Anti-Russian Western Sanctions and the Countries of Central Asia

The short-term forecast prepared recently by the European Bank for Reconstruction and Development (EBRD) in favor of the recent policy of Western countries to limit the economic and political influence of Russia in the world states that the anti-Russian sanctions of the United States and the European Union will have a negative impact not only on the economy of the Russian Federation, but also on the economies of Central Asian countries. First of all these negative conclusions of the EBRD are based on the grounds that Russia is not only the leading trading partner for the Central Asian countries, but also the leading investor, and therefore the particular vulnerability of the economies of Tajikistan and Kyrgyzstan in this regard is emphasized, whose budgets have already lost hundreds of millions of dollars and further decline in the growth of the economies of these states is expected.

Even the primary analysis of the EBRD’s short-term forecast shows that its main goal is to prepare warnings to Central Asian countries on the undesirability of integration with Russia.

However, every coin has two sides, and in this case one should speak not only about the negative, but also the positive effects of anti-Russian Western sanctions on the economies of the Central Asian region.

In the published EBRD's report it is said that the weakening of the Russian economy will primarily hit the Central Asian countries. According to experts of the Bank, in the first quarter of 2014 the volume of money transfers from Russia to the countries of Central Asia, Eastern Europe, and the Caucasus has declined markedly. "Any further weakening of the economy in Russia as a result of the imposition of sanctions will be reflected by an economic slowdown in the Central Asian region", says the EBRD report. Right now it is mainly a question of workers' remittances to relatives and friends. As an example, the EBRD report specifies that up to 4 billion dollars flows to Tajikistan from Russia, but according to unofficial data it is much more. For instance, the deputy director for science at the Institute of Market Problems, Russian Academy of Sciences, Nabi Ziyadullaev noted in conversation with the author that up to 10 billion dollars are sent from Russia to Tajikistan annually. "This fact is recognized by Tajik specialists. They say that the country practically lives on remittances," said Nabi Ziyadullaev.

Apparently, the Tajik authorities are not interested in boasting statistics about either remittances or the number of people who have left the country to work. According to official data, Russia and Kazakhstan employ about 900,000 Tajiks, but according to another source, the real number is twice as much. According to experts, this is due to the general economic situation and the depletion of sources of economic grants from external factors. "Therefore, there are various reasons not to disclose this information fully, to keep the public calm and preserve the authority of the republic's leadership in the international arena - political ratings, status, and so on," said the head of the Economics Department of the Institute of CIS countries Aza Mihranyan.

Another negative factor is the depreciation of the national currency. "In Tajikistan and Kyrgyzstan, as well as in Russia, there has been a depreciation of the local currency against the dollar of up to 30%. But in regard to the ruble, on the contrary, several national currencies have strengthened. However, in any case, Tajikistan and Kyrgyzstan now have no other choice but to join the Customs Union (CU) and the Eurasian Economic Community (EAEC). Russia will not receive special dividends in the next 5-10 years from the expansion of the EAEC, it will receive only geopolitical ones." said Nabi Ziyadullaev.
Now the positives. In Tajikistan, it is estimated that the country's budget by the end of the year will be short of several billion dollars, and migrant laborers will return home having lost their jobs in Russia. Such a prospect would force the authorities to engage seriously in the economy, at least in order to avoid a social explosion. First Deputy Minister of Finance of Tajikistan Jamoliddin Nuraliev recently said that the government is already taking action to create jobs within the country. "It is expected that in the future, Tajikistan will earn about 300 new medium and small businesses, which will provide work to a certain part of the population," said the official.

Another positive factor for the Central Asian states arising against the background of the relations between Russia and the West is the ability to increase the supply of agricultural products to the Russian market. Especially since for the countries of the Free Trade Area, which includes the subjects of the Central Asian region, an advanced and privileged access to the Russian market is provided.

"The policy of import substitution provides exporters and producers of the Customs Union and the Member States of the CIS free trade zone opportunities, such as the expansion of sales of its products in the Russian market. This applies, of course, first and foremost, to food producers. And it is necessary to take into account that if there is growth in supply, it will inevitably cause a growth of services and transport turnover. Thus, we obtain an increase in trade and economic turnover between Russia and the CIS. In addition to food, access may be extended to textile producers. Accordingly, unless Russian counter-sanctions are implemented to ban western textile products, the CIS countries will obtain yet another bonus. These are examples of positive consequences," says Alexander Karavaev, Researcher at the Institute of Economics, Russian Academy of Sciences.

Uzbekistan was the first to declare its readiness to increase the delivery of vegetables and fruits to the RF. Tajikistan and Kyrgyzstan could also deliver their products, but they are still not in a hurry to take on the vacant niche of western products. As noted by Elena Kuzmina, Chief of the Economic Development of the post-Soviet countries, the Institute of Economics, Russian Academy of Sciences on the one hand this is due to regional differences on transit issues. On the other hand it is due to monitoring issues: fruit and vegetable products from these countries do not always meet the phytosanitary regulations of the Customs Union. But as everyone knows, the devil is in the details. The EBRD’s report, according to Elena Kuzmina, can be seen as a veiled warning to Central Asian countries not to strengthen cooperation with Russia, and vice versa. Not to give Russia access to their markets - and this is mainly engineering products, and not to deliver their own products to the Russian market.

"The countries of Central Asia are a diverse bunch. There are agrarian Tajikistan and Kyrgyzstan, hydrocarbon-exporting Turkmenistan, and the more harmoniously developed Kazakhstan and Uzbekistan. Western sanctions against Russia will affect these countries in different ways, depending on their degree of integration with the Russian economy, and, as it turns out, also depending on their perception of the Bank's warning." said Kuzmina.

According to her, there is much more to say about how Western sanctions may somewhat reduce the investment opportunities in Russia. "The main Russian investments are directed at the energy sector in Central Asia. Primarily in Uzbekistan and Kazakhstan, and to a lesser extent in Turkmenistan. However, it should be taken into account that the main flow of oil and gas in all oil-producing countries in Central Asia, and now also in Russia, are new contracts directed to China. So we can say that the damage caused by Western sanctions in general has been minimized. In any case, the effects of the sanctions have been significantly reduced," said Elena Kuzmina.

Viktoria Panfilova is a columnist for Nezavisimaya Gazeta and the online magazine “New Eastern Outlook”.