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## Impact of Globalization on Socio-Economic and Political Development of the Central Asian Countries

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Impact of Globalization on Socio-Economic and Political Development of the Central  
Asian Countries

by

Karina Orozalieva

A thesis submitted in partial fulfillment  
of the requirements for the degree of  
Master of Arts  
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## List of Abbreviations

ECA	Eastern European Central Asian countries
CIS	Commonwealth of Independent States
HDI	Human Development Index
GDP	Gross Domestic Product
IMF	International Monetary Fund
ILO	International Labor Organization
HDR	Human Development Report
MPR	Migration Policy Institute
UNDP	United Nations Development Programme
SCO	Shanghai Cooperation Organization
EEC	Eurasian Economic Community

# Impact of Globalization on Socio-Economic and Political Development of the Central Asian Countries

Karina Orozalieva

## ABSTRACT

The main objective of this thesis is to understand the economic, social and political impacts of globalization on the Kyrgyzstan, Kazakhstan and Central Asian countries in general. The empirical studies based on panel data analyses and the case study on Kyrgyzstan demonstrate that the socio-economic effect of globalization on development of these countries is twofold. On the one hand benefits produced by globalization such as migration and remittances can be useful for economic development in the short run. They take a role of a “shock absorber” of the challenges that are associated with transition to a free market economy. On the other hand, their long term economic impacts can be negative especially in the areas of industry and export. Moreover, it can have a negative effect in the future creating a loss of human capital and distorting traditional forms of social structures within societies.

The political impact of globalization is also dual. The empirical analysis that is based on simple regression analysis demonstrates that adoption of liberal democracy model by Central Asian governments is not a necessary condition for successful economic growth. Countries can be democratic and have low or medium socio-economic development such as India or Ukraine. They also can be undemocratic and developed as

China or Kazakhstan. To find a certain connection between democracy and development it is needed to look at other important economic, geo-political and social factors that can contribute to the development.

On the other hand regional and global challenges produced by globalization forced Central Asian countries to find a political position that would satisfy interests of inside and outside actors as well as provide proper environment for stable political and economic development. The descriptive analysis demonstrates that Central Asian countries chose the path of political integration and cooperation by being involved in regional institutions such as SCO and EEC. This strategy can help them to withstand challenges produced by globalization and promote political stability and economic growth in the region.

Map 1. The Caucasus and Central Asia



Source: <http://fs.huntingdon.edu/jlewis/syl/ircomp/MapsCaucasus.htm>

## **Chapter one**

### **Introduction**

This study is an attempt to understand how global political, economic and social processes affect socio-economic development of two specific former Soviet Union countries, Kyrgyzstan and Kazakhstan, and how all Central Asian countries, which are still trying to find their places in the highly interconnected and globalized world, are impacted in general. One of the reasons of choosing these particular countries is that among all Central Asian republics only Kazakhstan and Kyrgyzstan were able to create relatively attractive conditions for foreign capital that ideally should positively influence the process of their integration with the global economy (Marat, 2009). However, despite the similarities between these republics of 5 and 16 million people determined by common Soviet legacy of sharing a common socio-economic space, Kazakhstan and Kyrgyzstan significantly differed from each other in starting economic conditions including such an important factor as natural resources, abundant in Kazakhstan and absent in Kyrgyzstan (Primbetov, 2006). It has impacted the pace of their development and their ability to adjust to challenges of globalization. These countries decided to take the road of opening their markets, liberating their economies and adopting democratic institutions to successfully function in the modern political system. However, on the way of modernization and transition to the open market economic system have been many obstacles which have shifted their reforms. The main goal of this thesis is to analyze how being under the socio-economic conditions inherited from the Soviet legacy as well as from the geo-political reality, Kazakhstan, Kyrgyzstan and Central Asian republics in general have responded to the contemporary political and socio-economic trends and

what effects these policies have had on their socio-economic and political development. The analysis of this process is done through the lenses of globalization which in my opinion is the best way to understand dynamics of development in the Central Asian region.

I also use several theoretical approaches within the general theme of social development including dependency theory, functional approach, push-pull theory, liberal democratic theory and liberal institutionalism to explain my results. I have used multiple theories because just one theory cannot account for both political and socio-economic outcomes of globalization. These are elaborated later in the chapter.

### **Defining globalization**

Globalization is a multidimensional phenomenon that not only touches political, economic, social and cultural spheres of any society but also reshapes the traditional way of studying the “social world and human nature” (Robinson, 2005). Globalization is often associated with “intensification of the worldwide social relations”, global economic integration, de-territorialization and time-space compression (McGrew, 2008). To measure its extensity and impact on a particular society it is needed to analyze each of these aspects separately. Taking into consideration complexity of the phenomenon I would like to concentrate only on socio-economic and political effects of globalization on socio-economic development of Central Asian countries, particularly Kazakhstan and Kyrgyzstan

The goal of this study is not to theorize about the nature of globalization or prove that it is in general a negative or positive phenomenon, but rather to analyze the impact of

increasing socio-economic and political interconnectedness, that arises from globalization, on development of countries that are still trying to define their place within the international political system. My main idea is to examine how Central Asian countries that are still in a transitional process respond and adapt to the rapidly spreading conditions of globalism which is represented by integration into the world economy, eliminations of trade barriers, extraordinary mobility of human capital, goods and services as well as by interconnectedness of ideas and norms that reshape not only our understanding of existing social and political institutions but also transform them into new socio, political and economic entities (Bhandari and Heshmati, 2005). This transformation can be observed by adopting and implementing western political and economic models such as democratization of political regimes and liberalization of the economies in the former Soviet Union space.

Based on this understanding of globalism I look at economic, social and political aspects of globalization that deal with issues of free movements of capital and people as well as with problems of global political and economic integration. I examine how these factors affect the socio-economic and political development of Kazakhstan, Kyrgyzstan and other Central Asian countries.

### **Measures of globalization: migration; remittances; liberal democracy; cooperation and regional integration**

In order to analyze socio-economic impact of globalization I look at international migration flows of people and worker's remittances that have been on a rise for the last several years particularly in the Central Asian region and are considered to be major

elements of contemporary globalization. I want to determine how intensive outflow of people as well as inflow of remittances to sending migrants countries impacts their socio-economic development. Another measure of the impact of globalization is the foreign direct investment (FDI). However, this measure applies mostly to countries that are rich in natural resources or skilful and inexpensive labor. For the majority of the Central Asian countries the FDI per capita is small since they do not have natural resources and as a result FDI is not a reflection of any economic development. In addition, a steady inflow of FDI is possible only under political stability which is not the case in the entire Central Asia. Remittances on the other hand are present in all studied countries. The political effect of globalization is analyzed by examining globalization through perspectives of liberal democracy that is built on ideas of spreading and imposing principles of capitalism, neoliberalism, industrialism and so forth around developing world (Scholte, 2005). Particularly, I want to concentrate on whether implementation of neoliberal principles, that include adoption of the liberal democracy model (open markets and democratic institutions) by Central Asian countries, leads to successful economic development which is claimed to be the case according to Smith, Baylis, Ownes (2008) as well as to Huntington, Shin and Diamond (Scholte, 2005). I also look at political aspects of globalization through perspectives of regional integration and cooperation. These processes were triggered by globalization which reinforced new global and regional challenges which significantly impacted political processes in the region and forced Central Asian republics into reconsidering their foreign politics objectives. I analyze how emergence of new political actors in the region affected construction of foreign policies (cooperation and integration) of these countries by looking at regional



institutions such as Shanghai Cooperation Organization (SCO) and Eurasian Economic Community (ECC).

### **Research questions**

Considering the fact that I look at the impacts of globalization through economic and political perspectives I have several research questions. My first two research questions are related to the economic aspects of globalization. First I study the impact of globalization measured by remittances on socio-economic development of the Central Asian republics. I analyze whether remittances have positive or negative impacts on socio-economic development which in this paper I quantify by the Human Development Index which is an overall measure of conditions of education, health and income. My hypothesis suggests that despite the evidence of short term positive effects of worker's remittances on the growth rate of GDP their increase might have a negative impact on economic growth in the long run. This hypothesis can be explained by a possibility that remittances do not offer any structural changes within the economic and political systems of the country. Instead, remittances create dependence that paralyzes country's production capabilities. This phenomenon is known as the Dutch disease.

In my second research question I try to analyze how migration affects social and economic development. I look at the "socio-economic structural changes" (Economic Development, 2009) in sending migrant countries and the consequences they might have on their public and governmental regulations. My hypothesis suggests that labor migration has a negative effect on sending migrants countries. One of the reasons to assume it is that labor migration leads to decreases in the stock of labor and intellectual

capital which is called “brain drain” which by itself has adverse effects on such social indicators as life expectancy and human development.

My third research question is related to political impacts of globalization. I look at Democracy Index as well as Economic Freedom Index to measure impact of globalization because according to some definitions globalization is synonymous to democratization process (Scholte, 2005) or often accompanies it (Huntington, 1991; Shin, 1994; Diamond and Plattner, 1996). I try to find a correlation between degrees of democratic regimes and development by looking at and comparing democratic and nondemocratic countries and their levels of socio-economic development. My hypothesis states that democracy is not a necessary condition for successful socio-economic development. This statement can be analyzed by looking at a number of non-democratic countries that demonstrate effective economic growth.

My last research question is descriptive analysis of the political impacts of globalization. I try to understand how current globalization processes related to political, economic and social interdependence among neighboring countries, including such giants as China and Russia, affects political role of the Central Asian countries within and outside the region. My hypothesis suggests that leaders of the Central Asian republics have chosen political cooperation resulting in regional stability. Central Asian countries engage actively in regional cooperation institutions such as Shanghai Cooperation Organization or Eurasian Economic Community. Until this moment it has been an effective instrument of managing global and regional challenges that are capable of destabilizing the security and political stability in the region.

Prior to moving to another section of the chapter I acknowledge that there are

certain limitations in each of the measures as well as methods which I have selected that make the results of my study subjective and susceptible to change. Those limitations will be discussed in the following chapters.

### **Significance of the study**

The significance of this study is that I try to study both macro-economic and socio-political perspectives of globalization in one particular region. This strategy can help significantly improve our understanding of the real scope and impact of globalization by suggesting useful tools for shaping public policies that can create favorable conditions for economic development or minimize negative impacts of globalization in the long run (Ratha, 2004).

I also use a combination of qualitative and quantitative analysis that can not only help determine reasons why people in Central Asian countries decide to migrate or why governments of those countries decide to adopt neo-liberal principles which has been already done by many political scientists, but also can identify causal relationships or correlation effects between migration, remittances (that emerge from labor migration), economic and political liberalism and socio-economic situation within Central Asian developing countries.

Another important element of my study is that it tries looking differently at conventional liberal doctrines that have been dominating the field of modern political science. For instance, many liberal scholars assume that existence of democracy inevitably leads to successful socio-economic development. This approach has significantly shaped foreign policies of hegemonic powers toward developing nations.

However, understanding that democracy is not necessarily equal to stable socio-economic development can explain why developing countries are choosing alternative ways to western model of governance. These alternatives take into account cultural, political and social differences that exist among countries which can prevent possibilities of cultural clashes.

On the other hand this study uses liberal doctrine (Liberal Institutionalism) to suggest that although adoption of liberalism does not necessarily positively impact the socio-economic development of the Central Asian countries but it can explain patterns of political and economic cooperation that is taking place in the region.

### **Theoretical Framework**

The main theoretical framework of this study is built on dependency theory that suggests that tremendous changes within social and political structures of developing countries that are associated with globalization negatively impact socio-economic development.

According to this approach emergence of unprecedented levels of labor migration as well as adaptation of neo-liberal principles is a cause of “development of the underdevelopment”, because it is linked to the outsourcing of the human capital and labor resources from developing periphery toward the developed core that negatively affects economic growth of developing countries (Haas, 2007).

There are two main theoretical views on international migration which evolved within the theme of dependency and social development (Mahmud and Sabur, 2009). One

of them represents a structural or dependency approach that suggests that development in periphery is impossible due to a “special insertion in the world economy” where capital accumulation of the developing country (periphery) is completely extracted by the developed countries (core) (Mahmud and Sabur, 2009; Vernengo, 2008). Under this approach migration is viewed as a “capitalist phenomenon that is not only disadvantageous for economies of underdeveloped or developing countries but actually is a cause of their underdevelopment” (De Haas, 2007).

According to Hass (2007) “migration and remittances only reinforce the capitalist system that is built on inequality”. Scholars who adhere to this point of view suggest that migration leads to changes in social structures of the sending migrants countries, reshaping traditional forms of households (Hayes, 1991). They also argue that remittances as a product of labor migration cannot be considered as a stable source of revenue (Hass, 2007). This statement was partly proved by the latest economic crises that cut the inflow of remittances in such countries as Kyrgyzstan and Tajikistan almost in half (Marat, 2009). It is a significant number since remittances constitute 27% and up to 30% of GDP of these countries respectively (Marat, 2009).

The other theoretical view is known as functional approach (Mahmud and Sabur, 2009; Vernengo, 2008). It argues that “development in the developing world is feasible” (Cardoso and Faletto, 1967) due to an ability of the foreign capital to be “re-invested in the host country” that might lead to an economic growth (Vernengo, 2008). This theory is built on premises of “neo-classical development economics” that consider migration and remittances as contributors to economic growth. It looks at migration as a “process of transferring surplus labor from developing country to the global industrial sector”. It

should boost economic growth in sending migrants countries by creating equilibrium between host countries, where wages go down, and sending migrants countries that start receiving remittances that alleviate existing economic inequalities.

I use both theoretical views to explain positive and negative impacts of migration and remittances on development of the Central Asian countries.

However, in this study I look and analyze various components of globalization that require incorporation of multiple academic approaches within the general theme of globalization and development including such as push-pull theory, structuralism and rational choice.

I use some elements of the “livelihood approaches” that emerged in 1970’s within the fields of geography, anthropology and sociology and suitable for analyzing migration phenomenon (Hass, 2007). It emphasizes attention on an importance of human agency that helps to examine why people choose to migrate (rational choice, push-pull theory) and what affect it might have on overall social, economic and institutional development of the sending migrants countries (Haas, 2007). Particularly, I employ a push–pull theory of migration to understand migration patterns in Central Asian region. This approach was originally formulated by British theorists Ernest Ravenstain who developed “Laws of Migration” in 1885. In his work he concluded that migration is a process that is driven by push-pull factors (Ravenstain, 1985). He described push factors as certain economic or political conditions such as poverty or armed and civil conflicts that force or “push” people to move to different locations with better socio-economic conditions that play a role of “pull” factors (Theories of Migration).

To explain economic impacts of remittances I incorporate some aspects of socio-

economic development theory that provides me with different aspects of analysis such as international, societal or individual. For the purpose of my study I concentrate on the international aspect of analysis and estimate the impacts of remittances, which can be viewed as financial flows (Jaffe 1998), on socio-economic development of receiving them countries in the Central Asian region.

To understand political implications of globalization I look at democratic theory which is not monolithic and which examines different aspects of socio-political life of a society. Particularly, I concentrate on economic aspects of liberal democratic theory that deal with economic freedom that includes private ownership of property and business, free markets and weak role of the government. Basically, the main idea of this approach is that implementation of democratic political and economic institutions by developing countries provide a background for successful economic development.

Along with liberal democratic theory I use Liberal Institutionalism approach to understand the impact of globalizations on political development of the Central Asian republics, particularly on construction of their foreign policies. This theory suggests that international institutions can overlap a selfish behavior by encouraging states to forgo immediate gains for the greater benefits of enduring cooperation (Walt, 1998). In this case such organizations as SCO or ECC may not be effective in the short run because of a diversity of interests and differences in economic development of the member countries but they can have positive effects on development and stability of Central Asian countries in the long run (Guger, 2008).

These approaches can be effective in explaining why migration and remittances have a different impact on socio-economic development of countries. I also believe that

combination of these theoretical paradigms can significantly expand our understanding of real impact and scope of globalization.

### **Methods and research design**

The methodological framework of this study incorporates both qualitative and quantitative methods. I use the case-study approach along with simple regression and panel data regression analysis. Empirical methods allow me to observe cumulative changes in a particular phenomenon such as socio-economic development of Central Asian countries over time by measuring indicators of socio-economic development such as GDP, Human Development Index (HDI), life expectancy as well as Index of Economic Freedom at the same moments several times to detect how they are influenced by globalization. It also allows producing more accurate results and conclusions (Johnson and Reynolds 2008). A detailed case study can help me understand impacts of particular socio-economic indicators of globalization for one country. That could lead me to a better understanding of the real impact of globalization on development.

I use panel data regression analysis for estimating the economic impacts of globalization as measured by remittances and migration. Specifically a fixed effect model is used with country specific fixed effects. Since more than one observation belongs to an individual country such observations are not independent. Introduction of the fixed effects allows for the observations belonging to the same country to be correlated. However, I do not report the estimated fixed effects, but only report the slope coefficients since they are of my main interest. I have also tried to estimate the random effects model but the Hausman test showed that the fixed effects model is the preferred specification in



all cases. My raw data on migration and remittances are derived from databases that are provided by IMF, World Bank, Human Development Report (HDR), International Labor Statistics (ILO), Eurostat and UNESCO, UNDP and MPI annual reports that are available on the official websites of these organizations. Official data for migration is collected through *Demographic Yearbook* data collection system that derives data from Population Census Questionary that is developed by the United Nation Statistical Division. The collection of international migration data is shared among different institutions in order to minimize the burden on countries (UNDP). Final results of the panel data analysis are reported for three model specifications which I find most appropriate after trying many such specifications. The main conclusion is that labor migration and remittances have a strong positive effect on just one economic indicator of development, GDP. However, their impacts are slightly less statistically significant than the impact of inward FDI flows. The results also show that migration/remittances do not have a significant impact on social indicators of development.

As a complementary to the empirical analysis of the impacts of remittances and migration on the development of Central Asian countries I conduct a case study for one country by applying data I have used for my empirical analysis to Kyrgyzstan. It allows me to shape better understanding of how remittances and migration affect different indicators of socio-economic development such as GDP, FDI, and export as percentage of GDP, unemployment, private consumption as well and life expectancy. Final results are given by eight graphs that demonstrate relationship between migration/remittances and socio-economic development. I find that effects of the remittances on Kyrgyzstan are twofold. On the one hand, they indeed increase GDP per capita. However, they have an

adverse effect on the industrial sector which might have a very strong negative effect on a Kyrgyz economy in the long run.

I use a case study approach to examine political impacts of globalization. The level of globalization in my study is measured by the level and extent of democracy. My data on democracy include such indicators as Democracy Index that was developed by Economist Intelligence Unit, Economic Freedom Score that was created by the Wall Street Journal and Heritage Foundation, and Human Development Index that is available on official website of Human Development Report.

I also use a case study for analyzing impacts of globalization represented by global and regional challenges on political development that is represented in this thesis by patterns of cooperation and integration in the Central Asian region. I study regional institutions such as Shanghai Cooperation Organization (SCO) and Eurasian Economic Community (EEC) as instruments to analyze foreign politics of the Central Asian countries.

I use these indicators to compare levels of development of both democratic and authoritarian countries and specifically concentrate my analysis on Ukraine and Kazakhstan, taking the example of India and China as a basis for comparison.

I also use simple regression analysis to find a casual relationship between socio-economic development and democracy. I build two models that analyze data from 154 countries by estimating the impact of democracy on the growth rates and levels of GDP and the impact of democracy on Human Development Index. The study finds statistical correlation between levels of democracy and economic development, however, additional empirical evidence is provided showing that this correlation is a purely statistical

phenomenon as I argue and graphs are provided that show that it is hard to claim that there is causal relationships between these two variables.

### **Structure of the thesis**

The thesis is organized as follows. Second chapter analyzes academic literature that helps me understand existing scholarly trends, their advances and limitations. It also provides me with theoretical instruments that I use for finding answers for my research questions and building hypothesis. In my third chapter, I look at socio-economic impacts of globalization by doing an empirical analysis of remittances and their impact on development of the Former Soviet Union and Eastern European countries. Forth chapter examines socio-economic impacts of migration on the Former Soviet Union countries by doing another empirical analyzes. To complement my qualitative research I conduct a case study that looks at socio-economic impacts of migration and remittances on Kyrgyzstan. It is done in the fifth chapter. Sixth chapter examines political impacts of globalization on development of Kazakhstan and Ukraine. It is done by comparing countries like India that adopted a liberal democratic model and China that chose its unique path of political and economic development. I use these countries as my main models for comparison of democratic Ukraine and authoritative Kazakhstan to measure the impacts of adoption of democratic principles on socio- economic development of those countries. In the conclusion I assess my findings and discuss the consequences of globalization on successful development of the Central Asian countries and particularly on Kazakhstan and Kyrgyzstan. Sixth chapter makes a descriptive analysis of how globalization in the form of global challenges affects foreign politics of the Central Asian

republics. It looks at regional cooperation as a way to construct foreign policies and analyzes the nature of regional cooperation institution such as SCO and EEC.

## **Chapter two**

### **Literature Review**

There is an extensive body of scholarly literature that covers the issue of globalization that creates unprecedented levels of people migratory movements, triggers an emergence of new forms of financial institutions that are associated with migration (remittances), generates an extensive spread of democratic regimes and speeds up the process of regional cooperation and integration. This literature tries to analyze impacts of these conditions on socio-economic development around the world and particularly in the former Soviet Union region.

The academic scholarship of this issue can be divided into several segments and each of them studies particular problems such as impact of worker's remittances, migration or democracy on a socio-economic development as well as analyzes impacts of globalization on integration and regional cooperation of the Central Asian countries.

The significant amount of academic papers is devoted to the problem of migration and remittances that are often experienced together, but not necessarily have the same impact on developmental process, and which have been on a rise in the Central Asian states since they became independent in the beginning of 90's. The scholarly research in this area has formed three intellectual camps that have major differences as well as commonalities.

First group of scholars belongs to the camp of those political scientists and economists who believe that remittances have a negative effect on developing countries. This academic group can be represented by several comprehensive studies (Agunias

2006; Cohen, 2005; Haas de Hain, 2007; Mechthil 2006; Shelburn and Jose Palacin 2007; Stuart 2006). These papers are based on arguments that worker's remittances might have a positive effect on development in the short run, but are irrelevant or negative in the long run. These authors argue that remittances are such a complex phenomenon that requires looking not only at economic aspects of them, but also at other socio-political factors which are associated with them. They also try to use not only economic analysis of this phenomenon but also try to employ alternative qualitative methods like partial and temporal scales of analysis to find effects of remittance on development. For example, Haas de Hain (2007), who uses this particular method, argues that those remittances have a potential to improve well-being, boost economy and ease poverty. However, their effects on social development are not clear. Moreover, spatial and temporal analysis of this issue demonstrates that despite the fact that remittances and immigration are beneficial for individual households or small communities they cannot contribute to significant social or economic development especially in unattractive investment climates. That is why in order for remittances to be effective governments have to implement certain social, political and economic policies that will help remittances and immigration to reveal their full potentials.

This idea is supported by other scholars such as Stuart (2006) and Palacin (2007) who also suggest that remittances can be beneficial for an economy only if certain macro-economic conditions exist. Also, a positive effect of remittances can be seen in micro-household studies that involve individual or local communities, rather than on the cross nation level where macroeconomic implications of remittances are not so obvious due to a lack of complete and adequate statistical data.

In my opinion a distinctive feature of the followers of this academic camp is the fact that they tend to look at worker's remittances not only through economic perspectives but also from broader socio-political contexts. For instance, Cohen (2005) analyzes the impact of remittances on socio-economic development through the perspectives of migration. He looks at the impact of remittances on developing countries by analyzing the outcomes (positive or negative) through micro and macroeconomic approaches. Based on using these approaches, the author argues that migration and remittances can have a negative effect on developing countries. First of all they can increase a downward pressure on destination countries (in CIS migration can be identified as "south to south" which means that migration happens among developing countries). Secondly, migration leads to a loss of skilled workers for home countries. Thirdly, some data suggest that returning migrants have higher unemployment rates than non immigrants (especially in urban areas) because their skills do not fit local needs. And finally, remittances decrease with migrants becoming more educated. Other authors like Leon-Ledesma and Piracha (2004) who use the same approach suggest that international migration/remittances paralyze countries making them dependent on remittances. Reliance on remittances distorts development and creates disparities among people.

The second group of scholars represents a camp of scientists who believe that remittances have a positive impact on socio-economic development. Such authors as Korobkov and Lev V. (2005, 2007); Ivakhnyuk (2006); Jones, Black and Skeldon (2007); Admos, Piesse and Pinder (2003); Marlene (2007) and others suggest that worker's remittances and remittances in general can be very beneficial for developing countries. They also employ different approaches and methods like time series cross

sectional analysis or case studies, to investigate these issues.

Some of them tend to look at worker's remittances from a global context. For instance, Devesh and Singer (2005) argue that remittances have a positive effect on receiving countries in terms of expanding markets. They suggest that countries with higher inflows of remittances are more likely to successfully integrate in the global markets. They also argue that remittances represent a substitution of government spending that mitigates uncertainties in the global markets because they are more stable and they do not constraint governmental policies or decisions unlike FDI or other capital inflows.

Another approach that is used by adherents of the positive impact of remittances on development is analysis of determinants of remittances by using panel data techniques. For instance, Mechthild (2006) in his work does not look directly at impacts of remittances on development but concentrates on determinants of remittances. The study in his paper is based on panel data analysis. The results of his study demonstrate that remittances are persistent and increase with the rise of domestic unemployment. They also show that with the growth of GDP per capita and an increasing openness of markets through international integration quantity of migrant flows decrease.

Some scholars including Korobkov V. and Lev V (2005, 2007) prefer to look at remittances from socio –economic perspectives. In their studies they argue that migrant financial flows have a significant positive effect on stabilizing economic and political system of the CIS by alleviating poverty and preventing hunger in some places. However they suggest that to make it successful governments have to improve their policies toward transaction process of financial flows and policies towards regulating and legalizing labor



migration. The authors argue that weak governmental policies as well as weak civil societies mitigate a full potential of remittances. That is why it important to implement certain political and financial initiatives that can contribute to enhancing the impact of remittances such as regulating labor migration or developing of financial sector that will make a transaction process easier.

Such scholars as Ivankhnyuk (2006) and Jones, Black and Skeldon (2007) implement this approach and try to analyze this issue in the context of migration and by employing a cases study approach.

For instance Ivakhnyuk (2006) examines existing patterns of immigration and how they affect sending and receiving countries and what challenges and benefits they face. The author argues that remittances which are tightly connected to migration obviously have an impact on the stable economic development, particularly for smaller countries such as Kyrgyzstan or Tajikistan. The author also suggests that they are even more important than FDI's.

Jones, Black and Ronald Skeldon (2007) do a case study of remittances impact on Tajikistan development. The authors suggest that migration and remittances in Tajikistan have been taking a role of a "shock absorber" that has been alleviating socio-economic difficulties in this particular developing economy. The authors discuss reasons that impact migration patterns: economic and demographic conditions of post Soviet Union era and globalization. They also argue that remittances that originate as a result of migration are still major contributors for sustaining a survival of individual households (because they are heavily depending on them). As a result, their paper suggests that Tajik government has to stimulate migration through improving banking sector and creating

awareness among migrant workers abroad about their rights.

The authors in this academic group all share similar opinion about positive impact of remittances on a socio-economic development. They all agree that it is a significant source of stable financial flows that has an effect on alleviation of poverty and inequality if proper governmental policies are implemented.

Third academic group represent those scholars who argue that remittances can have positive as well as negative effects on successful development. Such authors as Maimbol and Ratha (2005), Laruelle, Chami, Barajas (2008) suggest that to find out the real significance of worker's remittances it is needed to look at what drives remittances from different contexts such as global and socio-economic. This type of analysis demonstrates that remittances can offset economic shocks during the crisis time but they also can severely damage local production that will directly affect economic growth of a particular country such as Tajikistan (Chimomhowu, Piesse and Pinder 2003).

Another body of academic literature deals with political aspects of globalization that are often associated with the spread of democracy and adoption of neoliberal principles by developing countries that lead to modernization and socio-economic growth. The main premise of this academic scholarship is that democratic political and economic institutions provide a background for successful economic development (Thaker, 2007; Halperin, Siegel, and Weinstein, 2005; Grosgean and Senik, 2008; Przeworski, 2004). This approach is known as a *compatibility perspective*. It argues that fundamental civil liberties and democratic process generate societal conditions that are most favorable for economic development (Sirowy and Inkeles, 1990).

However, another academic view of this issue is reflected in a *conflict perspective*

that suggests democracy hinders economic growth and development. Scholarly papers of such political scientists and economists as (Walter Galenson, 1995, Karl de Shweinitz, 1959; Huntington and Dominguez, 1975; also Huntington, 1968; Barro, 1996; O'Donnell, 2001) argue that with the spread of democracy arises a problem of redistribution and enhanced role of interest groups. According to this approach democracy and economic growth are competing elements. Economic growth needs a strong authoritarian regime that better implements economic policies because weak democratic institutions are not able to do it (Sirowy and Inkeles, 1990)

There is also a modernization thesis approach toward democracy that suggests that it is indeed economic growth (not democracy) that promotes democracy (Lipset, 1959).

All those theoretical approaches have been tested by using qualitative as well as quantitative methods. Qualitative studies were done by using a case studies that would examine an impact of democracy on developing countries in Latin America, Eastern Europe, Africa and Asia (Chen, Liang-chih, 2007; Bruce Bueno de Mesquita and George Downs, 2005; Morton H. Halperin, Joseph Siegle, Michael M. Weinstein, 2005)

Quantitative studies were done by employing cross-sectional analysis (Neubauer, 1967; Diamond, 1992, Muller, 1995; Przeworzky and Limongi, 1993, also Przeworzky, 2005) and simultaneous equation models (Rafael Reuveny and Quan Li, 2003).

There are also several major studies that have been done in the area of analyzing the reasons why Central Asian countries chose cooperation to maintain stability in the region. Some of them are purely devoted to the theoretical explanation of cooperation and regional integration. These studies use a realist approach to explain existing patterns of

alignment in Central Asia. For example a work of Eric Miller “To Balance or Not to Balance” (2006) use security threat and economic dependence of weaker Central Asian countries on Russia, as a foundation to explain existing cooperation (Jervis, 1999). Kenneth A. Waltz’s “Balance of power” and Stephen M. Walt’s “balance of threat” are most common theories that are used by scholars to describe foreign politics of the Central Asia countries (Michael Mandelbaum, 1994; Roy Allison and Lena Johnson, 2001). The works of these authors such as “Central Asian Security: The New International Context” (2001) or “The Rise of nation in the Soviet Union: American foreign policy and disintegration of the USSR” (1991) suggest that broader international cooperation in Central Asian region is not possible because every state is concerned with protecting its status quo and maximizing its power which means that it will be hard for those countries to reach common interest (Brown, 1996). However, existing engagement of Central Asian countries in the regional organizations and relative stability in the region suggest that cooperation is possible.

Another set of studies is devoted to practical issues of cooperation in the region. They analyze the issues of globalization from the perspectives of economic interdependence and emergence of new political actors such as China and US and reemergence of old ones such as Russia and what impact it might have on patterns of cooperation in Central Asia. The analysis of these studies is based on examination of various regional institutions such as Commonwealth of Independent States (CIS), Shanghai Cooperation Organization (SCO) and Eurasian Economic Community (Bogaturov, 2004; Tolipov, 2005 and 2006; Weitz, 2006; Annand, 2006; Primbetov, 2006; UNDP 2005; Germanovich, 2008).

## **Chapter three**

### **Economic impact of globalization: the impact of remittances on socio-economic development**

In this chapter I look at immediate impacts of inward remittances on socio-economic development. It is based on a broader data not only for one specific country in Central Asia but also including Eastern European and Former Soviet Union countries.

During the last two decades remittances became one of the most important sources of external financial flows in developing countries (Kapur, 2006). For most countries of the Former Soviet Union, remittances are considered to be the second largest financial sources after Foreign Direct Investment and Foreign Aid (Mansoor and Quillin, 2007). Remittances almost always are associated with labor migration that has been on a rise during the last years of accelerated globalization that triggered an unprecedented size of international migratory movements.

According to Schiff and Ozden (2005) and World Bank updated estimates there are around 200 million people living outside their home countries temporary or permanently. Among them are 5 to 15 million people representing official irregular migrant workers from the CIS region who reside mainly in Russia and Kazakhstan (Marat 2005). Very often remittances are used as a way to analyze patterns and impacts of labor migration on sending migrant workers countries.

Remittances are payments that are sent formally or informally, by migrant workers to their home countries (US Congress 2005). According to Taylor (2006) international migration flows have increased from 76 million in 1965 to 188 million in 2005. About 70% of all remittances go to less developed countries.

The main question this chapter raises is whether remittances have a positive or negative impact on socio-economic development of recipient countries. Socio-economic development is represented here by Human Development Index (HDI) which is a joint measure of the conditions of education, health and income, and on other social indicators such as migration and life expectancy.

To find an answer on this question I look at socio-economic development theory that suggests that dependence on them slows down rates of socio-economic development (Jaffe 1998). I use this approach to estimate the impacts of remittances, which can be viewed as financial flows, on socio-economic development of receiving them countries in ECA region.

I also look at available academic literature that examines migrant remittances and what effect they might have on sustainable development that involves socio-economic structural changes within a country (Economic development 2009). These changes are represented by improvement of living standards such as rising income and improving health and educational systems (Jaffe 1998). Some scholars also suggest that this type of private financial flows affect reduction of poverty and bring social stability through alleviating unemployment.

In my opinion, the significance of this study is based on the fact, that I will not only try to look at the importance of remittances from macro-economic perspectives, which was well investigated by other economists, but also my goal is to look at it from social perspectives, taking social indicators of development and analyzing how they are influenced by remittances. To conduct my analysis I am using quantitative methods. This approach will allow me to detect causal relationship and marginal effects between the

observed phenomena rather than to establish simple correlation that is already done by majority of political scientists who previously examined this issue by using qualitative methods.

Understanding of the positive or negative development effects of worker's remittances can be beneficial in several ways. First of all, it can provide useful tools for shaping public policies that can create favorable conditions such as lowering transaction cost or "strengthening a formal remittances infrastructure" for attracting even more inward remittances, especially in those countries that heavily depend on them (Ratha 2009). Second, it can help to develop strategies that will prevent or minimize a possible negative impact of remittances on socio-economic development in the long run.

The analysis of the existing academic work demonstrates that remittances are a complex socio-political phenomenon that requires understanding of different social, political and economic factors. Worker's remittances represent both alternative sources of income and consumption that boost economy by making a contribution or investment into local economies. They also are able to bring positive structural changes in local communities because immigrant workers bring new ideas and knowledge. However, despite the obvious benefits of remittances excessive reliance on them can create negative consequences such as brain drain or Dutch disease that paralyze countries making them dependent on remittances which distort development and create disparities among people (Leon-Ledesma, Piracha 2004).

Detailed literature review also demonstrates some limitations of previous studies. I argue that significant number of studies, I have cited, use qualitative analysis to measure impacts of remittances on socio-economic development. I argue that the qualitative

approach does not establish casual relationship between these phenomena. It rather argues in favor of existing correlations without identifying them empirically. Moreover, these works do not look at other factors that might influence socio-economic development besides remittances.

### **Hypothesis**

After dissolution of the Soviet Union new independent states have chosen different paths of socio-economic development that were defined by historical and economic factors, which have shaped current conditions of those countries. Weak political systems, along with a presence or lack of precious natural resources have created significant disparities in development among former Soviet Union countries. Economic stagnation in some republics has triggered new patterns of people's movements within the CIS region. Labor migration is one of the examples of such patterns. It is associated with economic and social dissatisfaction that force people to move to different places with better economic opportunities.

Remittances as a product of labor migration represent a second largest source of financial inflows after Foreign Direct Investment (Mansoor and Quillin 2006). Data from IMF and World Bank show that financial flows that come from migrant workers constitute a large portion of countries GDP. For instance, remittances in Tajikistan represent 36.2 % of GDP, in Kyrgyzstan it is 27.4 % and in Armenia 18.3% (IMF 2008). For such countries as Tajikistan, Kyrgyzstan and Armenia where remittances constitute a large portion of GDP, worker's remittances not only an external source of finance but also a tool for fixing unemployment which is a serious problem in these countries.



The theory of socio-economic development (the international approach), based on analysis of academic literature, concludes that country's excessive dependence on receiving financial flows impairs its ability to develop its economy. It also argues that remittances can damage social-economic development by creating a "brain drain" effect or by the Dutch disease that leads to a rise of prices for nontradable goods, appreciates the exchange rates, which drives producers of tradable goods out of business, and also causes social complications in form of growing economic disparities.

Based on the mentioned above conclusions I have formulated my hypothesis that states that despite all the benefits of workers' remittances they have negative influence on socio-economic development in both the short and the long run. I argue that large size of inward remittances might have a positive immediate impact on economies of recipient countries by contributing to the growth of GDP. However its long run economic effect will be negative due to Dutch disease phenomenon that affects production. This phenomenon is well examined by economists. It demonstrates that excessive flows of remittances in a country contribute to increase in household incomes and respectively in consumption of products that are produced for domestic markets or nontradable goods such as real estate, services, water, and electricity and etc., in expense of tradable sector. It creates a pressure on nontradable sectors forcing prices to go up that has a potential to diminish positive role of remittances as a tool of diminishing economic inequality (Acosta, Lartey and Mendelman 2007).

I also argue that remittances negatively impact such social indicators as life expectancy or Human Development Index. One of the explanations for that is that excessive reliance on remittances can lead to decreases in labor and intellectual forces

which is called “brain drain” that might affect such social indicators as life expectancy or human development.

In this chapter I have concentrated on immediate impacts of inward remittances on socio-economic development of receiving countries.

### **Research design**

In the process of collecting data on remittances I rely on official statistical databases that are provided by the World Bank, IMF, Human Development Report (HDR), UNDP, International Labor Statistics (ILO), Eurostat and UNESCO. I acknowledge the fact that the databases on remittances I have used for my research can be subjective because they rely only on official data which are provided by domestic governments that use data from Census surveys or bank statistics and do not include undocumented transactions of remittances. That is why it does not reflect the full scope of these financial flows.

To measure impact of remittances on development I chose the volume of remittances as an independent variable and measures of socio-economic development as a dependent variable.

Remittances are defined as “formal and informal payments that are sent by immigrant workers to their home countries”, and in this paper are measured in millions of current US dollars (IMF, 2008).

The social-economic development in my research is measured by the Human Development Index that was developed in 1990 within the United Nations Development Program. It measures socio-economic development by “combining indicators of life

expectancy, educational attainment and income into a composite human development index” (Human Development Report).

“The educational component of the HDI is comprised of adult literacy rates and the combined gross enrolment ratio for primary, secondary and tertiary schooling, weighted to give adult literacy more significance in the statistic. Since the minimum adult literacy rate is 0% and the maximum is 100%, the literacy component of knowledge for a country where the literacy rate is 75% would be 0.75, the statistic for combined gross enrolment is calculated in a analogous manner. The life expectancy component of the HDI is calculated using a minimum value for life expectancy of 25 years and maximum value of 85 years, so the longevity component for a country where life expectancy is 55 years would be 0.5. For the wealth component, the goalpost for minimum income is \$100 (PPP) and the maximum is \$40,000 (PPP). The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GDP” (Human Development Report).

It basically measures three aspects of human development: knowledge, health and decent standards of living. I also take GDP per capita, literacy rate and life expectancy as separate dependent variables. Literacy rate is a percentage of population that can read and write, life expectancy is “an average number of years of life remaining at a given age” (Sullivan and Sheffrin 2003) and GDP is “a total value of all final goods and services produced in a particular economy; the dollar value of all goods and services produced within a country’s borders in a given year” (Sullivan and Sheffrin 2003). The reason why I decide to take these variables is that they are available and they also fit the definition of socio-economic development that states that it is a process of “changes in the socio-

economic structure of the country” such as rising income, or improving health and education systems.

To make sure that there are no intervening variables or spurious relationships between the main variables I will look at FDI (measured in millions of the current US dollars) as my control variable. According to the Economy Watch website (2009) Foreign Direct Investment (FDI) is an investment “which is made to serve the business interests of the investor in a company, which is in a different nation distinct from the investor's country of origin”.

My main units of analysis are countries observed over several years. I look at 27 countries that belong to the former Soviet Union region and Eastern Europe. I analyze my variables within 18 years period, starting from 1990 to 2008. However, for some of my models specifically involving HDI and literacy rates, I take 24 countries and 4 time periods, due to limitations of data and missing values for some countries and years.

I also use the fixed effects panel data model which is based on “observation of multiple phenomena observed over multiple time periods.” This method allows me to “observe cumulative changes in particular phenomenon over time by measuring all subjects at the same moment several times. It also allows producing more accurate results and conclusions (Johnson and Reynolds 2008).

### **Empirical analysis**

Using panel data regression analysis I have identified 3 models which explain causal relationship between remittances and the dependent variables of socio-economic development. Three models correspond to three different dependent variables (Human

Development Index, GDP per capita and life expectancy) and have different sets of independent variables which include remittances and FDI.

**Model 1**

My first model identifies the casual effect of inward remittances on economic development which is measured by GDP per capita. This model also controls for another factor that can have an impact on GDP such as FDI.

Dependent variable: GDP

Independent variable: Remittances

Other control variables: FDI

**Table 1. Descriptive statistics for all variables for Model 1**

<i>Variable</i>	<i>N</i>	<i>Mean</i>	<i>Std Dev</i>	<i>Minimum</i>	<i>Maximum</i>
GDPpercap	304	3289.81	3113.62	193	16881
Remit	304	810.60	1362.72	0	10496
InFDI	304	2311.88	4762.42	-4749	52475

**Table 2. ANOVA**

<i>Model</i>	<i>Sum of Squares</i>	<i>Degree of freedom</i>	<i>Mean Square</i>	<i>F</i>	<i>Pr&gt;F</i>
<i>1</i>	<i>Estimate</i>		<i>Estimate</i>		
	844437472.3	278	3048510.730	21.49	<.0001

Note: ANOVA is an analysis of variance

For the one way fixed effects model ANOVA demonstrates that all individual fixed effects that are included in the model (remittances and FDI) are jointly significant. It tests whether all of them are equal zero (it proves the null hypothesis) or at least one is not equal zero (it proves the alternative hypothesis).

F test equals 20.07 which is much larger than the critical value (at 0.01 level of significance it is 2.327). The P value for the test is less than 1% which is very strong evidence against the null hypothesis that claims that all individual specific fixed could be eliminated or fixed to zeroes. Translating it into simple language F test demonstrates that at least one of my independent variables (FDI or remittances) has a statistically significant impact on GDP

**Table 3. Coefficients**

<i>Model 1</i>	<i>Beta coefficients</i>	<i>Standard error</i>	<i>T value</i>	<i>P-value.</i>
Remit	0.592098***	0.1024	5.78	<.0001
InFDI	0.193259***	0.0277	6.97	<.0001
R- square			0.7125	
Number of observations			304	

Note: Impact of remittances on GDP

R Square indicates how much variation in the dependent variable (GDP) is explained by all the independent variables included in the model (remittances and FDI). The R square of 0.7125 explains that FDI and remittances explain 71.2 % of variation in GDP.

These coefficients indicate that both of our independent variables have an impact on GDP. The results demonstrate that remittances and FDI have a significant impact on GDP with their t-values greater than 1.97. However, t -value of FDI is higher than t-value of remittances. From these results it can be concluded that both remittances and FDI increase GDP. This conclusion is consistent with many findings of economic studies.

## Model 2

Second model investigates the impact of remittances on life expectancy which is one of the social indicators measuring social development. I also controls for FDI to eliminate the possibility of spurious relationship between life expectancy and remittances.

Dependent variable: life expectancy

Independent variable: Remittances

Other control variables: FDI

**Table 4. Descriptive statistics for all variables for Models 2 and 3**

<i>Variable</i>	<i>N</i>	<i>Mean</i>	<i>Std Dev</i>	<i>Minimum</i>	<i>Maximum</i>
RemitMill	53	879.60	1372.07	0	6482.00
InFDI_MD	53	1749.40	3073.90	0	12885.81
HDI	53	0.78	0.06	0.64	0.89
Livexpect	53	70.15	3.29	62.96	76.49

**Table 5. ANOVA**

<i>Model</i>	<i>Sum of Squares</i>	<i>Degree of Freedom</i>	<i>Mean Square</i>	<i>F</i>	<i>Pr&gt;F</i>
2	<i>Estimate</i>	<i>freedom</i>	<i>Estimate</i>		
	51.6349	33	1.6136	16.73	<.0001

ANOVA demonstrates that F test equals to 16.73, with significance level less than 1%. The null hypothesis is rejected and at least one of my independent variables has a significant impact on life expectancy. In this model it is FDI not Remittances that has a significant impact on life expectancy.

**Table 6. Coefficients**

<i>Model 2</i>	<i>Beta</i>	<i>Stand. coefficients</i>	<i>T</i>	<i>P-</i>
	<i>error</i>		<i>value</i>	<i>value.</i>
RemitMill	0.000281	0.000195	1.49	0.1469
InFDI_MD	0.000207	0.000082	2.64	0.0128
R- square			0.9074	
Number of observations			53	

Note: Impact of remittances on life expectancy

R square of 0.9222 indicates how much variation in the dependent variable (life expectancy) can be explained by all the independent variables included in the model (remittances and FDI). The R square of 0.9222 explains that FDI and remittances explain 92.2 % of variation in life expectancy.



The results show that that t value of Remittances equals 1.49 meaning that they do not have a significant impact on life expectancy (dependent variable).

### Model 3

Third model looks estimates the effect of remittances on HDI (Human Development Index). HDI is a weighted average of life expectancy, literacy rate and GDP.

Dependent variable: HDI

Independent variable: remittances,

Control variables: FDI

**Table 7. ANOVA**

<i>Model</i>	<i>Sum of Squares</i>	<i>Degree of freedom</i>	<i>Mean Square</i>	<i>F</i>	<i>Pr&gt;F</i>
3	Estimate		Estimate	test	
	0.0236	32	0.0007	8.26	<.0001

ANOVA demonstrates that F test equals 8.26, with significance level less than 1%. It demonstrates that null hypothesis is rejected and at least one independent variable (FDI or remittances) has an impact on Human Development Index.

**Table 8. Coefficients**

<i>Model 3</i>	<i>Beta coefficients</i>	<i>Standard error</i>	<i>T-value</i>	<i>Sig.</i>
RemitMill	5.688E-6	4.168E-6	1.36	0.1819
InFDI_MD	4.963E-6	1.761E-6	2.82	0.0082
R- square			0.8650	
Number of observations			53	

Note: Impact of remittances on HDI

R square for this model is equal to 0.9124, which means that remittances and FDI explains 91.2% of variation in HDI.

The results show that remittances do not have a significant effect on HDI because their t-value is less than 1.97. However, FDI has a strong significant positive impact on human development.

### **Conclusions**

The results of the panel data analysis demonstrate that remittances have a strong positive effect on just one economic indicator of development such as GDP that proves my hypothesis about an immediate positive effect of inward financial flows. However, its impact is slightly less statistically significant than the impact of inward FDI flows. The results also show that remittances have no significant impact on social indicators of development that are represented here by Human Development Index and life expectancy which is evidence against my alternative hypothesis that remittances have a negative effect on socio-economic development of ECA. However, this is based on a smaller data set. Data limitation does not allow me to have more observations which could increase statistical significance of the results. These results also show that remittances may not be the main contributors to socio-economic development of Eastern European and former Soviet Union countries with FDI, for example, having a stronger impact, with a possibility of existence of other factors.

Remittances have a positive effect on GDP. However, their impact on social indicators is not strong which questions the opinion that remittances are able to improve living standards in those countries that are heavily depending on these financial flows.

There are several explanations for not finding a negative or positive effect of remittances on socio-economic development of ECA countries. One of them is the fact that my data for this research is based on official sources that do not include unofficial statistics on remittances (especially for Central Asian countries). It might have an effect on results I have produced, diminishing the real impact of labor migrant payments on development of receiving countries.

Political systems of many of the studied countries are still in the process of transition from central planning to more efficiently functioning economic systems. That might be another possible explanation for why the effects of remittances are still weak. Further development of political and financial institutions which will effectively regulate financial sectors can attract more remittances and make this process more efficient.

To make a more detailed analysis of this problem and pursue this study further I perform a case study on Kyrgyzstan that is heavily dependent on these external financial flows. It allows me to include other socio-economic variables as well as measure effects of migrant payments on the socio-economic structures more accurately on a case by case basis. It is done in chapter five.

## **Chapter four**

### **Social impact of globalization: migration**

In this chapter migration represents a tool of measuring globalization. In my opinion it perfectly reflects how expanding of economies and labor markets create advantages and disadvantages for certain countries. Globalization also has transformed existing characteristics of migration by creating new phenomena that are associated with it. For instance, economic-voluntarily migration is one of the examples of how contemporary globalization enables people freely move from one place to another “without changing their permanent place of living” (Korobkov and Paley, 2006).

### **Research Questions**

During last decades of accelerated globalization the world has been seeing an unprecedented rise of international migratory movements. One of the explanations of this process is the “globalization of world economy and its labor market” (Salt, 1992) that has created a system that makes economically disadvantaged people move from their home countries to places where human capital is treated as another profitable resource. According to Schiff and Ozden (2005) and the World Bank updated estimate there are around 200 million people living outside their home countries temporary or permanently. The region of former Soviet Union is not an exception.

Disintegration of the USSR has facilitated new immigration situations in the region shifting it from forced migration of 1990’s toward voluntary economic migration (Tishkov, Zainchkovskaja, Vitkovskaja 2005). Similarities among members of CIS such as cultural closeness (language), common educational systems and ability to freely move within borders of CIS as well as differences among them such as different levels of

economic development have provided a perfect platform for emerging of labor migration. Today, around 5 to 15 million people represent official irregular migrant workers from CIS region who reside mainly in Russia and Kazakhstan (Marat, 2005).

In this chapter I study the impact of this process on economic, social and political development on sending migrants countries. Particularly, I look at the former Soviet Union and Eastern European countries that are experiencing a rise of labor migration. Here, it is also important to mention that in this chapter I look at migration as a separate from remittances category that sometimes is used as a proxy for labor migration by economists. Basically, I define labor migration in terms of outflow of people and try to measure its social effect on sending migrant's countries. This chapter is the only time I differentiate between migration and remittances as two different variables.

My main research question is how migration affects social and economic development, by which I understand a process that involves “socio-economic structural changes” (Economic Development, 2009) in those countries and what consequences it might have on public and governmental regulations of sending migrants countries.

Understanding of the positive or negative effect of labor migration can be beneficial in several ways. First of all, it can provide useful tools for shaping public policies that can better regulate the process of migration that often takes a form of uncontrolled movement of people, which can be harmful for both sending and receiving migrant's countries. Secondly, it can help to develop policies that will prevent or minimize a possible negative impact of labor migration on socio-economic development by minimizing or preventing spread of such phenomena as brain drain or loss of skilled workers that can have a long term devastating effect on the economy of sending them

countries.

To answer my research question and formulate a comprehensive hypothesis it is also needed to analyze how modern migration patterns in Eastern European and former Soviet Union countries have been affected by globalization processes and what new characteristics they have today. I also have to look at what drives migration in the region in the first place, because different motives produce different kinds of people flows, such as temporary labor or permanent migration. To do so, I will use a push–pull theory of migration that was originally formulated by British theorists Ernest Ravenstain who developed “Laws of Migration” in 1885. In his work he concluded that migration is a process that is driven by push-pull factors (Ravenstain, 1985). He described push factors as certain economic or political conditions such as poverty or armed and civil conflicts that force or “push” people to move to different locations with better socio-economic conditions that play a role of “pull” factors (Theories of Migration).

Analysis of academic literature helps to understand that migration is not a novel phenomenon on the territory of the former Soviet Union and Eastern Europe. Different forms of migratory movements have been succeeding each other changing from pre-modern and early modern types of migration that were reflecting different historical events of that time such as “invasions from the steppes by nomadic Turks tribes, spread of Islam, medieval conquest and later colonization”, events that were responsible for extensive and often forced movements of people all over that region (Held and McGrew, 1999) to modern forms of migration that differ from previous ones by nature and socio-economic implications. New forms of migratory movements within the region can be characterized as economic, labor, and illegal migration that have emerged after the

collapse of the communist ideology in the ECA region.

After dissolution of the Soviet Union new independent states have chosen different paths of socio-economic development that were defined by historical and economic factors and shaped current conditions of those countries. Weak political systems as well as economic stagnation of some countries have created significant disparities in development among former Soviet Union and Eastern European countries. These conditions have played a role of “push” factors, triggering new patterns of people movements within ECA region. Labor migration is a result of this process. It is associated with economic and social dissatisfaction that forces people to move to different places with better economic opportunities that play a role of “pull” factors. Due to complexity of the issue I will concentrate on temporary labor migration that I hope will help to make a deeper analysis of this phenomenon on a socio-economic development of ECA countries.

## **Hypothesis**

In this paper I am interested in exploring the impact of labor migration as a phenomenon that itself has a potential to create serious social and economic problems on sending migrants countries. There are several possible negative impacts of labor migration on development. One of them is a “brain drain” which is a decrease of labor and intellectual force that often affects countries with smaller population such as Bulgaria or Kyrgyzstan (Mansoor and Quillin, 2006). It also affects migrant family household, changing its dynamic and structure that might lead to a decrease in fertility rate or decrease in children education if mothers are the ones who migrate, because children do

not get enough supervision to go to school (Mansoor and Quillin, 2006). That is why I look at labor migration as a separate from remittances category, that will allow me analyze this phenomenon not only from economic but also from social perspectives.

Based on the mentioned above conclusions I have formulated my hypothesis that states that migration has a negative effect on socio-economic development of migrant home countries in the ECA region. I argue that labor migration leads to decreases in labor and intellectual forces which is called “brain drain” that might affect such social indicators as life expectancy or human development.

I also argue that migration might have an immediate positive impact on economic indicators of home countries due to inflows of remittances. However its long run economic effect will be negative because of the Dutch disease effect that impairs production. This phenomenon is well examined by economists. It demonstrates that excessive flows of remittances in a country contribute to an increase in household incomes and respectively in consumption of products that are produced for domestic markets or nontradable goods such as real estate, services, water, and electricity and etc., at the expense of tradable sector. It creates a demand pressure on nontradable sectors forcing prices to go up that has a potential to diminish positive role of remittances as a tool of diminishing economic inequality (Acosta, Lartey and Mendelman 2007).

To analyze the impact of labor migration on socio-economic development I will look at economic and social “push” factors such as GDP, unemployment or general human development that is represented by Human Development Index and examine how they have been affected by migration (positively or negatively).



## **Research design: variables and methods**

In the process of collecting data on remittances I rely on official statistical databases that are provided by the World Bank, IMF, Human Development Report (HDR), UNDP, International Labor Statistics (ILO), Eurostat and UNESCO. I acknowledge the fact that the databases on labor migration and remittances I have used for my research can be subjective. These datasets rely on official data which are provided by domestic governments and use data from Census surveys or bank statistics and does not include undocumented transactions of remittances. That is why it cannot reflect the full scope of these financial flows.

To measure impacts of labor migration on socio-economic development I chose migration rate as an independent variable and socio-economic development as a dependent variable.

Migration rate is “the difference between the number of migrants entering and those leaving a country in a year, per 1000 midyear population. Migration rate may also be expressed as percentages. A positive figure is known as a net immigration rate and a negative figure as a net emigration rate” (International Data Base).

The social-economic development is a complex process that includes social and economic structural changes within a country. In my research it is measured by the Human Development Index that was developed in 1990 within the United Nations Development Program. It measures socio-economic development by “combining indicators of life expectancy, educational attainment and income into a composite human development index” (Human Development Report).

“The educational component of the HDI is comprised of adult literacy rates and

the combined gross enrolment ratio for primary, secondary and tertiary schooling, weighted to give adult literacy more significance in the statistic. Since the minimum adult literacy rate is 0% and the maximum is 100%, the literacy component of knowledge for a country where the literacy rate is 75% would be 0.75, the statistic for combined gross enrolment is calculated in a analogous manner. The life expectancy component of the HDI is calculated using a minimum value for life expectancy of 25 years and maximum value of 85 years, so the longevity component for a country where life expectancy is 55 years would be 0.5. For the wealth component, the goalpost for minimum income is \$100 (PPP) and the maximum is \$40,000 (PPP). The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GDP” (Human Development Report).

It basically measures three aspects of human development: knowledge, health and decent standards of living.

I also take unemployment rate, GDP per capita, and life expectancy as separate dependent variables. Unemployment rate is a rate of “unemployed as a portion of the total labor force” and is measured as a percentage (Nation Master statistical database). Literacy rate is a percentage of population that can read and write, life expectancy is “an average number of years of life remaining at a given age” (Sullivan and Sheffrin 2003) and GDP per capita is “an approximation of the value of goods produced per person in the country, equal to the country's GDP divided by the total number of people in the country” (Investor Words).

The reason why I decide to take these variables is that they are available and they also fit the definition of socio-economic development that states that it is a process of

“changes in the socio-economic structure of the country” such as rising income, or improving health and education systems.

To make sure that there are no intervening variables or spurious relationships between the main variables I will look at FDI (measured in millions of the current US dollars) as my control variable. According to the Economy Watch website (2009) Foreign Direct Investment (FDI) is an investment “which is made to serve the business interests of the investor in a company, which is in a different nation distinct from the investor's country of origin”.

My main units of analysis are countries observed over several years. I look at 27 countries that belong to the former Soviet Union region and Eastern Europe. I analyze my variables within 18 years period, starting from 1990 to 2008. However, for some of my models specifically involving HDI and literacy rates, I take 24 countries and 4 time periods, due to limitations of data and missing values for some countries and years.

I also use the fixed effects panel data model which is based on “observation of multiple phenomena observed over multiple time periods.” This method allows me to “observe cumulative changes in particular phenomenon over time by measuring all subjects at the same moment several times. It also allows producing more accurate results and conclusions (Johnson and Reynolds 2008).

My raw data are derived from databases that are provided by IMF, World Bank, HDR, ILO, UNDP and MPI annual reports that are available on official websites of these organizations. Official data for migration is collected through “*Demographic Yearbook data collection system*” that derives data from Population Census Questionary that is developed by the United Nation Statistical Division. The collection of international

migration data is shared among different institutions in order to minimize the burden on countries.” (UNDP)

### Data presentation

Using panel data regression analysis I have identified 4 models which explain causal relationship between migration and the dependent variables of socio-economic development. Four models correspond to four different dependent variables of socio-economic development (Human Development Index, GDP per capita, life expectancy and unemployment rate) and have a set of independent variables which include migration rate and FDI.

### Model 1

My first model identifies the casual effect of migration rate on GDP per capita which is one of the economic indicators of socio-economic development. This model also controls for another factor that can have an impact on GDP per capita such as FDI.

Dependent variable: GDP

Independent variable: migration rate

Control variable: FDI

**Table 9. ANOVA**

<i>Model</i>	<i>Sum of Squares</i>	<i>Degree of freedom</i>	<i>Mean Square</i>	<i>F</i>	<i>Pr&gt;F</i>
<i>1</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>		
	943555872.8	278	3394085.873	18.22	<.0001

**Table 10. Coefficients**

<i>Model 1</i>	<i>Beta coefficients</i>	<i>Standard error</i>	<i>T value</i>	<i>Pr&gt;F</i>
Migration rate	0.586956	0.1029	5.70	<.0001
FDI	0.197416	0.0287	6.89	<.0001
R- square			0.6788	
Number of observations			24	

Note: Impact of migration on GDP

**Model 2**

Second model investigates the impact of migration on unemployment rate which is another economic indicator of development. I also control for FDI as a factor that might influence unemployment rate.

Dependent variable: unemployment rate

Dependent variable: migration rate

Control variable: FDI

**Table 11. ANOVA**

<i>Model</i>	<i>Sum of Squares</i>	<i>Degree of freedom</i>	<i>Mean Square</i>	<i>F</i>	<i>Pr&gt;F</i>
2	<i>Estimate</i>		<i>Estimate</i>		
	2499.0213	245	10.2001	84.22	<.0001

**Table 12. Coefficients**

<i>Model 2</i>	<i>Beta coefficients</i>	<i>Standard error</i>	<i>T value</i>	<i>Pr&gt;F</i>
Migration rate	0.000089	0.000848	0.11	0.9163
FDI	-0.0001	0.000050	-2.03	0.0438
R- square			0.8912	
Number of cross sections			24	

Note: Impact of migration on unemployment

**Model 3**

Third model estimates the effect of migration on life expectancy which is one of the social indicators of development. I also controls for FDI to eliminate the possibility of spurious relationship between life expectancy and migration.

Dependent variable: life expectancy

Independent variable: migration rate

Control variable: FDI

**Table 13. ANOVA**

<i>Model</i>	<i>Sum of Squares</i>	<i>Degree of freedom</i>	<i>Mean Square</i>	<i>F</i>	<i>Pr&gt;F</i>
<i>3</i>	<i>Estimate</i>		<i>Estimate</i>		
	95.5253	52	1.8370	18.58	<.0001

**Table 14. Coefficients**

<i>Model 3</i>	<i>Beta coefficient</i>	<i>Standard error</i>	<i>T value</i>	<i>Sig.</i>
Migration rate	-8.02E-6	0.000012	-0.66	0.5143
FDI	5.251E-6	1.352E-6	3.88	0.0003
R- square			0.8457	
Number of cross sections			24	

Note: Impact of migration on life expectancy

**Model 4**

The last model estimates the effect of migration on HDI (Human Development Index). HDI is a weighted average of life expectancy, literacy rate and GDP.

Dependent variable: HDI

Independent variable: migration rate

Control variable: FDI

**Table 15. ANOVA**

<i>Model</i>	<i>Sum of Squares</i>	<i>Degree of freedom</i>	<i>Mean Square</i>	<i>F</i>	<i>Pr&gt;F</i>
<i>4</i>	<i>Estimate</i>		<i>Estimate</i>		
	0.0348	52	0.0007	12.79	<.0001

**Table 16. Coefficients**

<i>Model 4</i>	<i>Beta coefficients</i>	<i>Standard error</i>	<i>T value</i>	<i>Sig.</i>
Migration rate	-8.02E-6	.000012	-0.66	0.5143
FDI	5.251E-6	1.352E-6	3.88	0.0003
R- square			0.8457	
Number of cross sections			24	

Note: Impact of migration on HDI

## **Analysis of data**

### **Model 1**

First model looks at impacts of migration on economic development that is represented here by GDP. The panel data regression demonstrates following results. For the one way fixed effects model ANOVA demonstrates that all individual fixed effects that are included in the model (FDI and migration rate) are jointly significant. The F test for first model equals 18.22. The P value less than 1% which is strong evidence against the null hypothesis that claims that all individual specific fixed could be eliminated or fixed to zeroes. Translating it into simple language F test demonstrates that at least one of my independent variables (FDI or migration rate) has a statistically significant impact on GDP.

R square indicates how much variation in the dependent variable (GDP) can be explained by all the independent variables included in the model (FDI and migration rate). The R square of 67.88 shows that FDI and migration rate explain 67.8 % of variation in GDP in this model.

Coefficients for this model demonstrate that migration rate and FDI have a significant impact on GDP because their t-values greater than 1.97.

### **Model 2**

Second model estimates impact of migration on the unemployment rate. ANOVA test for this model demonstrates that F test equals 84.22, with significance level less than 1%. It demonstrates that null hypothesis is rejected and at least one of my independent variables has a significant impact on unemployment.



R square indicates how much variation in the dependent variable (unemployment) can be explained by all the independent variables included in the model (FDI and migration rate). The R square of 0.8912 shows that FDI and migration rate explain 89.1% of variation in GDP in this model.

The results demonstrate that migration does not have a significant impact on unemployment because its t value is small. However, FDI has a statistically significant impact on migration. Its t-value suggests that large FDI inflows decrease migration rate.

The results of the panel data analysis of first two models demonstrate that both migration and FDI have a strong impact on GDP. However, migration does not have any effect on unemployment. FDI has a strong impact on unemployment. From these results it can be suggested that there is no correlation between migration and unemployment that questions the whole idea about how migration takes of pressure from governments and solves problem of unemployment of sending migrant countries, which usually have high unemployment rates (18 % for Kyrgyzstan, 13.6% for Georgia, 34.9% for Uzbekistan).

### **Model 3**

My third model estimates the impact of migration on life expectancy. The results of ANOVA tests for this model show that F test equals 18.58, with significance level less than 1%. It demonstrates that a null hypothesis is rejected and at least one of my independent variables (FDI or migration rate) has a statistically significant impact on life expectancy. R square for this model is equal to 0.8756 which means that migration rate and FDI explains 87.5% of variation in life expectancy.

In this model coefficients demonstrate that migration does not have a significant

impact on life expectancy (migration rate t value is negative but less than 1.97 in magnitude). However, FDI has a positive significant effect on life expectancy.

#### **Model 4**

My last model estimates the impact of migration on HDI. The results of the panel data regression demonstrate that F test is equal to 12.79 with significance level less than 1% that suggests that null hypothesis is rejected and at least one of the independent variables has a significant impact on HDI.

Coefficients for this model show that migration does not have a significant impact on HDI. However, FDI does.

The analysis of impact of migration on social-indicators such as life expectancy and HDI demonstrates that migration does not affect those indicators, contrary to FDI that has a positive impact on them. It also suggests that migration is not an important factor of improvement or decrement of socio-economic development.

#### **Conclusions**

The results of the panel data analysis demonstrate that labor migration have a strong positive effect on just one economic indicator of development, GDP (probably because of the remittances), that proves my hypothesis about an immediate positive effect of migration. However, its impact is slightly less statistically significant than the impact of inward FDI flows. The results also show that migration have no significant impact on social indicators of development that are represented here by Human Development Index and life expectancy which is evidence against my alternative hypothesis that migration

has a negative effect on socio-economic development of ECA. However, this is based on a smaller data set. Data limitation does not allow me to have more observations which could increase statistical significance of the results. These results also show that migration may not be the main contributors to socio-economic development of Eastern European and former Soviet Union countries with FDI, for example, having a stronger impact, with a possibility of existence of other factors.

Labor migration has a positive effect on GDP. However, its impact on social indicators is not strong which questions the opinion that migration is able to improve living standards in those countries that experiencing high migration rates.

There are several explanations for not finding a negative or positive effect of migration on socio-economic development of ECA countries. One of them is the fact that my data for this research is based on official sources that do not include unofficial statistics on labor migration (especially for Central Asian countries). It might have an effect on results I have produced, diminishing the real impact of labor migration on development of receiving countries.

Political systems of many of the studied countries are still in the process of transition from central planning to more efficiently functioning economic systems. That might be another possible explanation for why the effects of labor migration and remittances are still weak. Further development of political and financial institutions which will effectively regulate financial sectors can attract more remittances and make this process more efficient.

## **Chapter five**

### **Case study: Impact of Labor Migration and Worker's Remittances on Socio-Economic Development of Kyrgyzstan**

In this chapter of the thesis I combine labor migration and remittances and look at their economic and social effects on the socio-economic development of Kyrgyzstan.

#### **Introduction**

Migration is not a novel phenomenon in Central Asia. Historically it has existed there in different forms. Central Asia was part of the Great Silk Road that connected different parts of Asia with Europe and “served as a transit corridor for people flows”(Schmidt and Sagynbekova, 2008). Nomadic tribes that lived there were also familiar with the concept of migration seasonally moving from one part of the region to another. During the Tsarist and later Soviet Union era migration took the form of the colonization of Central Asia which brought various groups of people from the centre to the peripheries of the colonized territories” (Schmidt and Sagynbekova, 2008). Then, there was a forced migration of the Stalinist epoch that resulted from strong political and economic factors and brought people from the “European part of the Soviet Union to Central Asia” (Schmidt and Sagynbekova, 2008).

This chapter concentrates on the later forms of migration and resulted from it remittances and examines the consequences it has had on the socio-economic development of Central Asian countries, particularly on Kyrgyzstan. I will begin with describing major migration trends in the history of Kyrgyzstan. Then, I will explore the phenomenon of remittances that is connected to labor migration. After that I will try to

draw parallels between remittances and socio-economic development by analyzing the existing academic literature and applying the dependency theory. I will also analyze impact of remittances on the development by looking at the changes in socio-economic indicators of Kyrgyzstan. Finally, I will conclude with a discussion of the results of this chapter.

### **History of migration in Kyrgyzstan**

Kyrgyzstan is one of the 15 independent republics that have emerged after the dissolution of the Soviet Union in 1991. However, history of Kyrgyz people goes back to ancient times (840 AD) when Kyrgyz nomads have occupied and maintained dominance over territories of Tian-Shan mountain range.

Migration or mobility was a distinctive feature of the Kyrgyz nomadic tribes which would seasonally move from one place to another in search of vegetation for animals or during the tribal wars. This style of life changed after the colonization and inclusion of the Central Asian region into peripheries of the Tsarist Russia in 1876 (Schmidt and Sagynbekova, 2008).

Colonization process was marked by migration that brought colonizers from the centre of the Russian Empire to the peripheries. Russian peasants were sent to the Central Asian region to occupy land that once belonged to the native people. The Russian Empire used this method to secure its remote borders. The indigenous population resisted the occupation which led to an uprising in 1916. However this resistance was violently suppressed and many Kyrgyz people had to escape by migrating to neighboring countries such as Afghanistan and China.

During the Soviet era migration patterns changed again. Nomadic style of life was decided to be ineffective by the Soviet leaders and Kyrgyz people started the process of forceful settlement. This period was also marked by forced deportation of various ethnic groups such as Meschetian Turks, Germans, Koreans, Chechens and others who were deported to Kyrgyzstan (Polian, 2004). This massive inflow of people changed the ethnic composition of the Kyrgyz population decreasing the share of indigenous population.

With the collapse of the USSR new forms of migration emerged. Forced migration that was based on displacement of certain minority groups shifted towards repatriation migration that was associated with non-titular groups in Kyrgyzstan going back to their countries of origin and later to voluntarily labor migration of the post-Soviet period (Aidyngu, Hardin, Kuznetcov, 2006).

After dissolution of the Soviet Union new independent states have chosen different paths of socio-economic development that were defined by the historical and economic factors, which have shaped current conditions of those countries. Weak political systems, along with the presence or lack of precious natural resources have created significant disparities in the socio-economic development among the former Soviet Union countries.

Kyrgyzstan is one of the Central Asian countries that were severely affected by the economic crisis that followed the break-up of the USSR. Broken agricultural sector that depended on the “collective state farming” philosophy as well as de-industrialization in the areas of manufacturing, mining and construction, along with the growth of working age population lead to economic stagnation in Kyrgyzstan (Marat, 2008).

Inability of the Kyrgyz government to create effective economic and political

systems contributed to the rising unemployment that triggered a massive outflow of people from the country. According to statistics for year 2002 approximately 1.3 million people moved at least once to find a job within and outside the country (Schmidt and Sagynbekova, 2008). According to the UN today's labor migrants from Kyrgyzstan represent 20% of economically active population (UNIFEM, 2009).

This process was associated with the emergence of new patterns of people's movements within and outside the country. Labor migration is one of the examples of such patterns. It is associated with economic and social dissatisfaction that force people to move to different places with better economic opportunities. According to the Government of the Kyrgyz Republic (2007) unemployment is still one of the main reasons for massive labor migration. According to approximate estimates there are around 500,000 to over one million Kyrgyz people working abroad (Marat, 2008). Two favorite destinations for Kyrgyz immigrants are Russia where immigrants from Kyrgyzstan constitute 50% of total immigrant population and Kazakhstan where they represent 30 % of the total immigrant population (Tishkov, Vitkovskaja, 2005).

Here it is very important to acknowledge that it is difficult to measure the real scope of labor migration in Kyrgyzstan. One of the reasons for that is the existence of illegal or unreported migration as well as inability of the Kyrgyz government (that is comfortable with the existing numbers) to solve this pressing issue of massive people outflows from the country (Llense, 2008).

### **Labor migration and remittances**

Labor migration has generated a new dynamics within Kyrgyzstan and Central

Asia in general, and produced new kinds of socio-economic phenomena. Labor migration itself is not a new historical event. However the results that are produced by the economic migration are.

Remittances are a perfect example of the new socio-economic phenomenon that is associated with labor migration. They are considered to be “cross border payments that are made by migrant workers to support people in their home countries” (Schrooten, 2006). Remittances include two types of migrant transfers: compensation of employees from migrants that live outside of the country of origin more than one year and less than one year (Schrooten, 2006). They are considered being the main sources of subsistence for the majority of migrant households (Tishkov, Vitkovskaja, 2005).

Remittances are also a second largest source of financial inflows after Foreign Direct Investment (Mansoor and Quillin, 2006). Data from IMF and World Bank show that financial flows that come from migrant workers constitute a large portion of countries GDP. For instance, remittances in Tajikistan represent 36.2% of GDP, in Kyrgyzstan it is 27.4% and in Armenia 18.3% (IMF 2008). For such countries as Tajikistan, Kyrgyzstan and Armenia where remittances constitute a large portion of GDP, worker's remittances are not only an external source of finance but also a tool for fixing unemployment which is a serious problem in these countries.

Today, Kyrgyzstan economy has become dependent on remittances. The real size of migrant payments is unknown but according to official and alternative statistics the size of the remittances inflows varies from US \$ 322 million to US \$ 800 million, (Aitymbetov, 2006). According to some studies that were done by the World Bank the amount of remittances already exceeds the amount of FDI inflows to Kyrgyzstan



(Schrooten, 2006) and constitutes 27.4% share of GDP.

To fully understand the impact of remittances on the development of Kyrgyzstan it is needed to look at the existing theories of development, academic literature and studies that have been done in the area of migration and remittances, as well as to define the meaning of the socio-economic development.

Literature review for this paper is mainly based on my previous study of this issue. There are two approaches toward understanding the importance of remittances and migration that exist within academia.

First approach is based on the idea of positive role of migrant payments on the social development. Such authors as Korobkov and Lev V. (2005, 2007); Ivakhnyuk (2006); Jones , Black and Skeldon (2007); Admos, Piesse and Pinder (2003); Aitymbetov (2006) and others suggest that worker's remittances and remittances in general can be very beneficial for developing countries. They claim that remittances are able to stabilize economy by re-investing in the economy, alleviating poverty, preventing hunger and solving unemployment problems. This group of scholars uses such approaches as time-series cross sectional analysis or case study. For example, Samangan Aitymbetov uses a case study approach that analyzes the impact of remittances on the economic development of Kyrgyzstan by looking at changes in consumption, income and investment. Others such as Mechthild (2006) use panel data techniques that demonstrate that remittances are persistent and increase with the rise of domestic unemployment. They also show that with the growth of GDP per capita and an increasing openness of the markets through international integration the quantity of migrant flows decrease.

Second approach is built on the idea that remittances have a negative impact

(Dutch disease or brain drain) on the socio-economic development. There are several comprehensive studies that reflect this academic trend of thinking (Acosta, Lartey, Mandelman, 2009; Agunias 2006; Cohen, 2005; Haas de Hain, 2007; Mechthil 2006; Shelburn and Jose Palacin 2007; Stuart 2006). These papers are based on arguments that worker's remittances might have a positive effect on development in the short run, but are irrelevant or negative in the long run. These authors argue that remittances are a complex phenomenon. They require that one look not only at the economic aspects of them, but also at other socio-political factors associated with them. They also try to use not only economic analysis of this phenomenon but also try to employ alternative qualitative methods like partial and temporal scales of analysis to find effects of remittance on development.

The analysis of the scholarly papers demonstrates the complexity of this phenomenon and a need to implement different scientific techniques and methods that can help to establish strong connections between remittances and socio-economic development.

### **Socio-economic development**

By socio-economic development I understand a process that involves “socio-economic structural changes” (Economic Development, 2009) in Kyrgyzstan which affect political, social and political spheres of the country. These changes are represented by improvements in living standards such as rising income and improving health and educational systems (Jaffe 1998). The basis of development is built on economic growth, political and social modernizations (Pieterse, 2001)

I also use structural as well as functional approaches of dependency and social development theory to estimate the impacts of remittances and migration on Kyrgyzstan. Each of these approaches reflects competing ideas about impact of migration and remittances. In my opinion positive and negative impacts of remittances on the socio-economic development of Kyrgyzstan can be examined from the perspectives of both theories. Positive effects of remittances can be explained by the functional approach that implies that foreign capital (in this case it is remittances) can be re-invested in the local economy that will boost economic growth which is a strong argument of some scholars (Aitymbetov, 2006).

Negative effects of the remittances can be explained by the structural approach that suggests that reliance on foreign capital undermines the development by posing serious long run economic and social consequences. Excessive dependence on receiving financial flows (remittances) impairs the country's ability to develop its economy. It also argues that remittances can damage social-economic development by creating a "brain drain" effect or by the Dutch disease that leads to a rise in prices of nontradable goods, appreciates the exchange rates, which drives producers of tradable goods out of business, and also causes social complications in the form of growing economic disparities. Some authors explain that excessive flows of remittances in a country contribute to increases in household incomes and respectively in consumption of products that are produced for domestic markets or nontradable goods such as real estate, services, water, and electricity and etc., at the expense of the tradable sector. It creates a pressure in the nontradable sectors forcing prices to go up that has a potential to diminish the positive role of remittances as a tool of diminishing economic inequality (Acosta, Lartey and

Mendelman, 2007).

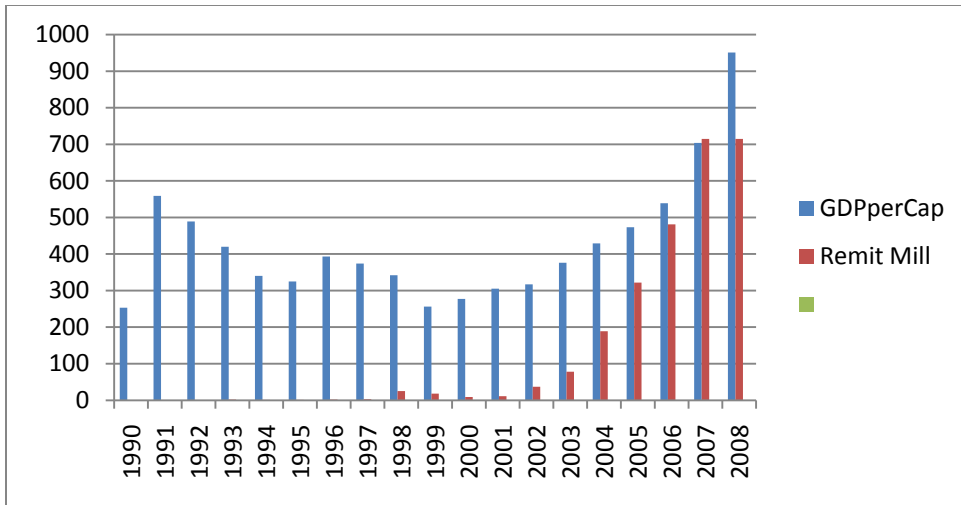
### **Research design**

My previous study of this issue was based on a panel data regression analysis of 18 ECA countries where I attempted to measure general the impact of remittances. Here I analyze the impact of remittances specifically for Kyrgyzstan. I want to look at certain socio-economic indicators and see how they change with an increase in remittances inflows.

My *dependent variable* is socio-economic development that is represented by Gross Domestic Product per capita (GDP), Foreign Direct Investment (FDI), exports as a percentage of GDP, output by sectors as a percentage of GDP, unemployment, private consumption, net migration rates and life expectancy as social variables.

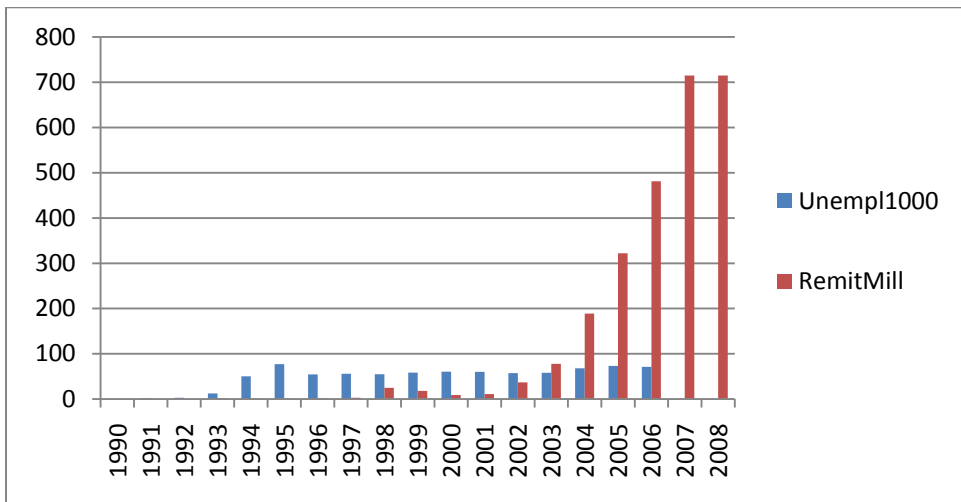
My *independent variable* is remittances measured in millions of the US dollars. I will look at how increases in the amount of remittances affect changes in those dependent variables.

My first graph compares changes in GDP with changes in remittances inflows. From the chart it is seen that there is a strong connection between increases in remittances and increases in GDP. This observation already was established by my previous empirical study that found a correlation between these two variables.



**Figure 1. Impact of remittances inflows on change in GDP**

The second graph shows changes in unemployment with respect to changes in remittances inflows. From the chart it can be concluded that unemployment does not change (it does not decrease as expected) with increases in remittances that means that there is no strong connection between them.



**Figure 2. Impact of remittances inflows on change in unemployment**

The third graph analyzes changes in FDI with respect to remittances.

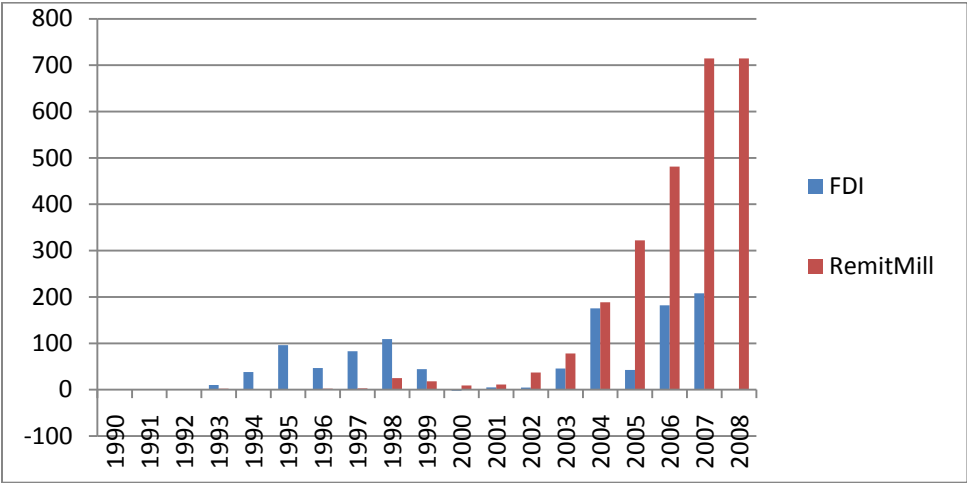


Figure 3. Impact of remittances inflows on change in FDI

From the chart it can be concluded that with increases in remittances the amount of FDI stops growing that means that remittances as an independent financial source affects FDI inflows into the country. The fourth graph shows changes in net migration with respect to remittances. The data suggests that increases in remittances do not affect net migration, which means that there is no strong connection between these two variables.

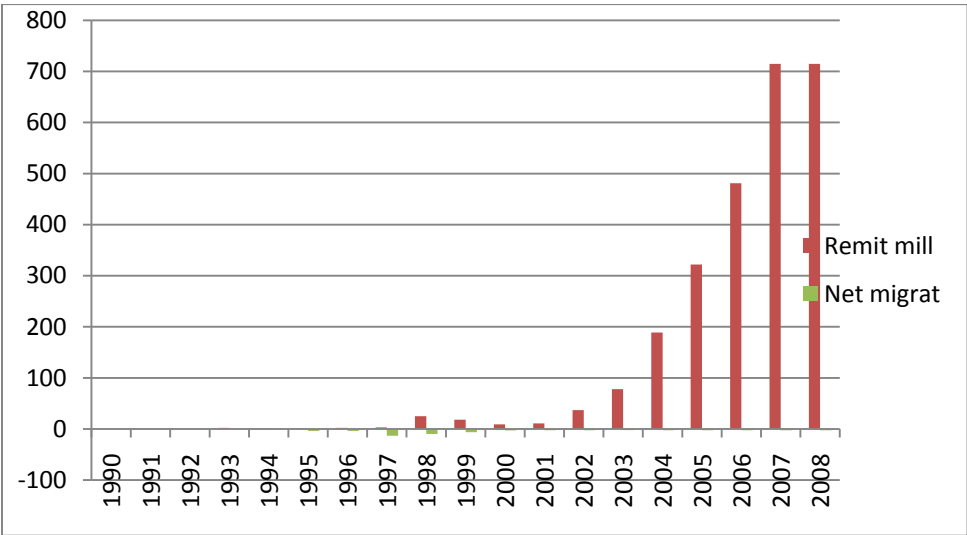
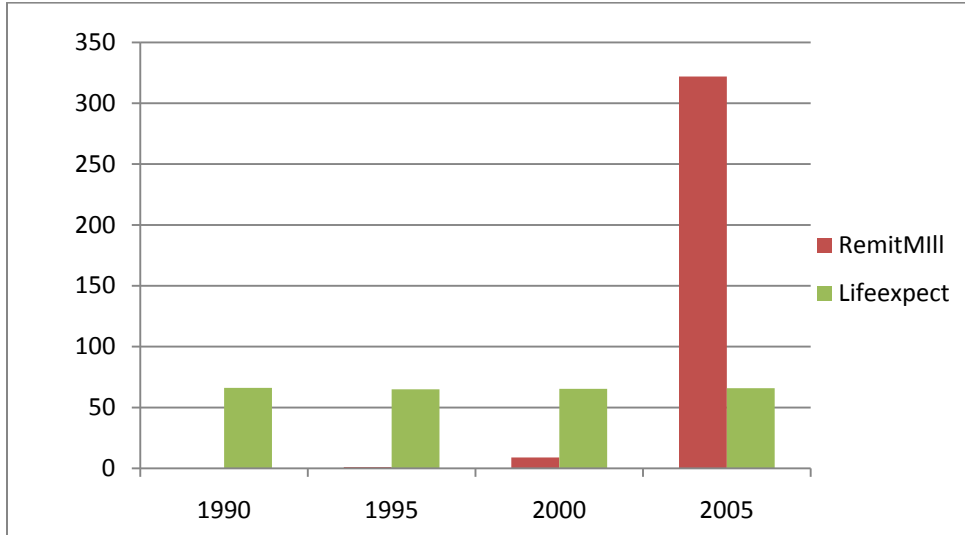


Figure 4. Impact of remittances inflows on change in migration net

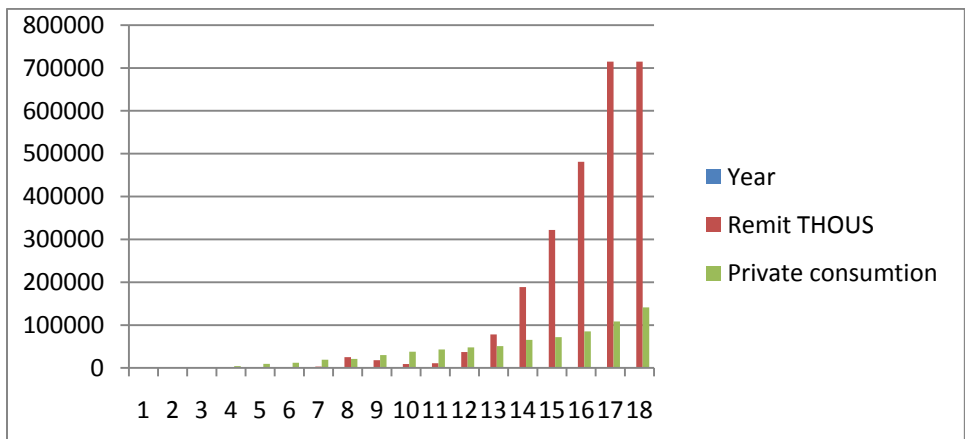
The fifth graph describes changes in life expectancy with respect to remittances.



**Figure 5. Impact of remittances inflows on change in life expectancy**

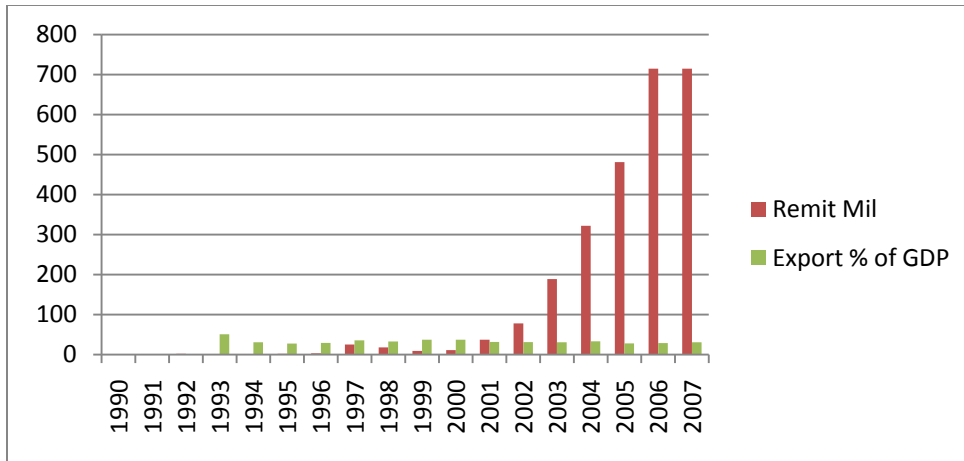
It demonstrates that increases in remittances do not affect the life expectancy variable, suggesting that there is no strong connection between remittances and life expectancy.

The sixth graph shows how increases in remittances inflows affects private consumption. From the chart it can be seen that with increases in remittances increases private consumption. (Here remittances are represented in thousands).



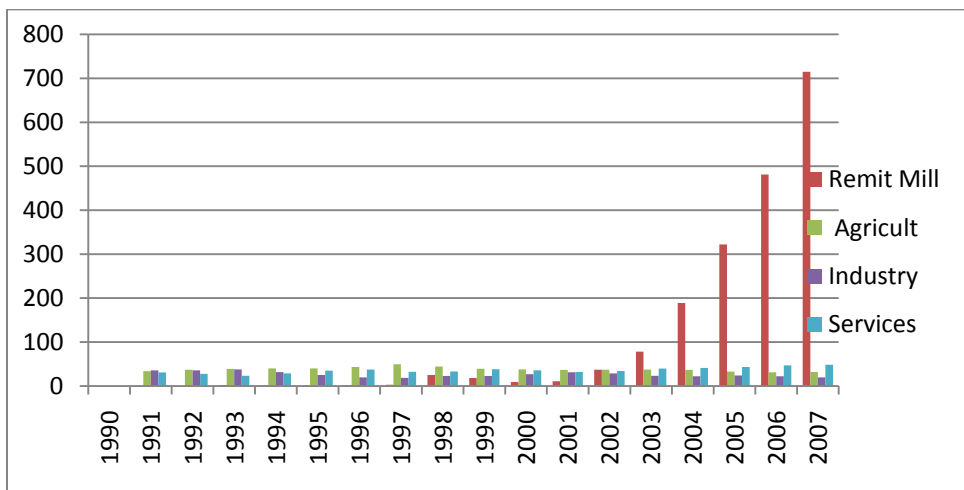
**Figure 6. Impact of remittances inflows on change in private consumption**

The next graph demonstrates how remittances affect export.



**Figure 7. Impact of remittances inflows on change in export**

The data presented in the graph shows that increases in remittances inflows slightly decrease exports in the country. The final graph demonstrates change in different sectors of the economy in respect to remittances.



**Figure 8. Impact of remittances on various sectors of economy**

The data on this chart shows that increases in remittances inflows have a positive impact on the services and a negative effect on the industry sector.

Thus remittances have a strong effect only on the growth of GDP and increases in private consumption and have a small but still positive effect on the growth of the share



of the sector that provides services in Kyrgyzstan. Overall, they do not have a significant positive effect on other socio-economic indicators. Moreover, remittances can have a long term negative effect on economic development especially in such areas as industry and exports. These results are consistent with my previous empirical findings done for a panel of countries.

## **Conclusions**

In my opinion, the significance of this case study is based on the fact, that I have tried to look at the importance of remittances not only from macro-economic perspectives, which was well investigated by other economists, but also from the social perspectives, taking such social indicators of development as migration and life expectancy to analyze how they are influenced by remittances.

To conduct my analysis I have used a case study approach that allowed me to look at just one country, Kyrgyzstan, and include different socio-economic variables, not available for a group of countries. It also allowed me to measure effects of migrant payments on the socio-economic structures more accurately on a case by case basis.

Understanding the effects of worker's remittances can be beneficial in several ways. First of all, it can provide useful tools for shaping public policies that can create favorable conditions such as lowering transaction cost or "strengthening a formal remittances infrastructure" for attracting even more inward remittances, especially in those countries that heavily depend on them (Ratha 2009). Second, it can help to develop strategies that will prevent or minimize possible negative impacts of remittances on socio-economic development in the long run. The conclusion for Kyrgyzstan is that the

effects of remittances are twofold. On the one hand, they indeed increase GDP per capita. On the other hand, they have a negative effect on the industrial sector which might have a very strong negative effect on the Kyrgyz economy in the long-run.

## **Chapter six**

### **Political Impact of Globalization. Liberal Democracy and socio- economic development: China and India as a model for comparison of Kazakhstan and Ukraine**

In this chapter I explore the issue of globalization and development from perspectives of political regimes. I look at the phenomenon of (Western model) democracy as a tool of measuring globalization and analyze whether there is correlation between adoption of liberal democratic form of governance by developing countries and their economic development.

This chapter argues that liberal democracy is not a prerequisite for successful economic development contrary to what some scholar believe (Held, Goldblat, Perraton, 1999). I take economically successful China (authoritarian regime) and India (the largest democracy) that is still lagging behind as a foundation for a comparison analysis of former Soviet Union countries such as Kazakhstan which is an authoritarian country with robust economy and democratic Ukraine with severe economic problems.

My hypothesis states that democratic political regime is an important part of development but not a necessary precondition for it and there are other economic elements that contribute to development. To prove my hypothesis I look at democratic theory that helps to analyze different factors that might contribute to development. Preliminary conclusions suggest that democracy does not affect successful socio-economic development.

During the last decades the world has been seeing an unprecedented rise of globalization that is often associated with spread of neo-liberalism and democratization

doctrine around the world. It is a complex phenomenon that touches various spheres of a society. To make it simpler I try to look only at two dimensions of globalization: economics and politics.

I also concentrate on Central Asian countries that still are trying to find their place in the globalized capitalistic world. In previous sections of the thesis I examined socio-economic aspects of globalization such as migration and remittances and their impact on development of Central Asian countries. Based on a panel data analysis of the former Soviet bloc countries and a case study of Kyrgyzstan I found out that there is a no positive effect of globalization that was measured by migration and remittances. Moreover, there is long term negative effect that might affect successful socio-economic development.

In this chapter I would like to look at political aspect of globalization phenomenon and its influence on socio-economic development. I use democracy as a measure of globalization because according to some definitions globalization is synonymous to democratization process (Scholte, 2005) or often accompanies it. I try to find a correlation between democratic regimes and development by looking at and comparing democratic and nondemocratic countries and the level of their socio-economic development. What I try to prove is that democracy cannot be the only major factor that drives development. I use quantitative (simple regression analysis) and qualitative approaches (analysis of social and economic indicators of particular countries) to prove my hypothesis. Then, I do a case study by analyzing socio-economic indicators in China and India and latter comparing them to Kazakhstan and Ukraine, countries that have certain similarities with China and India from political and economic perspectives.

Political aspect of globalization is often associated with concepts of democracy, international institutions, social movements and NGO's ( Thorup, Sirensen, 2004).

This understanding of globalization comes from perspectives of liberal/neoliberal tradition that suggests that democracy and democratic institutions is a necessary precondition for development (Smith, Baylis and Ownes, 2008). According to such scholars as Huntington, Shin, and Diamond the spread of democratic governance that has been on a rise since the end of the Cold War is contributed to an accelerated globalization that not only brought military and communist regimes all over the world down but also speeded up economic development in many developing countries (Scholte, 2005).

Here I would like to look differently at an existing liberal doctrine that suggests that democracy promotes development. Presences of countries which demonstrate successful economic growth despite being non-democratic made me to formulate my main research question that tries to establish correlation between democratic regime and development.

I use democracy as my main tool of measuring globalization. Here, it is represented by Democracy Index that was developed by the Economist Intelligent Unit. Socio-economic development is measured by using aggregated indexes such as Human Development Index (HDI), and Index of Economic Freedom.

One of the reasons why I decided to take these indexes as my main political measures of globalization is that they are consistent with the definitions of liberal democracy and socio-economic development used in my thesis. However, I acknowledge that there are certain limitations that affect my results and do not allow me to be certain about the relationship between democracy and socio-economic development. One of

them is the use of Democracy Index and Index of Economic Freedom for the Former Soviet Union countries. Despite all claims about taking a course toward economic and political liberalization some of the Central Asian countries are still considered to be in the transition from centrally-planned to market economy. That is why some of the indicators included in these indexes cannot objectively reflect the current political or economic situation in some Central Asian republics. Another problem associated with aggregated indexes in general is that they do not always include all the relevant factors. For instance, the Index of Economic Freedom incorporates many factors that are important for economic development; however it does not look at the power of entrepreneurship that is an important element of economic growth in China used as a model for comparative analysis in my thesis. In case with the Human Development Index one of the biggest limitations is that it does not account for “a difference among industrialized and developing countries” (Anand and Sen, 1994).

In my opinion, the significance of this study is based on the fact that it tries to examine existing liberal doctrines from a different perspective rather than conclude about positive or negative impacts of democracy on economic development. An outcome of that can be significant, especially if it is consistent with empirical studies that were done by major political scientists and scholars. In the future it might help to reshape foreign policies of hegemonic powers towards the developing world. As for developing countries, understanding that democracy is not equal to stable socio-economic development can lead to choosing alternative to western model ways of governance that will take into account cultural, political and social difference that exist among countries and possible can prevent prospects of cultural clashes.

Before I start analyzing the impact of political regimes on development it is needed to define concepts that will be used in this chapter as well as go through literature review that can help to determine methods and theories I can use for my research.

### **Definitions of democracy, authoritarianism and socio-economic development**

Democracy is a very complex phenomenon that is featured by having multiple definitions and conceptions that reflect particular cases (Fish, 2008). Many of them were developed within comparative politics field. One of the most used definitions of democracy was formulated by Joseph Shumpeter who understood it through perspectives of free election (Fish, 2008). Later, many prominent scholars such as Huntington, Di Palma, Sartori, Shapiro and Dahl used this approach to democracy to advance their own definitions and concepts. In my opinion, Robert Dahl definition of democracy that was formulated in 1982, embraces all variations of this concept. It clearly defines conditions of democracy as following: elections, ability to vote and run for elections, ability to freely participate in political life, free media and freedom of speech (Fish, 2008).

There is another definition of democracy that is closely linked to Dahl's concept. It was formulated by Stephen Fish who measures political regimes (which democracy is) in terms of degrees of openness. According to him regime is democratic if there is an open political participation for everyone, where competition is open and political communication flows openly (Fish, 2008).

He also defines authoritarianism suggesting that this concept is not exactly appropriate antonym to democracy. It implies a harsh rule but does not specify who is a ruler, contrary to a concept of democracy that means a rule by the people (Fish, 19). That

is why Fish suggests using a concept of monarchy which is type of so called authoritarian regime that is based on a “ rule of a unified collective actor ( individual or party) and where political life is closed to everyone else” (Fish, 2008).

Based on these definitions I refer to the countries in my case study (China, India, Kazakhstan and Ukraine) as monarchies and democracies.

I also use the Democracy Index as a measure of democracy. It looks at electoral process and pluralism; civil liberties; functioning of the government; political participation, and political culture (Economist Intelligent Unit, 2008).

Socio-economic development is another important concept that is significant for my study. By socio-economic development I understand a process of “socio-economic structural changes” (Economic Development, 2009) which affect political, economic and social spheres of a country. These changes are represented by improvements in living standards, such as rising income and improving in health and educational systems (Jaffe, 1998). The basis of development is based on economic growth, political and social modernization (Pieterse, 2001).

In my research socio-economic is measured by the Human Development Index that was developed in 1990 within the United Nations Development Program. It measures socio-economic development by “combining indicators of life expectancy, educational attainment and income into a composite human development index” (Human Development Report). It basically measures three aspects of human development: knowledge, health and decent standards of living.

I also use Index of Economic Freedom to measure development. It was developed by Wall Street Journal and Heritage Foundation in 1995 and reflects such categories as



business freedom; trade freedom; fiscal freedom; government size; monetary freedom; investment freedom; financial freedom; property rights; freedom from corruption; and labor freedom (Wall Street Journal and Heritage Foundation, 1995). Basically, “these categories are the main elements of a concept of economic freedom which is a fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please, with that freedom both protected by the state and unconstrained by the state. In economically free societies, governments allow labor, capital and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself.” (Wall Street Journal and Heritage Foundation, 1995).

### **Theoretical background and literature review**

Since I am dealing with an issue of liberal democracy and its impact on development I decided to look at democratic theory. I found out that this theory complex as well as definition of democracy. There is no singular theory. Contrary there is a variety of democratic theories and scholars who propose them where each of them deals with certain aspects of democracy. Such academic scholars as Shumpeter (1950), Huntington (1968), Dahl (1971), Huntington and Dominguez (1975) and O’Donnell (1973) had been concentrating on an impact of democracy on social, political and economic dimensions of a society.

For the purpose of the thesis I would like to look only at economic aspect of liberal democratic theory that deals with economic freedom that includes private

ownership of property and business, free markets and weak role of the government. Basically, the main idea of this approach is that democratic political and economic institutions provide a background for successful economic development.

This understanding of democracy is reflected in many academic works that suggest that democratic regime positively contributes to socio-economic growth (Thaker, 2007; Halperin, Siegel, and Weinstein, 2005; Grosgean and Senik, 2008; Prezworski, 2004). This approach is known as a *compatibility perspective*.

However, another academic view of this issue is reflected in a *conflict perspective* that suggests democracy hinders economic growth and development. Scholars such as Walter Galenson, Karl de Shweinitz, (1959); Huntington and Domingues, (1975); Huntington, (1968); Barro, (1998); O'Donnell, (2001) argue that with the spread of democracy arises a problem of redistribution and enhanced role of interest groups. According to this approach democracy and economic growth are competing elements. Economic growth needs a strong authoritarian regime that better implements economic policies because weak democratic institutions are not able to do it (Sirowy and Inkeles, 1990).

Modernization thesis approach toward democracy suggests that it is indeed economic growth (not democracy) that promotes democracy (Lipset, 1959).

All those theoretical approaches have been tested by using qualitative as well as quantitative methods. Qualitative studies were done by using a case studies that would examine an impact of democracy on developing countries in Latin America, Eastern Europe, Africa and Asia (Chen, Liang-chih, 2009; Bruce Bueno de Mesquita and George Downs, 2005; Morton H. Halperin, Joseph Siegle, Michael M. Weinstein, 2005)

Quantitative studies were done by employing cross-sectional analysis (Neubauer, 1967; Diamond, 1992, Muller, 1995; Przeworzky and Limongi, 1993, also Przeworzky, 2005) and simultaneous equation models (Rafael Reuveny and Quan Li, 2003).

Based on the analysis of the academic literature it can be seen that there is no research done on the Central Asian region.

### **Hypothesis and research design**

An analysis of academic literature clearly demonstrates that although issue of democracy is a complex and controversial phenomenon, compatibility perspective of democracy and economic development surely has been on a rise for last two decades that is very consistent with the intensive spread of globalization (western political and economic paradigm) around the world.

However, based on a literature review I formulate by hypothesis that argues that democracy is not a necessary condition for socio-economic development and growth. Examples of some Latin American (Argentina, Chile in late 1970's) as well as East Asian (East Asian Tigers between 1960-1970's), plus modern China and Central Asian countries (modern time) is the best evidences of that (Thacker, 2007).

### **Research design**

To test my hypothesis I have to use both quantitative and qualitative approaches. I use a simple regression analysis and a case study that will compare socio-economic indicators of transition democracies (India, Ukraine) as well as monocracies such as China and Kazakhstan.

My dependent variables are economic development and economic growth which are represented by GDP, HDI and Economic Freedom Index.

My independent variable is democracy that is measured by Democracy Index. Here it is very important to mention the scaling of indexes that I used for both a regression analysis and a case study.

**Democracy index** according to Economist Intelligence Unit Index of Democracy :

Full democracies - scores of 8-10.

Flawed democracies - scores of 6 to 7.9.

Hybrid regimes - scores of 4 to 5.9.

Authoritarian regimes - scores below 4.

**Economic freedom score** according to Wall Street Journal and Heritage foundation:

Each one of the 10 freedoms is graded using a scale from 0 to 100, where 100 represent the maximum freedom. A score of 100 signifies an economic environment or set of policies that is most conducive to economic freedom (Heritage Foundation).

**Human Development Index (HDI)**

HDI scores from 0 to 1(1 indicates high human development)

**Case study: China**

Today China is not only one of the fastest growing economies in the world but also is an important player on the international arena. It actively involved in strengthening its influence not only in East Asia but also in resource rich Central Asian region that is vital for Chinese rapid economic growth that fluctuated between 9.9 % –

10.1 % in 2004 and 2005, according to the World Bank report (2005).

According to Stephen Fish its political regime can be characterized as a monocracy with a rule of one communist party that was able successfully reform an economic system by “reducing a role of ideology in economic policies” (state.gov). China’s adherence to the principles of a market oriented reforms significantly reduced poverty and increased living standards( GDP per cap is \$4,644) by bringing more FDI (\$69.5 billion a year), increasing trade, particularly with the US where imports from China accounted for 16.1% of overall U.S. imports in 2008 (state.gov) and participating in projects for liberalization of an economy.

Despite the significant progress in economic area China is still considered to be a monocracy where all power belongs to a highly centralized political institution in the face of the communist party that does not tolerate any type of disobedience or critique of the regime that often leads to human rights abuse.

## **India**

India is another rapidly growing developing country (that also competes with China for a leading role in the region) which is a number four after the US, China and Japan in “terms of absolute level of Gross National Income” and world 12<sup>th</sup> largest economy (Srinivasan, 2006).

India has been loyal to principles of market oriented economy since 1991 when major economic reforms started taking a place. Such reforms as reduction of tariff and trade barriers, reforming and modernizing the financial sector, increasing trade relationships with other countries as well as providing an environment for foreign

investment annually helped to attract \$16.9 billion (state.gov). Reforms also increased certain standards of living such as GDP per cap which is \$2,469.

India's political regime considers being a democracy. However, despite being a second largest democracy in the world after the US (its population is 1.1 billion) it is still lagging behind China. Its socio-economic indicators such as GDP or HDI are much lower than those in China. It is unemployment level (6.4%), literacy rate 61% as well as percentage of population living below a poverty line is 25%. In China those indicators are 4%, 90.9 % and 8 % respectively.

### **Kazakhstan**

Kazakhstan is one of the former Soviet Union countries that have emerged after the collapse of the Soviet Union. It is a ninth largest country in the world (state.gov) and one of the developed countries in the Central Asian region with abundant natural resources. Its population is 15.6 billion and its GDP per capita is \$ 9,832. Based on Human Development Index Kazakhstan considered being a medium developed country with unemployment rate 7.3 %, population below poverty line 13.8%, with literacy rate 98.4 %.

With the gaining independence in 1991 Kazakhstan choose a path of democratization that implied the active economic liberalization and adopting a western style of governance. Economic reforms proved to be effective contrary to political reforms that reverted from democratic rule toward old style Soviet rule that was based on an idea of a total control of one leader or party. Today, Kazakhstan political regime can be described as monocracy with a strong institution of presidency.

Economic success of Kazakhstan partly contributed to an export of oil and gas. However, it is the effective leadership that was able to “manage monetary policies “effectively (state.gov) Kazakhstan was the first former Soviet Union country that returned all its debt to IMF in 2000 (state.gov). The leadership also was able to increase general living standards that cannot be done without certain degree of control and effective management.

## **Ukraine**

Ukraine is another former Soviet Union country that emerged with the dissolution of the USSR. It is the largest country in Europe. At certain extent it has a similar starting point with Kazakhstan. It started its existence in 1991, taking a course toward Western style of governance, as many other former communist countries in the region did, that was reflected in organization of Ukraine’s political system that was based on an idea of checks and balances. All Dahl’s criteria of democracy were in place, particularly freedom of election. In 2004 Ukraine went through so called “Orange revolution” that originated as result of massive electoral violations and abuse of power and when citizens stood up for principles of democracy such as “free and fair elections”. Massive but relatively peaceful protests lead to a formation of the pro-western government that would continue to adhere to principles of western democracy (stat.gov)

Despite the success of democratic doctrine the economic development of Ukraine is not that robust compare to Kazakhstan. Its population is 46.8 million, GDP per cap is \$6,212, and unemployment is 6.9%. Its HDI is almost the same as in Kazakhstan. However it is rate of the population below poverty line in almost 29% (2006). Ukraine

FDI flows are lower than in Kazakhstan (\$5.2 billion compare to 6.1%) as well as GDP per capita that might suggest that economic reforms failed to create positive environment for attracting more FDI and investors in general.

In my opinion it happens due to inability of the democratic governments such as Ukraine or India to provide political and social stability contrary to monocratic regimes where strong leaderships is able to provide stability even if it means to use coercive force to prevent unrest.

There are several reasons why I choose those countries. I think there are certain similarities in all of them in terms of historical background (all four former colonies), political regimes (monocracies and democracies), human resources (large populations) and political and economic ambitions (both China and India want to be regional political leaders in Asian region as well as Kazakhstan and Ukraine in Central Asian and Eastern Europe respectively).

Based on very short analysis of basic indicators of those countries it can be suggested that countries with authoritarian rule which implies strong leadership and better political and economic management demonstrate better results which is consistent with O'Donnell bureaucratic authoritarianism theory (1988). It suggests that "developing countries need to have a strong bureaucratic state that can lead a country toward a modernization" (Nozari, 1999). Under this approach "industrial capitalism, imperialist expansion, and rationalization of bureaucratic order" create a strong state and promote intensive socio-economic development such as in China and Kazakhstan (Chicollte, 1994).

India and Ukraine are loyal to principles of democracy. However, the lack of strong leadership and proper management significantly slows down their socio-economic



development which can be observed by analyzing the smaller amount of FDI and lower HDI that measures income, literacy and life expectancy.

### Empirical analysis

Using a simple regression analysis I have build two models which explain casual relationships between socio-economic development and democracy.

Model 1 looks at general impact of democracy on GDP, based on data from 154 countries

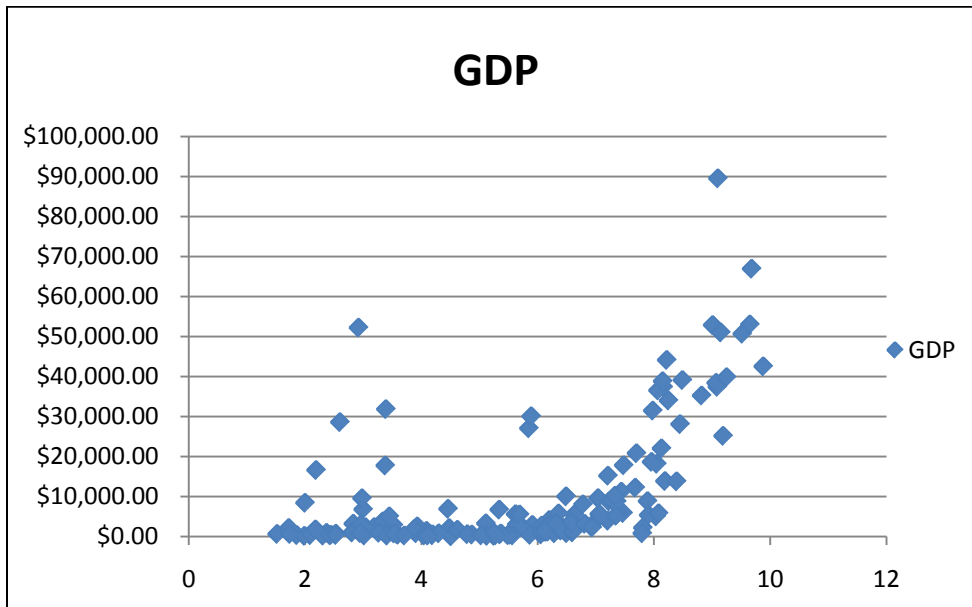


Figure 9. Impact of democracy on GDP

Just looking at the graph reveals that there is no linear correlation between democracy and growth of GDP. For majority of countries at the bottom of the graph democracy has no effect on GDP. However there is sizable chunk of countries on the right for which more democracy means larger GDP. But also there are some countries on the left which indicate that democracy is not an absolutely necessary condition for economic development.

Although a formal regression analysis shows that there exists a statistically significant relationship between these two variables (its t-value is 8.51), however, looking at the graph itself tells that such a conclusion can be misleading

#### Model 2 measure impact of democracy on Human Development Index

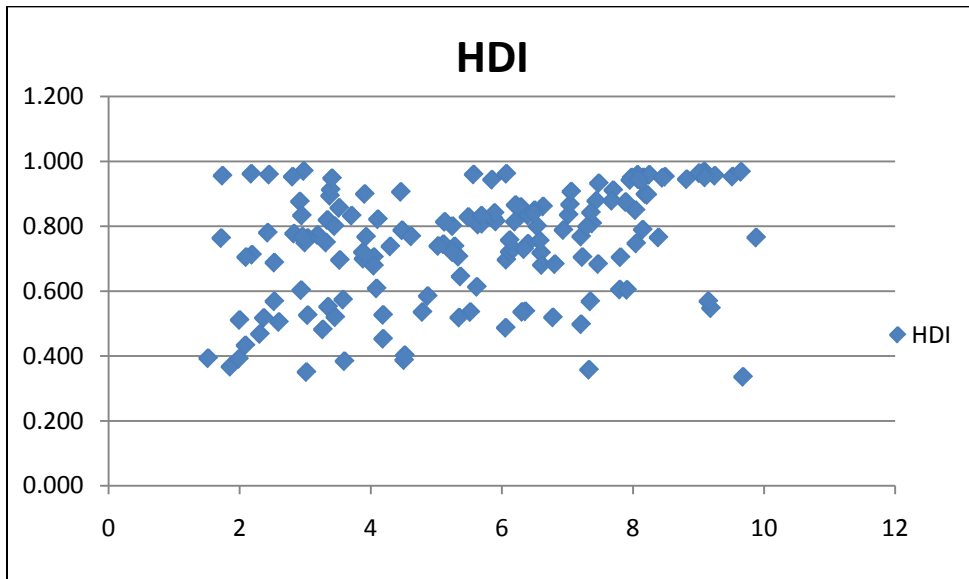


Figure 10. Impact of democracy on HDI

There is very small (almost zero) correlation between democracy and human development index. The way the regression line is spread suggests that there are many countries with high HDI (mostly former communist bloc countries, plus China) and low democracy index. There are countries with high HDI and high democracy index. There are also countries with low HDI and high democracy index. The significant numbers of countries have medium HDI and medium democracy index. These results demonstrate that anything can be concluded. Someone can argue that there is a connection between democracy and development or it can be the opposite and someone can conclude that there is no effect of democratic regimes on socio-economic development.

## **Conclusions**

Based on comparing data and regression analysis I can prove my hypothesis that democracy is not a necessary condition for successful economic development. Countries can be democratic and have low or medium socio-economic development (HDI) such as India or Ukraine. They also can be undemocratic and developed (China or Kazakhstan). In order to see a full picture of what factors influence and promote development it is needed to look not only at political regimes but also at economic, geo-political and social factors.

## **Chapter seven**

### **Impact of globalization on political development of the Central Asian countries**

Previous chapters of this thesis deal with social, economic and at a certain extent with political implications of globalization which are measured by migration, remittances and liberal democracy. I try to incorporate both empirical and qualitative methods to find out the impact of globalization processes on socio-economic development

In this chapter I look at how globalization impacts political development of the Central Asian countries. Particularly, I am interested in how these states adapt and build their foreign relations with outside powers in the wake of new political and economic reality that is shaped by globalization. By new political and economic reality I understand global challenges that have been created by opening geographical and economic borders. Emergence of new global actors in the region, war on terrorism, narco-trafficking as well as management of natural resources have forced leaders of the Central Asian countries to develop solutions and strategies that would not only confront these challenges, but also at the same time would protect own political and economic interests (International Relations in Central Asia, 2004)

### **Hypothesis**

The main hypothesis is that these states have chosen functional cooperation which is one of the forms of regionalism, and at certain extent regional integration, especially in areas of economy as a priority for development and maintenance of political and economic stability (Baylis, Smith, and Own, 2008)

With disintegration of the Soviet Union five new Central Asian states were

created. Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan and Tajikistan appeared as one region. Some scholars also include Mongolia, parts of Iran, Afghanistan and northwestern China which is highly populated by Turkic people (ADB, 2008). Central Asian countries share some cultural, religious and ethnical similarities. Kazakhstan, Kyrgyzstan, Uzbekistan and Turkmenistan have Turkic roots, except Tajikistan that has a Persian ancestry. They all consider being Muslim countries that have similar traditions. However, they are not monolithic in terms of socio-economic development. Each country has unique features. For instance, Uzbekistan has the largest population of 27 million and is the hub of transit corridors in Central Asia (Swanstrom, 2004). Kazakhstan has the largest land area, highest nominal GDP of \$6,791 and largest oil resources among former Soviet Union countries after Russia (CIA, 2007). Tajikistan and Kyrgyzstan control more than 90% of water resources in Central Asia (Primbetov, 2006). Afghanistan has a special strategic importance in the region because it has borders with three Central Asian republics and it is a place of the land routes between Indian subcontinent and resource rich Central Asia. Having these distinctive features have made leaders of the Central Asian states rethink their positions in the region and on the international arena, choosing between individual pursuing of goals and common efforts in the form of cooperation. The answer can be found in challenges that new independent countries have been facing after becoming independent.

After gaining independence in 1991 Central Asian republics have started vigorously reconstruct institutions of national statehood. However weak economic development of Central Asian countries, lack of trust among them and emergence of new outside actors which were interested in gaining political and economic influence in the

region have complicated transitional process. Since then, post-Soviet Central Asia has been confronting several major challenges which were coming from regional and global forces. Regional interdependence, illegal drug-trafficking, management of water resources, transnational crime and extremism, immigration as well as growing influence of Russia and China.

### **Regional challenges.**

One of the biggest local challenges that Central Asian countries have been facing after becoming independent was a lack of institutional mechanism and economic interdependence those states have inherited as a part of Soviet Union legacy and which have been paralyzing an ability of states to pursue their own sovereign policies and to engage in economic activities (Zhalimbetova and Gleason, 2006). Deep economic, political and social connectedness has driven Central Asian states to a socio-economic decline during the first years of sovereignty.

Another problem that has emerged immediately after collapse of the Soviet Union is a management of water resources that used to be regulated by Moscow through mutual cooperation (UNDP, 2005) Independence has empowered each state to pursue own policies toward water distribution which has created a potential danger of conflicts in the region where water plays an important role. For example, Kyrgyzstan and Tajikistan control around 90% of water resources in Central Asia. Kyrgyzstan is one of the main suppliers of water to all republics already has reduced its water supply due to technical reasons. Mismanagement of water resources also has created bigger problems such as drying of Aral Sea that has an impact on agricultural sector of Kazakhstan and

Uzbekistan.

Illicit drug trade, transnational crime and terrorism are other big challenges for the region. Central Asia is a transit corridor for huge illicit drug flows, primarily from Afghanistan, to the principal hubs of demand in Europe, Russia and China ([www.globalsecurity.org](http://www.globalsecurity.org)). Lack of local institutions and cross border cooperation, as well as high demand, has been exacerbating the situation and supporting flourishing of transnational crime. Central Asia also inherited border disputes with each other as a result of demarcation of territory that was done during the Soviet era. The same demarcation of the territory created zones of potential conflicts, especially in the Fergana Valley that is located at an intersection of three states and comprises three ethnic groups (Kyrgyzs, Uzbeks and Tajiks) and is a safe haven for different militant and religious groups that successfully hide there from Uzbek and Tajik authorities and periodically destabilize situation in those countries.

### **Global challenges.**

One of the biggest global challenges for Central Asian countries was an appearance of new actors such as Russia, China and the USA eager to fulfill an empty niche that has formed after dissolution of the USSR. Each of these states has been interested in strengthening influence in the region.

For the last years Russia has been recovering its influence in the Central Asian region through increasing its military presence by opening an air base in Kyrgyzstan in 2003, expanding bilateral agreements with Kazakhstan on leasing four military test sites, signing a security pack with Uzbekistan called “Treaty of Allied Relations” in 2005 and

having joint military exercise with Uzbekistan in 2006 (Vinod, 2006). Russia also maintains tight relations with Turkmenistan by retaining control over Turkmen gas supplies (Fawn, 2003). With the growing presence of Russia some Central Asian states, particularly Kazakhstan consider Russia to be a principle threat. According to some statistics 31.6 percent of ethnic Kazakhs view Russia as a serious threat to Kazakhstan sovereignty (immediately below China) (Cornell, 2003).

China is another important player that has emerged in Central Asia having own agendas for strengthening influence in the region. One of them is the Xingjian autonomous province, the Chinese part of Central Asia which is highly populated by ethnic Turks such as Uyghur, Kazakhs and Kyrgyz and reluctant to be incorporated in political and economic structures of China (Engdahl, 2005). Independence of four Turkic states has forced China to keep an eye on activities of Uygur's militant groups that are agitating for independence of Xingjian. Another biggest interest of China is Central Asian energy reserves that are vital for Chinese economic growth. It already has built one part of a pipe line from Kazakhstan to Xingjian that is designed to carry 10 million tons of oil annually and which will stretch from West China to East Kazakhstan. China was also able to get a deal with Petro Kazakhstan the Canadian oil company that lately in 2005 was acquired by China National Petroleum Corporation, thus getting access to Kazakh oil (Allouche, 2007). China also has been interested in hydro power potential of Kyrgyzstan and Tajikistan which control over 90% of region's water resources and are vital for Western China that is undergoing a massive state-sponsored population migration into this area that depends on agricultural industry (ICGR, 2007). However, the biggest challenge that Central Asian states face from China is its economic and trade



expansion in the region that raises fears among native population about Chinese dominance. The protests of 2001 which were followed by a signing a secret border agreement between Kyrgyzstan and China that would give to China additional 90,000 hectares of a territory that provides access to a glacial watershed which is important for often water starved Western China (Cornell, 2003).

The US is another big player on the Central Asian political arena that has started actively strengthening its influence after the events of September 11, changing the “geopolitical map” of Central Asia and creating new challenges for the Central Asian states (Vinod, 2006). Immediately, after entering the region under the shade of War on Terror, the US has started to aggressively implement Western policies toward democratization of the Central Asian states and other former Soviet Union republics. The US was an active supporter of “colored” revolutions that were taking place in different countries of the former Soviet Union. It also greeted the Tulip revolution in Kyrgyzstan that had to bring a pro- American government into place and what did not come true. It also has started to build its military presence by opening military bases in Kyrgyzstan and Uzbekistan and using airspace of Kazakhstan and Tajikistan for the US military and NATO to conduct their operations in Afghanistan. In 2005, the US evicted from air base in Uzbekistan due to bloodshed in Andijan. One of the main reasons for the US involvement in the region is a desire to weaken Russian influence in the region and get an access to oil, gas and routs that connect Sub-Indian continent and resource rich Central Asia and represent a potential corridor to Iran and Middle East (Miller, 2006)

## **The argument**

The existing dynamics and conditions of security that are shaped by global and regional forces in the region have defined political strategies of Central Asian countries that can be described as balancing between inside and outside actors. In the light of such balancing the Central Asian states have chosen regional cooperation as a priority of successful development and maintaining stability. They have chosen active engagement with international institutions to solve common challenges and protect own interests. Today, most of the Central Asian states are active members or observers of such organizations as the Commonwealth of Independent States (CIS), the Organization of Security and cooperation in Europe (OSCE), Eurasian Economic Community (EEC), Shanghai Cooperation Organization (SCO) and many more.

The analytical framework of this chapter is based on looking at the phenomena of cooperation of the Central Asian states through perspectives of Liberal Institutionalism that suggests that engaging in international institutions promote cooperation that leads to economic growth and political stability.

Liberal Institutionalism admits that states are driven by selfish interests. It concentrates on explaining patterns of regional cooperation based on the fact that these selfish interests of each state are not fundamentally opposed to each other and states have incentives either to cooperate or not to cooperate (Brown, 2006). They can overcome selfishness through international institutions (Walt, 1998). Founders of Liberal Institutionalism Robert Keohane and Josef Nye developed a theory of “Complex interdependence” which suggests that economic and other forms of interdependence (interstate, transgovernmental and transnational) which involve international institutions

should increase the probability of cooperation among states (Keohane and Nye, 1989). Moreover, “certain forms of cooperation maybe the most rational way for states to accommodate national interests (Baylis, Smith and Own, 2008). Keohane and Nye also point out that economic and political interdependence mean that cost of withdrawing from cooperation will outweigh the benefits.

My literature review of this issue demonstrates some limitations of the previous studies. One of them is the domination of the realist approach to explain development of foreign politics in the region. As a result, many scholars as well as political analytics are pessimistic about the prospects of cooperation that indeed could be beneficial for both economic and political stability of the Central Asian countries. That is why I look at this issue through the perspectives of Liberal Institutionalism that in my opinion is the best way to analyze this issue.

### **Regional Cooperation versus Integration**

Due to the fact that all Central Asian states have been experiencing common challenges in the face of global and regional forces political, economic and security cooperation have become a choice that has defined foreign politics of those countries.

Here it is very important to define what cooperation is and how it differs from integration which is relevant for this study, because Central Asian countries mainly involved in functional cooperation which is a form of regionalism, with some attempts of integration primarily in the area of economy (EEC).

According to Edward Best and Thomas Christiansen cooperation is one of the dimensions of regionalism, a process that refer to “the growth of societal integration

within a region and often involves economic and social interaction” (Baylis, Smith and Own, 2008). However, due to the fact that each region and its members have unique nature it produces different forms of interaction “between the various dimensions and dynamics of regionalism” (Baylis, Smith and Own, 2008). There are two main forms of regionalism that are well known. It is functional cooperation and regional integration.

Functional cooperation represents limited or specific arrangements between states that aim to bring countries together on certain issues such as security or managing nature resources. Economic relations between states under functional cooperation have some degree of “commercial preferentialism with no harmonization of domestic rules or obligations for common action in international affairs” (Baylis, Smith and Own, 2008). Political cooperation refers to commitment of countries in dealing with certain issues such as security and is based on adopting common positions in international organizations such as SCO and sometimes joint actions such as joint military exercises within SCO. Functional cooperation implies that states will participate in cooperation arrangements to solve immediate issues, but they do not have long term agendas to create a space that will be subjected to some “distinctive rules” contrary to regional integration which refers to elimination of barriers to create a unified political or economic space such as EU (ADB, 2006 -2008).

According to an Asian Development Bank report “increased cooperation among the Central Asian republics stands to produce big gains for the people of the region. The benefits from reducing trade cost, more efficient use of water and other natural resources could generate a regional economy twice as large and well off 10 years from now. The price of non-cooperation could also be large from lost economic opportunities, conflict

and insecurity” (Maksutov, 2006)

I have already talked about active involvement of the Central Asian states in regional cooperation by being members of different regional organizations. However, there are two organizations in which Central Asian states are engaged and which deserve taking a closer look at. These organizations best reflect the needs these countries experience (security and economy) and have unique nature which let them have a special impact on the regional politics. These organizations are Shanghai Cooperation Organization (SCO) and Eurasian Economic Community (EEC).

### **Shanghai Cooperation Organization.**

Shanghai Cooperation Organization was founded as an intergovernmental organization in 2001. It evolved from the Shanghai Five” security organization that was created in the mid 1990’s after a resolution of series of border disputes between China, Russia and Central Asian states (Germanovich, 2008). It includes five members states: China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. It also has four observers: India, Pakistan, Iran and Mongolia. SCO was established as a response to regular challenges of security and economic development such as securing borders and increasing trade among member states. The main goals of the SCO are border security, fight against terrorism, separatism and extremism, control of drug trafficking as well as long term objective to establish a free trade area in SCO are defined by SCO Charter.

Shanghai Cooperation Organization has a unique nature that gives its members a special role in influencing regional politics in the Central Asian region. It is a perfect example of cooperation through perspectives of Institutional liberalism. Smaller powers

in the region balancing between East (China) and West (Russia), by appeasing them and through giving up some sovereignty in exchange for getting benefits of stability and economic growth in the form of Russian military presence in Kyrgyzstan, Kazakhstan and Uzbekistan and big Chinese FDI in economy of Kyrgyzstan and Kazakhstan which are the main trade partners of China (Germanovich, 2008). However, the unique nature of SCO framework at a certain extent allows smaller states to play bigger roles in the organization by bringing China and Russia's attention to the issues that have importance for smaller powers by outlining their national, economic and security concerns. They are also able to balance ambitions of larger powers by conducting relatively independent foreign politics toward partnership with the USA. Becoming members of the coalition against the war on terror and providing territories for the US military bases (Kyrgyzstan, Kazakhstan and Uzbekistan until its withdrawal from coalition in 2005) despite growing dissatisfaction of China and Russia with American presence in the region is an example of how smaller powers pursue own national agendas through cooperation. Balancing between the interests of major powers tends to make SCO an important player on the regional arena and to outweigh the US influence through conducting large-scale military exercise such as "Peace Mission 2007" (Vinod, 2006). Regional interests of smaller powers have created multi-vector foreign policies resulting in Central Asian countries engaging in different international security and cooperation schemes which allow them to preserve their existing status quo and maintain stability (Vinod, 2006).

### **Eurasian Economic Community**

Another important organization that focuses on regional integration and socio-

economic development of the Central Asian region is Eurasian Economic Community (EEC) that also is an example of the Liberal Institutionalism. EEC was initiated by Kazakhstan and established in 2001. It is the biggest association in the Commonwealth of Independent States that was set to promote sustainable economic growth in the Central Asian region. It comprises Belarus, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan that was accessed in 2006.

The main motives behind the EEC establishment was a desire of each member country to realize its economic potential and offset difficulties of development which could be avoided since all member countries have shared common infrastructure, educational, cultural and information space that could make cooperation easier (Vinod, 2006).

There are several reasons why EEC is important for successful socio-economic development of the region. One of them is that members of EEC have a great economic and natural potential. Another is a receptive market. For instance, Russia and Belarus are major markets for delivery of natural resources from Kazakhstan, Kyrgyzstan and Tajikistan. The combination of these two can boost the economy and promote stable economic growth in the whole region. The main goals of EEC are creation of a common economic space, harmonization of customs tariffs and creation of common market of services and labors that will erase existing economic borders, facilitate trade between member states and lead to regional integration in the future. It is important to mention that trade is one of the main keys to successful economic development for land-locked Central Asia region. According to UN Regional Human Development report for Central Asia lowering trade cost and barriers increases income, employment and consumption in

the region by 20-55% (Primbetov, 2006).

## **Conclusions**

Central Asia is a pivotal region that possesses enormous natural, human and strategic potential that has been attracting attention of major global powers for decades. With the disintegration of the USSR and creation of new independent Central Asian republics it has become easier for global forces to enter the region and start spreading their influence. Global and domestic challenges that have emerged after those countries gained independence have forced young and weak Central Asian republics to find a political position that would protect their own interests and satisfy interests of global powers in the face of Russia, China and the US.

The results of this study demonstrate that Central Asian states chose the liberal institutionalist model to build their foreign policies. Liberal institutionalism suggests that countries will benefit from socio-economic and political integration and cooperation. These states have been relatively successful engaging in different regional organizations such as Shanghai Cooperation Organization or Eurasian Economic Community, which reflect immediate needs those countries have, especially in areas of security and economy. Central Asian foreign politics shows that the view that cooperation is not possible because each state is concerned with selfish interests and relative gains is not applicable in that region. Yes, Central Asian republics are driven by selfish interest, but they overcome them by being involved in regional organizations and institutions which guarantee them stability and protection of their status quo. There are also evidences that these regional organizations especially SCO and EEC not only help member countries to



solve common regional challenges but also have far going political and economic agendas for making the region as an important player on the international arena.

## **Conclusion**

The main objective of this thesis is to understand the economic, social and political impacts of globalization on the Kyrgyzstan, Kazakhstan and Central Asian countries in general. The empirical studies based on panel data analyses and the case study on Kyrgyzstan demonstrate that the socio-economic effect of globalization on development of these countries is twofold. On the one hand benefits produced by globalization such as migration and remittances can be useful for economic development in the short run. They take a role of a “shock absorber” of the challenges that are associated with transition to a free market economy. The immediate impact of remittances and migration is represented by growth of GDP per capita and increase in private consumption and has a small but still positive effect on the growth of services sector. On the other hand, their long term economic impacts can be negative especially in the areas of industry and export. It is consistent with economists predictions about the negative effects of both migration and remittances that are associated with the Dutch disease phenomenon. According to it excessive reliance on external financial flows can paralyze the manufacturing sector of the country that will lead to stagnation of the economy in the future. The empirical part of the study demonstrates that remittances and migration do not have any positive impact on social indicators measuring development. Moreover, it can have a negative effect in the future creating a loss of human capital and distorting traditional forms of social structures within societies.

One of the reasons for not finding positive or negative effect of remittances and migration on development is the data limitations. Most of the data is based on official sources that do not include unofficial statistics, especially for Central Asian countries.

For the same reason data for some countries such as Uzbekistan or Tajikistan is not available at all.

The political impact of globalization is also dual. The empirical analysis that is based on simple regression analysis demonstrates that adoption of liberal democracy model by Central Asian governments is not a necessary condition for successful economic growth. Countries can be democratic and have low or medium socio-economic development such as India or Ukraine. They also can be undemocratic and developed as China or Kazakhstan. To find a certain connection between democracy and development it is needed to look at other important economic, geo-political and social factors that can contribute to the development.

One of the ways to look at this problem is to take into consideration the fact that Central Asia is an important region that possesses enormous natural, human and strategic potential. It has been attracting attention of major global and regional forces, especially after dissolution of the Soviet Union. As a result weak Central Asian countries have been forced to find a political position that would satisfy interests of inside and outside actors as well as provide proper environment for stable political and economic development. The descriptive analysis demonstrates that Central Asian countries chose the path of political integration and cooperation by being involved in regional institutions such as SCO and EEC. This strategy can help them to withstand challenges produced by globalization and promote political stability and economic growth in the region.

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