

Determinants of Productive Investment through Migrants' Remittances in Rural Central Asia*

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Orta Asya Kırsal Kesiminden Başka Ülkelere Çalışmaya Giden İşçilerin Gönderdiği Paraların Verimli Alanlara Yönlendirilmesinde Rol Alan Değişkenler

Özet

Saha araştırmasına dayalı ve orjinal veriler ile desteklenen bu çalışmada işçi havalelerinin Orta Asya ülkelerinin kalkınmasına olan etkileri araştırılmaktadır. Kırgızistan ve Özbekistan'ı karşılaştırmalı olarak inceleyen bu çalışmada, işçi havalelerinin doğrudan verimli yatırımlara değil de tüketimsel yanı ağır basan yatırımlara kanalize edildiği görülmüştür. Bu iktisadi durum, Sovyetler Birliği döneminde izlenen makro politikaların, ve zaman içinde oturmuş sosyal ve siyasi kurumların, mikro bazda pek çok ekonomik tercihleri ve davranışları hala etkiledikleri; kolay kolay ortadan kaybolmadıkları ve kaybolmayacakları görülmektedir. Bunun için, siyasi reformlar hazırlanırken bu durumun gözönünde bulundurulması, dikkatli ve titizlikle formüle edilecek reform tasarımlarının büyük bir sabırla takip edilmesi tavsiye edilmektedir.

Anahtar Kelimeler: İşçi Havaleleri, Kalkınma, Orta Asya, Yeni Kuramsalcılık.

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Abstract

This article, which is based on original data and field work, presents a comparative study of the remittance earnings and the developmental impacts on the sending regions of Kyrgyzstan and Uzbekistan in light of rational and social institutionalism. Relatively less productive investments were seen associated with remittances, and there were a large share of consumptive investments out of remittances in both cases. I contend that path dependent social environment plays a greater role in potential migrants' decision-making and potential developmental outcomes than dominant theories suggest. Thus, while designing new state institutions reformers should take into consideration stubborn legacy of the Soviet era policies and their shadow in the minds and behaviors of individuals as well as social and political institutions.

Key Words: Remittance, Development, Central Asia, New Institutionalism

* This study is based on the author's dissertation that was defended in April 2011 at Kent State University.

1. Overview

There are almost two hundred million migrants worldwide, approximately 3% of the global population. In 2009, according to figures by the World Bank, total recorded global remittance flows increased to USD 444 billion (WB, 2010; WB, 2009). The flow of officially recorded remittances to developing countries increased from USD 17.7 billion in 1980, USD 30.6 billion in 1990, USD 80 billion in 2002, USD 160 billion in 2004, and to the peak level at USD 336 billion in 2008 (WB, 2010). With 6% decrease from the 2008 figure of USD 336 billion officially recorded remittances to developing countries were USD 316 billion in 2009. A total of 42 developing countries had remittance inflows greater than 5% of their GDP in 2004. In the same year, remittances sent to developing regions of the world were roughly 50 percent greater than all Official Development Assistance (ODA) (GCIM, 2005; Lucas, 2007).

The sheer number of international migrants, the magnitude of global remittances, and the potential implication for political and economic development, have attracted a great amount of attention from scholars and policy analysts recently. They have been aware of the fact that the receipt of these huge amounts of money transfers from migrants may provide significant benefits to development prospects of the sending countries.

In the post-Soviet domain the most significant labor suppliers to the Russian economy within the CIS system are three Central Asian nations, Kyrgyzstan, Uzbekistan, and Tajikistan, and naturally they are also significant remittance receivers. Among these three labor sending countries this study focuses on Kyrgyzstan and Uzbekistan, and it presents a comparative study of the remittance usage patterns and the developmental impacts on the sending regions.

The remittance figures for Kyrgyzstan and Uzbekistan are striking in comparison with the magnitude of their corresponding national macroeconomic indicators. For example, "In 1992-2000, the Kyrgyz Republic received USD 1,690 million in external assistance" (UN, 2003: 9). In 2005, total external flow of aid including the official development assistance (ODA) came to USD 268.5 million, and foreign direct investment (FDI) net inflow amounted to USD 42 million. While the sum of these two major financial inflows equal to 12.5% of GDP for that year, estimated total remittance inflow, at a conservative level, is USD 600-700 million, and equals 26% of GDP. In the same year, for Uzbekistan, the ODA and FDI summed up to USD 214.3 million, or 1.5% of GDP while estimated total remittance inflow is USD 1 billion, or 7.1% of GDP.¹ A more recent work gives an estimated remittance

¹ These calculations are made by the author based on the UNDP Human Development Reports.

inflow into the country as 30% of Kyrgyz GDP, which is one of the highest in the world, and at least 10% of Uzbek GDP for the peak year 2007 (Korobkov, 2007: 185).

Estimates of the number of labor emigrants concerned vary from 350,000 to over 1 million for Kyrgyzstan out of a total population of approximately 5.5 million. According to the National Statistical Committee of the Kyrgyz Republic (NSC, 2005), as of 2003 the number of available labor force was almost 2.1 million. Estimates of Uzbek labor emigrants range from 2.5 to 6 million out of a population of 28 million people. The number of available labor force for Uzbekistan was around 11-12 million; and if we accept the conservative estimates, between 25 to 40 percent of the labor force in both Uzbekistan and Kyrgyzstan has been experiencing labor migration in one way or another in the recent decade (Greenberg, 2007; IWPR, 2007; Toralieva, 2006).

Regarding the categorization of remittance usage in which the spending of remittance monies is grouped into productive and consumptive investments on the one side, and pure consumption on the other; productive investment denotes investment in economic activities that enlarge the households' existing capacity; consumptive investment denotes "goods and services that more immediately improve the well-being of the household members" (Rozelle et al, 1999 cited in Murphy, 2006: p.23). Moreover, the productive investment includes three major types: "agriculture," "land," and "business creation"; and consumptive investment includes: "house-building and improvement," "consumer durables," and "health and education" (Rozelle et al, 1999 cited in Murphy, 2006: p.23-26).

The potential importance of remittances for development in home communities is obvious. If a significant proportion of them were used for business development, job creation, education, and health care, the benefits for those communities would be great. However, most of the time, these private flows do not bring about development at a desired level. It is significant to note that only a fraction of remittance monies are allocated to productive investments while the vast majority is reserved for pure consumption or consumptive investments all over the developing countries (Murphy, 2006: 23). My case studies were not exception. Relatively less productive investments were seen associated with remittances, and there were a large share of consumptive investments out of remittances in both Kyrgyzstan and Uzbekistan.

Accordingly, in this study I focus on international labor out-migration, associated remittances, and the potential developmental outcomes for the sending regions. In light of mainstream theories I investigate the general patterns of remittance usage at the micro level and the potential effect of those remittance usage patterns on the economic development of the origin country. In other words, I

elaborate on whether individual agents exhibit variation in their economic behavior regarding the usage of their remittance monies within their social environments.

In the migration and development literature significant questions still remain to be settled and answered. For instance, “the fundamental question for researchers is not whether or not migration leads to certain types of development, but why migration has more positive development outcomes in some migrant-sending areas and less positive or negative outcomes in others” (Taylor et al, 1996b; Taylor, 1999; Jones, 1998; GCIM, 2005; De Haas, 2006: 579). This question is more relevant, valuable, and understudied in the post-communist transition countries. Additionally, there is a lack of empirical study in regards to migration, remittance, and development relationship based on micro analysis of migrants and historical-sociological determinants to affect individual behaviors (Castles and Miller, 2009; Sadovskaia, 2005, 2006). Therefore, an attempt is made in this study to fill this gap. Based on the original fieldwork predominantly in Kyrgyzstan and Uzbekistan, and to a lesser extent in Turkey and the USA, this study answers a set of questions that remain unsettled in the migration literature: How do sociological institutions and individuals’ rationality interact with each other, and they affect migrants’ decisions about a variety of migration related issues that each has potential to foster development in the home country? Answers to this question is relevant since it is important to determine in what way social context and sociological institutions are impacting migration outcomes, especially whether remittances are used successfully to foster development in the home country.

The rest of this article proceeds as follows: in the following **Section 2** I portray the core argument and contribution of the study as built upon previous research. It states that labor migration from sending regions and associated remittances might provide a net positive contribution to the overall economic development of these regions and/or countries as long as public policies are designed properly and informed by the inherent and social constraints over human decision making and rationality. In the **Section 3** I lay out the research design, data collection, and descriptive statistics based on my original data as well as secondary data. **Section 4** discusses research findings. **Section 5** concludes with future research directions, and outlines policy implications of the study.

2. Migration, Remittances, and Development: Literature Review

There are two major theoretical orientations regarding international labor migration and its developmental outcomes for the sending countries. The first one holds a structuralist position, and it sees international labor flows as an adverse

phenomenon, like a zero-sum game between host and sending regions. On the other hand, the modernization school argues that depending on the contextual conditions the sending regions and/or countries may gain developmental outcomes through financial and/or social remittances (Cohen, 2005: 89; De Haas, 2006, 2007; Nyberg-Sorensen et al, 2002; Taylor et al, 1996a, b).

On the positive side, the modernization school argues that labor migration and remittances are potentially a win-win situation for all parties involved. Those optimistic scholars maintain that remittances have many positive developmental impacts for the sending regions such as poverty reduction, improvements to the well-being of people, reduction of unemployment, increased human capital through newly acquired skills, training, and expertise, much needed financial capital, and potential for investment opportunities and job creation (Cohen, 2005).

We could divide the potential positive effects of remittances into two major areas. The first is benefits that enjoyed by migrants and their families, and the second is communitarian benefits that are enjoyed by everybody who lives in the sending regions. As is argued by a group of scholar migrant households tend to have a higher propensity to make investments in comparison with non-migrant households; besides, all sorts of consumption (e.g. housing, small business, and education) or investment spending by migrant households create positive income multiplier effects. The multiplier effect of remittances means that remittances contribute to the receiving economies more than their nominal values. The benefits of remittances might also indirectly affect non-migrant households too (Taylor et al, 1996a, b; De Haas 2006: 567).

In other words, remittances increase the spending power of all residents in the sending communities, which is associated with the multiplier effect of remittances. There is empirical evidence to support the idea that multiplier effects from remittance spending, particularly due to house construction, are quite large (Lucas, 2005: 191). For example, one study finds that each remitted dollar generates USD 4 in demand for goods and services in the Mexican economy (Singer, 2010). The scale of the multiplier depends on which sector receives the remittance and which socio-economic group spends it (Cohen, 2005: 93). In demand-deficient economies, through the multiplier effects of expanded spending, migrants and their families increase their consumption of services or goods produced in local economies, and this additional demand extends local economic capacity for all inhabitants including non-migrant families (Lucas, 2005: 55-56). This means “livelihood diversification and improvement for non-migrants too. This is another reason not to dismiss migrants’ consumption, housing and other ‘non-productive’ investments as non-developmental” (De Haas, 2006: 577).

For the modernization school, it is an obvious fact that there is a two way interaction on the remittance and development relationship: development at home shapes out-migration, while the process of out-migration simultaneously affects developmental prospects at home in a number of ways. Thus, a substantial amount and quality of economic development at home, including job creation and thriving labor markets, act to diminish labor emigration pressures. Migrants with their move not only alleviate several economic pressures but also they promise a long run return with newly acquired skills, training, and expertise (Lucas, 2007: 12).

On the negative side, the structural school (or the dependency school) argues that international labor migration and associated remittances, in essence, bring nothing home but more dependency and capitalist habits such as consumerism. Proponents of the structural school argues that the labor out-migration represents a kind of dependency relationship between the North and South; and it is nothing more than a developmental trap for the poor people and regions who/which lock themselves into a semi-permanent role of supplying labor for the dirty, difficult, and dangerous (3 Ds) jobs in the receiving countries (Ellerman, 2003; Taylor 1999). Scholars in the structural school maintain that labor migration brings about “the emergence of passive, non-productive and remittance-dependent communities” (De Haas, 2007: 5). Additionally, politicians in the remittance receiving countries opt for delaying necessary structural reforms.

One of the most important arguments unanimously shared among pessimists is the concept of *brain drain*. It means that well-educated people from less developed countries leave not only their home countries but also those countries’ hope for reform and development potential. Regarding the issue of brain drain there is ample supporting evidence for the pessimists’ claim in the Central Asian context. Currently there is a shortage of teachers of physics, math, and chemistry in the secondary schools of Bishkek, while Kyrgyz doctors and teachers are easily finding jobs in Russia and Kazakhstan (Toralieva, 2006).

On the other hand, a counter argument was developed by the modernization school in reaction to the concept of *brain drain*. According to this perspective, “in some LDC countries, the economies and labor markets cannot effectively absorb some skilled people and they can make a greater contribution to development by emigrating and remitting earnings back” (Hugo, 2005: 98). As opposed to the *brain drain* these scholars introduced the concept of *brain gain* which argues that departure of skilled labor force is balanced with the counter flow of remittances, investment in education, innovation, and other benefits (De Haas, 2005). Regarding my case studies it is important to note that overwhelming majority of indigenous Central Asian emigrants is not highly skilled or even semi-skilled.

Furthermore, most of highly skilled labor force (European ethnicities) had already left Central Asia at the earlier stage of independence, and created severe imbalances. The proponents of *brain gain* would argue that the departure of highly skilled indigenous Central Asians is also a beneficial phenomenon for their communities since they cannot contribute effectively under current economic conditions.

Another important negative impact as a result of massive labor out-flows is workforce imbalances. This is known as the “lost labor effect:” Absence of the productive members of the community causes a critical shortage of agricultural labor, the decline of land under cultivation, and drop in production; thus, land is under-utilized (De Haas, 2005: 1274). Based on anecdotal evidence in both Uzbekistan and Kyrgyzstan’s rural sites from March to December, most villages become empty, even in some areas people cannot find enough number of males to observe some religious (e.g. funeral prayers) events. Besides, in the media reports there are some stories about the heavy usage of students and child labor in the fields due to labor shortages at harvest time.

While ample evidence is provided by both modernization and dependency school it seems that migration’s effects are complex. As the midway studies suggest migration’s developmental outcomes are hard to calculate, and disputed and unsettled at best (Papademetriou and Martin, 1991; Nyberg-Sorensen et al, 2002; Lucas, 2005). I tend to share more with the most recent conciliatory approach to the extent that there is a potential but not a magic wand in respect to remittance inflows, and I subscribe to the commonly accepted fact that more research is needed to properly understand the relationship between migration and development in the sending regions. As is frequently stated international migration and related remittances should not be seen as panacea for the sending regions and their developmental struggles. It is self evident that something is definitely wrong there, and that is why local residents are looking for external opportunities (De Haas, 2007).

While analyzing migration’s developmental outcomes one study offers that “A more accurate evaluation would compare current conditions against those that prevailed before migration, or, more subtly, against those that might have prevailed had migration not occurred in the first place” (Massey et al, 1998: 223). Thus, I tend to agree with this crucial highlight that migration outcomes are dependent upon the specific context. For instance, on the one hand, many empirical studies suggest that there is a positive balance for the Asian labor sending countries; on the other hand, it is the reverse case for most of African nations (Taylor, 1999). Consequently, it would be fruitful to analyze contextual factors and micro analysis of labor migrants within their contextual milieu.

3. Research Design and Data Collection

In this comparative case study, taking two very similar contexts, rural areas in Uzbekistan and Kyrgyzstan, in which social institutions are almost identical, the ability to explain any variation in outcome would be greater. While making comparisons about these two cases, the primary unit of analysis is individual migrants along with their households, more particularly their collective decision making behaviors. I also analyze interactions between individual actors and sociological institutions in the form of social networks, habits, and other regularities (Portes, 1995).

Additionally, this study predominantly employs qualitative analysis. The qualitative case study does not represent a randomly selected sample. Accordingly, qualitative research aims at building insights into particular observations from which one can construct a general understanding. In other words, qualitative researchers studying the post-Soviet region do not aim to reach external generalizability, and they prefer to take purposive samples rather than probability samples due to the rapidly evolving nature of social dynamics and concepts in these transitioning societies.

The most important data is the primary data collected through original surveys and interviews between 2007 and 2009. I conducted surveys in rural Kyrgyzstan and Uzbekistan in December of 2007; interviews with local official or unofficial notables in the rural contexts; interviews with sources in public, private, international, and NGO organizations in the capital cities of Tashkent (Uzbekistan) and Bishkek (Kyrgyzstan); interviews with Central Asian migrants employed in the urban centers of Turkey in August 2007 and July-August 2008; and interviews with Central Asian migrants who are employed in the U.S. at different times from June 2008 to August 2009. Additionally, several media sources, national and international reports and publications are analyzed for information on recent developments, demographics, and statistics.

Table 1: List of Places Where Household Surveys Conducted

Country	Oblast & Rayon	Survey Site	Survey Time	Number of Survey Conducted
Kyrgyzstan	Chui/Jayil	a small village	Dec 2007	11
Kyrgyzstan	Chui/Jayil	a small village	Dec 2007	7
Kyrgyzstan	Chui/Jayil	a large village	Dec 2007	17

Kyrgyzstan	Jalalabad/Suzak	a large village	Dec 2007	25
Kyrgyzstan	Jalalabad/BazarKorgon	a small village	Dec 2007	13
Kyrgyzstan	Jalalabad/BazarKorgon	a mid-size village	Dec 2007	10
Kyrgyzstan	Jalalabad/Suzak	a mid-size village	Dec 2007	19
Kyrgyzstan	Osh/Ozgen	a mid-size town	Dec 2007	22
Kyrgyzstan	Osh/Osh	a small village	Dec 2007	12
Kyrgyzstan	Osh/Osh	a small village	Dec 2007	11
Kyrgyzstan	Osh/Alay	a mid-size town	Dec 2007	15
Total				162
Uzbekistan	Namangan		Dec 2007	11
	Andijan		Dec 2007	15
Total				26
Turkey (Uzbeks)	Ankara		Jul 2008	47
	Istanbul		Aug 2008	21
	Eskisehir		Aug 2008	5
Total				73

Source: My own data.

The survey is composed of two parts. First is the context section which aims at getting the overall socioeconomic picture of the rural sites from the perspective of local leaders and elites. Second is the household survey which focuses on the micro analysis of migrant households. The household survey is composed of nineteen questions, some that are designed to elicit straightforward answers and others that are semi-structured with an open ended format.

4. Research Findings

The transformation from the socialist economy to the neoliberal market economy affected Central Asian people deeply. Once state-sponsored production was replaced with the free market-oriented approach an average household was expected to get organized under the new system which was not quite familiar. Neither shock therapy nor gradual reform strategies have achieved to generate

full-grown capitalist culture; conversely, long term habits of socialist economy have mostly prevailed in the lives of people (Rumer, 1996). Social institutions are changing slowly; and newly introduced consumer habits are creating a strange mixture of daily lives. In sum, Central Asian societies are continuing their lives with prevailing old traditions, norm sets, and old “logic of appropriateness” within the context of new economic realities (DiMaggio and Powell, 1991). Thus, it would be convenient to analyze social institutions within a historical perspective.

4.1. The Effects of Soviet Era Policies

There are conflicting views about the overall Soviet contribution to development in Central Asia. Some scholars argue that the relationship between Russia and Central Asia is best described as a predatory colonial relationship with Moscow exploiting the natural resources of the region. According to this group of scholars, under the Soviet regime, on the one hand central planners in general took Central Asia (sometimes Kazakhstan exempted) as a single administrative region due to its geographic and cultural unity. On the other hand, the same planners intentionally used divide and conquer policies which not only caused several problematic issues such as cumbersome national borders but also consciously sowed the seeds of tension among prominent social groups and clans in Central Asia. The most crucial long term negative impact of the Soviet legacy is the administrative/national division of the region which broke up the region’s natural unity and cohesion (Harmstone, 1991). For example, in the 1980s one scholar argued that “The economy of Central Asia has, in large measure, remained colonial to this day. It has by far the least manufacturing per capita, with the relative level actually declining in every republic because of the burgeoning population growth rates (Dienes, 1987: 123).

Despite the rapid growth and relatively egalitarian Soviet economic policies in Central Asia in the first three decades of the communist rule, the pace and intensity of this modernization policies had slowed down starting from the 1950s. Although the Soviet regime accomplished a huge socio-economic transformation, especially until late 1950s, vis-à-vis its pre-Soviet conditions, the reform fatigue of the 1950s, and unfinished or ill-advised reform projects of the following periods have accumulated gradually (Rumer, 1989). While Central Asia’s economic level, social sphere and living standards remained far behind those of the European regions of the USSR a scholar categorized the negative impacts of Soviet era development policies into four major issue areas: relatively higher birth rates among indigenous population, sectoral imbalances, locational imbalances, and macro level mismanagement of political economy (Lubin, 1984).

Having emphasized that one might find the traces of macro and micro level drivers of remittance usage patterns in the Soviet era those four major issue areas

could be relevant. In the post-independence era one major factor as an influential driver of remittance usage patterns and decisions is ethnic and regional concentration of people in the economic activities. In explaining variation in economic behavior with regional differences: it is important to note that mountains divide Kyrgyzstan into two major cultural zones. The Chui valley in the north and the Ferghana valley in the south are two fertile regions in this mountainous country. Similarly, in Uzbekistan, one could make geographic categorizations based on ethnic-occupational clustering. According to one of my informants in Uzbekistan, this country can be divided into three major geographic-cultural zones: Khorezm, Tashkent, and Ferghana Valley.

From the field research I have observed that in both Uzbekistan and Kyrgyzstan labor migration is more common in the densely populated rural southern oblasts (Ferghana Valley oblasts), and less common in the northern oblasts. There is also empirical evidence to support this view for Kyrgyzstan: "... a representative of RSK Bank (KG's largest, domestically owned bank) reported the distribution of remittances throughout the country going 60% to the south, 20% to the north, and 20% to the city of Bishkek." (Rubinov, 2010: 3). In another empirical study conducted by a local institution, a survey of 1,177 respondents has revealed that "the average amount of remittances is about USD 1,419 a year" in Kyrgyzstan; and there are intra-oblast variations. At the oblast level, the average amount of remittances ranges between USD 1,154 and USD 1,486 for Batken, Jalalabad, Issykkul, and Talas. Osh (USD 729) and Naryn's (USD 485) numbers are somewhat lower. The Chui oblast (USD 3,484) gets the largest amount of remittances (EPI, 2005: 4). It is evident that migrant laborers who come from urban areas, and who have better education, and who have better information about income prospects in the destination, tend to earn more, and they could send larger amounts of money from their incomes.

In an anthropologic study about ethnic clustering in the local bazaars in Kyrgyzstan behavioral differences among ethnic groups are emphasized:

In a comparative study between ethnic Russian, Kyrgyz, and Dungan (ethnic Chinese with Muslim faith) field work in the Dordoi, Karasuu, and Osh bazaars show that ethnicity plays an influential role in the clustering of merchants. Surveys show that ethnic Russian traders are the most successful in terms of economic performance. Kyrgyz traders are the least successful. Among potential explanations the most powerful ones are family structure and nomadic past of the Kyrgyz people. Because Kyrgyz people have extended family structure, this constrains their success for several reasons. Secondly, due to harsh climate conditions and their nomadic past, Kyrgyz people have a life mentality that could be summarized as "living by one-day only." They do not think about future much. They also do not have enough experience in trade, money, and saving. Long-established traditions and values are

based on family obligations, and survival, but not on trade and profit-making (Nasritdinov, 2007).

In order to proliferate examples for ethnic-occupational concentration of people as a Soviet legacy, it could be useful to convey the words of one of my informants who said that

In Uzbekistan, the most successful entrepreneurs are ethnic Kazan Tatars (they are different from Crimean Tatars). The number of Kazan Tatars in Uzbekistan is around 350,000; and they predominantly live in the Tashkent area. Among ethnic Uzbeks, the most successful entrepreneurs are generally from the Ferghana Valley area. They are very hardworking, ambitious, and they have entrepreneurial skills. Uzbek labor migrants who are in the USA are mostly from the Ferghana Valley. If we look at the bazaars in Tashkent, we could see that sellers are clustered according to ethnic occupational divisions. In the Tashkent bazaars, the most successful group is ethnic Tajiks who generally sell smaller items with higher profit margins; on the other hand, ethnic Uzbeks in general sell larger items such as pickles with lower profits.

In another empirical study about migration patterns in Uzbekistan, it is highlighted that “migrants come mostly from the Ferghana valley. Though fertile and irrigated, the valley is overpopulated and more than half of its population, particularly young people, are unemployed” (Laruelle, 2007: 107). It would be interesting to note that in Uzbekistan, as of 2004 while average population density is 57.5 people per square kilometer nationwide, in some regions this figure becomes ten times higher than the national average. For example, it is 551 in Andijan oblast, 275 in Namangan, 420 in Ferghana, 232 in Khorezm, 295 in Tashkent oblast (UNDP, 2005: 85).

A local scholar advised that in Kyrgyzstan as one goes up to higher altitudes it is more likely to see increasing poverty levels. Additionally, poverty is more widespread among ethnic Kyrgyz than other ethnic groups since in higher altitude locations overwhelmingly ethnic Kyrgyz people live; and other ethnic groups predominantly live in the valleys (Kudabaev, 2007). Similar to Uzbekistan, two oblasts of the Ferghana valley in Kyrgyzstan, supply the overwhelming majority of labor emigrants too:

In Kyrgyzstan, migrants mostly come from the poorer, southern regions. In May 2006 the head of the Kyrgyz parliamentary Committee on Labor Migration, Kubanychbek Isabekov, admitted that the regional economies of Osh Jalal-Abad, and Batken were doing so poorly that almost 70 percent of the population had to look for a job outside the country (Laruelle, 2007: 107).

It is safe to say that in the post-Soviet Central Asia, internal and external migration movements as well as ethno-regional and occupational divisions have developed according to path-dependency. For example, after the Russian financial crisis in 1998, the massive internal migration from poor southern oblasts of Osh,

Jalalabad, and Batken to the more prosperous Northern oblasts of Chui and Issykkul have increased its pace; and already existing major social divisions and polarization between these two sub-cultures have deepened in Kyrgyzstan. The continuation of a Soviet pattern could also be seen in the occupations of labor migrants and their geographic backgrounds. In a media report by the Ferghana.ru news portal (January 22, 2008) this pattern is depicted as: “Skill level of labor migrants depends on the region they reside in. The Ferghana valley is well-known for builders and cooks. They got higher wages than low-skilled workers from southern regions” of Kashkadarya, Surkhandarya, Samarkand, Bukhara, Jizak, and Navoi.

Another factor that is influential in explaining the remittance usage patterns and decisions is the age structure of the population. Age structure refers to the way in which the population is distributed across different age groups (Bloom et al, 2003). It is obvious that each age group in a population behaves differently in terms of consumption, saving, and investment patterns, as well as productive capacity, with distinct economic consequences. For example, people tend to consume more in their early years, and save more in their middle years (ages 35 and 60). In the post-Soviet transitions, the age structure and the level of socioeconomic development are even more important than other places to determine migration and development nexus, since newly introduced consumer goods and services become more attractive to people particularly if the population is composed of relatively young age cohorts. “In Central Asia, two age groups seem to be particularly subjected to migrations: young people in their twenties, who have to pay for a wedding or the building of a house; and older men in their forties and fifties, who need more sporadic financing for family celebrations such as children’s weddings, circumcisions, or the extension of the family property” (Laruelle, 2007: 106). For example, in my surveys, a young male respondent (22-years old, high school graduate) from Jalalabad oblast of Kyrgyzstan not only portrays his primary life goal while leaving his country he also reflects a common mentality shared by young labor migrants in rural Central Asia:

Two and half years ago I went to Moscow, and I found a job as a construction worker there. The top priority for me was to save some money for my wedding expenditures. Thanks to God, I saved enough money for my wedding, and I put aside USD 1,800 in a year and half. (Survey No. KG69.1).

As far as the sending communities of Central Asian countries are concerned, official statistics show that the median age is around 24, and young people (0-14 years) make up approximately 28-30% of the entire population. In Kyrgyzstan and Uzbekistan, almost 50% of the total population is younger than 30 (Erica Marat 2009: 33). During the field study I find that the age distribution of surveyed migrants ranges from 14 to 50, and average age among Kyrgyz migrants is 29. As

an approximate measure 40% of migrants are between 18 and 25 years old, 45% of them are between 26 and 39, and 15% of them are older than 40. In another empirical study it is stated that the average age of Kyrgyz labor emigrants is 32, and 80% of migrants' age range between 20-40 years. (EPI, 2005: 7).

At a World Bank initiated 2007 conference in Bishkek, which I observed directly during my field research, the Deputy Chair of State Committee of the Kyrgyz Republic on Migration and Employment Dosmir Satarovich Uzbekov said that

At the early stages of migration Kyrgyz laborers were working for less than USD 200 in a month, now on average they earn USD 400-600. We are aware of the fact that the skill and education levels of Kyrgyz migrants are low in general. That is why they work as garden keepers, street cleaners, and construction workers. During our bilateral talks with Russians and Koreans we highlight the importance of increasing the skill levels of Kyrgyz migrants. We will establish programs to teach Korean language to prospective migrants.²

Another major factor explaining the remittance usage patterns is the powerful traditions in Central Asia. In terms of household living and the power of traditional norms, in Central Asia seniority (being older) is very important factor in the social interactions. Besides, parents, especially in rural areas, have a strong say in their children's lives, such as in their marriage decisions. Traditional structure in Central Asian societies is based on the family. Social norms in rural Central Asia require an extended family that consists of an adult married couple, their children, and the male's parents. Regarding family size, Uzbekistan ranks 13th place in the world, with an average of 5.9 people in the household; and Kyrgyzstan is in 45th place, with 5.2 (Abazov, 2007: 226).

Having highlighted the demographic, sectoral, locational, and macroeconomic imbalances from the Soviet era an emphasis might be useful regarding the preference of rural Central Asians to make investment in traditional economic assets such as livestock. It seems that the driver for migrant families to buy livestock or land for agricultural activities or to build a house on it is mostly related to traditions, social norms, and daily habits. From the words of one respondent it is plausible to get an understanding of common mentality shared by Central Asians. The respondent's imagination of the world around him is such that

We are ethnic Kyrgyz living in Uzbekistan. Most of my friends in this neighborhood are labor migrants in Russia. I am working in Khanty-Mansiysk region of Russia. I am employed in a Turkish construction firm with 10,000 employees. We are proud of our culture, and we are very respectful to our mother and fathers. There is only one goal

² This conference was held in regards to the presentation of the World Bank's twin reports, " and "Remittances in the CIS Countries: A Study of Selected Corridors." They were presented in the Golden Dragon Hotel of Bishkek at September 27, 2007.

and one possibility for us, and it is to build a house next to our parents, and maybe to rent a little more land, and to buy as much sheep and cow as we afford. These are the only investment I can think of (Survey No. UZB19.1).

4.2. Powerful Informal Institutions and Weak Formal Institutions in a Transition Environment

In an empirical study while analyzing the development and operation of small and medium sized businesses, which could act as the engines of growth in these countries, three major obstacles at three levels are noted: national level (e.g. macroeconomic instability), institutional level (e.g. weak financial institutions), and micro level (e.g. imperfect practices and norms) (Leguizamon, 1991). A similar argument is made by migration experts, and the weak realization of the developmental potential of remittance inflows is mostly related to

...structural obstacles at the local, national, and international levels. The combined impact of these obstacles has been to confine villagers' entrepreneurial activities to limited spheres, few of which provide adequate foundations for the emergence of sustainable patterns of economic development" (Maimbo and Ratha, 2005: 5).

In economists' eyes, individuals or communities at large allocate scarce resources into three major activities to acquire, protect, and produce wealth (Feige, 1997: 22-33). In extraordinary conditions such as the transition economies of the post-Soviet areas, as the system is transformed from central planning to market allocations and collective ownership gives way to private property rights, micro economic behavior is guided by newly adopted but unfamiliar incentive systems, sanctions, and opportunities. For example, in the Central Asian context, a scholar described general attitudes of entrepreneurs in the first years of independence:

A new generation of entrepreneurs prefers short-term investments in trade, investment funds, and financial transactions; while they are eager to engage in any kind of speculative operation, they have no interest in savings or investment (Rumer, 1996: xiv).

While analyzing the entire post-Soviet transitions, institutionalism scholars concluded that "the incentive structure is such that protective and predatory behaviors continue to dominate productive behaviors" (Feige, 1997: 22-33). Consequently, within this ambiguous transition environment it was expected to see that in Central Asia individuals would see powerful incentives for predatory and rent-seeking alternatives; thus, they might tend to allocate their scarce resources, including remittances, into protective and acquisitive activities rather than productive ones.

In the post-Soviet Central Asian domain where regimes are mostly described by arbitrary rules, and corruption is widespread, it is typical to see conflicts between

formal institutions and informal norms. Therefore, it is inevitable to observe a variety of economic activities in the shadow economy (Feige, 1997: 32-33). In other words, when one understands the effects of “the institutional structure of the earlier Soviet regime and the legacy of noncompliant ‘secondary economy’ behaviors induced by its perverse incentive systems” on post-Soviet citizens’ perception of what is right and wrong it becomes easier to see why people adopt their goals and formulate their rational behavior as they do to reach those goals (Stark, 1991; Stark & Bloom, 1985).

Economists argue that the most critical element in the development process is arguably a competitive and capable financial system, without which national savings cannot be accumulated and allocated into larger investment projects. In the Central Asian context the weakness of the financial system is not the only factor that hinders people’s entrepreneurial capacity and their access to livelihoods and economic opportunities (Fernando and Moyes, 2006: X). Additionally, there are other structural and institutional flaws that cause micro economic behaviors (including investment and saving decisions and instruments) and patterns to be different from other places with stable institutions.

As is the case for most developing countries, banking services in both Kyrgyzstan and Uzbekistan are poor, and the ability of citizens or private companies to obtain credit and other banking services is limited. Furthermore, “capital markets hardly exist at all.” (Lamberte and Vogel, 2006: 58). During the field survey, I observed that people do not trust banks for several reasons, including the existence of a weak state, the lack of its protection guarantees, and memories of bank failures that happened in 1998 (in Kyrgyzstan). Similarly, an empirical study confirms this finding “In Uzbekistan, as in other Central Asian countries, the population does not trust the banking system, remittance transfers via unofficial channels could make up half or more of the official transfers” (Maksakova, 2006: 143).

Among 162 households surveyed in Kyrgyzstan, none of them has ever opened a bank account. Similarly, only a few Uzbek respondents reported that they have a bank account, and opening of bank accounts in those cases was merely out of necessity. Additionally, most of the surveyed people did not know much about the banking system and its rules. Besides, there were quite a few responses about deep distrust towards banks. For example, one respondent from the Osh oblast of Kyrgyzstan said that

We are two brothers with our wives in Vladivostok; our older sister is also staying with us. Our plan is to buy a house for each of us in Kyrgyzstan. We do not trust our banks at all. We just send enough money to our parents to provide their basic needs. In terms of saving it is more secure to put our money into the Russian banks (Survey No. KG109.4).

While the distrust towards banks is widespread in Kyrgyzstan where liberal economic policies are followed the situation is not different in Uzbekistan where banking sector remains dominated by state banks. The National Bank of Uzbekistan alone holds 55% of the assets in the sector (Pomfret, 2004). Besides, the government has significant control over banks (including the largest one) out of 33 (Lamberte and Vogel, 2006). One study finds out that the major problems of the Uzbek banking system are related to macroeconomic mismanagement, particularly the gradualist reform strategy and its extensions on exchange rates, taxation, and moral hazard problems. It is therefore not surprising to see in both Kyrgyzstan and Uzbekistan that almost none of the remittance transfers are channeled into the banking system as time deposits or other forms of financial investments. Moreover, even if these funds were channeled into the system it would not be an adequate solution by itself for the long-term development of the national economy.

Additionally, as is mentioned before in Central Asia people tend to be protective in their economic behaviors; thus, they channel their earnings into more secure and socially respected assets. For example, having a house is an indicator of social status; thus, “to build a house is therefore essential for rural people to feel that they are respectable in their communities” (Murphy, 2006: 28). From this perspective it is easy to understand the common perception of migrants regarding their prioritization of constructing their houses as typically the first investment. Migrants, in general, tend to invest in property in the capital cities, seeing them as the safest, and the most profitable and reliable long-run deal. Another example for the relationship between social institutions and economic behaviors comes from an area specialist with expertise in anthropology and religion:

It is the Kyrgyz tradition that the youngest son gets his parents' house because he stays with them and takes care of them when they grow old; however, the parents are also supposed to buy a house for other elder sons when they get married. Recently, with the rapid Islamization of society, religious authorities are challenging these traditions, and encouraging families to follow the sharia rules of the distribution of wealth and inheritance. However, these kinds of family practices are resistant to change.³

Taken as a whole, a significant proportion of remittance money is allocated for house construction and improvement in both Uzbekistan and Kyrgyzstan. It seems that the general pattern regarding house construction or agricultural activities in Central Asia is that individuals tend to show protective behaviors with the guidance of social practices and norms in the absence of robust state institutions

³ Interview was held with Baris Isci in Bishkek in November 2007: She was a PhD candidate at the Anthropology Department of the Washington University in Saint Louis, MO.

and its protection guarantees. All of the micro behaviors work with informal rules instead of a consistent formal framework. As is highlighted in another study, Soviet era networks, norms, and habits dominate the post-transition economies and individual level behaviors (Feige, 1997: 32-33).

Furthermore, low income families tend to rely on trade rather than production, and they tend to put their savings into commodities and liquid assets such as roofing materials, trees, and herds. The preference of these assets by Central Asians is related to the interaction between social customs and economic behaviors. A description by an Uzbek respondent (working in Ankara, Turkey) could be interesting:

I came to Turkey 10 years ago. My wife and two boys later joined me. Because of cultural similarity I am feeling comfort here. However, we all miss our country. Due to better educational opportunities we tend to stay here for a few years more. My older son has obtained full scholarship from a private Turkish university (one of the best in Turkey). In any event, we will return back to Uzbekistan. As an investment, I put my savings into aspen trees for my son's wedding expenditures. It is the most reliable and profitable investment in my hometown, Andijan. In our village, most people do the same thing for their future investments: they buy these trees when they were young, and both their children and trees grow together. (Survey No. TR27).

Another major trend among new entrepreneurs of Central Asia regards the impact of informal institutions in commercial life. Regarding the business practices of the new capitalist environment people within an uncertain transition environment turn their attention to informal rules and relationships in the absence of reliable authorities and formal institutions. Besides, as is emphasized in a report: "The people were not used to working independently in solving their local development concerns, being dependent on the government for many years." In sum, rural Central Asians are constrained by lack of knowledge and practice regarding entrepreneurial activities and necessary skills as well as availability of starting capital to initiate income-generating economic activities (UNDP, 2003: 19-20). While focusing on the structural challenges in post-communist Central Asia, one study underscores that

It is possible to be successful in a turbulent and often hostile environment. One such 'turbulence' is caused by weak institutions that allow corruption, informal networks and bribery to influence private business development. It is here that networking takes on particular importance as demonstrated in most of the case studies (Aidis and Welter, 2008: 5).

In the transition environment economic activities are flourishing in the tracks of old bazaars. While a variety of small and medium size bazaars in Kyrgyzstan serve the needs of local consumers, the two largest wholesale bazaars (Dordoi and

Karasuu) are distinct in their function to serve and supply retail traders from neighboring countries, Uzbekistan, Kazakhstan, Tajikistan, and Russia, who buy Chinese, Turkish, Korean, and local products. Another function of these large bazaars is as local production, particularly textile and handicraft (wool slipper, hats, shoes, handbags etc.) has flourished in the shadow economy these goods are easily finding their consumers in these large wholesale bazaars (Spector, 2006). In other words, these bazaars have serious impact to foster local production although it grows up in the shadow economy.

It is clear that in the Central Asian countries of Uzbekistan and Kyrgyzstan, macro level impediments cause micro economic behaviors to be different from other places where macro level political and economic institutions are stable. Thus, people in Central Asia are designing coping mechanisms, as a reaction to the weak formal institutions (Cummings and Norgaard, 2004; Marat, 2006). In both Kyrgyzstan and Uzbekistan, people often suffer from a predatory business environment. Small and medium-sized businesses feel insecure. In the Kyrgyz case, weak state institutions, endemic corruption, and lack of implementation are creating an unfavorable business climate in which “heavy taxes, multiple administrative barriers, and bureaucratic control is particularly damaging to small and medium-sized enterprises, driving them into the shadow economy” (Jones-Luong, 2004: 229). In the Uzbek case, excessive state control also constrains small and medium-sized enterprises, and they sometimes prefer to change sectors to get rid of heavy bureaucratic pressure. One study about Uzbekistan’s small enterprises notes that “Anecdotal evidence suggests that profitable businesses choose either to expand unofficially or to change the nature of their operations to remain unnoticed (Vandycke, 2004: 24). Due to the Uzbek government’s imposition of a more advantageous lump sum tax on microenterprises, it is “the fastest-growing segment among small and medium-sized firms, according to interviews with local business associations and researchers.” (Jones-Luong, 2004: 209-210).

In sum, migrants’ investment decisions in the spheres of agriculture, land, and business all hold protective and acquisitive character rather than fully productive ones. Thus, in line with sociological institutionalism premises, national states while forming new formal institutions and their incentive structures must take into consideration societal dynamics such as regularities, norms, daily habits, and even people’s common expectations at the micro level. As said by a scholar developmental reform projects must focus on playing with social institutions and national policies must recognize the societal dynamics and realities (Skeldon, 2008). After finding the drivers of microeconomic behaviors it could be possible to aggregate them into macro level projections, and to evaluate developmental outcomes for the sending communities.

5. Conclusion

I find very little variation on the developmental performance between labor migrants of Kyrgyzstan and Uzbekistan. According to my findings, I contend that path dependent social environment plays a greater role in potential migrants' decision-making and potential developmental outcomes than dominant theories suggest.

Having made a cross-country and cross-regional analysis, this study finds a significant variation in terms of some personal characteristics of migrants. For example, well-educated and well-connected people with powerful social networks, who have business connections in the urban centers, are more successful regarding the labor migration's economic pay-off. In addition to that Soviet Union's legacy has explanatory power in the migration outcomes. For example, many structural and institutional impediments have been related to the Soviet developmental policies. The combined effects of Soviet development policies and unfinished reforms, relatively higher birth rates, sectoral and geographic concentration of indigenous population into the least modernized occupations and rural areas, ever growing informal economic activities, in the Soviet era are significant factors to understand the current sociological context and institutional framework in Central Asian societies where private economic decisions are made in the absence of robust state institutions.

The developmental impacts of labor migration and especially remittances might potentially be increased by appropriate public policies with a better understanding of social institutions especially networks and influential norms which are shaped within historical processes. For a better understanding of the post-communist transitioning countries and their hardships to be able to design efficient public policies it would be useful to shed more light on the complex interaction between individuals and their social context on the one hand, and states and global economic trends on the other.

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