Disintegration processes took place after the collapse of the Soviet Union. In the second half of the 2000s they were replaced by a desire to unite in new integration structures such as the Commonwealth of Independent States (CIS) and Eurasian Economic Community (EurAsEC). During 2008-2010, after a decision by the heads of EurAsEC a Customs Union (CU) of Belarus, Kazakhstan and Russia was formed. In 2012, the first agreements within the framework of the Single Economic Space (SES) came into force. SES is designed to ensure: harmonisation of legislation in all areas of cooperation between the countries; and freedom of movement of goods, services, labour and capital. Other member states of EurAsEC will join the Customs Union and Single Economic Space as soon as their economies are ready.

This article presents conclusions on the eventual economic impact on the economy of the Republic of Tajikistan as a result of accession to the Customs Union and SES. The conclusions were obtained in a study conducted by the EDB Centre for Integration Studies.

The economy of Tajikistan is agro-industrial, based on agriculture (cotton, crops growing, cattle breeding) and industry (mechanical engineering, production of aluminium, fertilizers, textile and light industry, energy and consumer goods). Relative remoteness, communication isolation from the existing global transport infrastructure, mountainous terrain, and lack of access to the sea determines the unfavourable economic and geographical situation of the country. Nominal GDP per capita in Tajikistan in 2011 was $836 (IMF data). Estimate for 2012 is $912.
Since 1998, real GDP has grown in Tajikistan. In 2011, the rate of growth of GDP and GDP per capita amounted to 7.4% and 5.9%, respectively, which is higher than the average values for EurAsEC. The basis for economic growth in Tajikistan is export of goods (primarily aluminium and cotton) and growing domestic demand (primarily in the form of private consumption). Private consumption is predetermined by remittances from labour migrants from abroad, mainly from Russia. A significant share of private consumption uses imported goods, including food. Remittances stimulate the consumer market, construction and manufacturing services.

**Figure 3.1.**
Dynamics of inflation, real GDP growth, capital investment and domestic savings of the Republic of Tajikistan

Source: WB, IMF
Tajikistan’s dependence on external factors is associated not only with export earnings, but also with high foreign debt, only 13.4% of which was covered in 2010 by gold and foreign exchange reserves of Tajikistan. The index of foreign debt is the lowest among the countries of the EurAsEC.

The ratio of external debt to GDP of Tajikistan has been declining since 2000, and only slightly increased in 2009-2010. The increase was related to the loan provided by the EurAsEC Anti-Crisis Fund (ACF). In 2010, Tajikistan fully complied with its obligations to the Export Credit Bank of Turkey. Most of the external debt is concessional multilateral loans from the World Bank (WB), the Asian Development Bank (ADB) and the International Monetary Fund (IMF). The largest bilateral creditors are PRC and Kuwait Fund.

![Figure 3.2. Tajikistan foreign debt dynamics ($ million)](image)

Source: Ministry of Finance of the Republic of Tajikistan

**Development Prospects**

According to a World Bank report (WB, 2011), to maintain steady growth Tajikistan should integrate into the world economy, just as several developing countries did in the last decade. One of the ways for Tajikistan to integrate is accession to the Customs Union. As Tajikistan is already a member of the EurAsEC, joining the CU can open additional opportunities for it to integrate into the world economy (Shadikhodjaev, 2008, 2009).

The increase in private investment and exports of agricultural products, as well as diversification in agro-processing and light industries, are possible if private investors from Tajikistan regions will be able to get access to neighbouring markets with a sufficiently favourable investment climate.
S. Coulibaly (Coulibaly, 2012) identifies the main factors for the support of economy growth of Tajikistan, including:

- Increasing the contribution of remittances;
- Rise of agricultural production;
- Changes in trade and trade partners’ structure.

Russia ranks first in the share of exports in Tajikistan. As Tajikistan is a landlocked country, its priorities are focused on trade with traditional Soviet partners and regional powers such as the EU and China. This geographical dimension should be kept in mind when developing export growth strategy for Tajikistan. The author notes that Tajikistan could benefit from export-oriented growth strategy.

**DEVELOPMENT CHALLENGES**

In 2010 the Tajik government set a target to double GDP in 10 years - Tajikistan has a high growth potential of 7% per year. Rising prices for cotton and aluminium (Tajikistan’s main export products – 17% and 63% in 2007, respectively) and the growing demand for the Tajik workforce (especially in Russia) were one of the factors of the successful growth in the 2000s. Inflows from remittances (46% of GDP in 2008) contributed to the growth of domestic demand for goods and services, particularly for food and agricultural products. However, private investment accounts for only 5% of GDP – the lowest value among European and Asian countries. The banking sector remains weak due to the debt of the cotton sector and problems with state-owned enterprises, and the overall financial situation remains unstable.

The report of the World Bank (WB, 2011) and the work of Suleiman Coulibaly (Coulibaly, 2012) state that Tajikistan products are uncompetitive in the markets of neighbouring countries due to: poor infrastructure; the high cost of goods transportation within the country and abroad; and the complexity of bureaucratic procedures at the border. To improve transport links with its neighbours, Tajikistan needs to coordinate efforts with the surrounding countries.

Also, S. Coulibaly (Coulibaly, 2012) notes that Tajikistan can continue to enjoy higher growth rates due to strong domestic consumption only as long as the flow of remittances is stable. But the experience of developing countries, which have grown steadily over the decades, shows that increasing investment and expanding exports are the necessary elements to enable global demand.

In 2009 the Business Environment and Enterprise Performance Survey (BEEPS) was conducted by the World Bank in a number of countries, including Tajikistan. It highlighted the following obstacles to business and private investment:
• Unattractive investment climate;
• Taxes;
• Power outages;
• Corruption elements;
• Customs regulations;
• Trade regulations.

Investment in health and education services is also crucial for long-term growth and development. The social security system in Tajikistan is ineffective in terms of reducing poverty and vulnerability (WB, 2011).

![Figure 3.3. GDP structure by sectors (%)](image)

**SECTORAL STRUCTURE AND COMPARATIVE ADVANTAGES OF TAJIKISTAN**

Despite the increasing role of other sectors, industry and agriculture remain the basis of the economy of Tajikistan. A major part of the population is occupied
in these sectors; their products provide income from foreign trade and inflow of foreign exchange.

The basis of agriculture, which employs 66% of the population, is crop growing (cotton and grain crops). The share of crop production was 98.5% (RT, 2012) of agricultural production in 2010, and 75.9% in 1995. Crop production includes raw cotton (one of the main exports), grain, corn, fruit, rice and potatoes. Animal breeding products include meat, milk, eggs, and wool.

The industrial production structure (see Figure 3.4) is dominated by non-ferrous metals (36%) and food industry (27%). Tajikistan’s export goods include: aluminium, food products, beverages, cotton fabrics and garments.

![Figure 3.4. Industrial output structure in 2010](image)

Source: Agency for Statistics under the President of the Republic of Tajikistan

At the moment, the backbone and the most competitive sectors of Tajikistan’s economy are aluminium and cotton fibre production. They provide a substantial share of the country’s export earnings.

One of the most important comparative advantages of Tajikistan is hydropower. The potential hydropower is much higher than domestic demand. It can be sold to neighbouring large, energy-scarce economies, in particular, the countries of South Asia and China.

Tajikistan also has substantial reserves of coal that can be used as a fuel for the production of gas thermal energy. This would be the most cost-effective way to reduce the seasonal imbalance in the energy supply, as hydropower production is concentrated in the summer months.
In agriculture, cotton is likely to remain an important export item, despite the recent decline in acreage and exports. Moving up the value chain in cotton export – from fibre export to cotton fabrics represents a potential for diversification of exports.

Gardening and related products may also have export potential. The main export markets for these products are likely to be neighbouring countries, Russia, and China, which is fast becoming an important export market for Tajik goods.

In addition, Tajikistan can develop its livestock sector. So far the prospects of these potential agricultural export sectors have not been realised due to excessive regulation and sometimes unpredictable intervention by local authorities.

Tajikistan has a comparative advantage in the export of labour services, since the working-age skilled Tajik workers meet the demand for labour in Russia.

**ESTIMATING THE TRADE POTENTIAL OF TAJIKISTAN**

Analysis of the trade potential of Tajikistan is based on the approach proposed in a number of articles by Ricardo Hausmann and Bailey Klinger (Hausmann, Klinger, 2006, 2007). Hausmann and Klinger found a link between the current export structure of the country and its subsequent pace of development. As a measure of exports structure, they suggested using the parameter “complexity” of export basket. The level of “complexity” depends on how developed are the countries exporting in average goods comprising the export basket of the country under review. Also, analysing the dynamic features of occurrence of new product groups in the country’s export baskets, Hausmann and Klinger proposed a methodology for constructing the potential evolution of the current country’s export basket, based on the fact that the change of revealed comparative advantages of the country is largely determined by the level of “closeness” of the goods to the current structure of its exports.

The main argument in favour of using this methodology is the fact that the classical measures of similarity between the goods, such as the production intensity factors (Leamer, 1984) or technological complexity (Lall, 2000) only partially explain the observed pattern of changes in the structure of exports.

Analysis of the structure and productivity (“complexity”) of the export basket of Tajikistan has been performed. The results of the analysis show that, despite the relatively low level of “complexity” of the current export basket of the country, there are opportunities to increase the productivity of its exports. This has a positive effect on the economic growth prospects of Tajikistan, as the relationship between productivity of exports and medium-term economic growth rates is demonstrated in the economic literature.
PRODUCTS WITH THE GREATEST EXPORT POTENTIAL

In this model, products with the greatest export potential refer to products that are most closely located to the current export basket of the country. Fifteen items are represented in the table below that are the most likely potential export goods for Tajikistan, and for which the level of “complexity” is above the level of productivity of the current export basket of Tajikistan. That is, these are the products whose appearance as a Tajik export will make the export structure of the economy more advanced. Also, the table shows the spheres of production, corresponding to those goods.

It should be noted that this list does not fully capture all the product categories that have high potential to improve the country’s export basket – highly productive goods. This list shows just some of the areas in which the country has the most potential.

<table>
<thead>
<tr>
<th>HS code of the product group</th>
<th>Product group</th>
</tr>
</thead>
<tbody>
<tr>
<td>8418</td>
<td>Refrigerators, freezers and other refrigerating or freezing equipment</td>
</tr>
<tr>
<td>7604</td>
<td>Aluminium bars, rods and profiles</td>
</tr>
<tr>
<td>6908*</td>
<td>Ceramic glazed paving, cladding tiles for floors, ovens, fireplaces or walls</td>
</tr>
<tr>
<td>6810</td>
<td>Cement, concrete or artificial stone goods</td>
</tr>
<tr>
<td>6102*</td>
<td>Women’s coats, duffle coats, capes, cloaks, jackets (including ski-jackets), windbreakers</td>
</tr>
<tr>
<td>4418</td>
<td>Wood products, joinery and carpentry</td>
</tr>
<tr>
<td>3917*</td>
<td>Tubes, pipes and hoses, and fittings</td>
</tr>
<tr>
<td>2709*</td>
<td>Crude oil and crude petroleum products</td>
</tr>
<tr>
<td>2106</td>
<td>Other food products</td>
</tr>
<tr>
<td>1602</td>
<td>Other ready-made or preserved meat, meat offal or blood products</td>
</tr>
<tr>
<td>402*</td>
<td>Milk and cream, concentrated or containing added sugar</td>
</tr>
<tr>
<td>401*</td>
<td>Milk and cream, not concentrated nor containing added sugar</td>
</tr>
</tbody>
</table>

Analysis of the Tajik trade capacity, based on the method of Hausmann, revealed a relatively low level of technological “complexity” of the country’s export basket. However, there are opportunities to increase the productivity of its exports. The possibility of efficient production and export of new products are determined by the pool of institutional, technological and human resources available to Tajikistan.

In the natural course of development of the export basket, the growth of exports will lead to an increase in exports of low-and medium-technology intensive goods; and the increased benefits of foreign trade will be relatively small. A
more significant increase in the efficiency of the export basket may require significant efforts aimed at the organisation of the effective production of products that are a brand new innovation for Tajikistan. A characteristic feature of the export basket of Tajikistan is its large focus on CU countries. This focus broadly limits the potential for increasing benefits of foreign trade, in particular, complicates the inclusion into the export basket of new goods for Tajikistan, oriented towards export to non-EU countries.

**NON-TARIFF BARRIERS**

Analysis of tariff and non-tariff protection measures in force in Tajikistan and the CU has revealed that the Single Customs Tariff of the CU is significantly less homogeneous than the customs tariff of Tajikistan. Reduction of homogeneity of customs tariff of Tajikistan in accession to the CU can adversely affect administration of the foreign trade. On the part of the CU special measures for assistance to Tajikistan shall be taken in the field of customs control.

Simple average of ad valorem parts of import duty rates of Tajikistan’s tariff schedule is 8.71%, slightly below that of the Single Customs Tariff of the CU, which amounts to 9.45% at the end of 2013. Joining the CU should not lead to significant diversion of trade of Tajikistan in favour of the CU members.

<table>
<thead>
<tr>
<th></th>
<th>Customs Union</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Simple average tariff</td>
<td>Weighted average tariff</td>
</tr>
<tr>
<td>August 2012</td>
<td>10.1</td>
<td>8.13</td>
</tr>
<tr>
<td>December 2013</td>
<td>9.45</td>
<td>7.55</td>
</tr>
<tr>
<td>December 2020</td>
<td>7.9</td>
<td>6.19</td>
</tr>
</tbody>
</table>

*Table 3.2. Average and weighted average tariff of the Customs Union and the Republic of Tajikistan (change in time with account to WTO obligations, %)*

Source: Calculations of authors

Priorities of industry protection for Tajikistan and the CU are similar. Harmonisation of import duties for priority sectors should not bring significant changes to Tajikistan.

Non-tariff regulation of foreign trade of Tajikistan is largely aimed at monitoring compliance with the technical and sanitary measures generally to meet the international standards. In contrast to the CU, Tajikistan does not apply any special measures envisaged by law – anti-dumping duties and investigations, protective measures, quotas for import and export of goods. Sectors involved in international trade enjoy measures of government support that do not relate to non-tariff regulation measures.
ECONOMIC EFFECT OF TAJIKISTAN’S ENTRY INTO THE CU AND SES

According to estimates in the economic literature, the contribution of changes in total factor productivity to the economic growth in Tajikistan in the 2000s was 56%, contribution of capital accumulation – 36%, and contribution of growth of labour force – 8%. Using factor contribution assessments proposed in the literature, we can give a rough estimate of the impact on economic growth of the accession of Tajikistan to the CU and SES. Impact on economic growth occurs primarily through increased investment and capital, and growth of total factor productivity. Labour resources are not a limiting factor for economic growth, as Tajikistan is a labour surplus region. Staff development within the framework of this approach is an integral part of the productivity growth.

Static one-time effects of a commercial nature in joining the CU will be small in general. Assessment of one-off effects for the most significant sectors of Tajikistan: mining: 0.8–0.9%, food industry: 0.8–1.15%, agriculture: 0.4–0.5%, electricity: 0.7–0.84%, and service sector: 0.5–0.6%.

At the same time, evaluations of the dynamic (long-term) effects shown below are significantly higher both in absolute terms and in terms of time length.

The share of investment in GDP of Tajikistan remains low (12% on average in the first half of the 2000s to slightly above 20% in the early 2010s) and significantly lower than not only the Baltic States, Central and Eastern Europe, but the CU-SES countries, which means the huge potential of investment in capital as a source of future economic growth.

Accession to the CU-SES is accompanied by agreements on harmonisation of legislation in the field of trade, and a number of agreements on additional investments. Besides, the creation of a single economic space, affecting the markets for goods, capital and labour within the CU, creates additional incentives for investment in the CU countries not only from member states, but also from outside the CU. Accession of Tajikistan to the Customs Union provides additional opportunities to attract foreign investment.

It should be noted that increase in investment after accession to the CU is no axiom. There are examples of how poor investment climate did not allow the use of the window of opportunity provided by economic integration in the framework of the economic union.

At the same time, subject to most favoured nation treatment, the volume of investments, both public and private, from the CU and from the outside, can reach significant values.

If the growth rate of capital will be able to reach the level of capital accumulation, (for example, in the Baltic countries in the 2000s 7.9% per annum against the existing 5.4%), this would generate an additional source of GDP growth, while
maintaining the growth parameters of the 2000s that gave an additional 1.6% GDP growth per year.

Attraction of foreign direct investment could affect the change in aggregate productivity in the economy through the transfer of technology and increased competition. According to estimates based on Russian data, for those businesses that are located close to the production possibility frontier, increasing the share of FDI in total sector sales by 0.1% will increase overall productivity of firms by 1%. As noted above, the growth of total factor productivity by 1% leads to economic growth of 0.5%.

The investment potential of remittances, capable, as discussed below, to provide additional investments in the amount of 5% of GDP and 1.5% of capital gains, could potentially add another 1% of GDP per year.

Attracting investment will require the creation of new jobs. Involvement of the new labour force in production will allow increasing GDP growth by 0.3–0.4% per year and will partly solve the problem of unemployment.

**NUMERICAL ANALYSIS OF THE CONSEQUENCES OF ACCESSION OF TAJKISTAN TO THE CU USING GLOBE MODEL**

GLOBE model is a computational model of general equilibrium, relying on GTAP database (Global Trade Analysis Project, coordinated by the Centre for Analysis of World Trade in the Department of Agricultural Economics, Purdue University, the city of West Lafayette, Indiana, USA). At the moment, the database is the most comprehensive collection of data on the economy of various countries and world trade.
GTAP database in its recent 8th version, covers 57 economy sectors and 129 regions of the world (each such region is either a country, if it is a sufficiently large player in the global trade, or an association of a few small countries: data on Tajikistan are contained in this database not as for an independent state, but as a part of an aggregated Rest of Former Soviet Union (XSU) region, which includes Turkmenistan and Uzbekistan in addition to Tajikistan). It contains data on trade flows between regions, the economy of countries (social accounting matrices, data on taxes, duties, subsidies, tariffs, etc.).

GLOBE model belongs to a class of computable general equilibrium (CGE) models. The distinctive feature of these models is that all (in some approximation) sectors of the economy are described within them: households, manufacturing sector, state, as well as the rest of the world.

The tables show that in both cases the accession of the XSU region to the Customs Union also has a beneficial effect on it: all macro indicators are increasing. With that, changes of some key indicators (GDP, output, exports) for simple average tariff are higher than for weighted average tariff, while for the other parameters the positive changes are a little lower than for weighted average tariff. For other countries of the Customs Union change of macroeconomic indicators is either positive or slightly negative. This reduction of macroeconomic indicators is small and in practice is unlikely to be noticeable.

<table>
<thead>
<tr>
<th>Main indicators</th>
<th>Russia</th>
<th>Belarus</th>
<th>Kazakhstan</th>
<th>Ukraine</th>
<th>XSU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household consumption</td>
<td>-0.0029</td>
<td>-0.0834</td>
<td>-0.0778</td>
<td>0.0093</td>
<td>0.6679</td>
</tr>
<tr>
<td>Public spending</td>
<td>-0.0545</td>
<td>-0.1014</td>
<td>-0.1982</td>
<td>0.0223</td>
<td>0.452</td>
</tr>
<tr>
<td>Total investments</td>
<td>0.0706</td>
<td>0.0215</td>
<td>-0.0332</td>
<td>0.02</td>
<td>0.6999</td>
</tr>
<tr>
<td>Aggregate domestic demand</td>
<td>0.0051</td>
<td>-0.0509</td>
<td>-0.0777</td>
<td>0.0149</td>
<td>0.6402</td>
</tr>
<tr>
<td>Demand for imports</td>
<td>0.3412</td>
<td>0.1603</td>
<td>0.2636</td>
<td>-0.0321</td>
<td>1.1634</td>
</tr>
<tr>
<td>Export</td>
<td>0.6353</td>
<td>0.226</td>
<td>0.3971</td>
<td>-0.1024</td>
<td>0.4031</td>
</tr>
<tr>
<td>GDP (calculated based on expenditures)</td>
<td>0.0974</td>
<td>-0.053</td>
<td>-0.003</td>
<td>-0.0097</td>
<td>0.266</td>
</tr>
<tr>
<td>Production volume</td>
<td>0.1384</td>
<td>0.01</td>
<td>0.0289</td>
<td>-0.0366</td>
<td>0.5199</td>
</tr>
<tr>
<td>Use of intermediate goods</td>
<td>0.1769</td>
<td>0.0365</td>
<td>0.0509</td>
<td>-0.053</td>
<td>0.6674</td>
</tr>
</tbody>
</table>

Numerical analysis of static effects of consequences of accession of Tajikistan to the CU using GLOBE model showed that accession of Tajikistan to the CU would lead to a slight change in the basic macroeconomic indicators in Tajikistan. Of the changes, the following should be noted:
### Table 3.4.
The change of basic macroeconomic indicators in the key countries after accession of XSU region to the CU without changing factor productivity (% simple average tariff)

<table>
<thead>
<tr>
<th>Main indicators</th>
<th>Russia</th>
<th>Belarus</th>
<th>Kazakhstan</th>
<th>Ukraine</th>
<th>XSU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household consumption</td>
<td>-0.0177</td>
<td>-0.0846</td>
<td>-0.1002</td>
<td>0.0342</td>
<td>0.5874</td>
</tr>
<tr>
<td>Public spending</td>
<td>-0.0696</td>
<td>-0.0975</td>
<td>-0.2065</td>
<td>0.0346</td>
<td>0.3284</td>
</tr>
<tr>
<td>Total investments</td>
<td>0.0796</td>
<td>0.0305</td>
<td>-0.0147</td>
<td>0.0368</td>
<td>0.6641</td>
</tr>
<tr>
<td>Aggregate domestic demand</td>
<td>-0.0036</td>
<td>-0.0476</td>
<td>-0.0843</td>
<td>0.0351</td>
<td>0.5629</td>
</tr>
<tr>
<td>Demand for imports</td>
<td>0.3558</td>
<td>0.1687</td>
<td>0.2828</td>
<td>-0.0028</td>
<td>1.26</td>
</tr>
<tr>
<td>Export</td>
<td>0.6559</td>
<td>0.2293</td>
<td>0.4308</td>
<td>-0.0785</td>
<td>0.6522</td>
</tr>
<tr>
<td>GDP, calculated based on expenditures</td>
<td>0.0897</td>
<td>-0.0548</td>
<td>-0.0031</td>
<td>0.0058</td>
<td>0.3416</td>
</tr>
<tr>
<td>Production volume</td>
<td>0.1329</td>
<td>0.0023</td>
<td>0.028</td>
<td>-0.0105</td>
<td>0.5903</td>
</tr>
<tr>
<td>Use of intermediate goods</td>
<td>0.175</td>
<td>0.0265</td>
<td>0.0493</td>
<td>-0.0204</td>
<td>0.734</td>
</tr>
</tbody>
</table>

*Source: CEFIR Calculations*

- Increased production in a number of sectors, including those where production is an essential export item (for example, in metallurgy and agriculture, which are very important for Tajikistan), which may contribute to reducing unemployment;
- Growth in total imports almost in all sectors;
- Increase of investments and government spending;
- Increase in real personal income of Tajikistan.

**LABOUR RESOURCES**

One of the main benefits to Tajikistan from accession to SES is joining a single labour market. SES agreements in the field of labour migration (the Agreement on the Legal Status of Migrant Workers and Members of their Families; and the Agreement on Cooperation on Combating Illegal Labour Migration from Third Countries) are aimed at uniting labour resources of the participating countries, and the establishment and effective functioning of the common labour market. Agreements define the legal status of migrant workers and their families; regulate labour relations of migrant workers, as well as the main issues related to social security of migrant workers and members of their families. The result of the agreements is to reduce the main barriers for employment of migrant workers.

Removing labour market barriers is likely to result in an increase in the degree of legalisation of employment than to increase of involvement of Tajik citizens in labour migration. According to expert estimates, accession of Tajikistan to the CU will only lead to an insignificant increase in the number of migrant workers.
For part of the migrants, removal of formal requirements would increase the duration of migration periods. Collectively, according to expert estimates, the accession of Tajikistan to the CU will lead to migration volumes increasing by 10-15%.

After accession of Tajikistan to the CU and adoption of the appropriate agreements on labour migration, the salary of migrant workers in some measure will increase to that of Russian citizens. At the same time, it should be noted that an influx of workers into the labour market may cause a decrease in the equilibrium wage. Estimated growth of wages of migrant workers after the accession of Tajikistan to the CU is from 9% to 28%.

Estimates of the growth of remittances after the accession of Tajikistan to the CU are in the range of 15-25%, which means a possible increase in remittances up to $3.4-3.7 billion and the share of remittances to 49-53% of GDP (assuming GDP growth of 7% per year). It is important to note that all calculations are made based on the assumption of sustaining positive trends of economic conditions in recipient countries (especially Russia).

<table>
<thead>
<tr>
<th>Growth of migrants wages</th>
<th>Growth of migration volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>30%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Remittances which are currently used primarily for consumption (which is crucial for maintaining and improving the standard of living and poverty alleviation) represent a huge potential for the growth of savings, and thus for financing private investment. The growth potential of investment financing from private savings already amounts to $300 million. Accession to the SES, increasing the expected remittances by 15-25%, increases the growth potential up to $375 million, or about 5% of GDP. How much of this potential will be used to finance investment, depends on the ability of the banking system to provide savings instruments that will forward savings of the population to the banking and financial system, thus allowing to accumulate funds for investment.

Migration plays a key role, especially in poverty reduction, and therefore, in achievement of social security and sustainable development. At the same time, migration of skilled workers leads to an outflow of skilled workforce, and thus to the loss of qualification potential of the country, which may adversely affect the pace of economic growth. A balanced policy requires the use of the benefits of migration (through population income growth from foreign remittances,
gaining skills and qualifications while working abroad) with an active policy of creating new productive jobs in the country, which would allow to retain skilled workers and provide a new basis for sustainable economic growth. Creation of favourable business environment and attracting investments in the national economy will contribute to creation of new innovation jobs and increase competition with jobs abroad.

State policy of export of workforce labour should be implemented to support temporary labour migration. To support and protect migrant workers it is crucial to leverage the opportunities offered by the agreements within the SES, and to negotiate extension of the existing agreements towards providing full social insurance, mutual recognition of diplomas, and access to initial vocational training in the host country.

All of the above leads to the conclusion that at the initial stage Tajikistan will get moderate positive effect from accession to the CU.

However, the benefits of joining the CU will increase if Tajikistan will be able to take advantage of the investment opportunities discovered, and to ensure growth the productivity of production factors. Thus, growth of total factor productivity is able to provide the main contribution to GDP growth, increase of exports and imports (i.e., the development of foreign trade).

As for the rest of the countries of the Customs Union, the accession of Tajikistan does not affect significantly their economies. We shall note, however, more favourable investment opportunities for companies engaged in the hydropower, mining and agriculture in Tajikistan.
RECOMMENDATIONS FOR A PACKAGE OF MEASURES IN CASE OF TAJIKISTAN’S ACCESSION TO THE CU AND SES

On the basis of the analysis, a package of measures can be formulated that will contribute to the most efficient trajectory of development of Tajikistan within the framework of CU-SES. The package of measures represents recommendations by blocks in the following areas: foreign trade, investment, support for state budget, and migration.

Assessment of the effects of Tajikistan’s accession to the SES showed that static (immediate) trade effects are positive but smaller in absolute value than the possible medium-and long-term effects primarily associated with investment and productivity gains that can provide an extra boost of potential GDP growth by 3.5% in the medium term.

Implementation of only part of the measures will certainly lead to positive results; but their effect will be more short-term and not so significant in absolute terms than if the whole package is implemented. For example, in case of concentration on foreign trade preferences, as shown by calculations, the static (immediate) effect will not be so significant. However, failure to realize investment potential of the agreements and focus the economy to export will result in the opportunities offered by the single market of SES not being used. Concentrating only on agreements on labour migration, without improvement of the investment climate, as well as the potential of the banking system, will lead to “guzzling away” the additional flows of remittances from workers abroad. This will have short-term positive effect on GDP growth and poverty reduction, but will not increase the potential long-term growth in the long term.

**Foreign trade** – A transitional period will be required to approach the rates of customs tariff of the SES. The introduction of an adaptation period of up to 3 years will be required in order to adapt the economy through budgetary support measures, and to obtain the effects of remittances that will compensate for the slight increase in prices, related to changes in the customs schedules.

On the part of the CU, special assistance measures must be undertaken for Tajikistan in the field of customs supervision and administration, as CU SCT is significantly less homogeneous compared with the customs tariff of Tajikistan. Reduced homogeneity of Tajikistan’s customs tariff in accession to the CU may affect negatively the administration of foreign economic activity. The introduction of new and improved customs administration procedures will help suppress the illegal flow of goods and improve the condition of the state budget.

Convergence of practices of non-tariff regulation of foreign trade will be required, as some divergence of non-tariff regulation measures of the CU and Tajikistan is observed in terms of technical barriers to trade.
Investments – The most favourable strategy within the framework of the accession to the CU is export focus. The investment potential of the country is quite high, and analysis of growth factors indicates that investments may give additional 2% of annual growth, subject to improving production efficiency. Presence of a large amount of unused labour resources will contribute to greater efficiency in the use of new capital.

Entry into the SES will largely simplify and make clear the rules of the game to business, which will increase the flow of direct investments from SES residents. From the government, a number of measures aimed at promoting the creation of the necessary market infrastructure (distribution, transport logistics, telecommunications, finance, roads, and warehouses) are required.

Key sectors of the economy for investment are: non-ferrous metals (represented primarily by aluminium production), hydropower, agriculture, food industry, light industry (mainly – textiles). In addition to these sectors, investment resources are necessary for infrastructure development purposes and human capital.

The volume of investment resources that could be easily and completely absorbed by the economy now exceeds $2.5 billion a year. The optimal approach would be where a portion of the investment demand would be satisfied by domestic savings (currently growth potential is estimated at $370 million – 5% GDP). Other portions would be realised by attracting: domestic commercial and public resources; and foreign investments. The remainder would be implemented at the expense of resources from international development institutions.

Agreements on major target investments in Tajikistan from Russia and Kazakhstan could be a part of the package of measures in the accession of Tajikistan to the CU.

In addition, for the purpose of accumulating funds and building confidence in the banking sector, investments are possible from Russian and Kazakh banks in the banking sector in Tajikistan. This will simplify the problem and at the same time reduce the cost of cross-border transfers and allow people to accumulate funds and invest them effectively in the national economy.

Support for the state budget – Currently the state budget of Tajikistan has a surplus; however, without the support of international institutions in the framework of the development assistance programmes, the budget would be deficit. At the SES accession stage Tajikistan may need a certain amount of transfers to maintain macroeconomic stability and meet the criteria of the three fundamental macro indicators: inflation, budget deficits and public debt. This support should be clearly conditioned with implementation of reforms in the public sector, related primarily to the reduction in tax breaks and subsidies.
Labour migration – Opening of the labour market of SES for citizens of Tajikistan will have a significant positive effect on the economy; however, a number of measures are required aimed at improving the quality of human resources, including:

- Strengthening the existing system of vocational training to improve the skills of migrants;
- Active policies in the labour market of Tajikistan in order to increase the attractiveness of employment in the national economy, especially for skilled workers;
- Public policy on export of labour resources to support temporary labour migration;
- Attractive conditions for the return of migrants to their home;
- In order to prevent outflow of specialists with higher education, some jobs may be subsidised as temporary labour migration policy measure.

REFERENCES


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