

Central Asia-Caucasus Analyst

BI-WEEKLY BRIEFING

VOL. 12 NO. 11

9 June 2010

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*Central Asia- Caucasus Institute
Silk Road Studies Program*

Central Asia-Caucasus Analyst

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THE CENTRAL ASIA-CAUCASUS ANALYST

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BACKGROUND: 300-450 words of analysis about what has led up to the event or issue and why this issue is critical to the region. Include background information about the views and experiences of the local population.

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WASHINGTON MOVES TO REPAIR RELATIONS WITH AZERBAIJAN

Fariz Ismailzade

U.S. Defense Secretary Robert Gates' visit to Azerbaijan seems to have succeeded in its likely purpose to exercise damage control. The free fall in U.S.-Azerbaijani relations, which had been ongoing for over a year, seems to have been arrested. Rebuilding trust and re-establishing America's role in Azerbaijan and the wider region will nevertheless require continued and sustained measures.

BACKGROUND: On June 6, U.S. Defense Secretary Robert Gates traveled to Baku to meet President Ilham Aliyev and Defense Minister Safar Abiyev. The bilateral talks focused on U.S.-Azerbaijan military cooperation, Azerbaijan's assistance to the U.S. in anti-terror operations in Afghanistan, past and future use of Azerbaijani land and air space for the transport of U.S. troops and supplies to Afghanistan. Secretary Gates thanked the Azerbaijani leadership for this continuous support and brought a letter from President Barack Obama, addressed to President Aliyev. In the letter, President Obama expressed gratitude to Azerbaijan for its assistance to global and regional security, and stated his desire to maintain a dialogue with President Aliyev on key issues of mutual importance.

Azerbaijani media outlets have also reported that Secretary of State Hillary Clinton is planning a visit to Azerbaijan sometime next month. If this visit takes place, it will be the first time in post-Soviet history of Azerbaijan that the chiefs of the Pentagon and State Department pay back-to-back visits to this small, but strategically important republic.

In addition to these developments, President Obama on May 25 nominated Matthew J. Bryza as the next ambassador to Azerbaijan. The move came after a year-long absence of a U.S.

ambassador in Baku. The absence of an ambassador was perceived by the Azerbaijani public and policy-makers as an indicator of Washington's lack of interest for and focus on this country. Some even argued that the U.S. was intentionally delaying the process of nomination of an ambassador. Whatever the reasons are, the bilateral relations indeed worsened in past months.

The U.S. and Azerbaijan had enjoyed very warm relations ever since the collapse of the Soviet Union, thanks to the strategic partnership on energy issues, such as the signing of the 1994 "Contract of the Century", the construction of Baku-Supsa, Baku-Ceyhan and Baku-Erzurum pipelines. After the 2001 terror attacks in the U.S., Azerbaijan became one of the first countries to render assistance to the U.S.. Both countries became locked up in serious military and security cooperation, with Azerbaijan being the only Muslim country in the world to send troops to both Iraq and Afghanistan.

Yet, relations slowed down in the past two years. Although Azerbaijan had long complained about unjust policies of the U.S. Congress, influenced by a powerful Armenian lobby, the decision of the State Department to vote against a resolution on Nagorno-Karabakh, sponsored by Azerbaijan at the UN General



Robert Gates

Assembly in March 2008 was the first blow to bilateral relations in their current stage. Azerbaijanis perceived the gesture as a stab in the back. Then came the Russian-Georgian war and the clear absence of any coherent and strong policy on the part of U.S. towards security in the South Caucasus. This led Azerbaijan to reconsider the assumptions of its foreign policy.

However, the real damage to bilateral relations came with President Obama's push for Armenian-Turkish reconciliation. Official Baku perceived this policy as a hit to its national security and the overall peace process over Nagorno-Karabakh conflict. The Azerbaijani political establishment, as well as the wider public, believes that the Turkish border with Armenia should only be opened after Armenia withdraws its military forces from the occupied Azerbaijani lands. Without this pre-condition, official Baku believes, the Turkish-Armenian rapprochement will only damage the peace process by alienating Azerbaijan, eliminating the only remaining peaceful incentive for Armenia to withdraw

from the occupied territories, and emboldening official Yerevan on the negotiation table. Suspicion and frustration mounted in Baku as Washington kept pushing on Ankara to sign protocols with Yerevan. President Aliyev even refused to attend an Istanbul conference on civilizational dialogue in April 2009, despite the invitation from senior U.S. policy makers. Azerbaijani leaders were perplexed that the U.S. would treat its

strategic ally in such a way. Excluding Azerbaijan from the Turkish-Armenian talks and insisting on the normalization of Turkish-Armenian relations without consideration of Azerbaijan's national interests hurt the image of the U.S. in Azerbaijan.

Then came an opposition-written article in the Washington Post and reports by Freedom House and the State Department on the state of human rights in Azerbaijan that were perceived as factually wrongful by the government. Finally, US\$ 8 million assistance to the separatist regime in Nagorno-Karabakh added extra fuel to the fire.

In April 2010, the head of the Presidential Administration's Political Affairs Department, Ali Hasanov, even threatened that Azerbaijani would reconsider its relations with the U.S.. Some analysts have argued that Azerbaijan, being upset with U.S. policies, would be likely to turn towards Russia. Gas contracts signed with Gazprom last summer were initial signs for such possible shift in Azerbaijani foreign policy.

IMPLICATIONS: The latest U.S. initiatives seem to be aimed at repairing the worsening relations between Washington and Baku. Secretary Gates' visit appears to have psychologically and symbolically stopped the tide of negativism in bilateral relations. Once again, the U.S. has shown that the South Caucasus and the Caspian basin remains an important region for its national interests. With the recent turmoil in Kyrgyzstan and the uncertain fate of the U.S. military base there, U.S. Defense Forces look at the South Caucasus as an alternative reliable transport route to Afghanistan. Thus, improving U.S.-Azerbaijani relations can increase the U.S. military cooperation with South Caucasus countries.

The normalization of U.S.-Azerbaijani relations is good not only for these two countries, but also for the entire region. Coincidentally, in the same week that Secretary Gates was in Baku, President Aliyev traveled to Istanbul to sign bilateral gas export agreements with Turkey, thus further strengthening the East-West energy corridor, backed by U.S. officials, and significantly contributing to Europe's energy security. The U.S.-Azerbaijani cooperation, once re-charged again, can touch upon new spheres, such as health, science, education, cultural diplomacy, areas mainly forgotten in 1990s. Cooperation and mutual understanding on such sensitive issues as democracy and human rights is also possible and can be more easily achieved among friends than hostile countries.

Finally, it can affect the peace process in Nagorno-Karabakh, if Washington manages to restore the trust of Azerbaijani politicians in unbiased mediation by Washington. Inclusion of Azerbaijan into the Turkish-Armenian rapprochement and linking the opening of the

Turkish-Armenian border to the liberation of the occupied Azerbaijani lands will bring more sustainable, comprehensive peace to the region.

More U.S. attention to Azerbaijan will help restore the geopolitical balance of power in the region. After the 2008 war between Russia and Georgia, many analysts argued that the Kremlin is coming back to dominate the region and that the U.S. is unwilling or unable to counter this trend. Indeed, toothless U.S. actions during and after that war led many to question Washington's ability to provide security for its allies in post-Soviet republics. It seemed like the South Caucasus would once again be dominated by Russia. The improvement in U.S.-Azerbaijani relations can help reverse that perception. Geopolitical balance in this vital region is much preferable for regional peace and stability than domination by one power.

CONCLUSIONS: U.S.-Azerbaijan relations seem to have hit rock bottom and are about to be bounced back. It seems like after almost two years of one-sided policies, official Washington has realized the importance of Azerbaijan as a key regional country both in terms of providing energy security but also contributing to the stability and economic development of the regional countries. It is apparent that without Azerbaijan, the push for Turkish-Armenian rapprochement is doomed to failure. Without Azerbaijan, military operations in Afghanistan would become much harder. Without Azerbaijan, America's presence and influence in the Caspian basin would be reduced. Thus, it is important to continue to mend relations with Baku in order to achieve the broader goals that the Obama administration has put in front of itself: regional peace, stability and development.

WHY IS THE CSTO ABSENT IN THE KYRGYZ CRISIS?

Richard Weitz

The Collective Security Treaty Organization (CSTO) has thus far played a surprisingly small role in the Kyrgyz crisis despite Kyrgyzstan's being one of the core members of that institution. The CSTO has done little more than issue alarming warnings about developments in Kyrgyzstan, allowing the OSCE to play a lead role in mediating the power struggle. Yet, while circumstances in Kyrgyzstan did not allow the CSTO to make use of its recently formed Collective Operational Reaction Force, it would be incorrect to presume that the organization could not assume a more prominent role if a crisis erupt in another member state.

BACKGROUND: The crisis in Kyrgyzstan was one of the most acute in the CSTO's recent history. Although the large-scale riots on April 6-7 were not protracted, looting and ethnic tensions followed in their aftermath. The CSTO member governments and the rest of the community were especially eager to see a resolution of the power struggle between the new Kyrgyz provisional administration and deposed President Kurmanbek Bakiyev, who returned to his power base in Jalalabad in southern Kyrgyzstan soon after the riots. On April 9, CSTO Secretary General Nikolay Bordyuzha told the press that CSTO members were very concerned over the situation in Kyrgyzstan. "All CSTO participants are extremely worried about the events in Bishkek", he remarked, "and believe in common sense of all parties of the conflict" to settle the dispute without further bloodshed.

Since its formation in 2003, Russian officials have used the CSTO to legitimize their dominant military presence in Central Asia. For example, former Defense Minister Sergey Ivanov justified Russia's establishment of an airbase in the city of Kant, Kyrgyzstan, which is offered rent-free by the Kyrgyz government, on the grounds that it provided air support for

the CSTO region. Bordyuzha has acknowledged that the organization itself has no military bases, affirming they all belong to Russia or the other member governments.

At the organization's October 2007 summit in Dushanbe, the member governments, following years of Russian prompting, agreed to establish a joint CSTO peacekeeping force. Bordyuzha said that CSTO peacekeepers could in theory deploy anywhere in the world, provided they received appropriate authorization by the United Nations. In practice, most CSTO governments want a force suitable primarily for deployment within the territory of an existing member state. According to CSTO agreements, such a scenario would not require the approval of the UN Security Council, where the U.S. and China have the right of veto. The CSTO secretariat must simply inform UN headquarters about its plans. At least some of the member governments might want CSTO soldiers to protect them against domestic challengers. They would presumably label their internal opponents as foreign-backed terrorists to legitimize the intervention of the CSTO, whose current mandate formally focuses on defense against external threats.

At a heads-of-state meeting in Moscow in June 2009, the attending presidents signed several documents that enlarged the size and legally authorized missions of the newly renamed Collective Operational Reaction Force (CORF). At a post-summit news conference, Russian President Dmitry Medvedev said that the CORF could be used to combat terrorists, counter narcotics trafficking and other cross-border crime, and “possibly” perform other missions such as settling regional conflicts. Although the CORF consists overwhelmingly of Russian military personnel, the presence of troops from several of the other CSTO militaries enhances the legitimacy of Russian military operations by giving them a multinational gloss. The large number of Russian units in the CORF also guarantees that the CSTO cannot conduct a collective military operation without Moscow’s active support.

IMPLICATIONS: During the acute phase of the crisis, when Kyrgyzstan looked like it might descend into civil war, the CSTO’s most visible response was to send a representative to Bishkek. In his capacity as chair of the CSTO Collective Security Council, Medvedev sent Deputy CSTO Secretary General Valery Semerikov on a week-long fact-finding mission to Kyrgyzstan following the April 6-7 riots. Semerikov became simply one more special envoy among the crowd of representatives from the various multinational institutions active in Kyrgyzstan. Upon their return to Moscow on April 16, Semerikov and his team merely submitted a report to Medvedev on what they found, with no visible follow-up.

In Kyrgyzstan, Semerikov joined Jan Kubis of the United Nations, Pierre Morel of the European Union, Adil Akhmetov of the Parliamentary Assembly of the Organization for Security and Cooperation in Europe

(OSCE), and Zhanybek Karibzhanov, Special Envoy of the OSCE Chairperson-in-Office, Kazakh Foreign Minister Kanat Saudabayev. Karibzhanov appears to have played the most important role in resolving the crisis through his on-site mediation efforts. After a tense week, Saudabayev announced on April 15 that Bakiyev was resigning from office and leaving Kyrgyzstan.

Alarmed at the collapse of a fellow autocrat and disparaging of the weakness of the CSTO response, Alexander Lukashenko, president of member Belarus, subsequently threatened to skip the upcoming May 8 informal CSTO heads-of-state summit in Moscow. He expressed exacerbation at Russia’s alleged failure to pay rent for its military bases in CSTO members like Belarus and Kyrgyzstan as well as at the institution’s failure to intervene in Kyrgyzstan to defend one of its member governments. “What sort of organization is this, if there is bloodshed in one of our member states and an anti-constitutional coup d’état takes place, and this body keeps silent?” In the end, Lukashenko attended the May 8 informal summit that occurred at Medvedev’s presidential residence in Gorki, a city near Moscow. The other participants were Medvedev, Boryuzha, Armenian President Serzh Sargsyan, Kazakhstan’s President Nursultan Nazarbayev, Tajikistan’s President Emomali Rakhmon, and Uzbekistan’s Prime Minister Shavkat Mirziyev. Russian presidential aide Sergei Prikhodko said Kyrgyzstan could not participate since it had yet to form a constitutional government.

In his opening address to the CSTO summit, Medvedev confirmed the impact of the events in Kyrgyzstan on the organization: “We had originally planned to have our meeting on a different date, but in light of certain requests by



CSTO Exercise (Russia Today)

my colleagues, as well as a number of major events – I mean the events in Kyrgyzstan – we changed the schedule, the agenda, and naturally we will discuss this question too”. Medvedev noted that, while the CSTO members had considered the crisis in their bilateral talks, “Today we have the opportunity to discuss it at the presidential level and for the Organization to make a consolidated statement which outlines possible cooperation prospects in light of what is happening in Kyrgyzstan.”

In a statement distributed after the summit, the CSTO leaders called the regime change in Kyrgyzstan unconstitutional and urged the new Kyrgyz administration to restore constitutional legality to the country: “We address the people of Kyrgyzstan and state the necessity of the earliest peaceful return to the legal framework of socio-political life of the country, its normalization, non-admission of violence, restoration of the legal order, ensuring human rights and freedoms, as well as legitimization of power institutions.” The CSTO did promise to render Kyrgyzstan collective humanitarian assistance and promote “constructive cooperation with other countries and international organizations along these lines.” Bordyuzha singled out Kazakhstan’s assistance to its stricken neighbor: “Kazakhstan has undertaken specific efforts in the OSCE area as

the chairman in this organization and in the CSTO area to provide stability in Kyrgyzstan”. A week later, Bordyuzha told a Moscow news conference that the CSTO did not consider it necessary to send peacekeepers to Kyrgyzstan and would leave it to the Kyrgyz government to handle the crisis.

CONCLUSIONS: The official reason for the CSTO’s limited role in the Kyrgyz crisis was that the situation involved an internal political crisis in a member country rather than an act of foreign aggression requiring a collective response. Bordyuzha said that “our stance is that the current situation is purely a domestic affair of Kyrgyzstan”. Yet, there is no guarantee that the organization might not respond more vigorously in a future domestic upheaval in a neighboring country. Bakiyev’s removal was not unwelcome in Moscow, and Russian policy makers were happy to let its ally Kazakhstan, also a CSTO member and fortuitously the current chairman of the OSCE, take the lead role in resolving the immediate crisis. Bordyuzha has since stated that the organization can in principle use its CORF in any CSTO member state “with or without a UN mandate, at any time”. In the Kyrgyz case, the Moscow-led CSTO did not behave as a modern version of the Warsaw Pact and send Russian tanks into Bishkek under its auspices in the same way as the Moscow-led Warsaw Treaty Organization legitimized the Soviet military interventions in Hungary in 1956 and Czechoslovakia in 1968. But it is not too difficult imagining the CSTO might do so in the future under different circumstances.

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GEORGIA'S LOCAL ELECTIONS: REVITALIZING THE ROSE REVOLUTION?

Christofer Berglund

On May 30, Georgian citizens went to the polls to vote in local elections. At stake were issues well beyond the socio-economic problems debated during pre-election campaigning. Apart from being an ordeal for the ruling United National Movement, already strained by war and street protests, the local elections served as a critical test of the fairness of Georgia's electoral framework and, ultimately, for the country's prospects of overcoming political polarization. In the end, the ruling party came out of the elections strengthened. More importantly, initial signs indicate that Georgia may be revitalizing the democratic ideals espoused by the "rose revolutionaries".

BACKGROUND: International observers, along with an increasing pool of dissidents from within Georgia's ruling party, have for several years criticized the government's ineptitude in deepening democratic reform. Overbearing executive powers, the inadequate independence of courts, the unequal electoral playing field and unsatisfactory media freedom have repeatedly been identified as sore points. Disillusionment with the stagnant revolution inspired some MPs to boycott parliament following their election in May 2008 and led to recurrent street protests, e.g. in November 2007 and April 2009. Strained by these events and by the August 2008 war with Russia, Saakashvili promised reforms of the election code, discussions on constitutional reform as well as pre-term local elections, including (for the first-time) direct mayoral elections in Tbilisi.

Although some opposition leaders refused to be appeased by these pledges, the popular mood in June 2009 was decidedly in favour of negotiation. After intense wrangling, the inter-party working group on electoral reform proposed some significant changes. These included expanding the number of seats in the Tbilisi City Council to 50, whereby 25 members were to be elected in single-mandate districts

(no threshold) and 25 through a party-list, proportional system (a four percent threshold). In order to strengthen the equality of votes, regulations were adopted requiring the delineation of new majoritarian constituencies in Tbilisi. Other amendments enabled some opposition parties to check voters' lists and provided more balanced procedures for selecting representatives to the three-tiered structure of election commissions. A 30 percent threshold was eventually introduced for the Tbilisi mayoral elections, with a run-off to be held between the two most popular candidates if no one surpassed this limit. However, several opposition parties refused to accept this provision, since it was considered conducive to diluting, and therefore weakening, the opposition vote.

Continuing disagreements between moderates and radicals over whether to unseat the government through elections or street protests, as well as over how to manage relations with Russia, rendered the opposition unable to coordinate its actions during the run-up to the elections. Significantly, the opposition proved unable to select a single candidate for the mayoral elections, even though – or perhaps because – this position is considered a



Irakli Alasania (RFE/RL)

springboard for the presidential elections scheduled for 2013. The incumbent United National Movement (UNM) and its Tbilisi mayoral candidate Gigi Ugulava therefore faced no less than four major opposition candidates (Irakli Alasania representing the Alliance for Georgia; Giorgi Chanturia representing the Christian-Democratic Movement; Zviad Dzidziguri representing the National Council; and Gigi Topadze representing Industry Will Save Georgia), as well as four less known candidates during the May 30 local elections.

IMPLICATIONS: As polls had predicted, the ruling UNM secured a landslide victory, retaining a majority in all 63 municipal councils outside the capital and gaining 39 of 50 seats in

the Tbilisi City Council. The incumbent Gigi Ugulava also won the mayoral race with a solid 55 percent of the vote, even though Tbilisi is considered an opposition stronghold. In short, the ruling party came out of the elections strengthened, despite several years of recurrent signs of popular discontent.

The local elections may also lead to a revitalization of the democratic ideals espoused by the “rose revolutionaries”. According to the assessment of the OSCE-ODIHR monitoring mission, the elections “marked evident progress towards meeting OSCE and Council of Europe commitments”. Nonetheless, the elections were not deemed “exemplary”, as had been called for by President Saakashvili. Monitors noted



Giorgi Ugulava

“significant remaining shortcomings” including “deficiencies in the legal framework, its implementation, an uneven playing field, and isolated cases of election-day fraud”. Some of the problems singled out were provisions in the electoral code which allowed single-mandate districts outside Tbilisi to be drawn without regard to their number of voters (effectively undermining the equality of votes) and rules permitting what is considered use of administrative resources by international standards. The use of state resources for the benefit for the ruling party, the unbalanced (but highly diverse) media environment and instances of intimidation against voter and

opposition activists did skew the electoral contest in favour of the UNM. However, these problems were more severe outside the capital, which was the only locality considered to be of major political importance by all contestants. The monitoring mission also described the work of the election administration as “professional, transparent and inclusive”; commended the efforts done to improve the quality of voters’ lists; praised the balanced reporting of the Georgian Public Broadcaster; and welcomed the government’s attempts to address wrongdoings through the Inter-Agency Task Force for Free and Fair Elections.

These advancements, albeit limited, bode well for the prospects of overcoming Georgia’s intransigent cycles of “street politics”. The reactions

by opposition parties to the election results have certainly been as divergent as ever. Moderate opposition groups have largely accepted the outcome, whereas the more radical opposition forces have dismissed them as unfair. Giorgi Chanturia of the Christian-Democratic Movement described the elections as a “step forward towards the development of democracy”; and Irakli Alasania of the Alliance for Georgia referred to them as “valid – despite significant shortcomings”. By contrast, the National Council argued that “the election results are not based on the free choice of the Georgian citizens”. Extreme oppositionists such

as Nino Burjanadze's party Democratic Movement – United Georgia, who boycotted the elections, have described them as an outright ruse serving as a tool for regime justification.

However, a careful assessment of the elections results, weighed against the evaluation of international monitors, lends credence to the interpretation that moderate opposition groups in fact constitute the most powerful oppositional factions. The monitors' fairly favourable conclusions suggest that the more radical opposition groups are trying to rationalize their failure to gain traction over a solid part of the electorate by blaming it exclusively on procedural shortcomings. But the radical parts of the opposition arguably discredited themselves by interpreting the widespread disagreement with the government's policy towards Russia as a mandate to engage Moscow behind the government's back. Radical opposition groups therefore seem to be on a trajectory towards marginalisation, whereas there appears to be an underlying public demand for moderate opposition representatives.

This development will, in turn, strengthen moderate opposition forces in their pursuit of gradually pushing for a more balanced electoral framework; and alleviate the government's fears of radical oppositional groups that are often perceived as Moscow's "Trojan horses". The ruling party's election experiences may even create incentives for further reform, since the rudimentary agreement on the electoral framework allowed for a renewed focus on the substantive issues of concern to most voters; an area where the UNM, and its mayoral

candidate, already had a strong track-record in terms of reforms and economic progress.

CONCLUSIONS: Georgia's local elections provide initial signs towards a possible revitalization of the democratic goals of the Rose Revolution. The gradualist approach by the moderate opposition has been vindicated. The radical opposition appears marginalized; and the ruling party's fear of Russian "Trojan horses" should decrease correspondingly. Indirectly, the UNM may even have reaped the benefits of arranging elections under circumstances where substantial matters could gain more attention than procedural shortcomings, thus creating incentives for deepening democratic reform.

These positive signs notwithstanding, the democratic promises of the Rose Revolution are bound to hang in the balance for some time. Developments concerning the draft constitution will prove decisive in overcoming Georgia's cycles of "street politics" in the long run. Although the recently revealed constitutional draft appears to meet persistent demands for improved checks and balances, fears are already being expressed that the amendments are being tailored in order to give Saakashvili a comeback option as his final term ends in 2013, and even moderate opposition forces have promised an "irreconcilable" response to such attempts at constitutional engineering.

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CHINA'S ENGAGEMENT WITH THE SOUTH CAUCASUS: LIMITATIONS AND PROSPECTS

Roman Muzalevsky

From Latin America to the Middle East, Africa to Europe, China's web of economic expansion has engulfed all corners of the globe. Today, there is hardly any place in the world that does not trade with China. The South Caucasus is no exception. China's economic and political presence in the region, while less substantial and inconspicuous compared to that of other actors, is no less visionary in its quest for expanded trade, energy resources and transportation corridors. Exploring the limits and prospects of Beijing's growing engagement with the South Caucasus is therefore pertinent.

BACKGROUND: In 2010 Armenian President Serzh Sargsyan emphasized that the development of the bilateral cooperation with China was a priority for Yerevan. He even once called on Beijing to establish a greater presence in the South Caucasus that would “undoubtedly have a positive impact” on the region. Armenia suffers from geographic isolation imposed in the aftermath of the conflict with Azerbaijan over Nagorno-Karabakh in the early 1990s and seeks to widen its narrow export base through trade with China.

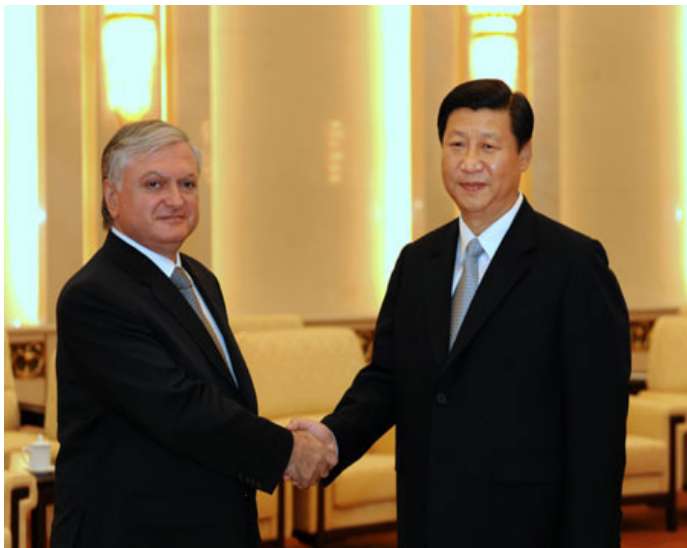
In 2009 Beijing surpassed Berlin as Yerevan's second-largest trading partner after Russia, with the trade turnover reaching almost US\$ 110 million and the share of Armenia's imports from China hitting 9 percent. While imports from China (US\$ 87 million) dominate the bilateral trade and Armenia's primary export partners are Germany (16.9 percent) and Russia (15.9 percent), Armenia saw a more than tenfold increase in its exports to China. In 2009, however, most FDI still came from Russia (US\$ 502.8 million), France (US\$ 197.5 million), and the Netherlands (US\$ 71 million).

Beijing and Armenia jointly operate the Shanxi-Nairit rubber factory. Beijing further considers participating in the construction of the Armenia-Iran railway system, enabling

Yerevan to transport energy resources and accessing another railway system than the one passing through pro-Western Georgia. China's concurrent engagement with Iran clearly serves as a platform for its policies in the South Caucasus and the Caspian region.

According to Chinese leader Hu Jintao, China and Armenia have “always treated each other as equals” and “supported each other” on international issues. In 2008, for instance, China did not vote for the UN resolution drafted by Azerbaijan that required an “immediate, complete, and unconditional withdrawal of Armenian forces” from occupied Azerbaijani territories. This complicates Beijing's relations with Baku, which were damaged in 1999 when China sold eight Typhoon multiple rocket systems to Armenia.

Nevertheless, the level of trade and investment has been steadily rising, albeit still lagging behind other countries. In 2008, Baku's major exports went to Italy (40.2 percent), the U.S. (12.6 percent), and Israel (7.6 percent). Imports came from Russia (18.8 percent), Turkey (11.2 percent), Germany (8.3 percent), Ukraine (7.9 percent), and China (6.7 percent). Bilateral trade hit US\$ 300 million in 2009. China's CNPC has a 25 percent stake in the Salyan oilfields, while Sinopec considers bidding for



the Azeri-Chirag-Gunashli oil project (potentially in the range of US\$ 3 billion). Baku even considered exporting gas to China amidst the energy disputes with Turkey, with Kazakhstan offering to do this via a proposed pipeline across the Caspian.

Both states have also supported the proposed Kars-Akhalkalaki-Baku railway linking Turkey, Georgia and Azerbaijan and connecting the Asian and European railway systems. With an annual transit capacity of 20 million tons, the railway project is sure to enhance Chinese presence in the region. Armenia, however, opposes the scheme, insisting on the use of Kars-Gyumri-Tbilisi link that has not functioned since the closure of the Turkish-Armenian border in 1993.

For Tbilisi, which seeks to position itself as a regional transit corridor, this project is important. So is its trade with China that reached US\$ 47million in 2010 – an 86 percent increase from 2009 – making China the fifth largest trade partner for Georgia. Yet, most exports in 2008 went to Turkey (17.6 percent), Azerbaijan (13.7 percent), and Ukraine (9 percent), with imports primarily coming from Turkey (15.5 percent), Ukraine (10.9 percent),

and Germany (10 percent). In terms of investment, the United Arab Emirates, not China, was the largest investor in 2009 (US\$ 145 million), followed by Egypt (US\$ 115 million) and Turkey (US\$ 72 million). China's investment, predominantly in the mining, hydro-energy and railways sectors, was US\$ 65 million.

IMPLICATIONS: Besides the states of the South Caucasus, China engages the West, Russia, Iran and Turkey in the region to facilitate its economic expansion and ensure access to the region's energy resources, trade routes and transportation corridors. Its "balanced" position on Nagorno-Karabakh, South Ossetia and Abkhazia serve these interests well, with the regional states returning the favor by supporting the "one China" policy and Beijing's regional economic presence.

China's economic expansion in the South Caucasus is indeed growing at a rapid pace, although it continues to lag behind that of other countries. Partly, this is the result of stalled regional cooperation, limited resources and transportation capacity, as well as geography. Yet China's intensified search for resources, trade and transport corridors to fuel its booming economy will lead to enhanced cooperation between Beijing and the South Caucasian states, pointing to a number of implications for the region and its traditional actors.

First, Beijing's growing presence will entail an economic and political reorientation of the South Caucasian states toward closer (and possibly even strategic) partnerships with China, precipitating the geopolitical decline of other regional players. To some extent, this process will mirror the related developments in Central Asia, where China's growing investments and trade activities are gradually

translating into Beijing's enhanced political leverage and pushing other traditional regional actors, including Russia, to the sidelines.

Second, China might be forced to discard its "balanced" position in the region, especially given the important roles of Turkey and Russia in the Caucasus. In this context, China's increasing cooperation with Armenia and Iran might serve as a break on Russian and Turkish initiatives involving Azerbaijan and other Turkic language countries. Turkey, for example, harshly denounced China's violent crackdown on Uyghurs in Xinjiang in 2009. Third, competition and cooperation over transportation corridors and trade routes will intensify in Central Eurasia, which is already home to several initiatives involving the South Caucasus, the Caspian region, and Central Asia. Russia and Kazakhstan are currently developing railway connections, including ones that will facilitate China's exports to Europe. Russia, India and Iran have, in turn, committed to developing "North-South" corridor. The TRACECA and CAREC regional transportation projects, supported by the West, are under implementation as well.

More recently, Beijing announced plans to develop a high-speed railway system that would promote China's exports to Europe through what is allegedly an efficient and extremely fast transportation network, thus enhancing the position of the Caspian and South Caucasus regions as regional interconnectors. However, financial, technical, bureaucratic and political problems stand in the way of all mentioned transportation initiatives. This potentially undermines efficient operation of the regional railways and road networks, especially considering the number of actors involved in

these initiatives and political issues plaguing the already complex regional relationships.

Finally, the growing cooperation between the South Caucasus and China will necessarily involve Central Asia, which is itself witnessing China's rapid rise in its neighborhood. While the South Caucasus is a corridor for the West to energy resources in Central Asia, Central Asia is a transit point for China to the energy-rich Caspian and South Caucasus regions. This offers significant opportunities for the Central Asian region, which can effectively capitalize on its rapidly expanding role as a conduit of continental trade and platform for investments in the transportation sector. The resolution of Central Asia's complex border, water, and security issues is nevertheless a key to reigniting the region's potential in spurring East-West energy, trade and transportation flows to the benefit of all parties.

CONCLUSIONS: The South Caucasus is but one region that is experiencing a growing Chinese presence. While this relationship has not yet reached the maturity of those enjoyed by Beijing's regional geopolitical contenders, it will increase in importance as China more effectively translates its interests into actions through expanded trade and investment. As part of this process, China's future engagement with the South Caucasus will increasingly rest on its pursuit of energy resources, trade and transportation corridors, posing serious challenges to the influence of traditional actors in the region.

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FIELD REPORTS

NAGORNO-KARABAKH POLLS CAUSE FRESH INTERNATIONAL CRITICISM

Vahagn Muradyan

On May 23, Nagorno-Karabakh held its fifth parliamentary elections since 1992, when the first parliamentary ballot took place. The Central Electoral Committee put the turnout figure at around 70 percent of some 95,000 eligible voters. According to the final results, the majority of the 33 seats were taken by the Free Homeland Party led by incumbent Prime Minister Ara Harutiunian, followed by Parliamentary Speaker Ashot Ghulian's Democratic Party of Artsakh [Karabakh] and the ARF-Dashnaksutiun Party.

While international observers, consisting of MPs from Armenia, Russia, Slovakia and Argentina, hailed the elections as exemplary, the vote was condemned by opposition forces in Nagorno-Karabakh for a lack of competitiveness which brought only pro-government parties to the new legislature.

The UN, the EU, and the Council of Europe made statements about non-recognition of the vote. Statements to the same effect were issued by Azerbaijan, Turkey, Georgia, Russia, and France. The OSCE Minsk Group co-chairs reacted by expressing their understanding of "the need for the de facto authorities in NK to try to organize democratically the public life of their population". Nevertheless, they pointed out that no country, including Armenia, had recognized NK's independence and that the elections should not "pre-empt the determination of the final legal status of Nagorno-Karabakh in the broader framework of the peaceful settlement".

In response, Armenia's Foreign Minister Edward Nalbandyan stated on May 24 that the orderly administration of the vote proved Karabakh's commitment to democracy and the rule of law. Nalbandyan also underlined that provisions about dialogue with the elected representatives of Nagorno-Karabakh were part of the mandate for organizing the 1992 Minsk peace conference. Indeed, the decision taken at the Additional Meeting of the CSCE Council in Helsinki in March 1992 to organize the Minsk conference stipulated the participation of "elected and other representatives of Nagorno-Karabakh" – an argument Armenia and Nagorno-Karabakh have since been using to provide international legal substantiation for five parliamentary, four presidential, and four municipal elections, as well as one constitutional referendum administered since 1992.

All Karabakh elections have routinely been criticized by the international community. This vote, however, took place in an unusually sensitive environment, which emerged after the so-called Madrid Principles put on the table in 2007 provided for a popular vote to determine the final status of Nagorno-Karabakh. With Armenia and Azerbaijan remaining at odds on the modalities of such a vote, any expression of popular will in Karabakh appears as a direct endorsement of the current status.

Armenia and Azerbaijan indeed appear to have hardened their positions. Differing interpretations of the right to self-determination most recently highlighted in the July 10, 2009, statement of the presidents of the U.S., Russia and France in L'Aquila and the December 2 OSCE Athens

Ministerial statement, revealed a new wave of intransigency. The Azerbaijani Foreign Minister announced in March 2010 that Azerbaijan regarded the right to self-determination only within the limits of Azerbaijani sovereignty. President Serzh Sargsyan, in turn, stated on June 2 in Russia's southern city of Rostov-on-Don that Armenia will not "haggle over the Nagorno-Karabakh people's right to self-determination". Sargsyan, who visited Russia to discuss the results of President Medvedev's visit to Turkey, also ruled out any role for Turkey in the Karabakh peace talks.

Yet, misgivings about Turkey attaining a role in the talks remain a major concern in Yerevan. This, as well as a sense of a wider negative shift again came into the spotlight with the Resolution on "The need for an EU strategy for the South Caucasus" adopted by the European Parliament (EP) on May 20. The provision drawing most criticism in Yerevan, from both governing as well as opposition forces, was the demand for a rapid pullout of Armenian forces from "all occupied Azerbaijani lands". As for Turkey, the resolution confirmed that the Turkish-Armenian normalization and the Nagorno-Karabakh peace talks were separate processes, but also reaffirmed that "the positions of Russia, Turkey and the U.S. play an important role in conflict resolution in the South Caucasus", thus validating arguments that Turkey had gained international endorsement to seek a greater role in the NK conflict as a result of the Turkish-Armenian process.

While legally non-binding, the resolutions adopted by European parliamentary bodies are nevertheless perceived to have far reaching negative implications for Armenia. They seem to uphold the Azerbaijani dissatisfaction with the OSCE Minsk Group, raising Yerevan's fear of alternative negotiating formats. Most recently, this was displayed by Yerevan's strong opposition to attempts at revitalizing the PACE ad hoc committee on Nagorno-Karabakh established by Resolution 1416 (2005) of the Parliamentary Assembly of the Council of Europe, despite its primary purpose of facilitating dialogue on a parliamentary level. The suggestion of the EP Resolution to replace the French co-chairmanship in the Minsk Group with an EU mandate was interpreted along the same lines.

Renewed efforts by the co-chairs to revive the stalled process could be the best solution to allay Yerevan's fears and restore Azerbaijan's confidence in the Minsk Group. However, despite the announced intention of the co-chairs after the June 4 meeting in Venice with Azerbaijani Foreign Minister Mammadyarov to "restore momentum to the peace process", Mammadyarov's remarks about Armenia's "conceptual" differences in its interpretation of the updated Madrid Proposals, only prove that the sides have yet to make the most difficult compromises.

INCIDENT IN KYRGYZSTAN ACTUALIZES BORDER PROBLEMS IN FERGANA

Joldosh Osmonov

The recent incident in the Uzbek Sokh enclave in southern Kyrgyzstan once more serves as a reminder of the importance of disputed border areas in the Fergana Valley between Kyrgyzstan, Uzbekistan and Tajikistan. As temporary solutions are being offered, the reality remains – a final

delimitation of state borders is required in order to avoid possible inter-governmental conflicts, experts argue.

On May 26, an incident took place between Kyrgyz locals and the residents of an Uzbek enclave in southern Kyrgyzstan, leading to a five-day

confrontation between the two groups. The enclave's Khushyar villagers assaulted dozens of Kyrgyz locals who were driving through the Uzbek territory as a response to an imposed ban on the use of Kyrgyz land for grazing. Travelers on the "Osh-Batken" highway, which connects these two southern Kyrgyz regions and runs directly through the Uzbek enclave, saw their cars smashed and had to escape to avoid being taken hostage.

As confrontation between the two groups intensified, the Khushyar residents destroyed the road leading to the Kyrgyz village of Charbak, resulting in a disruption of the village's water supply. Another Kyrgyz village, Chyrdyk, which has 400 residents, was isolated since the only road leading there passes through the enclave. In retaliation, residents of bordering Kyrgyz villages blocked the highway linking the Sokh enclave with the city of Rishtan, located in the Uzbek mainland. Fearing an escalation of the conflict, the Kyrgyz Border Service (KBS) closed the "Kaytpas" border post, which directly connects the enclave with Fergana oblast in Uzbekistan, on May 31.

Established in 1955, the Sokh enclave covers 325 square kilometers and is located in the Batken region of Kyrgyzstan. It is the largest of three Uzbek enclaves on Kyrgyz territory; the other two, Shahimardan and Changara, are also located in Batken. The enclave's population of is approximately 52,000, 90 percent of which are of Tajik ethnicity.

Kyrgyz mass media outlets reported on the alleged transfer of 1,000 Uzbek Special Forces and military hardware to the enclave. However, the deputy head of the KBS, Cholponbek Turusbekov, denied such allegations. "No Uzbek military forces passed through the Uzbek-Kyrgyz border posts," he said in an interview with the local "BPC" news agency.

Turusbekov blamed the residents of the enclave for provocative actions that escalated the problem. As the KBS deputy head argued, according to the Kyrgyz "Law on Pastures," the use of Kyrgyz grazing fields by foreign citizens is prohibited. Furthermore, there is no inter-governmental

agreement between the two states on the free use of pastures. Therefore, Uzbek citizens have no authority to demand the use of Kyrgyzstan's territory", he concluded.

On June 1, the heads of the border services of both Kyrgyzstan and Uzbekistan met for negotiations in the Uzbek village of Vuadil near the state border, with the aim of settling the conflict. The agreement signed at the conclusion of the meeting consisted of six points, and included speeding up the work of the joint Kyrgyz-Uzbek intergovernmental commission on delimiting and demarcating the state borders, constructing temporary barbed-wire fences in particular areas on the state border and considering an agreement on the use of Kyrgyz pastures by the Uzbek farmers.

In addition, the Uzbek side agreed to withdraw its landing assault battalion and heavy military hardware from the enclave. They were brought in during the so-called "Batken events" in 1999-2000, when a group of militants affiliated with the Islamic Movement of Uzbekistan entered Kyrgyz territory from Tajikistan, seeking to enter southern Uzbekistan. As the Batken oblast governor's press secretary Mamadjan Berdishev stated on June 3, Uzbek authorities has already withdrawn the battalion and military hardware, including 26 armored personnel carriers, from the Sokh enclave. In return, the Kyrgyz side reopened the "Kaytpas" border post.

Despite the promising results of the negotiations, most political experts believe that problems around the enclave and the state border will continue to emerge in the foreseeable future. As Kyrgyz political analyst Marat Kazakpaev claims, "the Sokh enclave has always been a zone of conflict and it will continue causing problems until the actual delimitation of Kyrgyz-Uzbek borders. Today we have powder keg in our territory", he said.

This most recent event in the enclave is a reflection of the ongoing and broader conflict in the Fergana Valley between the Kyrgyz and Uzbek authorities, stated the Director of Globalization Problems Research Center of Kyrgyzstan, Karybek

Baybosunov. According to him, there have been numerous attempts to delineate the borders since the two states gained their independence; however, none were successful. "If the sides are to protract

the agreement on border demarcation, it will sooner or later cause inter-governmental conflict," he concluded.

IRAN BUILDS CLOSER TIES WITH TAJIKISTAN

Alexander Sodiqov

On June 9, Iranian president Mahmoud Ahmadinejad arrived in Tajikistan, becoming the only head of state attending a high-level international conference on water in Dushanbe. President Ahmadinejad's personal appearance at the conference is the latest in a series of developments that indicate rapidly improving ties between Tehran and Dushanbe.

In January this year, the Iranian leader visited Tajikistan as part of his tour of Central Asia, calling for closer economic and defense ties between Iran and Tajikistan. In March, Tajik president Emomali Rakhmon attended celebrations of Nowruz, "the Persian New Year", in Iran in a move aimed at highlighting cultural and linguistic ties between the two countries. In May, Dushanbe and Tehran signed a number of major agreements, including a new defense treaty, a memorandum of understanding on linking Tajikistan's railway network to that of Iran via Afghanistan, and an agreement on simplifying the visa regime between the two countries.

According to Tajik political analyst Holmamad Samiev, the improving ties between Dushanbe and Tehran are a result of Iran's pragmatic and predictable foreign policy toward Tajikistan. Following Tajikistan's independence, Tehran began securing its influence in Tajikistan, the only Persian-speaking country in the predominantly Turkic-speaking Central Asian region. During the Tajik civil war, Iran provided strong ideological support to the Tajik Islamic opposition, building close contacts with the opposition leaders. These contacts later enabled Tehran to play a major role in

Tajikistan's peace process but they also became a temporary obstacle to closer relations with the secular government in Dushanbe.

After the end of the civil war in Tajikistan, Iran abandoned its support of Islamic movements in the country, opting for closer relations with the government of president Rakhmon. In its new policy toward Tajikistan, Tehran has put a strong emphasis on civilizational and linguistic affinities between the two nations, with president Ahmadinejad famously calling Iran and Tajikistan "one spirit in two bodies". Tehran's major disadvantage in Tajikistan has been its financial limitations. Bilateral trade between Dushanbe and Tehran in 2000 stood at only US\$ 40 million, prompting president Rakhmon to announce that despite close cultural and linguistic ties, "the volume of economic cooperation between the two countries is zero".

Cognizant of the rising importance of economics in securing influence in Central Asia, Iran in 2003 offered Tajikistan US \$31 million in loans and grants to build the five-kilometer Istiklol tunnel, connecting Dushanbe with northern Tajikistan through a road bypassing Uzbekistan. In 2004, Tehran offered Dushanbe investments and technical expertise to build the Sangtuda hydroelectric power station on the river Vakhsh. Although Sangtuda was eventually completed by a Russian company, Iran has contributed more than US\$ 180 million towards the construction of the Sangtuda-2 hydropower station which will be commissioned next year. These large-scale infrastructure projects and a number of smaller joint ventures have

resulted in a steady increase in bilateral trade. Trade between Dushanbe and Tehran reached US\$ 250 million in 2009, making Iran Tajikistan's third largest trade partner after Russia and China according to the Tajik Ministry of Economic Development and Trade.

In addition to seeking to attract investments from Iranian banks and companies, landlocked Tajikistan is increasingly willing to gain access to Iran's rail and sea outlets. Dushanbe and Tehran have recently agreed to carry out a feasibility study for a project to connect Tajikistan's railway network to that of Iran via Afghanistan, thus bypassing Uzbekistan. If

completed, this project will provide Tajikistan with railway access to Iranian sea ports, helping the country achieve a long desired objective of securing convenient westward transportation routes.

So far, Iran has managed to steadily assert its influence in Tajikistan without alienating Russia, Dushanbe's major partner in the region. The further prospects of relations between Iran and Tajikistan will to a large extent depend on how successfully Tehran will manage to boost ties with Dushanbe in the context of what still remains a "strategic partnership" between Russia and Tajikistan.

THE ARMENIAN ECONOMY RECOVERS AT AN UNEXPECTEDLY RAPID PACE

Haroutiun Khachtarian

The Armenian economy, which was hit strongly by the global economic crisis last year, has started to recover at a more rapid pace than expected. After a drastic drop of the GDP by 14.4 percent in 2009, which was one of the worst downturns in the world, the economy grew by 7.2 percent in January-April 2010, in comparison with the same period the previous year. This development is markedly more positive than the government's budgetary forecasts, which predicted a growth of 1-2 percent. In the same four-month period, the foreign trade turnover grew by more than 30 percent, including a 64.3 percent jump in exports. In fact, the recovery was not only more rapid than expected; it also showed that after the crisis in 2009, Armenia's economy underwent beneficial structural changes.

In 2001-2007, Armenia's economy had a strong growth, at rates above ten percent a year. However, this growth was mainly due to the development of one single sector, construction, which used to grow at rates sometimes exceeding 35 percent a year. Such dependence on a single sector constituted a liability, as a possible drop in construction would have caused a downturn in the entire economy. This

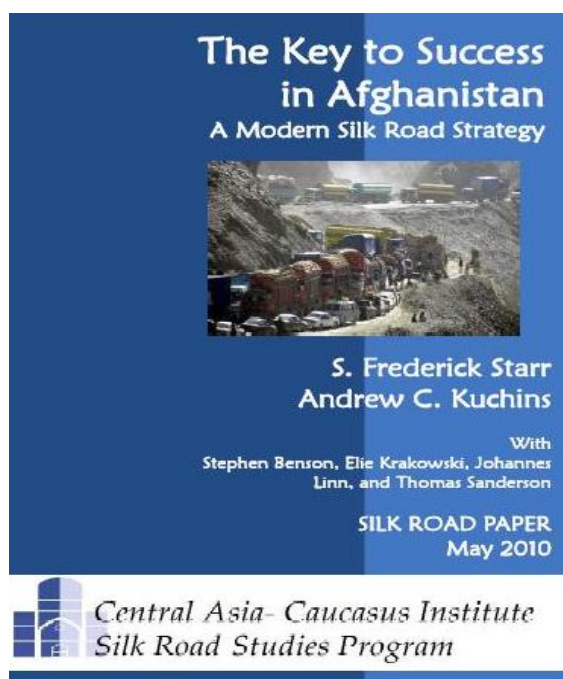
vulnerability was exacerbated given the fact that construction was driven mainly by monetary inflows from abroad. Armenian society has long been strongly dependent on remittances of migrant workers to their families in Armenia, and 80 percent of these transactions came from Russia. In 2007, remittances from abroad accounted for 13.5 percent of Armenia's GDP, and was also the principal source of investments in construction, according to World Bank data. The dependence of the construction sector on continual foreign transfers constituted a further vulnerability of Armenia's economy, which fully materialized in 2009.

The main impact of the global financial crisis on Armenia was a 30-34 percent decrease in remittances from abroad as a result of a worsening situation in the respective destinations for Armenian labor migrants. This resulted in a drastic fall in construction in Armenia (46.4 percent in 2009) and became the main cause of the economic downturn in the country. The economy would have decreased by only 3 percent (and not by the actual 14.6 percent) without the fall in construction.

The growth in 2010 differed qualitatively from that in the years prior the crisis. The 7.2 percent growth of the Armenian economy was mainly due to a 12.9 percent growth in industry, although trade and other services also continued to grow moderately. Thus, for the first time in several years, the Armenian industry grew faster than construction, which grew by only 8.8 percent in January-April 2010. This growth in industry took place primarily in the processing sectors, although the mining sector also showed a jump of 46.7 percent caused by the price rise for exported metals, primarily copper. Production of food and beverages, the two biggest sectors of the processing industry, grew by 4.5 percent and 28.4 percent respectively. All of this indicates that the economy has undergone structural changes and that the processing industry is replacing construction as a leading sector, potentially making Armenia's economy more stable. In turn, this demonstrated the success of the government's efforts to diversify the economy and stimulate business activity. To that end, the government provided loans and subsidies in 2009 to perspective enterprises. The government has also

performed a set of tax and administrative reforms to improve the business environment and improve the conditions for small and medium businesses.

Economic successes have evidently consolidated the position of the cabinet led by Prime Minister Tigran Sargsyan, and in extension, that of President Serzh Sargsyan. In the previous months, the economic policy of the cabinet during and after the crisis year was criticized not only by the opposition parties, but also by the leaders of the Bargavach Hayastan (Prosperous Armenia) party, which is a member of the ruling coalition. The strengthening of the positions of the Prime Minister and the President are important, since the attacks of the Bargavach Hayastan leaders are allegedly linked with former President Robert Kocharian's efforts to return to the political arena, along what is in Armenia frequently termed "the Russian path". This means that Kocharian hopes to first occupy the office of the Prime Minister and later that of the President. In this perspective, the rapid recovery of Armenia's economy has the potential of also stabilizing the political situation in the country.



New Silk Road Paper:

***The Key to Success in Afghanistan: A Modern
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**By S. Frederick Starr and Andrew C.
Kuchins**

This Silk Road Paper examines the prospects for trade and infrastructure development as key features of U.S. and NATO strategy in Afghanistan.

The Silk Road Paper can be downloaded free at www.silkroadstudies.org. Hardcopy requests should be addressed to Roman Muzalevsky at caci2@jhu.edu.

NEWS DIGEST

NEW TAJIK POLIO OUTBREAK PROMPTS SWIFT MEASURES FROM MOSCOW

29 May

The reemergence of an old disease in Tajikistan has led to an outbreak of a "polio war" between Moscow and Dushanbe. The dispute erupted after news emerged in April that the viral disease, which primarily spreads in areas with poor sanitation and can cause paralysis within hours of contraction, had returned to Tajikistan in a big way. Two deaths resulting from polio have been confirmed in the Central Asian country, although Russian officials have placed the number as high as 15. Some 104 cases of wild poliovirus have been confirmed, and nearly 440 cases of acute flaccid paralysis, the most common sign of polio, have been recorded. In Russia, where hundreds of thousands of Tajik migrant workers trek for seasonal work, suspected cases have appeared among young children of Tajik migrant laborers in hospitals in Moscow and thousands of kilometers away in Angarsk, Irkutsk Region. These illnesses have led officials to introduce a number of measures to prevent the disease from spreading. Tajik children less than six years of age, the most likely group to contract the virus, have been barred from entering the country and testing at border points has begun. In another move that threatens to further damage Tajikistan's already battered economy, imports of dried fruit were banned by Moscow. (RFE/RL)

ETHNIC TENSIONS SIMMER IN KYRGYZSTAN

1 June

Hundreds of Uzbek security forces were sent to an Uzbek enclave in Kyrgyzstan as protesters demanded protection for Kyrgyz inhabitants, security forces said. Security forces in Uzbekistan sent police and military troops to the Uzbek enclave of Sokh in Kyrgyzstan to greet area protesters, Radio Free Europe/Radio Liberty reports. Hundreds of residents in the enclave, one of the largest Uzbek enclaves in Kyrgyzstan, blocked a main highway to

Uzbekistan to call for security for Kyrgyz citizens. The protesters said several cars belonging to Kyrgyz citizens were damaged in the area in recent days. Uzbek authorities closed the border with Kyrgyzstan following the April uprising that removed President Kurmanbek Bakiyev from power. Interim leaders in Bishkek said scores of people were injured or dead during ethnic clashes in the south of the country. Thousands of backers of the ousted president have protested in the south in recent weeks, calling for justice against leaders of the Uzbek community. Bakiyev supporters blame ethnic Uzbeks for inciting unrest. Ethnic clashes erupted when Kyrgyz authorities stopped letting Sokh resident use regional pastures. (UPI)

CHINA, KAZAKHSTAN VOW TO ENHANCE JUDICIAL COOPERATION

2 June

China and Kazakhstan have agreed to enhance cooperation between their judicial departments. An agreement was reached during a visit to Kazakhstan by Wang Shengjun, president of the Supreme People's Court of China, who wrapped up his trip on Wednesday. In a meeting with Kassym-Zhomart Tokayev, speaker of the Kazakh Parliament's Senate, Wang said relations between China and Kazakhstan have developed rapidly and healthily, with their strategic partnership enriched and pragmatic cooperation expanded. He said his three-day visit to Kazakhstan aimed to implement the consensus reached between the leaders of the two countries and further boost exchanges between the judicial departments so as to provide judicial safeguard for their cooperation in various fields. Tokayev said both countries have witnessed the development of their cooperation and friendship in various areas, and he believed the visit by China's supreme court chief will further promote judicial exchanges and cooperation between the two sides. In talks with his Kazakh counterpart, Mussabek Alimbekov, and Chairman of the Kazakh Constitutional Council Igor Rogov, Wang said

China is reforming its judicial system and would like to learn best practices from other countries including Kazakhstan. Wang and Alimbekov also signed a memorandum of understanding on sharing judicial experience, training of judges and jointly sponsoring international conferences and seminars, as well as the exchange of visits by judges from the two countries. (Xinhua)

KAZAKHSTAN LIMITS TENGE MOVES VERSUS DOLLAR TO 0.3%

2 June

Kazakhstan's central bank won't let the tenge change in value versus the dollar by more than 0.3 percent per official trading session, central bank Chairman Grigory Marchenko said. The bank "tries not to intervene much when the tenge is between 146 and 147 per dollar," Marchenko told reporters in Almaty today, referring to official trading session in May. The bank won't allow the currency to move more than 30 or 40 tiins at a time. "If one will try to earn money on exchange rate movements, we will change our attitudes," Marchenko said. (Bloomberg)

GEORGIA'S RULING PARTY WINS LOCAL ELECTIONS

2 June

Georgia's Central Election Commission today released the final results of municipal elections that show President Mikheil Saakashvili's United National Movement won the May 30 poll. Three election blocs and 14 political parties competed for seats in 64 municipal councils. The United National Movement received almost 66 percent of the votes and its candidate, incumbent Gigi Ugulava, won the first-ever election for mayor of the capital, Tbilisi. The Organization for Security and Cooperation in Europe's (OSCE) observer mission said in a statement that the election was "transparent" and marked "evident progress towards meeting international standards." But the statement added that "significant shortcomings remain to be addressed." It noted "systemic irregularities," including several cases of ballot-box stuffing and an "uneven playing field favoring contestants from the incumbent party." (RFE/RL)

AFGHAN JIRGA DISCUSSES PEACEMAKING WITH TALIBAN

3 June

Some 1,600 Afghan tribal elders are meeting for a second day in Kabul to discuss whether to make peace with Taliban leaders and, if so, which ones.

Delegates have broken into 28 groups for two sessions of talks, each aiming to come up with ideas on how President Hamid Karzai's government should pursue peace with the Taliban. The second day of the gathering, a Consultative Peace Jirga, is being held after three Taliban fighters, dressed in women's burqas, on June 2 slipped past security lines and interrupted the opening day with a rocket and gunfire attack not far from where the meeting is being held. No delegates were reported hurt. The Taliban, which have rejected the jirga as a U.S.-backed stunt, are not attending the three-day event. On the first day of the jirga, Afghan President Hamid Karzai urged the Taliban to stop fighting and help rebuild Afghanistan. (RFE/RL)

UZBEK TROOPS LEAVE KYRGYZSTAN

3 June

Uzbekistan has pulled its troops out of an enclave in Kyrgyzstan and allowed residents back into the area, provisional leaders said. Uzbekistan earlier this week dispatched police and military forces to the Uzbek enclave of Sokh in Kyrgyzstan to greet area protesters. Hundreds of residents in the Uzbek enclave blocked a main highway to Uzbekistan to call for security for Kyrgyz citizens. The protesters said several cars belonging to Kyrgyz citizens were damaged in the area in recent days. Uzbek authorities closed the border with Kyrgyzstan following the April uprising that removed President Kurmanbek Bakiyev from power. A spokesman for the provincial Kyrgyz leader in the region said Uzbekistan has removed its forces from the area, Kyrgyz news agency 24.kg reports. Interim leaders in Bishkek said scores of people were injured or killed during ethnic clashes in the south of the country. Thousands of backers of Bakiyev have protested in the south in recent weeks, calling for justice against leaders of the Uzbek community. Bakiyev supporters blame ethnic Uzbeks for inciting unrest. Ethnic clashes erupted when Kyrgyz authorities stopped letting Sokh residents use regional pastures. (UPI)

BAKU TO BENEFIT FROM NABUCCO

3 June

Azerbaijan has a major role to play in the Nabucco natural gas pipeline for Europe, consortium members said during a Baku energy conference. Europe is looking to the Nabucco pipeline to break the Russian grip in the regional energy sector. Moscow is pushing for its South Stream project

along a similar route. Jeremy Ellis, head of business development at German energy company and Nabucco consortium member RWE, said Nabucco was not a South Stream rival. Nabucco, he added, was shorter and less expensive than South Stream, however. South Stream would carry Russian natural gas to Europe, while Nabucco would bring gas from Azerbaijan, Turkmenistan and Iraq. Consortium members are anxious to convince Azerbaijan and Turkey to hammer out a gas deal that could expedite Nabucco. The proposed 2,500-mile pipeline will run from Azerbaijan to Austria via Turkey and would carry 1.1 trillion cubic feet of natural gas per year to Europe. "One benefit for Azerbaijan from Nabucco is that the project will bring the country closer to Europe," Ellis was quoted in the Azeri news agency News.Az as saying. Energy analysts predict that Europe could face natural gas shortages as early as 2015. Nabucco is expected to start gas deliveries in 2014. (UPI)

CHINA, KAZAKH PIPELINE EXPANSION ON HU VISIT AGENDA

4 June

Chinese President Hu Jintao will sign an agreement to increase crude pipeline capacity from Central Asia during a trip to Uzbekistan and Kazakhstan next week. Chinese assistant foreign minister Cheng Guoping told reporters in Beijing that the agreement will be part of China's efforts to diversify oil sources. The Sino-Kazakh line accounts for roughly 4 percent of China's total crude imports, which hit a record high of more than 5 million barrels per day in April. (RFE/RL)

KAZAKHSTAN SEEKS 10 PCT OF FOREIGN-OWNED GAS PROJECT

4 June

Kazakhstan wants to acquire 10 percent of the Karachaganak oil and gas project from a group of foreign investors, state firm KazMunaiGas said on Thursday, as the country moves to tighten control over its energy resources. KazMunaiGas President Kaingeldy Kabyldin said the state oil and gas company had made the proposal to a consortium of four foreign investors led by Britain's BG Group and Italian energy firm ENI. "We have stated our wishes to acquire a 10 percent stake if there are acceptable commercial conditions. This is our proposal," Kabyldin told reporters. Kazakhstan, Central Asia's largest economy, has long sought a stake in the Karachaganak Petroleum Operating Group and has accused Kazakhstan's biggest gas

project of tax evasion. The group says its operations comply with Kazakh law. BG and ENI each own 32.5 percent while U.S. oil major Chevron has a 20 percent stake. Russia's largest non-state oil firm, LUKOIL, is also a shareholder. The government also wants to strip projects such as Karachaganak, which had been accused of overstating costs by \$1.3 billion, of immunity to tax changes as it increases tax rates in the energy and mining sectors. In March, Kazakhstan's financial police accused Karachaganak of illegally earning \$708 million in 2008 by producing more oil and gas than originally agreed with the state. The group has denied wrongdoing. BG Chief Financial Officer Ashley Almanza, who is leading the company's discussions with the Kazakh government, declined to comment specifically on the talks. But he told a conference in Almaty he was confident any problems related to energy projects in Kazakhstan could be resolved. "It's almost inevitable that differences of opinion will arise from time to time," he said. "We remain confident that these differences can be resolved through open and constructive dialogue." Kabyldin said he was not aware of the consortium members' reaction to the proposal by KazMunaiGas. He declined to say how much the state company would be willing to pay for a stake. KazMunaiGas Chairman Timur Kulibayev said the price would be subject to negotiation. Analysts have said the government might be hoping to gain its stake without paying, possibly agreeing to drop its tax and cost claims in return. In April, a source close to talks said the state wanted to acquire up to 30 percent in the consortium. The Karachaganak developments mirror the case of Kashagan, another oil field developed by foreign energy majors, where the government acquired a stake after accusing the consortium of environmental violations, delays and cost overruns. Separately, Kabyldin said during the conference that KazMunaiGas -- the parent company of London-listed KazMunaiGas Exploration and Production -- planned to invest about \$20 billion in various projects by 2015. (Reuters)

FIVE NATO TROOPS KILLED IN AFGHANISTAN

6 June

NATO says five international troops were killed today in separate incidents across Afghanistan. The alliance says three members of its force were killed in a vehicle accident in southern Afghanistan. Another service member died when a makeshift

bomb exploded in the south, while a fifth NATO service member was killed in an insurgent attack in the east. The U.S. military said four of the dead were American. The nationality of the fifth dead soldier was not immediately available. Separately, Spain said two of its soldiers sustained minor injuries when they were ambushed by insurgents in the northwest. And the Afghan government said bomb attacks and ambushes killed four Afghan police officers and two civilians across the country today. (RFE/RL)

SENIOR OFFICIAL LEAVES KYRGYZSTAN GOVERNMENT

7 June

A senior official in Kyrgyzstan's interim government has resigned, saying he doubted its commitment to democratic reform. Edil Baisalov, the chief of staff to acting president Roza Otunbayeva, said he was forming a new party to contest parliamentary elections in October. He is the most senior official to leave the interim government since President Kurmanbek Bakiyev was ousted in April. Mr Bakiyev was forced to flee after mass protests turned violent. Both the US and Russia are watching events in Kyrgyzstan closely. Both have military bases in the Central Asian nation which they consider strategically vital. The interim government has been working to regain control of the country since then, but there have been sporadic clashes in the south and outbreaks of ethnic violence. The authorities had promised a presidential election in October, as well as parliamentary polls, but have now put this back a year. Mr Baisalov, a prominent civic activist, said Kyrgyzstan needed a new political party and some new faces in power. "At the current moment it is necessary to return the republic to a democratic path and I, as an active citizen, have made the decision that a new force should take part in the elections," he said. And he hit out at the current government. "I doubt that the new authorities will provide deeper democratic reforms. Look at the staffing arrangement - nothing has changed," AFP news agency quoted him as saying. More than 80 people were killed in the 7 April violence that ousted Mr Bakiyev. (BBC)

NABUCCO WELCOMES AZERI GAS DEAL IN TURKEY

7 June

A natural gas deal signed between Turkey and Azerbaijan is a positive development for the

Nabucco gas pipeline for Europe, directors said Monday. Turkish Energy Minister Taner Yildiz signed a gas deal Monday in Istanbul with his Azeri counterpart Natiq Aliyev for 388 billion cubic feet of natural gas. The gas will be shipped from the second phase of the giant Shah Deniz field by 2017, Turkey's news agency Today's Zaman reports. A bilateral deal between Turkey and Azerbaijan was seen as a key development to the Nabucco pipeline for Europe. The Nabucco consortium hailed the agreement, saying it would go a long way toward bringing energy security to Europe. "This is a step ahead in the right direction," Nabucco Managing Director Reinhard Mitschek said in a Monday statement. The proposed 2,500-mile pipeline will run from Azerbaijan to Austria via Turkey and would carry 1.1 trillion cubic feet of natural gas per year to Europe. Energy analysts predict that Europe could face natural gas shortages as early as 2015. Nabucco is expected to start gas deliveries in 2014. (UPI)

KYRGYZ MUFTI HOSPITALIZED AFTER 'SEVERE' BEATING

8 June

Kyrgyzstan's acting chief mufti, Suyun-Hajji Kuluev, has been hospitalized after being beaten during a religious gathering in the capital Bishkek, his family has told RFE/RL's Kyrgyz Service. Kuluev's relatives told RFE/RL that about a dozen unidentified assailants attacked him on June 6 during a gathering of religious clerics and that he was hospitalized with concussion and injuries. The Interior Ministry's press service told RFE/RL that since Kuluev has not filed an official complaint, no details of the incident are available. The press service of the Muftiat, the country's highest religious authority, told RFE/RL that the attackers were shouting that Kuluev must resign. Kuluev was recently named acting top cleric following the resignation of Abdushukur-hajji Narmatov. Narmatov, in turn, had replaced long-serving mufti Murataaly-Hajji Juman-uulu, who stepped down following the deadly clashes between antigovernment protesters and security forces on April 7 that led to the resignation of Kyrgyz President Kurmanbek Bakiyev. Juman-uulu was later kidnapped and taken to the outskirts of Bishkek. His abductors demanded a \$1 million ransom. He was released in late April. (RFE/RL)

VILLAGERS NEAR BISHKEK DEMONSTRATE; DEMAND CLEAN WATER, ELECTRICITY

8 June

Some 500 protesters from a village near the Kyrgyz capital, Bishkek, blocked a major highway today, demanding the authorities provide their village with clean water and electricity, RFE/RL's Kyrgyz Service reports. RFE/RL's correspondent reports from the spot that the protesters from the village of Ak-Jar used a KamAZ truck to block the road. Local officials met with the protesters and persuaded them to unblock the highway that connects Central Asia's largest market -- Dordoi, in Bishkek -- with Kazakhstan. They promised the demonstrators that construction of a power line to Ak-Jar will begin on June 9. The village, on the outskirts of Bishkek, was built five years ago, mainly by newcomers from rural areas. Many of them had no legal permission to build homes there. Because construction was spontaneous, without a formal development plan, the village lacks proper infrastructure and amenities. (RFE/RL)

NATO HELICOPTER SHOT DOWN IN HELMAND IN AFGHANISTAN

9 June

Four Nato soldiers have been killed when their helicopter was shot down in Helmand province in southern Afghanistan. Nato said the aircraft was hit by "hostile fire". The troops were Americans, the US military spokesman in Kabul, Lt Col Joseph T Breausseale, said. The Taliban claimed its fighters had shot down the aircraft with a rocket-propelled grenade. The helicopter crashed in the Sangin district, said provincial government spokesman Dawood Ahmadi. Taliban spokesman Yousuf Ahmadi said it had been brought down in the Sangin district bazaar on Wednesday morning. "We brought it down with a rocket," he told AFP news agency. A number of Nato helicopters have been shot down in Afghanistan since the alliance sent troops into the country in 2001. The BBC's Martin Patience, in Kabul, says conditions are particularly dangerous for the aircraft when they come in to land and then take off, as they are more susceptible to gun or rocket fire. The crash brought to five the number of Nato soldiers killed in the south of the country on Wednesday. The military announced earlier that another soldier had been killed by a roadside bomb. More than 20 Nato soldiers have died this week, including 10 on Monday, when US-led forces in Afghanistan had their deadliest day in

two years. Wednesday's deaths came as US defence secretary Robert Gates said he expected to see signs of progress in a counter-insurgency strategy "by the end of the year". Speaking in London on Wednesday, Mr Gates said there were "no illusions" about quick victories and warned it would be a "tough summer", AFP reported. Meanwhile, gunmen attacked an Afghan-bound Nato convoy overnight near the Pakistani capital, Islamabad, killing at least seven people and setting several vehicles on fire. The shooting down of the helicopter comes amid an upsurge of violence in the volatile south of Afghanistan. (BBC)

TAJIK JOURNALISTS PICKET UZBEK EMBASSY OVER RAIL HOLDUP

9 June

More than 20 journalists protested today outside the Uzbek Embassy in the Tajik capital, Dushanbe, to demand an end to what they call Uzbekistan's ongoing economic blockade of Tajikistan, RFE/RL's Tajik Service reports. The protesters chanted "Release Tajik freight cars!" and demanded a meeting with Uzbek Ambassador Shohqosim Shohislomov. An embassy employee who declined to give his name asked the journalists to leave and come back to meet the ambassador after the Shanghai Cooperation Organization summit scheduled for later this week. Abduazimi Abduvahhob, one of the protesters, told RFE/RL that the demonstrators took part in the protest not only as journalists, but also as representatives of a new generation of young Tajiks angry at decades of confrontation between Central Asian leaders. Another journalist, Abdulazizi Vose, told RFE/RL that Uzbekistan's blocking of rail freight bound for Tajikistan is becoming a national issue, not just a dispute between two national leaders or two governments. It was the first protest rally by Tajik journalists outside the Uzbek Embassy in Dushanbe. Tajik students abroad earlier staged similar protests outside the Uzbek embassies in Bishkek and Washington. Tajikistan's state rail company estimates that more than 2,500 freight cars, including some transporting NATO supplies to Afghanistan, are held up in Uzbekistan. Two weeks ago, the NATO-led International Security Assistance Force (ISAF) in Afghanistan said it "may have to re-route some shipments" that are stranded in Central Asia after Uzbekistan suspended rail traffic to Tajikistan's southern Khatlon district. Uzbekistan has described the rail delays as technical. But Dushanbe has criticized the

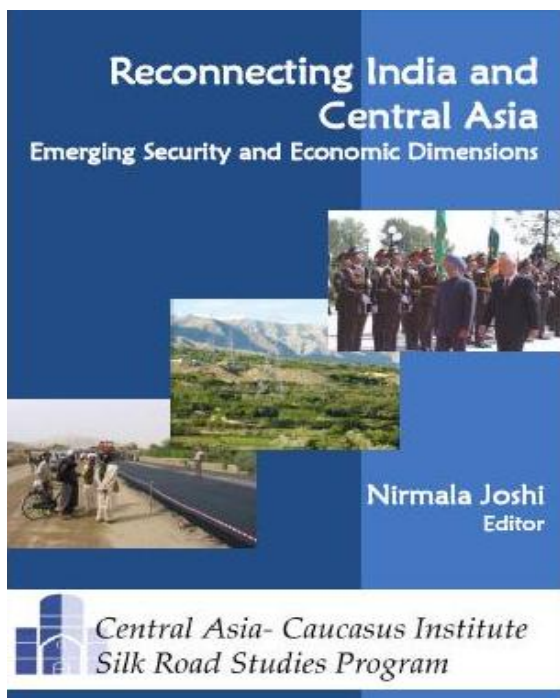
Uzbek moves as an "attempt to blockade Tajikistan" in retaliation for the Tajik government's plans, opposed by Tashkent, to build a huge hydropower station in Roghun. (RFE/RL)

KAZAKH BANKS SHOULD DO MORE TO STEM BAD LOAN GROWTH, IMF SAYS

9 June

Kazakhstan's banks need to do more to stem growth in bad loans as faster economic expansion may not be enough to improve asset quality in the former Soviet Republic, the International Monetary Fund said. "It is essential that banks, in conjunction with the Kazakhstani authorities, take more forceful and broad action to reduce non-performing loans," the Washington-based fund said in a statement on its website late yesterday. Kazakhstan's state-owned fund Samruk-Kazyna took stakes in the nation's four biggest lenders last year after credit markets froze and the country's property bubble burst. Central Asia's biggest energy producer tapped \$10 billion from its oil fund to support banks and companies. BTA Bank, the country's biggest lender before its collapse, Alliance Bank, AO Astana Finance and Temirbank, then controlled by BTA, defaulted, leaving about \$20 billion in debt to be

restructured. State-owned BTA, Alliance and Temirbank reached a deal with creditors allowing them to write down debt of about \$11 billion, according to Samruk-Kazyna's statement in April. The debt restructurings "have been key in stabilizing the financial positions of these banks," the IMF said. Even so, the continuing "sharp" increase in non-performing loans reflects banks' excessive exposure to currency-induced credit risk "stemming from the combination of a low and dollarized deposit base, the reliance on foreign funding, and risky lending practices," the fund said. Loans non-performing for more than 90 days jumped to 2.45 trillion tenge (\$16.64 billion), or 26 percent of the loan portfolio, as of May 1 from 984 billion tenge in the same period last year, according to the Agency for Financial Supervision website. Kazakhstan's gross domestic product will expand 4 percent this year, the IMF estimates. Total output grew an annual 7.6 percent in the first four months of the year, Finance Minister Bloat Zhamishev said on May 14. "Once the banking sector difficulties are addressed, the economy would benefit from greater market determination of the exchange rate and lower central bank intervention," the IMF said. (Bloomberg)



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