

The Russian Economic Crisis and Falling Remittances in Central Asia

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The development effectiveness of remittance flows to developing countries has been drawing attention worldwide since the early 1990s, as the remittance inflows exceeded Official Development Assistance (ODA) and turned out to be more stable than private capital flows. The world has seen close to an eightfold increase of total remittance inflows in developing countries over the last two decades, estimated at \$423 billion in 2015. India, the Philippines and Mexico show the largest sum of remittance inflows, while Central Asian countries such as the Kyrgyz Republic, Tajikistan and Uzbekistan are some countries that typically rely heavily on remittances, especially from the Russian Federation.

Recent Changes in Labor Migration and Remittance Inflows in Central Asia

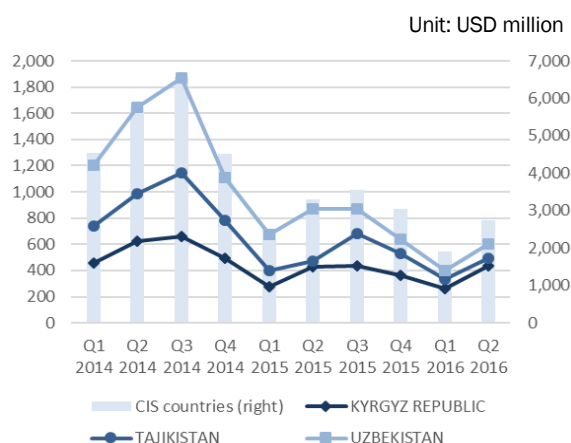
Long since before the Russian economic crisis, remittances from Russia have been a major source of foreign currency income in Central Asia. In 2013, Tajikistan received remittances of \$4,219 million, or 49.6%, as a pro-

portion of GDP. In terms of share of remittances in GDP, Tajikistan records the world's highest, found to be much larger than the share of ODA, FDI, or even national export income. In the same year, remittances accounted for 31.1% and 11.1% of GDP in the Kyrgyz Republic and Uzbekistan, respectively. By that time, approximately 60-80% of labor migrants of these three remittance-dependent Central Asian countries, a population of roughly 4.3 million, were assumed to be residing in Russia. This number doubles when that of illegal immigrants is included, which is another estimated 4 million. Remittances from Russia amounted to \$14 billion, which accounted for more than 90% of total remittance inflows.

However, Western economic sanctions against Russia over the Ukraine Crisis in mid-2014, and the collapse of the Russian ruble coinciding with persisting lower oil prices, have negatively affected the remittance-dependent countries over the last two years. Remittance inflows slashed in half, the unemployment rate jumped as a large number of migrant workers lost their jobs, and the inflation rate rose due to extreme currency depreciation. According to the General Administra-

tion for Migration Issues of the Interior Ministry of Russia, the number of officially registered foreign nationals in Russia decreased sharply to 3.2 million by April 5, 2016. Accordingly, the Central Bank of Russia stated that remittances from Russia to the three Central Asian countries barely added up to \$6.7 billion in 2015, a 52.2% decline from 2013. A further decline was evident in the first half of 2016, recording only \$2.5 billion, a fall by 19.2% over the same period the previous year (Figure 1).

Figure 1. Remittance Flows from Russia to the Kyrgyz Republic, Tajikistan and Uzbekistan



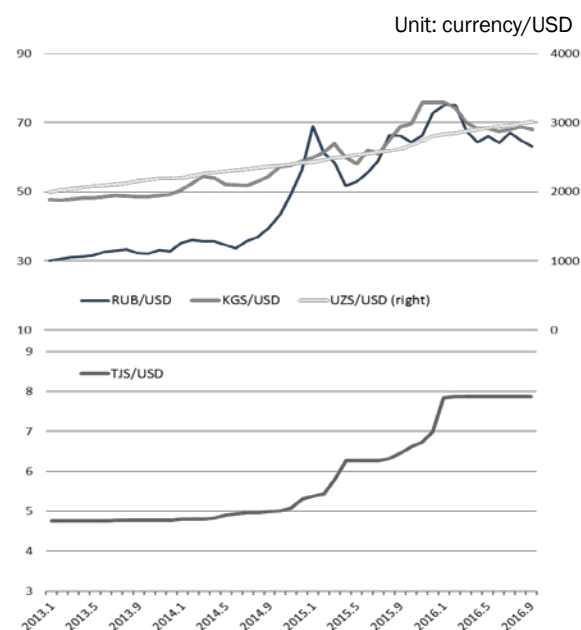
Source: Central Bank of Russia (updated 2016.10.19).

Collapse of the Russian Ruble and the Ongoing Russian Economic Crisis

On January 21, 2016, the Russian ruble hit the lowest in its value – 82.37 rubles per US dollar – for the first time since currency reform in 1988. In spite of the recent partial recovery, it is still half its value two years ago (Figure 2). Real wages declined sharply, and high inflation rates were sustained during 2015 (Figure 3). Migrant workers' real wages tumbled even further as the ruble halved its dollar value. The economic depression brought about a rise in the unemployment rate, especially in the con-

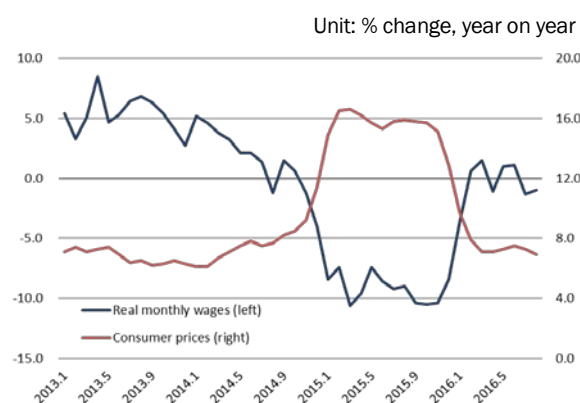
struction and service sectors and other less skilled industries where migrant workers mainly engage in.

Figure 2. Exchange Rates in Russia and Central Asia



Note: Monthly, end of period; RUB (Russian ruble), KGS (Kyrgyz som), UZS (Uzbek som), TJS (Tajik somoni).
Source: Central Bank of Russia, National Bank of the Kyrgyz Republic, National Bank of Tajikistan, Central Bank of the Republic of Uzbekistan.

Figure 3. Real Wages and CPI in Russia



Note: Monthly average basis
Source: Economist Intelligence Unit (EIU), Country Report: Russia (2016.9.).

The stagnant Russian economy forced currency devaluations in Central Asia as well – the currencies dropped in value against the US dollar by 40-60% during the last two years (Figure 2) – causing high rates of inflation and a fall in trade and investment. Since Central Asian countries show a high dependency on imported consumer goods, the impact of currency devaluation is even higher. The lower income families that rely heavily on remittances, who spend at least 70% of their income on basic human needs, are the biggest victims.

Revision of Russian Regulations on Labor Migration

Geographical proximity, a low language barrier, allowance of no-visa entry and no international passports, etc., were the key reasons why Central Asian workers chose Russia over other countries for migration. However, with the Russian government tightening restrictions on labor migrants in January 2015, a large number of migrant workers are being forced to leave Russia either due to increased financial burden or illegal disposition.

Table 1. Requirements for Labor Migrants in Russia: Applications to Central Asia

	Kazakhstan Kyrgyz Rep.	Tajikistan Uzbekistan	Turkmenistan
Valid passport	Required		
Visa	Not required (max 90 days)		Required
Local address registration	Required within 7 working days of arrival		
Legal working permission	Not required	Required with necessary documents in preparation	

Source: UNDP (2015), "Labour Migration, Remittances, and Human Development in Central Asia," p.50.

According to the revised legislation in the field of migration, a knowledge test on the Russian language, history and legal basics, certificate of medical insurance, valid international passport, migration card, local address registration, etc. are strictly required for all foreign nationals who apply for work patents (Table 1). Such documents must be continuously extended during the working period, making the total required cost reach \$1,000 per year.

In addition, a work patent holder is allowed to stay in Russia no longer than 12 months (an extension is possible for another 12 months) and those who commit violations of migration legislation are subject to an entry ban of 1-10 years. Those who fail to extend the documents mentioned above are also accused of illegal residence. This is giving rise to numerous cases of deportation. Some migrant workers among them are choosing re-immigration to neighboring countries such as Turkey and Middle Eastern countries, but most of them return to their home countries. Meanwhile, the revised legislation is not applied to member countries of the Eurasian Economic Union (EAEU) which includes one of the most remittance-dependent economies, the Kyrgyz Republic.

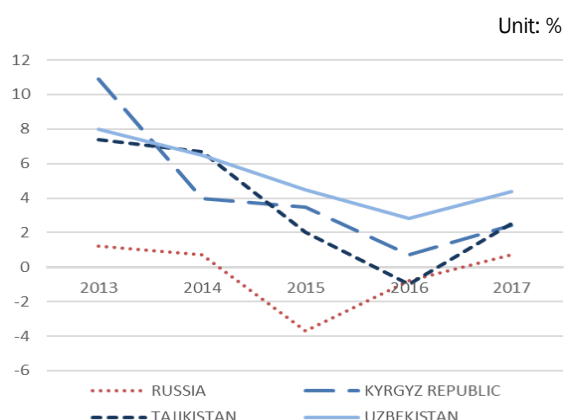
Consequences in the Kyrgyz Republic, Tajikistan and Uzbekistan

Due to certain circumstances, the three Central Asian countries have been witnessing returns of approximately one-fifth of the usual number of labor migrants. Uzbekistan, which sends the largest number of workers to Russia, was confronted with the steepest fall of 31.7% between June 2014 and April 2016. Due to the sudden increase of thousands of homecomers, high unemployment rates are becoming a so-

cio-economic problem. In Tajikistan for instance, the overall unemployment rate is estimated at 28-32% and at roughly 80% for the age group under 29. Laborers are easily descended to "Mardikors," or daily hired employees, earning 20-50 Tajik somonis (approximately \$2.5-6.3) a day.¹

Such remigration, added to the extreme currency depreciation previously mentioned, cut remittance inflows in half. Compared to 2013, remittances decreased by 61.2% in Uzbekistan, 46.8% in Tajikistan and 26.9% in the Kyrgyz Republic in 2015. Considering the large share of remittances to GDP, countries are exposed to serious economic risks as foreign-exchange reserves run out and governments have difficulty in finding appropriate solutions. The highest remittance-dependent country, Tajikistan, is likely to face minus growth this year, while others show sluggish growth (Figure 4).

Figure 4. Real GDP growth Rates of Russia and Central Asia



Note. 2016-2017 is estimated.
Source: Economic Intelligence Unit.

Consequently, countries suffering from extreme financial loss have cut or even suspended government subsidies on food, electricity and water supply. Moreover, a sharp increase in consumer prices is exposing low-income households to economic insecurity. Such worsening standards of living are increasing chances of civil unrest. The Kyrgyz Republic, for example, has already seen protests against electricity rate hikes during the cold winter.

Further Issues in Remittance-dependent Economies and Countermeasures

Given the Central Asian countries' high dependence on the Russian economy, it is beyond doubt that they are highly volatile to changes in the external environment. Even after the Russian economic recovery, as long as the countries' dependency on remittances remains high, there is always a risk of another or an even bigger economic slump. Unless mid- to long-term plans for supporting migrants and enhancing the effectiveness of remittance use are developed, remittances from low-paid migrant workers are not sufficient to sustain long-term economic development.

Huge Outflows of Human Capital

A critical problem of Central Asia's remittance-dependency on Russia lies on high possibilities of huge human capital outflows. The UN Department of Economic and Social Affairs (UNDESA) and the International Monetary Fund forecast a continuous inflow of Central Asian labor migrants to Russia until 2030. According to an NGO² survey, one-third of

¹ IWPR Central Asia (2015.3.10.), "Russian crisis continues to bite for labour migrants." <https://iwpr.net/global-voices/russian-crisis-continues-bite-labour-migrants>.

² Social Project Support and Development Charity Foun-

Kyrgyz migrants wish to settle permanently in Russia.

Such circumstances result from the lack of a domestic labor market and low wages due to poor industrial development. Young workers are continuously pushed into overseas employment and this causes a lack of domestic labor supply, followed by poor industrial development. Moreover, most of these labor migrants flow into Russia's low-skilled occupation sectors and this discourages the necessity of higher education. Needless to say, remittances are hardly used in a way to create domestic jobs. Eventually, remittance-dependent countries are prone to be trapped in a vicious circle.

Migration Issues in the SDGs, Applicable to Central Asia

Nevertheless, remittance itself is still a significant measure of absolute poverty reduction. Households benefit from increased access to education and medical services, and countries experience the development of migrant-related industries such as financial systems and communication infrastructure. According to the Asian Development Bank's research in 2009, a country experiences economic growth of 0.9-1.2% per every 10% increase in remittances as a share of GDP, and a 0.7-1.4% decrease of the poverty gap per every 10% increase in remittance inflows.³

In this respect, the United Nations has adopted goals and targets for key issues of migration within the 2030 Agenda for Sustainable Development. The following are some of the

dation.

³ Vargas-Silva *et al.*, (2009.12.), "Remittances in Asia: Implications for the Fight against Poverty and the Pursuit of Economic Growth," ADB.

countermeasures needed for remittance-dependent countries in Central Asia, which are closely related to the issues of migration covered in the Sustainable Development Goals (SDGs).⁴

Firstly, development-oriented programs and policies that support sustainable economic growth and productive employment, such as basic financial education, technical training programs and business start-up information, should be provided (Goal 8) by making the best use of remittances. Recently, co-financing from remittances, or "blended finance for development," is drawing attention as a means of crowding in remittances for development purposes.⁵ Remittances can be involved in improving local welfare, for example in the areas of irrigation, sanitation, road construction and supporting business start-ups. Increasing access to financial services and government tax cuts for domestic investment can further vitalize remittance use in a way that creates decent jobs.

Secondly, there is an urgent need for policies to protect labor rights and promote safe working environments for overseas workers (Target 8.8). About 40% of labor migrants in Russia reside in non-residential buildings such as abandoned factories, basements and trailers.⁶ Workers are easily exposed to long working hours, various diseases, exploitation and mistreatment of labor and even human trafficking. In this regard, people need local support such as free legal consultation and job placement agencies. Additionally, intergovernmental co-

⁴ See targets 5.2, 8.7, 8.8, 10.7, 10.c, 16.2 and 17.18 (Sustainable Development Knowledge Platform, <https://sustainabledevelopment.un.org/>).

⁵ UNDP (2015), "Labour Migration, Remittances, and Human Development in Central Asia," pp. 57-59.

⁶ *Ibid.*, pp. 42.

operation is needed to systemize legal employment and simplify procedures for the issuance of visas and work permits.

On the other hand, the domestic protection of families left at home, especially women and children, is also required (Targets 5.2 and 16.2). The absence of breadwinners is placing a growing burden of family responsibilities and housework on women and children, especially girls. This easily leads to low school entrance rates and the early marriage of girls. Moreover, divorce rates are rising along with the rising number of migrant workers, while property rights and child assistance payments given to the divorcee are being neglected.

Lastly, the rebuilding of national systems for high-quality, timely and reliable data collection and monitoring is required for governments and international communities (Target 17.18) to develop proper and effective labor migration policies and programs. Well-managed migration policies can facilitate orderly, safe, regular and responsible migration (Target 10.7). **KIEP**