

## REGIONAL ECONOMIES

**LABOR MIGRATION  
FROM TAJIKISTAN AND  
ITS ECONOMIC IMPACT****Sobir KURBANOV**

*Economist,  
National Program Officer for Economic Affairs,  
Swiss Cooperation Office in Tajikistan  
(Dushanbe, Tajikistan)*

**D**ifferences in economic development levels and the level of income can be regarded as the main driving force behind labor migration processes.

In the past, in the conditions of an administrative-command socialist economy, the labor market developed in the context of integrated national economic planning and the formation of territorial economic complexes. At that time, emphasis was placed on the development of extensive, resource-consuming lines of production, on the construction of industrial giants with ramified and strictly determined links with suppliers from other republics of the former Soviet Union. As a rule, these enterprises had a large workforce, i.e., an excess of labor, whereas economic efficiency and labor productivity remained low.

In the 1960s-1990s, programs for the distribution of the productive forces and economic zoning drawn up by the U.S.S.R. State Planning Committee (Gosplan) for the Tajik Soviet Socialist Republic and the region as a whole provided for rapid development of certain sectors of industry, the creation of the South Tajik Territorial Complex, and the construction of engineering, food processing, textile and nonferrous metallurgical plants, which made it necessary to attract skilled labor and to create a system of specialized secondary, vocational and higher education institutions. In accordance with the socioeconomic priorities of that period, specialists in the respective fields were sent to the republic from other parts of the single country in a centralized manner, and local personnel were trained as well.

These processes cannot be unequivocally defined as free labor migration, but should probably be characterized as allocation and assignment of labor in accordance with mandatory instructions. Later on, during the disintegration of the single state, this stratum of highly qualified non-local labor resources created a powerful potential for the republic's development, helping to train an internal core of qualified specialists in various sectors of the national economy and the social sphere.

So, labor migration processes in the Soviet Union were fully and stringently regulated under a centralized model and were limited in view of the general trend toward a decline in regional economic development levels and the existence of the institution of *propiska* (residence permits), which restricted the free movement of people in the territory of the Soviet Union.

Elements of free labor migration existed in the form of very limited seasonal and, as a rule, trade-related visits by a part of the population to central regions of the Russian Federation (R.S.F.S.R.); young people studying in the R.S.F.S.R. and other republics of the Soviet Union, etc.

Centralized campaigns to dispatch students and other young people to so-called all-Union construction sites in Siberia and the Far East were another popular form of labor migration, just as the assignment of workers from the Tajik S.S.R. to the development of oil and gas fields in the R.S.F.S.R.

At the time of the breakup of the Soviet Union (1991), the structure of the population employed in the economy of Tajikistan was as follows:<sup>1</sup>

- industry and construction—21%;
- agriculture—45%;
- non-production sphere—19.7%;
- others—14.3%.

Up to the 1990s, the overall labor market in the Tajik S.S.R. had the following distinctive features:

1. Creation of a network of giant enterprises operating in close cooperation with numerous suppliers and consumers from other regions of the Soviet Union, with the formation of labor-surplus lines of production on their basis; large proportion of the labor force employed in industrial production.
2. Centralized distribution and influx of highly skilled labor from central regions and republics of the former Soviet Union.
3. Limited internal migration on the scale of the Soviet Union and Tajikistan.
4. Insignificant labor mobility within the framework of Union-wide campaigns, top-priority construction projects, education programs, etc.

As a result of the painful process of transition to market relations, the labor market was exposed to the impact of a number of factors. The drop in the level of industrial production and in recorded GDP as a whole (estimated at 40-60% for the Central Asian region) and the disintegration of the nationwide system of production and technical cooperation artificially maintained in the centrally planned economy had a negative impact on employment. Many lines of production and industrial giants proved to be uncompetitive in market conditions and were obliged to lay off most of their personnel, whereas the population boom with an increase in the number of people of working age from 47% to 51% (1991-2001) continued (State Statistics Committee, 2001).

In greater detail, Tajikistan's labor market in the transition period was characterized by the following main trends:

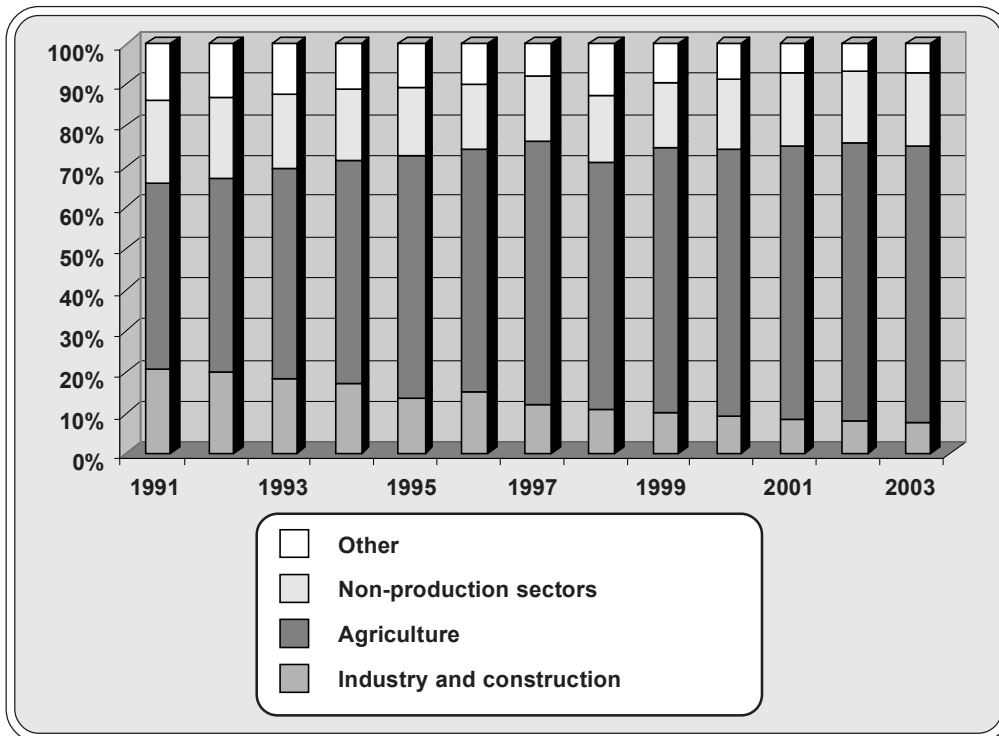
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<sup>1</sup> See: *Statisticheski uezhegodnik. Respublika Tadjikistan*, State Statistics Committee, Dushanbe, 2001.

- Decline in public sector employment by about 50%.
- General decline in employment in the economy by 2.7-5% (State Statistics Committee, 1997-2001) to one-third (World Bank, 2000).
- Sharp drop (6-8 times) in average wage levels from 1991 to 2001, with a corresponding decline in the attractiveness of job offers in the domestic labor market. This is also evident from the fact that, according to official statistics, only 54,681 people (compared to 133,297 people in 1994) were officially registered as unemployed with the Employment Service of Tajikistan (State Statistics Committee, 2001).
- Outflow of highly skilled labor (mostly Russian-speakers employed at industrial enterprises and in the service sector), variously estimated at up to 200,000 people (from 1990 to 1998).
- Decline in industrial employment from 21% to 9% (State Statistics Committee, 2001).
- Increase in private sector and agricultural employment from 41% to 65%, leading to involuntary loss of skills among former employees of industrial enterprises and the social sphere now obliged to engage in lower-skilled work.
- Disintegration of the system of government support for socially vulnerable categories of people, including the jobless, as a result of the almost 10-fold reduction in the fiscal revenues of

Figure 1

Republic of Tajikistan: Labor Force by Sector



the state budget in the final decade of the 20th century: from \$1.5 billion to \$200 million (World Bank, IMF, country reports on Tajikistan for 2001).

- Sharp spontaneous increase in labor migration from Tajikistan, especially illegal, unregulated, seasonal and commercial, estimated at about 200,000 people according to the data of the Ministry of Labor and Social Protection of Tajikistan and official statistics, and at 600,000-800,000 people according to independent experts and the International Organization for Migration.<sup>2</sup> Given that in 1997 the country's economically active population was 1,839.7 thousand or 30.4% of its total population, the number of working age people employed outside the republic in peak periods (seasonal migration) was over one-third.

Table 1

Labor Force and Employment, 1985-2004 (thou)

	1985	1990	1992	1997	2001	2002	2003
<b>Population</b>	4,631	5,361	5,567	5,876	6,376	6,507	6,640
<i>including:</i>							
<b>working age</b>	2,209	2,514	2,597	2,929	3,397	3,573	3,740
<b>nonworking age</b>	2,422	2,847	2,970	2,947	2,979	2,933	2,900
<b>Urban</b>	1,519	1,677	1,653	1,566	1,691	1,720	1,758
<b>Rural</b>	3,112	3,684	3,914	4,310	4,685	4,787	4,882
<b>Labor force participation rate</b>	76,1	77,3	73,6	63	55	53	55
<b>Total labor force</b>	2,175	2,469	2,675	2,909	3,301	3,477	3,644
<i>Of which:</i>							
<b>Government employees</b>	1,173	1,255	1,110	761	520	517	481
<b>Public sector</b>	238	315	397	411	550	511	542
<b>Private sector</b>	270	369	403	620	760	830	863
<b>Officially unemployed persons</b>	...	...	8	51	43	47	47
<b>Students</b>	216	231	230	192	357	395	399
<b>Working age population employed at home</b>	278	299	530	875		1,178	1,313
<i>Source:</i> [www.imf.tajik.net]							

The economic costs of **unemployment** are colossal. According to experts, its increase by 1% entails a loss of 2% of the gross national product. That is why a comprehensive approach to the solution of this problem should be ensured by purposeful improvement of the whole socioeconomic system, with the social state playing the leading role.

<sup>2</sup> See: S. Olimova, I. Bosc, *Labor Migration from Tajikistan*, IOM, July 2003.

This rough model calculation is clearly confirmed by the situation in Tajikistan, where the 60% decline in GDP in the period from 1991 to 1997 coincided with an increase in the rate of unemployment from “zero” to one-third of the country’s working age population (World Bank data not confirmed by government statistics).

Unemployment in Tajikistan has a cyclical, systemic and, consequently, long-term character. The painful restructuring of the real sector, the shutdown, collapse and segmentation of over-staffed industrial giants lead to massive staff reductions and to “hidden unemployment,” when officially employed persons in actual fact do not work and do not get the appropriate material compensation.

As noted above, the extreme unattractiveness of the local labor market against the background of regional isolation problems and poor prospects for a revival of the domestic business climate induces the bulk of the country’s working age population (as a rule, the most qualified and mobile persons) to go abroad in search of work.

All of this clearly leads to the conclusion that the economic losses from the outflow of labor from the country are immense. From the perspective of future sustainable development, the situation is even more threatening, since the highly skilled stratum of working people leaving Tajikistan to look for jobs abroad is not compensated by social institutions providing professional training in the republic. Given the general trend toward a crisis of the education system, the professional training system has also lost its basic material, educational and teaching resources so that it can no longer meet the needs of the national economy, especially against the background of a massive outflow of able-bodied people to other countries.

The loss of the most qualified segment of Tajikistan’s workforce through migration “undermines” the prospects for a long-term economic recovery and reduces the opportunities for an inflow of real investment (both domestic and foreign) into labor-intensive sectors, which in the past traditionally had objective competitive advantages and could now act as a locomotive of the national economy.

In the short term, current labor migration processes mostly influence the economy through the buildup of significant amounts of cash, goods and other assets created outside the country and imported into Tajikistan. Another obvious danger of this phenomenon is that the state cannot predict the amount of capital inflows from abroad in the form of labor migrants’ earnings and, consequently, cannot print an equivalent amount of domestic currency (in this case, somoni). Hence the risk of currency substitution due to the influx of significant amounts of capital in hard currency which cannot be predicted within the framework of official monetary policy.

The main agency of the state’s monetary policy—the National Bank of Tajikistan (NBT)—in close cooperation with the State Migration Service, the Ministry of Labor and Employment, and the State Statistics Committee should work to ensure proper statistical recording of the actual amount of financial resources remitted through various channels by labor migrants and should explore the possibilities for utilizing these resources and putting them into official circulation. Such a measure, for its part, is impossible without enhancing the attractiveness and extending the range of services available in the financial and banking sector of the country’s economy.

In 2002, in the absence of reliable information, analysts cited data on the inflow of about \$60-100 million through labor migration channels, including, for the most part, the informal economy. If we accept these data, we will find that the stated amounts, being equivalent to about 25-40% of the country’s budget revenues, had a significant effect on its limited markets and investment preferences, limited as they were. Given the lack of public confidence in the official financial system, this created a situation where the capitals of migrant workers “tended” toward the real estate market (in 2000-2003, real estate prices rose by about 200-300%); they helped to fill the country’s commodity markets with various consumer goods continuously supplied by “shuttle traders,” and also promoted

moderate investment in small and medium enterprises (SMEs) operating, for the most part, in the service sector (i.e., those with lower risks and shorter payback periods against the background of a generally unfavorable regulatory environment). In addition, one can agree with the conclusions of the IOM report, *Labor Migration from Tajikistan* (July 2003), regarding the fact that a significant proportion of labor migrants' capitals earned abroad and carried into Tajikistan is mostly used for consumption and for buying essential goods to support households whose able-bodied members work abroad. Consequently, these funds are used for investment purposes to a lesser extent.

The dynamics for 2003 shows a more favorable picture, since tighter cash transportation rules and growing safety risks, on the one hand, and the offer of a more liberal, simplified regime for transfer of funds through official bank channels by Tajik banks, on the other, led to a sharp increase in the proportion of funds remitted by the country's migrant workers through Tajik banks. According to the Ministry of Finance, in 2003 the total amount of migrant remittances to accounts with Tajik banks in favor of recipients (friends and relatives) in Tajikistan was over \$80 million. The trend toward an increase in the share of official remittances has a whole range of favorable economic consequences, since it improves statistics, increases bank assets and credit opportunities, etc.

This "turning point" in the situation—the switch to active use of official bank channels for migrant remittances—was in large part connected with the significant simplification of the system of international transfers for individual citizens of Tajikistan (migrant workers) that took place in 2002: (a) the abolition of the requirement for mandatory sale of 30% of foreign exchange earnings transferred to the accounts of Tajik residents and (b) the introduction of an authorization procedure for currency transfers not requiring the individual recipient to open a foreign currency account.

Estimates of remittance inflows for 2004 range from \$433 million (official NBT data used in balance of payments statistics) to \$1 billion (unofficial estimates which include the clearing system and imports of goods), or about 21-50% of GDP.

According to the data of the Ministry of Labor and Social Protection announced by Minister Z. Vazirov, as of 1 December, 2005, 441,171 Tajik citizens had officially left the country as labor migrants (registration data from migration cards). Out of this total, 412,123 persons had gone to neighboring countries in search of seasonal work, and 29,000 persons, for other reasons. A survey conducted by the Ministry showed that at the end of 2005 about 400,000 labor migrants from Tajikistan were working in the Russian Federation, about 2,000 in Kazakhstan, and 3,000 in other CIS countries. In 2005, only 156 Tajik citizens found jobs abroad through the domestic labor recruitment system, i.e. through Tajik employment agencies, which shows the extremely poor development of such services in the republic.

The International Organization for Migration (IOM 2005) gives a different figure: as of 18 May, 2005, 620,000 Tajik citizens had left the country in search of work; and the estimates of the Russian Federal Migration Service are in the region of 600,000-800,000 people.

In 2005, official remittances from migrant workers reached a peak of \$600 million, which is 25% above the 2004 level and almost double the amount of official development assistance (ODA) to Tajikistan in 2005 (\$320 million). This trend reflects not only the increase in labor migration, but also the growing confidence of Tajik citizens in the domestic banking system. Over the past year, banks have come to realize the advantages to be gained from attracting migrants' deposits and remittances; as a result, virtually all Tajik banks—in cooperation with Russian partner banks—are now competing with each other for customers, launching a drive to simplify transfer procedures, reduce commission fees and go over to rapid (instantaneous) transfer systems for migrant remittances.

According to the Ministry of Labor and Social Protection, 46% of labor migrants from Tajikistan are employed in construction (mostly low-skilled labor), 29% in trade and services, 14% have no regular

job, 3% are employed in education, and 5% in health care. The families of labor migrants receive an average monthly remittance of \$100 from one working person. About 60% of Tajik migrants have no professional qualification or skills, while qualified people are employed as doctors, teachers, engineers and technicians (12%); 7% work in agriculture.

A survey carried out by the Kontakt banking system (Russia) shows that migrant workers from Tajikistan send home an average of about \$100-150 per month.

According to unofficial estimates by Professor Hojimahmad Umarov, a well-known Tajik economist, in addition to the \$600 million remitted through official channels in 2005, another \$400-500 million was remitted in kind (import of goods) and through the so-called "hawala" system, i.e., transfer of money to compatriots who have business or other pecuniary interests in the host country (Russia) and who subsequently organize the transfer of cash to migrants' friends and relatives at home. This channel was widely used until 2003-2004; today it is losing its popularity because confidence in bank transfers has been growing.

So, migrant remittances in 2005 constituted 25% to 30% of GDP, 45-75% of total imports, and 136-226% of Tajikistan's annual budget revenues. These figures are very high by international standards: for example, such remittances constitute 25% of GDP in Moldova, 19% in Lesotho, and 18% in Jordan (IMF and World Bank data, 2005).

Up to now, there has been no official policy in Tajikistan designed to stimulate, legalize and protect labor migration. Today, in view of the growing macroeconomic and social importance of the labor migration phenomenon, the Tajik government should come to realize the increasing importance of labor migration for the country as the dominant source of foreign exchange earnings, a guarantee of economic and social stability, a key factor behind the growing imports of food and consumer goods and, consequently, the main driving force behind economic growth in Tajikistan. The country's authorities should do their utmost to legalize the status of labor migrants (especially in the host country) by intensifying negotiations with the authorities of the Russian Federation and by simplifying formalities and bank transfer procedures still further.

About 94% of all remittances are now used for consumption by the families of labor migrants. It is precisely these remittances (and not the efforts of the government or other factors) that have largely contributed to poverty reduction in Tajikistan from 89% to 63% (from 1999 to 2004).<sup>3</sup> In view of the "weak" investment and business climate, and also the limited range of investment targets, migrants virtually do not reinvest their earnings in the development of small business, small-scale production, service facilities, etc., within Tajikistan. One of the reasons for the shortage of investment targets is the extremely high cost of real estate (especially in the capital, Dushanbe).

According to generally recognized IMF and World Bank findings, labor migration from Tajikistan plays a significant stabilizing role, ensuring an inflow of hard currency, supporting domestic macroeconomic stability and the balance of payments, and helping to maintain living standards and consumption levels for the bulk of the population, so easing the burden of poverty.

Migrant remittances have done a great deal to increase the import of consumer goods, domestic consumption, revenues from import tariffs and, accordingly, budget revenues as a whole. Consequently, they have had a significant effect on the general trend toward economic growth recorded in recent years.

In the short term, labor migration will ensure a stable source of hard currency required to maintain balance of payments stability and offset the country's weak positions as regards investment and capital inflows.

On the negative side, labor migration reduces the supply of skilled labor within the country (in both urban and rural areas), which torpedoes long-term projects for the development of new lines of

<sup>3</sup> See: *Republic of Tajikistan: Poverty Assessment Update*, World Bank, January 2005.

Figure 2<sup>4</sup>

**Migrant Remittances  
to Tajikistan Through the Banking System  
(in US\$ million)**

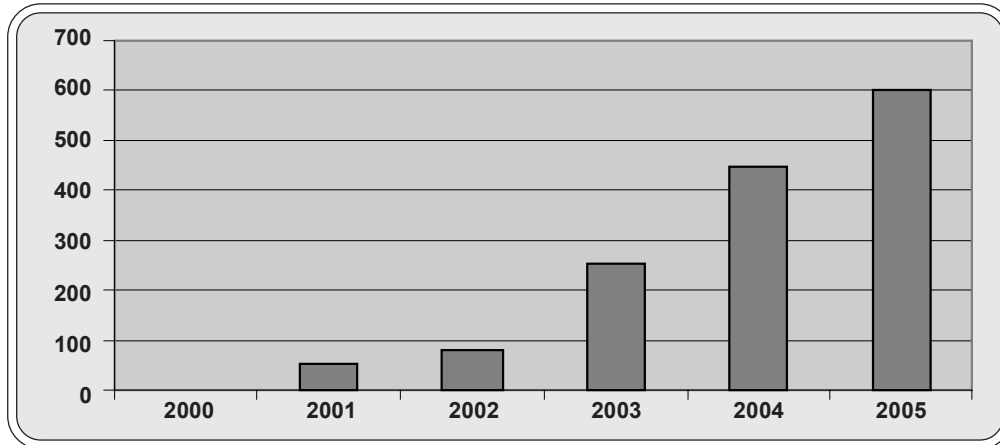
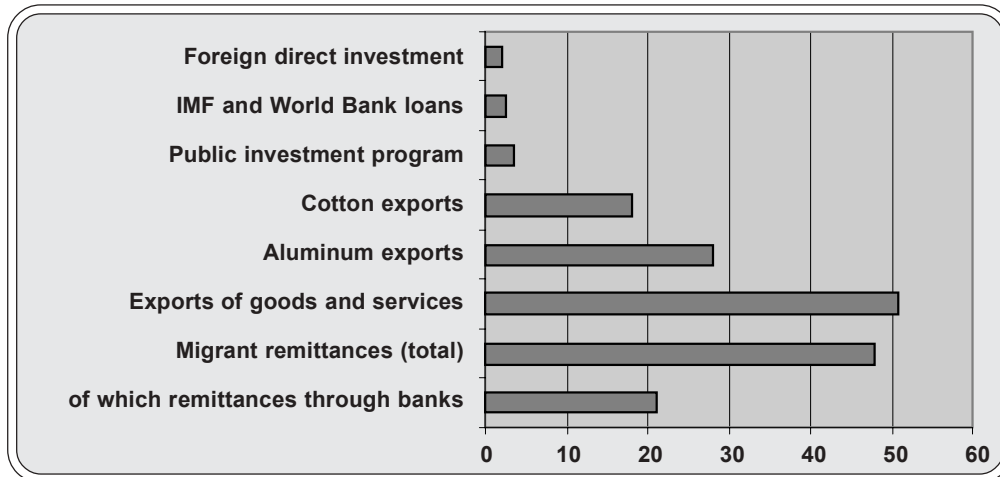


Figure 3<sup>5</sup>

**Tajikistan: Sources of Foreign Exchange, 2004  
(in percent of GDP)**



production and has a generally adverse effect on the potential for new projects and economic development based on the use of domestic labor resources.

<sup>4</sup> See: A. Kireyev, *The Macroeconomics of Remittances: The Case of Tajikistan*, IMF Working Paper 06/2.

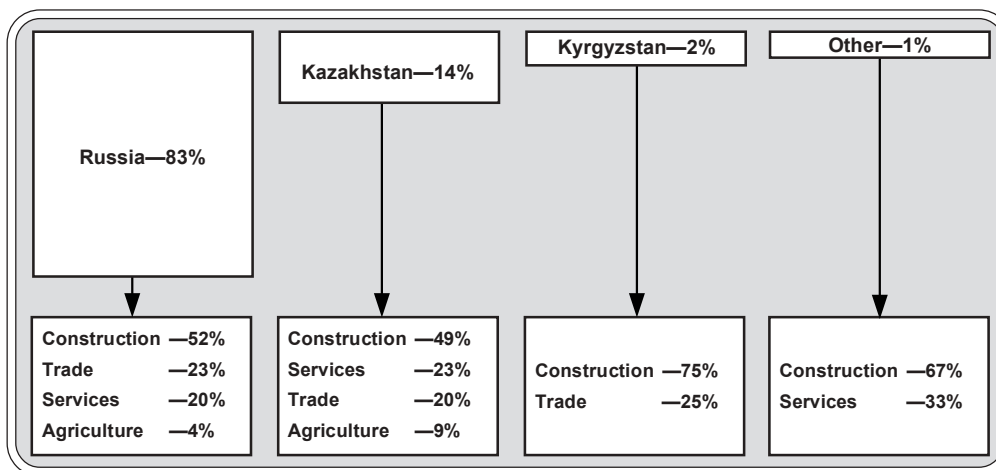
<sup>5</sup> Ibidem.



Table 2

Income Statement of a Typical Migrant Worker from Tajikistan<sup>6</sup>

	Per season	Per month
Gross earnings	2,700	300
Fixed expenses, including:	410	
Transportation	330	
Border crossing	30	
Other	50	
Variable expenses, including	945	105
Food	540	60
Accommodation	225	25
Police	135	15
Other	45	5
Net earnings (remittances)	1,345	150

Figure 4<sup>7</sup>Geographic Destinations of  
Labor Migration from Tajikistan and  
Employment Areas<sup>6</sup> See: *Tajikistan Trade Diagnostic Study*, December 2005 (Sharq Survey, 2004).<sup>7</sup> Ibidem.

Another negative aspect of labor migration is that while ensuring a steady inflow of foreign exchange and stimulating domestic markets, the national economy exports its resources and its economic growth and development potential through mass labor activity by Tajik citizens in other countries. The export of socioeconomic development reduces the necessity and urgency of domestic economic and structural reforms as regards an improvement in the domestic and business climate, economic restructuring, development of domestic labor-consuming lines of production, an increase in labor productivity, etc. By postponing the necessary structural reforms, the government becomes dependent (including politically) on possible changes in the regime of external labor migration in the host countries, such as Russia and Kazakhstan.

This means the government should make an effort to improve the business environment and lower the internal administrative barriers to business activity so as to enhance the country's attractiveness as an investment destination. Among other things, this will create favorable conditions for the reinvestment of migrant remittances in the development of private business within the country, helping to create new jobs in Tajikistan.

The positive macroeconomic (mostly external economic, e.g. capital import) effect of migrant remittances should not be a substitute for government efforts to pursue a reasonable macroeconomic policy, carry out reforms, upgrade regulation, enhance the transparency and stimulate the development of small and medium-scale private business, etc.

According to estimates by the Sharq Research Center, labor migrants are faced with the choice of earning about \$20 per month within the republic or \$150 per month in neighboring countries, and they often opt for the latter.

On average, migrant workers remit to their families over \$1,000 during the season, which has a direct effect on household income. As confirmed by the World Bank's Poverty Assessment Update, labor migration has had a crucial influence on reducing extreme poverty in the country from 79% to 64% (1999-2004). At present, the World Bank is planning to conduct another survey and to update its poverty assessment. According to preliminary estimates and expectations, the poverty rate will be under 50% (mostly due to constantly growing labor migration).

To summarize, let us draw attention to the following macroeconomic effects of migrant remittances on Tajikistan's domestic economy:

- Significant facilitation of socioeconomic recovery processes after the civil war of the 1990s, which has helped to cushion the impact of the sharp drop in household income and to diffuse the extremely tense social situation in the country as a whole, especially in regions involved in conflicts.
- Strong incentives to consumption, food imports and economic growth. Rough estimates for 2004 show that per capita gross national disposable income (GNDI) was \$342, or 15% higher than GDP per capita, which takes no account of the actual income of Tajik citizens earned abroad.
- Coverage of 80% of the growing trade deficit, which reached 19% of GDP in 2004 (i.e., import financing).
- Contribution to maintaining a manageable current account deficit.
- Promotion of efforts to optimize and enhance the efficiency of the banking system, strengthen bank capital and deposits, and encourage competition in the domestic financial market.

The inflow of migrant remittances presents a number of challenges for macroeconomic policy. Whereas the short-term impact of these remittances is obvious and positive, their long-term effect will

depend on a number of trends and models. So far migrant remittances are a stable source of external financing (even more stable than foreign direct investment or official development assistance), but their inflows are heavily dependent on political factors, so that they may become extremely volatile. This is particularly true of the remittances of seasonal migrants, who usually have no legal status and are employed in low-skilled jobs without any labor contract; their rights are widely violated and they can be expelled from the host countries at any moment given more stringent migration rules. This dependence on changes in the political and economic conjuncture should be resolved at government level by going over from a passive neutral policy on labor migration to an active policy designed to create the best possible and open conditions for stimulating organized and legal processes of labor migration from Tajikistan to neighboring countries, to organize refresher courses in specialties that are in high demand, to arrange basic legal training for Tajik migrants and help them raise their general cultural standards, to sign direct contracts with employers from the host countries, and to conclude appropriate political agreements and protect the rights of Tajik citizens working in these countries.

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