Analysis

Russia and the Central Asian Economies: From Colonial Subordination to Normal Trade

By Martin C. Spechler, Bloomington, Indiana

Abstract

Russia is gradually losing its once-dominant role in Central Asia as the countries in the region build ties with other neighbors. "Staple globalism," which involves a continued strong role for the state in providing commodity exports and selecting imports of capital equipment and luxury consumer goods, plays a strong role in defining Central Asian trade practices. Ultimately, Central Asia is not an important market for Russia.

Evolving Relations

Since the breakup of the Soviet Union in 1991, the five Central Asian republics have become increasingly independent, both politically and economically. Despite Moscow's continuing claims of "privileged interest" in this vast area of nearly seventy million citizens, all five regimes have found ways to establish ties beyond the Soviet successor states, while retaining correct and mutually beneficial relations with their former colonizer. Kazakhstan and Turkmenistan have been able to sell their energy resources at world market prices, while importing capital equipment and select consumer goods. Consequently, these petro-states have seen their agricultural and manufacturing sectors stagnate or fail (see Table below). Uzbekistan has grown moderately by exploiting its abundant cotton, gold, and uranium, while keeping state expenditures up.

This foreign trade pattern has been called "staple globalism". Distinct from true multilateralism, favored by the World Trade Organization (to which only Kyrgyzstan has yet acceded), "staple globalism" involves a continued strong role for the state in providing commodity exports and selecting imports of capital equipment and luxury consumer goods.

The region's other two states, Kyrgyzstan and Tajikistan, are the smallest and weakest. They have had to depend on remittances, as well as outside aid and protection from international financial agencies and China, along with the Russian Federation, to the extent of the latter's ability. Yet, in spite of this assistance, their estimated real GDP is still below the 1989–90 level, according to the EBRD. Therefore, since the collapse of the Soviet Union, all the Central Asian Republics have increased their commercial and investment connections with the West and China, at the expense of their former Soviet partners.

Background

From Tsarist times, Russia played the leading role in Central Asia, even before the region's khanates were formed into union-republics by the Communist authorities in the 1920s. Nineteenth century Russia controlled these (mostly) Sunni Muslim, patriarchal societies through military government and European troops. Russians and Ukrainians settled in the north Kazakhstani steppe in particular. The colonizers developed and purchased Central Asian cotton fiber, its oil and natural gas, and its fruits, animal products, and vegetables. During World War II, Moscow built factories in Central Asia in order to produce airplanes and other war materials and sent skilled Europeans to run them, as well as refugees from Nazi invasions.

Besides sizable Slavic populations in the cities, the legacy of this involvement is the role of Russian as *lingua franca* in Central Asia, and access to Russian technical materials. Soviet Russia also promoted technical education and careers for women, secular Marxism, Western dress and material tastes, and hierarchical bureaucracies, all of which persist. Television programming, universities, and the internet continue to ensure Russian influence. Despite efforts to promote national cultures and languages, attitudes towards Russia and Russians remain fairly good, despite bitter memories of the impact of Moscow's colonization of the region—collectivization of livestock, enforcing a monoculture, introducing alcoholism, and purges of cadres.

Various efforts by Moscow since 1991 to re-establish the former Soviet patterns of economic relations in Central Asia, thus enshrining Russia as the dominant external economic force, have largely failed. All of the newly independent republics remain members of the Commonwealth of Independent States (CIS), which does little but collect data and hold uneventful meetings. The CIS was supposed to retain free trade among the twelve post-Soviet members, but from the start Central Asian states have established border controls and customs tariffs, albeit at lower rates for one another. By 1993 the Russian ruble had lost its place as the official currency; now each Central Asian state has its own currency, all convertible to some extent. Several efforts to establish Central Asian organizations for economic cooperation have failed to fulfill their grand designs. The Asian Development Bank (ADB) has invested some $1.8 billion in road reconstruction and other projects, but ADB's prodding has not moved the Central Asian regimes to meaningful integration. The most recent such effort, the Eurasian Economic Community (EurAsEC), sponsored by Kazahkstan's President Nursultan Nazarbaev, has met resistance from Islam Karimov, the Uzbekistan president, and indeed Uzbekistan effectively withdrew from EurAsEC in November 2008. Uzbekistan has also limited its participation in the Shanghai Cooperation Organization, originated by China and joined by Russia and the other Central Asian states, with the exception of Turkmenistan. All of the Central Asian states negotiate commercial deals for energy and investments among themselves and with China or Russia on a bilateral basis, with settlement in dollars or euros. Petty trade in foodstuffs and clothing articles is carried on by shuttle traders and bazaars.

Directions of Trade

Both the size and direction of the Central Asian Republics' external trade are difficult to estimate, owing to their land-locked positions. All must export and import to the West through Russia or the Gulf. For example, Ukraine is listed as Turkmenistan's leading export market for its natural gas, but this is because of a pipeline route, which runs through Russia, via Ukraine, to Europe. Tajikistan sells more to Netherlands and Turkey than to Russia or China, according to the IMF *Directions of Trade* for 2006–08, because of the disembarkation of aluminum ore. Indeed, Kyrgyzstan's second biggest customer is Switzerland! As for imports, Turkmenistan buys most from the UAE, but few of these goods originated there. Kyrgyzstan reportedly imported $9.3 billion in goods from China in 2008 (but only $2.4 the previous year), but undoubtedly much of this was re-exported to its much larger neighbors. In spite of some of the counter-intuitive economic statistics emerging about the region, some of the latest figures are revealing.

Kazakhstan is Russia's biggest trade partner; it sends about 10% of its exports (metals, oil) to Russia and imports about one-third of its purchases ($42.8 billion in 2008, up from $27.1 in 2006) from the Russian Federation. Kazakhstan with its large ethnic Russian population shares a lengthy border with Russia, so this is not surprising, though its purchases from Russia may also be exaggerated by re-exporting to the southern tier of Central Asia.

Central Asia has about half the population of the Russian Federation, but its average income per capita in 2007, adjusted for the cost of living, was barely a third of Russia's $14 thousand (see the Table for purchasing power parity-adjusted figures). Converted at average exchange rates, Russia's national income per capita is about four times higher. So even given the proximity, Russian-Central Asian trade should be relatively small. Indeed, Russia takes only $10 billion (including transhipment from Ukraine) of Central Asian merchandise out of the $223 billion it imported in 2007 from all sources—about the same 4% as in the 1990s. Russia possesses many of the same energy and raw materials as their Central Asian neighbors. Of the $57.6 billion Central Asian imports in 2007, Russia supplied (either directly or trans-shipped) $18.6 billion in merchandise, or just under one-third. Most of transportation charges are probably included in this total, but other services are poorly registered. China, a relatively recent entry into the Central Asian market, supplied $10.3 billion.

In sum, we can see that Russia retains a leading, but lately much reduced, role in supplying Central Asia. Why? Russia doesn't offer the best capital goods or the cheapest consumer goods. Russia has had its success mostly in selling arms (at concessionary prices) and atomic reactors. Overall, though, Central Asia is not an important market for Russia.

Under "staple globalism" the Central Asians are selling their cotton and metals elsewhere for hard currency. Until recently Uzbekistan-made GM automobiles that had found strong demand in Russia, but are now being sold elsewhere. At the huge Dordoi market outside Bishkek, goods from China, Turkey, and Europe are sold to Russians, Uzbeks, and Kazakhstanis. Even the natural gas still flowing through existing pipelines is declining in value. Turkmenistan, which has the largest reserves, used to sell almost all of its output to Russia for about $1 billion a month. But pricing and other disputes interrupted gas exports, which led the Turkmen authorities to open a new pipeline to China via Uzbekistan and Kazakhstan that will eventually carry 40 billion cubic meters (bcm) of gas, a sizable share of Turkmenistan's production. Nonetheless, President Gurbanguly Berdymukhamedov has agreed to contribute gas to the Russian "South Stream" pipeline project, and sales of 30 bcm to Russia will resume in early 2010

Investments in Central Asia

Because Russia gained massively from the oil boom of 2000–07, its energy giant Gazprom and other state-owned companies were able to announce some investments in Central Asian energy and telecommunication companies. However, construction is slow. For example, the modernization of the Aqtau-Samarqand oil pipeline is "not progressing very fast," according to a Kremlin source. The long-planned Rogun Hydroelectric Power Plant in Tajikistan has been neglected so far by the Russians, in part because Uzbekistan opposes its use of water needed for summer irrigation. Building work on the Kambarata hydroelectric station in Kyrgyzstan is also on hold. Explorations of gas fields announced may well be delayed, owing to the decline of natural gas prices and Gazprom's weak finances. In addition, Russian promises to provide loans of $7.5 billion to the Central Asian states have yet to be fulfilled. Meanwhile, China has lent Kazakhstan several billion dollars and bought into its energy companies.

Effects of Worldwide Slump

The worldwide slump of 2008–09 severely affected the Russian economy and forced a significant depreciation of the *ruble*. Its GDP fell almost 9% in 2009. An immediate effect was on the estimated 2–2.8 million migrant workers from Kyrgyzstan, Tajikistan, and Uzbekistan, who have been employed in Russia or Kazakhstan in the informal economy or seasonal construction. Of these temporary migrants, 18–35% are women, according to Rafis Abazov. Such laborers are particularly vulnerable to illegal exploitation, fraud, and abuse. In addition, the Russian authorities have imposed new restrictions. The decline in oil and gas prices has also affected Kazakhstan, where the construction boom has been halted and two major banks forced into reorganization. Kazakhstan's *tenge* devaluation in 2009 reduced the value of wages earned by the migrants who still have jobs. These developments have cut remittances to nearby Kyrgyzstan.

For Uzbekistan, the decline of migrant employment abroad is the most tangible result of the worldwide slump. At its peak in 2006–07 approximately 500,000–800,000 Uzbeks worked outside the country, according to the Conference on Labor Migration. Remittances through official channels from Russia were about $3.3 billion in 2008. Dollar flows led to a boom in apartment prices in Tashkent and other cities, with prices more than doubling. The unexpected worsening of the global economy has suddenly altered this situation. Many Uzbek migrants have had to return to their villages with less cash than they counted on. Access to foreign exchange at Uzbekistan's banks has been tightened for importers and travelers, actions which have led to a 25–30% premium for dollars on the black market.

While there is little Uzbekistan can do to boost employment of its workers abroad, it is trying to expand its exports. Russia is unlikely to want the additional gas Uzbekistan has offered, so Uzbekistan is trying to diversify its export routes and involve other countries, especially China, in developing its hydrocarbon resources. Its anti-crisis program has added more credit for exporters. Now Tashkent appears to be reaching out to the Europeans as well.

Turkmenistan is the Central Asian Republic that has been least affected by the world economic downturn, as it has also been able to draw on its accumulated reserves to support transportation and communication investments and public salaries.

Conclusion

Russia has lost much of its economic advantages in Central Asia, owing to competition from other countries, the desire for independence in the region, and the admitted inability of the Russians themselves to develop attractive non-energy industries. Russia should therefore expect rising Asian powers and energy-short Europe to gradually increase their economic relations with these countries.

About the Author

Martin Spechler is a Professor of Economics at Indiana University. His most recent book is *The Political Economy of Reform in Central Asia: Uzbekistan under Authoritarianism* (Routledge, 2008).