states, since EEU countries are exempt from these new regulations.^[54]

Mogilevskii considers that the impact of the Customs Union in regard to trade of the member states with Central Asia should be confined to the impact on Kazakhstan, because Belarus is either too small a partner of Central Asian states or because the Russian market is too big and any changes induced by the CU would not be very significant (Mogilevskii: 2012, p. 20). However, analysing mainly the period 2010-2011 he does not find significant changes induced by the CU. These are below expectations and most changes could be attributed to some exogenous factors, like the Kyrgyzstan's change of leadership in 2010, the global financial crisis, the finalization of the Kazakhstan-China pipeline and thus the cutting back on imports of construction materials in Kazakhstan (Mogilevskii: 2012, pp. 22; 33). Regarding the changes that have been noticed, most of them are attributable to phenomena of trade diversion, i.e. "the redirection of existing flows from countries outside the CU towards CU countries" (Mogilevskii: 2012, p. 6). According to Mogilevskii, the most significant case of trade diversion is the one concerning machinery imports to Kazakhstan. In 2010, the imposition of the Common Customs Tariff led to an increase of Kazakhstan's tariffs. However, personal car imports have been exempt of this additional tax until 1st of July 2011. Afterwards, the cumulative share of traditional suppliers (Germany, Japan, USA)

52 See for instance http://www.washingtonpost.com/world/europe/russia-kazakhstan-belarus-form-eurasian-economic-union/2014/05/29/de4a2c15-cb01-4c25-9bd6-7d5ac9e466fd_story.html (accessed on 16th of January 2015) and <http://www.themoscowtimes.com/business/article/for-russia-eurasian-union-is-about-politics-not-economy/501126.html> (accessed on 16th of January 2015)

53 "It is dangerous to live and work as a non-European, non-white, people of color in Russia", (Tynaliev and McLean: 2011 pp. 205-6)

54 <http://www.eurasianet.org/node/70891>, accessed on 9th of January 2015

fell by 20% in comparison to 2010. In contrast, a sizeable increase in the market shares of Russian cars can be noticed. Uzbekistan, which benefits from a duty free access to Kazakhstan's markets, could also benefit from the changes (Mogilevski: 2012, pp. 24-25). However, in January 2014, the Customs Union imposed new regulation, which required that all imported cars have anti-lock braking, at least one air bag and daylight headlights. In some specialists' view, this was oriented against Uzbekistan, and against the General Motors' Matiz and Nexia plants in the Ferghana Valley, which lacked these features (Starr: 2014, p. 158).

Informal trade in the region has been most affected. Previously, it was dominated by Chinese consumer goods, which were exported to Kazakhstan and Kyrgyzstan, and further re-exported from these countries to Russia, Uzbekistan and Afghanistan (Mogilevskii: 2012, p.26). In Kyrgyzstan, and in the context of political instability and a global economic crisis, re-exports amounted to 13% of GDP in 2010. According to Mogilevskii's computations, the CU and the effects it could have on re-exports could lead to over 9% loss of GDP (Mogilevskii: 2012b, pp.31-2). The CU has led to a conversion of informal re-exports via Kyrgyzstan and Kazakhstan into direct exports to Russia. Lower re-export could mean less employment in those involved in activities related to this, less income for those who remain employed. Women, who constitute the majority in services related to re-exports, would be the most affected (Mogilevskii: 2012, p. 28). This has a geopolitical stratum as well: sabotaging the growing trade between Kyrgyzstan and China, in order to counter China's rising influence in Central Asia. This view seems to be supported by some analysts, who claim that, "by raising barriers to trade with the outside world, the CU limits the economically driven reorientation of the Central Asian states into Beijing's orbit" (Blank: 2014, p. 22). Non-tariff barriers (phytosanitary regulations) also make it harder for the Kyrgyz Republic to export its farm products to Kazakhstan.^[55] After Kyrgyzstan joined the Eurasian Union in August 2015, one of the side effects was the diminishing of the trade volume in informal imports from China^[56], since EEU legislation is less lenient in this regard.

Remittances sent via Russia to Kyrgyzstan and Tajikistan will also be less valuable, as a consequence of the less valuable ruble. Kyrgyzstan might lose up to \$1 billion from its budget due to the ruble's loss of value.^[57] Linked to some degree, though not pegged to the ruble, the currencies of the Central Asian republics have lost value against the dollar, though they remain in a better position than the ruble. The Uzbek som lost 2.37% from October 2014 to January 2015, while Turkmenistan and Kazakhstan managed to "keep their currencies pegged to the dollar, using their foreign reserves to keep rates stable and defend the manat and tenge".^[58] Kazakhstan had to appeal to such measures after in February 2014 its national currency, the tenge, lost

55 These regulations remained enforced even after Kyrgyzstan joined the Eurasian Union. See <https://iwpr.net/global-voices/bumpy-start-kyrgyzstans-eurasian-membership>, last accessed on 16th of September 2015. At the beginning of September 2015 there have been made calls by Kyrgyzstani representatives for more equitable standards. See http://eng.belta.by/all_news/economics/Kyrgyzstan-calls-for-closer-agricultural-cooperation-in-Eurasian-Economic-Union_i_84283.html, accessed on 17th of September 2015.

56 For a prediction of this, see Pomfret: 2014, p. 53. For the confirmation that this is currently happening, see <http://www.rferl.org/content/kyrgyzstan-eurasian-economic-union/27184629.html>, last accessed on 17th of September 2015

57 The Russian ruble continued to fall in September 2015, as shown here: <http://www.cnn.com/2015/09/11/russian-central-bank-holds-interest-rate-at-11-percent.html>, last accessed on 12th of September 2015

58 <http://thediplomat.com/2014/12/ruble-collapse-a-problem-for-central-asia/>, accessed on 12th of January 2015

19% of its value against the dollar. It appears that soon enough, leaders of the Central Asian Countries will have to decide between “draining their reserves to defend their currency or allowing a devaluation”, and thus inflationary pressures.^[59] Kazakhstan’s markets were invaded by Russian goods, which became cheaper due to the collapse of the ruble, and new pressures on its national industry are put.^[60]

The most profound changes might be those on the region’s security. In the next section I will use as a theoretical framework the regional security complex theory. I will apply it on Central Asia and I will try to undertake an analysis of the role that the EEU is due to play.

Towards a Central Asian Regional Security Complex

The boundaries of Central Asia are mostly artificial, creations of the Soviet Union. Culturally and linguistically, there are no significant differences between the five countries that appeared after the collapse of USSR. One exception could be Tajikistan, which is closer to Iran, unlike the others, whose defining elements are Turkic (Menon: 2007, p. 3). Coexistence under the Soviet administration, however, today implies a legacy that in most cases is unfortunate. Border problems emerged as soon as the USSR collapsed, since no attention has been given in the past to regional realities (Peimani: 2009, p. 202).

Though conventionally referred to as a region, there are some who have contested that Central Asia would deserve such a name. According to such a view, regionalization implies “a process of change towards increased cooperation, integration, convergence, coherence and identity” (Allison: 2004, p. 465), which is lacking in this remote part of the world, where some states isolate themselves (Turkmenistan), others manifest hegemonic ambitions (Uzbekistan), and the others have their own internal problem, while having at the same time to deal with transnational issues, such as containing terrorism, stopping narcotics traffic (from Afghanistan to Russia).

However, I believe that we should use a different conceptual framework for Central Asia, one that could accurately describe the status quo, and also allow us to imagine different scenarios for the future. Furthermore, the aforementioned definition of regionalization implies liberal assumptions, and thus could be susceptible to criticism from the other schools of international relations. Waever and Buzan’s regional security complex theory, however, can incorporate theses from all the other schools of thought, while at the same time offering “the possibility of systematically linking the study of internal conditions, relations among units in the region, relations between regions and the interplay of regional dynamics with globally acting powers” (Buzan and Waever: 2003, p. 52).

Regional security complex theory (henceforth RSCT) considers that the appropriate level of analysis is the regional one (Buzan and Waever: 2003, p. 45). That is “where most the action occurs” (Buzan and Waever: 2003, p. 43), following a dialectics of securitisation and desecuritisation acts that reflects the actors’ fears and aspirations. Faithful to its partial constructivist roots, RSCT holds security to be mostly a speech act – security is what states make of it (Waever: 1998; Buzan and Waever: 2003, p.

59 <http://thediplomat.com/2014/12/ruble-collapse-a-problem-for-central-asia/>, accessed on 12th of January 2015

60 <http://manilastandardtoday.com/2014/12/31/russian-crisis-hits-ex-soviet-republics/>, accessed on 12th of January 2015

48).^[61] What constitutes a security problem is a political choice. Anything, from societal to environmental issues can become matters of securitization. Securitization involves, at its basis, any move of a theme or issue “into the field of security, and thereby framing it as a security issue” (Waever: 1998). The simple utterance of it as such is what makes it a matter of security. The other becomes perceived as an existential threat and thus extraordinary measures are called for (Diez, et al: 2006, p. 566). This is a consequence of the fact that the securitization actor defines that object as vital for its security. The simple act of labeling something as a security issue leads to particular interregional dynamics, due to its becoming a securitization problem (Buzan and Waever: 2003, pp. 71-3). In order for a regional security complex to exist, there must be actors whose “processes of securitization, desecuritization or both are so interlinked that their security problems cannot reasonably be analyzed or resolved apart from one another”. Geographical proximity to a great power can lead to phenomena of penetration, whether it is a balance of power logic that motivates units of a RSC to call for external help or the great power decides to intervene (Buzan and Waever: 2003, pp. 44-46). Indeed, as I will prove, the Central Asian states, irrespective of a poor institutional development to bind them, are interconnected to a significant degree when it comes to security issues – this is considered a necessary condition by Buzan and Waever in order to deem a group of states a RSC (Buzan and Waever: 2003, pp. 47-48).

Since Waever and Buzan hold that RSCs are mutually exclusive, they had to resort to the concept of subcomplexes in order to maintain their theory’s coherence. Subcomplexes are, similarly to complexes, patterns of security interdependence, but they are “caught up in a wider pattern that defines the RSC as a whole”.^[62] Geographical proximity as such is not a sufficient condition for the emergence of a RSC – under two conditions, overlay and unstructured, RSCs cannot form. The first refers to massive penetration by a great power, such as that of the Soviet Union in Central Asia before its collapse. Unstructured regions are defined by the absence of regional dynamics. However, we might talk of pre-complexes or proto-complexes, the latter term being applied when, although regional dynamics are weak, there are more intense connections between countries within the geographical region that between these and external actors (Buzan and Waever: 2003, pp. 62-64).

In regard to Central Asia, Buzan and Waever sometimes refer to it as a regional sub-complex (Buzan and Waever: 2003, p. 350), but they also think that it has some elements of an unstructured, proto-complex (Buzan and Waever: 2003, pp. 426; 473). They also investigate the possibility of analyzing it and the Caucasus together, a path that is subsequently rejected (Buzan and Waever: 2003, p. 419). Finally, they conclude that Central Asia is a “weak subcomplex whose internal dynamics are still forming and in which involvement of Russia is still strong” (Buzan and Waever: 2003, p. 423). The precondition for its becoming a sui generis RSC is that Russia ceases to get involved in the region, or, in their parlance, that penetration from Moscow withers away (Buzan and Waever: 2003, p. 428). Thus, Central Asia has been a part of the CIS complex, though it has slowly transformed into a sub-complex. (Buzan and Waever: 2003, pp. 484-485). The question that I now want to put forward is whether the EEU project can have any influence on Central Asia’s becoming a RSC. My preliminary intuition

61 Buzan and Waever paraphrase Alexander Wendt, who claimed that “anarchy is what states make of it” (Wendt: 2003, p.6).

62 “The device of subcomplexes eliminates most of what might otherwise occur as distributing cases of overlapping membership between RSCs” (Buzan and Waever: 2003, pp. 52-3).

is that it will be a hindrance, and I will subsequently argue why. I will first present the issues that have been securitized so far between the Central Asian republics, and argue that Russia's involvement through the EEU could worsen things. On the other hand, I think that Chinese investments and the New Silk Road initiative would lead to a growing number of issues being desecuritized, which could only be propitious for the future development of the region. This could also mean that Central Asia would finally become an autonomous actor, though the specific patterns of amity-enmity would remain for a while.

When it comes to Central Asia, one must understand that most of today's conflicts can be traced back to USSR's splitting the region into units with arbitrarily-set boundaries. However, the region has a long history of regional conflicts, each of the states having significant minorities. There are over 800,000 Turkmens in Uzbekistan (Peimani: 2009, p. 186). Russians represent 23.7% of Kazakhstan's population,^[63] Uzbeks 13.8% of Kyrgyzstan's population^[64] and 15.3% of Tajikistan's^[65]. Discrimination against ethnic minorities is commonplace, Uzbekistan's human rights records being considered "atrocious"^[66]. Ethnic Uzbeks, are, on the other hand, subject to discrimination in Kyrgyzstan,^[67] and this vicious cycle can be found anywhere in the region. Inter-state conflicts can occur at any time due to such outrageous acts of discrimination.

One significant source of violence has been in the last decade the Islamic Movement of Uzbekistan. Located initially in the Fergana Valley, split between Tajikistan, Kyrgyzstan and Uzbekistan, has been at its origin an anti-Uzbek government group, founded in 1998 (Peimani: 2009, p. 167). They have progressively left the country, now being mostly located in Pakistan's Waziristan region. From these headquarters they have orchestrated an attack on the Karachi airport in 2014's summer.^[68] Fergana has, on the other hand, begun to be a hub for ISIS supporters, an increasing number of Tajiks, Kyrgyzs and Uzbeks joining the Islamic State's numbers.^[69]

In an arid land, water disputes are ubiquitous. The Rogun Dam project is at the heart of a prolonged dispute between Tajikistan and Uzbekistan. The root of the problem consists in the fact that it could help Tajiks gain energy independence, but Uzbeks "claim it will stop their share of the flow of the Vakhsh River, a resource that is crucial to its cotton economy".^[70] Realist considerations preclude for the moment the fulfillment of the project, since Uzbekistan could become vulnerable in

63 <https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html>, last accessed on 11th of January 2015

64 <https://www.cia.gov/library/publications/the-world-factbook/geos/kg.html>, last accessed on 11th of January 2015

65 <https://www.cia.gov/library/publications/the-world-factbook/geos/ti.html>, last accessed on 11th of January 2015

66 <http://www.hrw.org/europecentral-asia/uzbekistan>, accessed on 11th of January 2015

67 <http://www.hrw.org/world-report/2014/country-chapters/kyrgyzstan>, accessed on 11th of January 2015

68 <http://www.bbc.com/news/world-asia-27790892>, accessed on 11th of January 2015

69 <http://www.uznews.net/en/central-asia/27688-islamic-state-will-come-to-central-asia>, accessed on 11th of January 2015

70 See <http://www.worldpolicy.org/blog/2013/04/02/dammed-or-damned-tajikistan-and-uzbekistan-wrestle-over-water-energy-nexus> for a more comprehensive discussion on the Rogun Dam. Indeed, cotton represents, along with gold and natural gas, one of the major exports of Uzbekistan – See Asian Development Bank's interim report, "Connecting Central Asia with Economic Centers", 2014, pp. 101n

the eventuality of a collapse of the dam, which is located downstream.^[71] Although The Rogun Power Plant represents an opportunity for both countries, lack of trust represents an impediment difficult to overcome for the moment. Uzbekistan has tense relations with Kazakhstan over the Aral Sea environmental disaster. During the Soviet days, the Kremlin leaders intended to transform Central Asia into its largest exporter of cotton. Since cotton production requires massive irrigations, this has led to the shrinkage of the Aral Sea to a third of its original size, the salinization of arable land and to soil exhaustion. Since the two countries could not arrive at an understanding concerning the efficient preservation of the Aral Sea, the situation is worsening daily. Uzbeks have depleted the Amu Darya River by using its waters for their cotton crops, contributing to the partial sewage of the Aral Sea. Now, Kazakhs accuse Uzbeks that they will deplete the other main regional river, Syr Darya (Peimani: 2009, pp. 127-135). Securitizing the Aral Sea can lead to extraordinary measures being adopted by any side, which can go as far as to skirmishes along the border.

Territorial borders are less disputed, with the exception of the Fergana Valley. However, some territorial claims do exist – Uzbekistan has expressed its willingness to get back from Tajikistan the city of Kokand and part of Kyrgyzstan's Osh province (Peimani: 2009, p. 152). The city of Kokand is important since it was the birthplace of the Uzbek khanate of Kokand, which dominated the territory of today's Kyrgyzstan for a century and a half (1710-1876) (Peimani: 2009, p. 142). However, these issues are only “irritating” and do not seem to lead to a full scale war (Peimani: 2009, p. 354). If one remembers the conflict between Serbia and Kosovo, one can see that such symbolic places can be securitized, irrespective of what reality or prudence would recommend. The consequences would be bleak.

At the beginning of the paper, I mentioned parenthetically Walt's concept of balance of threat as a factor that hinders cooperation in Central Asia. Having introduced RSCIT, I can now reassess that point and argue that what is even more a deterrent to regional integration is the way the leaders of these republics have perceived internal or external threats (Anceschi: 2010, p. 144). The internal characteristics of the regimes made possible the harshening, at least at the rhetorical level, of border demarcation problems and inter-regional rivalries.^[72] Such rivalries “counteracted a search for region-wide commonalities and dissuaded national leaders from serious efforts at deeper cooperation that would require real concessions in the interest of a wider regional framework of mutual benefits” (Allison: 2008, p. 186). Obviously, those “real concessions” can only be made by desecuritization of some of the persistent problems.

All the timid progress that has been realized so far might be in vain once the new Eurasian Union has come into being and extended to incorporate Kyrgyzstan. Russia has every reason now to support the Kyrgyz Republic and potentially Tajikistan in the water disputes with Uzbekistan (Pomfret: 2014, p. 57). Furthermore, Russia, by bribing and putting pressure on Kyrgyzstan's leaders, now owns the Kambarata hydropower plant and the Toktogul reservoir and power plant (Starr: 2014, p.160). It can also cripple Uzbek agriculture “by cutting off its water supply during crucial phases” (Starr: 2014, p. 160). Thus, things can get worse at any time, and Russia holds important levers. The stability of the region can be tampered with easily, and gaining

71 <http://www.worldpolicy.org/blog/2013/04/02/dammed-or-damned-tajikistan-and-uzbekistan-wrestle-over-water-energy-nexus>, accessed on 12th of January 2015

72 All are more or less authoritarian. Uzbekistan is considered sometimes a hard variant of neopatrimonialism, and Kazakhstan and Kyrgyzstan soft variants of neopatrimonialism. See Roy Allison(2008, p.199).

membership in the EEU could lead to hazardous behavior from small countries that feel threatened by Uzbekistan. If the current rivalry between the United States and Russia persists, the US-backed CASA-1000 project, which aims at bringing electricity from Tajikistan and Kyrgyzstan to Afghanistan and Pakistan might be threatened.^[73] EEU might also facilitate penetration from Russia in the region, especially since China's involvement has begun to be more noticeable in the last couple of years. After Xi Jinping's tour in September 2013, an increasing number of common projects have begun to be implemented between China and the Central Asian Republics. Although China needs good relations with these republics in order to keep under control its Xinjiang province, which is culturally linked to them and always a source of instability, Russia might interpret China's actions as detrimental to its own interests. A new Great Game might begin.

Central Asian republics should cooperate more intensely. There are several projects that involve them, such as the Central Asia Regional Economic Cooperation,^[74] the International Transport Corridor Europe-Caucasus-Asia (TRACECA),^[75] the pipelines to China that connect Kazakhstan, Turkmenistan and Uzbekistan, and so on. Further, membership in WTO could lead to better relations and to enhanced cooperation, though, as I have shown, Kazakhstan's membership in EEU has postponed its gaining membership. China's involvement in the region has led to a number of problems being securitized, since regional cooperation was needed in order for the master plans of China to reach Europe to function. The Chinese vision for a New Silk Road has Central Asia at its core. Projects such as the proposed railway from Kashghar (Xinjiang) to Kara-Suu (Kyrgyzstan) could raise the annual trade volume between Kyrgyzstan and China by 30-40%. China is building a large storage base for Kyrgyz coal imports, the cost of the project being almost \$19 million.^[76] China's "peaceful rise" – *hepingjueqi* (Sheives: 2006, p. 207) could be more attractive than Russia's EEU, which is turning into an exclusionary trade bloc. Central Asia would be a hub for trade between Europe and China, and the New Silk Road could make the region flourish once again. Russian involvement, on the other hand, might spur regional competition instead of regional cooperation and might lead to resurgence of old rivalries, which for the moment remain dormant due to the countries' low capabilities. In order for Central Asia to become a *sui generis* Regional Security Complex, it must make the right choices.^[77] Maintaining good relations with Russia is necessary, but letting Russia re-establish its influence on their internal affairs is a risky bet for the Central Asian Republics.

Conclusion

In this paper I provided an overview of the Eurasian Union and the effects it may have on the Central Asian Republics. I have focused in the first sections on the evolution of the Customs Union into the Eurasian Union, and on the economic effects

73 Recently, the four countries agreed on the electricity transit fee. See <http://tribune.com.pk/story/774116/casa-1000-pakistan-afghanistan-agree-electricity-transit-fee/>, accessed on 12th of January 2015

74 <http://www.adb.org/countries/subregional-programs/caec>, accessed on 12th of January 2015

75 <http://www.traceca-org.org/en/home/the-silk-road-of-the-21st-century/>, accessed on 12th of January 2015

76 <http://www.scmp.com/business/commodities/article/1204229/kyrgyzstan-sets-sights-xinjiang-coal-market>, accessed on 12th of January 2015

77 I use „right” here not in regard to any ethical theory, but simply right for achieving the goal of becoming a RSC

it had or it is expected to have on the region. I have also used the regional security complex theory in order to assess the impact of the EEU on the securitization/desecuritization patterns. I argued that EEU could have detrimental effects on the region, leading to a growing number of issues being securitized. On the other hand, I held that China's role is positive, and its vision for a New Silk Road might lead to desecuritization processes, which might contribute to the region's development. Cooperation at the regional level is necessary, but EEU can have the opposite effects.

I believe that the analyses employed in this paper can offer a better perspective on the state of the Central Asian region today. Taking advantage of a still underdeveloped human capital potential will play a significant role in the future evolution of the countries in the region. To this end, I consider that a better market integration would create more opportunities for the educated young adults who cannot find appropriate jobs in their home countries and resort to migrating in increasing unsafe conditions to Russia. Diversification would also contribute to integration, and this is an aspect that depends both on internal development and on foreign relations.^[78] As Douglass North showed, diversification and specialization are related to the establishment of trade relations outside small communities (North: 1991, pp. 98-9). If they intend to become more integrated on the world markets, these countries need institutions that can create order and reduce uncertainty (North: 1991, p. 97). Their mutual cooperation is impeded for the moment by the securitization of several issues, and gaining membership in the Eurasian Union is not really going to contribute to this end. The fragile equilibrium that exists today might be disturbed, however, if actors decide to lean towards Russia and maintain this propensity in spite of some obvious empirical findings that prove the accompanying drawbacks. Confidence-building measures will be necessary at some point, and I believe that positioning themselves as trade hubs between China and Europe is an important step in this direction. On the other hand, the mutual trade barriers that have begun to be imposed between Russia and Europe as a result of the Ukrainian crisis can negatively impact those Central Asian republics that are to be a part of the Eurasian Union.

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78 I include this discussion in order to respond to an anonymous reviewer's inquiry whether I attribute the maldevelopment of the Central Asian Republics to geopolitical factors or to unsustainable development. My answer would be that both have played a role, and I hope that this discussion makes this aspect clearer. I will have more to say about unsustainable development and social capital in the Central Asian Republics in a future paper.

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