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A Perfect Storm in Central Asia

For years, the five ex-Soviet republics have enjoyed surprising stability. But Russia's economic crisis is shaking their foundations.

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Since they gained independence from Moscow a quarter of a century ago, the five ex-Soviet republics of Central Asia have demonstrated a remarkable capacity to muddle through. While policymakers and journalists have habitually depicted the region as a hotbed of instability, specialists have instead drawn attention to the astonishing capacity of entrenched regimes to maintain control despite persistent economic and political stagnation — what Sarah Kendzior called in Democracy Lab three years ago the "curse of stability." As the experts note, governments have always managed to quickly tamp down disorder even after horrific bouts of anti-regime violence.

Today, however, the corrupt and autocratic regimes of Central Asia's "stans" are facing a tsunami of problems that could potentially prove transformative. The region's economies have been pushed to the brink by Russia's economic crisis and the plunge of global commodity prices — and the worst is yet to come.

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In 2016, Central Asia's economies will finally hit bottom, robbing its authoritarian governments of any remaining credibility. In such conditions, any sudden destabilizing event — the death of a leader, the violent dispersal of a protest — could spiral into widespread unrest. As a result, the possibility of collapse, in one Central Asia country or several, has suddenly become far more likely than at any other point in recent history.

The main reason for the coming economic crisis is the sudden decline of the neighbor to the north. Though the Central Asian countries have reduced their dependence on Moscow since the collapse of the USSR, Russia remains far and away their most important economic partner. It's a top destination market for non-commodity exports, a huge labor market for migrants who send back crucial remittances, and a major source of investment. That was fine when Russia was thriving. Starting in 2015, however, Western sanctions, Russian counter-sanctions, and low oil prices have combined to push the country into a deep recession. And judging by the catastrophic news of recent weeks, another year of negative growth in 2016 now seems guaranteed. Russia's decline means that Central Asian migrants working there have become unable to support their families back home, Central Asian businesses that depend on Russian customers have had to let workers go, and the value of Central Asian currencies have plummeted along with the ruble.

Because the economic statistics reported by several Central Asian governments are notoriously unreliable, and because remittances aren't included in calculations of GDP, it's hard to get a clear sense of what's going on. The typically optimistic World Bank currently projects Kazakhstan, which is the region's largest economy and reports relatively honestly, to grow by barely 1 percent in 2016, but the Economist Intelligence Unit now has the country falling into recession. And by looking more closely at several indirect indicators of economic performance, we can begin to get a picture of how deep Central Asia's troubles are.

For the region's poorer southern tier — Tajikistan, Kyrgyzstan, and Uzbekistan — the remittance issue is particularly crucial. Russia's currency is down 128 percent against the dollar since November 2013, and the plummeting ruble means weaker earning power for the millions of Central Asian labor migrants who work in Russia. These are among the most remittance-dependent countries in the world, and the Central Bank of Russia has recorded drops in remittance transfers of 43, 38, and 51 percent, respectively. The migrants have not yet given up and returned home, much to the relief of their governments. But how long will it be before they do — and how will their countries handle the sudden return of millions of unemployed laborers?

To avoid losing competitiveness, the Central Asian countries have been forced to let their currencies weaken along with the ruble. Kazakhstan's tenge is down 137 percent against the dollar since November 2013 after the government finally abandoned a currency peg that had already cost it tens of billions of dollars to defend. The Kyrgyz som is down 55 percent, the Tajik somoni is down 42 percent, and even the Uzbek som — which is mostly traded on the black market — is officially down 25 percent. Turkmenistan performed an overnight devaluation of 19 percent last January, and there is a strong expectation that a new one, or some kind of currency float, is inevitable if it wishes to catch up to the rest of the region.

The weakening Central Asian currencies are increasing demand from citizens for dollars, which may lead to hard currency shortages. Mortgage-holders who took loans in dollars or euros — a significant issue in Kazakhstan — will not be able to pay them back. All of the countries have put restrictions on the sale of dollars, and in mid-January Turkmenistan banned their sale entirely (as did Azerbaijan, an oil-dependent economy across the Caspian facing these same problems).

These painful devaluations have not been able to counteract damage wreaked by the weak ruble and falling Russian consumer demand on exports for key Central Asian industries, like textile producers in Kyrgyzstan and car manufacturers in Kazakhstan and Uzbekistan. Kazakhstan's exports to Russia dropped 32 percent in the first 10 months of 2015; the Uzbekistan branch of GM exported over 50 percent fewer cars to Russia in the first nine months of the year. Agricultural producers in the region hoped to benefit from Russia's food sanctions imposed on Europe, but the weak ruble and low Russian demand have exposed that hope as hollow.

The fall in exports to Russia is especially painful for Kazakhstan and Kyrgyzstan. They joined the Russia-led Eurasian Economic Union (EEU) in 2015 on the premise that it would provide better access to the Russian market. Instead, the falling ruble helped Russia poach customers from its neighbors, in particular Kazakhstan. Before Kazakhstan allowed its currency to float, the comparative cheapness of Russian goods led Kazakhstanis to cross the border daily for consumer products, foodstuffs, and even cars, prompting President Nazarbaev to call for negotiations to restrict the trade. According to the latest statistics from the EEU, trade between Kazakhstan and Russia from January-October 2015 was down 25.6 percent compared to the same period a year before, and between Kyrgyzstan and Russia down 19.4 percent.

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If there is one country that's in particular trouble, it's Tajikistan. It is the most remittance-dependent country in the world, with the equivalent of 50 percent of GDP coming from labor migrants. Observers have been sounding the alarm for months that its reserves of foreign currency are getting low, and certainly insufficient to cover the demand that a sudden crisis could precipitate. As the warnings have grown more dire, the bank has simply stopped reporting how much it has. The state is run like the president's family business. And as times get tough, he's sharing the spoils with family and loyalists from his region, leaving less and less of the pie for fewer and fewer outsiders.

As governments grapple with reduced income, they are being forced to make cuts. Kazakhstan has allowed utilities to increase rates, and is discontinuing its subsidies for bread. Turkmenistan is getting close to eliminating subsidies that have provided free gas, electricity, and water for consumers since 1993. A World Bank survey on Tajikistan has found a gradual decrease in the number of households able to buy enough food, down from 67 percent in May 2015 to 60 percent in September. In short, the ordinary people of Central Asia are getting hit hard.

Bad economies don't automatically change governments, of course, especially when all options for peaceful regime change are foreclosed — just ask Zimbabwe. Those Central Asian leaders who could do so spent 2015 trying to secure their rule. Kazakhstan held snap presidential elections in April to renew the "mandate" of the same president who has run the country since he was head of the Kazakh Soviet Republic; Uzbekistan also re-elected its former first secretary; Tajikistan banned its most popular opposition party as "extremist" and arrested its leadership; Turkmenistan's president-for-life has been publicly dressing down and firing a revolving cast of top officials for over a year. Kyrgyzstan, the region's erstwhile semi-democracy, held somewhat free and fair elections, but there were worrying signs throughout the year — banning a Human Rights Watch researcher, prosecuting a prominent Uzbek imam, seizing the country's most important newspaper, and dubious firefights with "Islamic State cells" in the center of the capital — that indicated little respect for rule of law in a time of tension.

It's possible that the suffering Central Asians experienced during the Soviet collapse makes them reluctant to push for political change. On its own, economic decline short of actual state insolvency will probably not lead to mass mobilization. But if this is the year another major event comes — the death of a leader (Uzbekistan's Karimov will turn 78 this month; Kazakhstan's Nazarbaev is 75); independent labor protests; or Russian meddling – the supposedly passive population could decide that enough is enough.

If there is major social unrest in one of the countries of Central Asia, and even a change of government, what will really change? The tragedy of the region is that Central Asia's "stability" masks profound corruption — not just in the sense of embezzlement, but in the word's original meaning of rot and decay. The years of stability have ensured that when the collapse comes, there will be little left to build upon.