

GEOPOLITICAL ANALYSIS OF THE EURASIAN CORRIDOR



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ADDRESSING THE ROOT CAUSES OF INSTABILITY

"Since the end of the Cold War, armed conflicts have increasingly taken place within, and not between, states. Traditional security policy emphasizes military means for reducing the risks of war and for prevailing if deterrence fails. Human security's proponents, while not eschewing the use of force, have focused to a much greater degree on non-coercive approaches. These range from preventive diplomacy, conflict management, and post-conflict peace building, to addressing the root causes of conflict by building state capacity and promoting equitable economic development."

(Human Security Centre)



Despite four years of an intensive Global War On Terrorism (GWOT) and a number of significant international security achievements by the United States and its allies, such as the alleged neutralization of two-thirds of al-Qaeda's leadership, the number of terrorist attacks is still on the rise and Islamic radical groups now appear to be operating in more than 60 countries. According to the US Government, the number of significant terrorist attacks more than tripled worldwide in 2005 from 175 in 2003 to 650, with close to a third taking place in Iraq. Drawing on the mathematical power law relationship (developed in 1945 to analyze conflicts), scientists of the University of New Mexico forecast "another terrorist attack at least as severe as September 11th within the next seven years" in G7 countries (*The Economist*, 21 July 2005). The low cost of terrorist operations also reduces the relevance of anti-money laundering efforts in the fight against terrorism: the Sept. 11 attacks are estimated to have cost no more than US\$ 500,000, and the materials for the Madrid train bombings amounted to less than US\$ 1,000 (*International Crisis Group*, 27 Sept. 2005).

At the UN Summit in September 2005, UN Secretary General Kofi Annan proposed a five-pillar, broad counter-terrorism strategy. The first pillar, with its focus on dissuading people and groups from choosing terrorism as a means to achieve political or ideological ends, implied the need for alternatives such as a democratic and equitable framework to air and address grievances. The last pillar highlighted the imperative of defending human rights within the anti-terrorism struggle – to avoid spawning new cycles of repression and violent radicalism. Areas that seemed remote now are of immediate concern to Western societies, and increased interdependency created by globalization means governments can no longer afford to turn a blind eye to the economic, political, and social turmoil of distant nations. Meteorologist Edward N. Lorenz provided a scientific illustration of the implications of interdependency in complex systems in his 1972 talk, "Does the flap of a butterfly's wings in Brazil set off a tornado in Texas?" – a fitting analogy.

The Southern Caucasus and Central Asian states, with their post-Soviet legacies of authoritarian rule, endemic corruption, military stockpiles, overlapping ethnic and religious fault lines, economic growth inequities, mineral wealth, and geo-strategic positioning, stand at a tipping point in their history. Without proper monitoring and support, they could become epicenters of international instability. The United States, among others, is keenly aware of this risk, and has openly declared its regional strategic interests as: security, energy and regional economic cooperation, and freedom through reform – underlining that these objectives are both indivisible and mutually reinforcing.

Southeastern Eurasia is a prime example of the implications of global interdependencies when seeking to foster lasting security and stability on the international stage. This dossier will provide an overview of geopolitical trends in five Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan) and three Southern Caucasus states (Armenia, Azerbaijan, and Georgia) collectively referred to as the Southeast Eurasian Republics (SERs), and will showcase the growing relevance of a multi-dimensional approach to security in this 4.2 million square kilometer landmass that is comparable in size to the EU25 territory.

Tim Radjy

THE TIPPING POINT

Stretching from the eastern shores of the Black Sea to the western reaches of China, the SERs have played a pivotal role throughout world history as major conduits of culture, trade, and war, from the 15,000km Silk Road linking the Middle Kingdom to the Roman Empire, to the 13th century Mongol invasions under Genghis Khan and the 19th century Great Game between Great Britain and Russia.

Today, this region of 73 million people stands at a critical juncture. The dust of the Soviet Union's 1991 collapse has settled, and a peculiar conjunction of world trends has once again thrust the octet of newly independent republics into the international spotlight. Russia considered the region its own fief for close to a century, and the recent wave of local regime changes is a blow to its international

states within the framework of its Partnership for Peace Program. Are we witnessing the unfolding of a new Great Game? The international community's multiple stakes and jostling for influence in the South Caucasian and Central Asian countries could also generate opportunities for renewed regional and multilateral cooperation across sectors, and facilitate much-needed reforms in the political, security, economic, and social arenas.

The Southeast Eurasian nations are at a tipping point on the domestic front as well. The colorful revolutions that took place in Georgia in 2003, Ukraine in 2004, and Kyrgyzstan in early 2005 brought a welcome respite from a Soviet legacy of autocratic rulers. The large-scale violence of the Tajik civil war, the Nagorno-Karabakh conflict, and

the Abkhazian secession has simmered down, and there have been no major confrontations in the region since. Economic prospects have much improved since the dramatic decrease in wealth and output that characterized the first decade of the republics' independence from the Soviet Union; both Azerbaijan and Kazakhstan have already significantly capitalized on high market demand for their



prestige and a challenge to its authoritarian practices. China must ensure a sufficient supply of energy in order to sustain its growth momentum, and access to Eurasian oil and gas reserves stands high on its priority list. As a primary target of Islamic radicalism, the United States can no longer afford to let religious extremism fester in Afghanistan or any of the distant recesses of the Eurasian territory, and is lobbying to contain Iran's economic and ideological outreach. The European Union's eastern expansion has also increased its vulnerability to Eurasian dynamics, and since the Prague Summit in 2002 NATO has been seeking broader cooperation opportunities with Caucasian and Central Asian

oil and gas supplies. Yet the SERs still face a plethora of domestic challenges ranging from government accountability to infrastructure development, economic diversification, poverty reduction, fighting organized crime, and the sustainable management of natural resources.

To assess potential developments at the Southeast Eurasian crossroads, this report proposes to examine the main security, political, economic, and environmental concerns of the region, and identify those major threats and opportunities that South Caucasian and Central Asian states will face in the near future.

Regional Overview

	Armenia	Azerbaijan	Georgia	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Capital	Yerevan	Baku	Tbilisi	Astana	Bishkek	Dushanbe	Ashgabat	Tashkent
President	R. Kocharyan	I. Aliyev	M. Saakashvili	N.Nazarbayev	K. Bakiev	E.Rakhmonov	S. Niyazov	I. Karimov
In power since	1998	2003 (a)	2004	1989	2005	1992	1985	1989
Surface ('000 km)	29.8	86.6	69.7	2724.9	199.9	143.1	491.2	448.9
Population (mn)	3	8.3	4.5	15	5.1	6.4	4.9	25.9
Main religion (%Pop.)	Armenian Apostolic 95%	Muslim 93%	Orthodox Christian 84%	Muslim 47%, Russian Orthodox 44%	Muslim 75%, Russian Orthodox 20%	Muslim 90%	Muslim 89%	Muslim 88%
Main ethnicity (%Pop.)	Armenian 98%	Azeri 91%	Georgian 84%	Kazakh 54%, Russian 30%	Kyrgyz 65%, Uzbek 14%, Russian 13%	Tajik 80%, Uzbek 15%	Turkmen 85%	Uzbek 80%
GDP (USD bn)	3.5	8.52	5.1	40.7	2.2	2.1	6.2	17.1
GDP per capita (USD)	1,167	1,027	1,133	2,713	431	328	1,265	660
GDP growth (YoY%)	10.1	11.2	8.5	9.4	7.1	10.6	17	7.7
Main Export Partner	Belgium, Israel, Germany	Italy, Czech Rep., Germany	Turkey, Turkmenistan, Russia	Russia, Bermuda, Germany	UAE, Russia, China	Netherlands, Turkey, Uzbekistan	Ukraine, Iran, Turkey	Russia, China, Turkey
Corruption rank (1)	88	137	130	107	130	144	155	137
Freedom rating (2)	Partly Free	Not Free	Partly Free	Not Free	Not Free	Not Free	Not Free	Not Free
Human Development rank (3)	83	101	100	80	109	122	97	111

Sources: Freedom House, Transparency International, United Nations, US Central Intelligence Agency, and the World Bank.

Notes:

(a) His father, Heydar Aliyev, ruled the country from 1993 to 2003.

(1) Out of 159 countries; based on Transparency International polls of business people and country analysts.

(2) Based on Freedom House ratings of 10 political rights and 15 civil liberties across 192 countries and 4 territories.

(3) Out of 177 countries; based on UNDP educational attainment, life expectancy, and adjusted real income statistics.

PROSPECTS FOR PEACE AND STABILITY

The Eurasian corridor has been the focus of much international attention in recent years. In May 2002, the US disclosed its plan to maintain a long-term footprint in Central Asia, a key pillar of its Global War On Terrorism (GWOT). The West also considers enhanced access to the region's energy supplies a strategic imperative, most notably the Baku-Tbilisi-Ceyhan (BTC) pipeline running from the Caspian Sea across Southern Caucasus to Turkey.

of mini-submarines domestically – which fits its intent to establish a naval presence in the Caspian. During the 13th International Conference on the Caucasus and Central Asia that took place last month in Teheran, Iranian media covering the event referred to the concerns of Russia and Iran regarding the “intrusion” of foreign powers in this strategic region. Iran has even declared its support for the Russian proposal to create a Caspian rapid reaction



Southern Caucasus borders were defined by Soviet planners according to Stalin's divide-and-rule policy, in obvious disregard for natural fault lines
Source: Le Monde Diplomatique

Russia has always had a historical stake in Southeast Eurasia, and participates in a collective-security pact with Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan. It has also deployed rapid reaction forces to the Kant Airbase in Kyrgyz since September 2003, opened a military base in Tajikistan in October 2004, taken back control of a former Soviet space monitoring center at Nurek, and gained increased leverage on Ukraine by signing a deal giving Gazprom control on Uzbek and Turkmen gas distribution via Kazakhstan.

Iran signed a non-aggression pact with Azerbaijan in May 2005 to prevent third parties (i.e. the United States) from using either territory to attack the other, and announced it had begun domestic production

force (CasFor) composed exclusively of Russian, Kazakh, Turkmen, Iranian, and Azeri elements, with the declared ambition of preventing terrorism and trafficking in arms, narcotics, and weapons of mass destruction (WMD) components in the 386,000 sq. km Caspian Sea – and with the tacit objective of countering the US Caspian Guard initiative, which Azerbaijan alone has formally endorsed so far.

In a similar vein, Vladimir Putin and Hu Jintao issued a joint statement in July 2005 opposing the domination of world affairs by any one country and efforts to “divide states between leaders and led.” With no base abroad, China has demonstrated its keenness to expand the role and capabilities of the Shanghai Cooperation Organization (SCO), which

recently called for a timetable for the withdrawal of US troops from its member states (China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan). China is eager to counter US influence in the region, but it is just as concerned about the spread of Islamic fundamentalism among its restless, multi-million Muslim minority in its western province of Xinjiang, a recalcitrant region with significant natural gas reserves that was agitated by separatist riots in 1997. Beijing must also secure access to a sufficient supply of energy to sustain the country's momentous economic growth, and it will go to great lengths to achieve its goal, as indicated by its military and technology trade with countries like Iran (bilateral trade reached US\$ 3.3 billion in 2004) and Saudi Arabia (US\$ 10 billion trade in 2004).

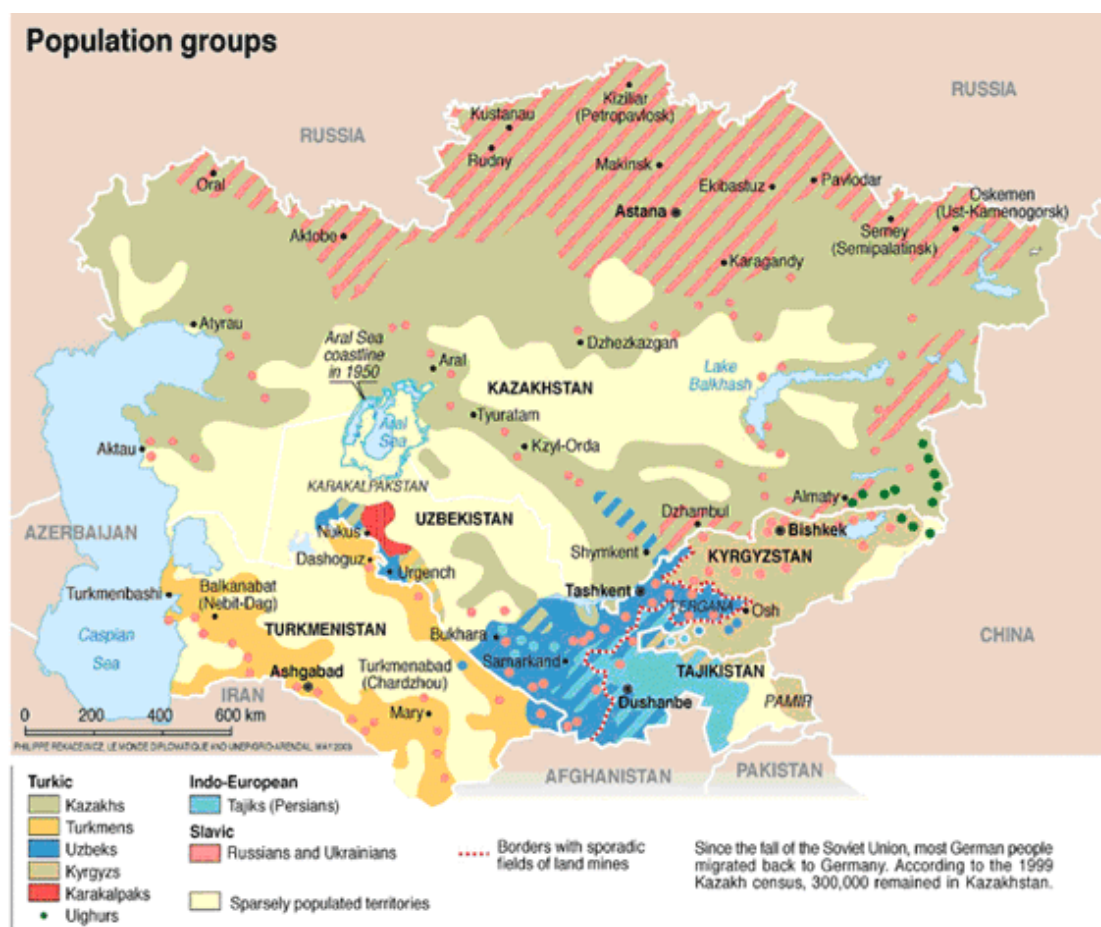
The Southeast Eurasian security environment further needs to see a number of local conflicts resolved. The war for Nagorno-Karabakh between Armenia and Azerbaijan resulted in 30,000 casualties and more than one million refugees and internally displaced people. The roots of the conflict go back to the bitter rivalry between Christian Armenians and Turkic Azeris at the beginning of the 20th century, and the establishment by the Soviets of a predominantly ethnic Armenian autonomous region within Azerbaijan. War broke out almost naturally in 1991 after the Soviet Union's collapse, and peace talks following the Russian-brokered cease fire in 1994 were never completed despite a decade of OSCE mediation, leaving refugees stranded – a major factor of local instability and poverty.

Another source of tension is the secessionist aspirations of Abkhazia, which won de facto independence in September 1993 after two years of war, and South Ossetia, which in 1992 proclaimed independence after sporadic fighting. Russian troops have been stationed in Georgia for over two centuries, but following Moscow's meddling with the secessionist provinces, Tbilisi asked Russia to withdraw its troops from its two bases, and an exit schedule has been set for completion by 2008. The destabilizing power of hundreds of international Islamic jihadists and Chechen guerillas currently sheltering and training in the country's Pankisi Gorge should not be discounted either. Despite the threat of militant retaliation, authorities have begun a Pankisi "refugee" relocation program this year under US pressure that has already reduced the 40 sq. km area's population by 2,000.

In Central Asia, the main threats to regional stability would appear to be organized crime and drug-trafficking on one hand, and the clash between public governance practices and popular aspirations on the other. The SCO set up its regional antiterrorist center in Tashkent to address those concerns, as well as the now receding threat of Islamic fundamentalism. The SCO, which was founded in June 2001, is dedicated to fighting the "three evils" of terrorism, separatism, and extremism, and Uzbekistan was a natural choice to headquarter its anti-terror center, as it has the largest armed forces in the region. The chief of the US Central Command General John Abizaid identified similar issues in November 2005, explaining that US armed forces were present in Central Asia "only to help the countries of the region to fight terrorism, drug trafficking, and corruption" (*Interfax-Kazakhstan*, 3 Nov. 2005). Those same threats led to the establishment of the Collective Security Treaty Organization (CSTO) two years ago by Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Russia to deal with religious extremists and traffickers of all kinds. Regional security cooperation facilitating the pooling of resources is a vital necessity given the state of disarray of some of the SERs' armed forces. The CSTO recently deployed 2,000 soldiers of the group's Collective Rapid Reaction Force in a simulation aimed at rooting out militant guerillas from mountains in Kyrgyzstan. The large-scale exercise demonstrated CSTO capabilities remain mostly comprised of the conventional and reactive type, despite the decentralized and highly mobile nature of the enemy.

The threat posed by drug traffickers and drug use will haunt the region as long as opium remains the only commercially viable crop in Afghanistan, where the drug industry represents a staggering 52 per cent of the economy. While Afghani opium cultivation decreased by 21 per cent between 2004 and 2005, production declined by 2.4 per cent only and the country remains the world's largest supplier of opium, to the tune of 87 per cent (*UNODC Afghanistan Opium Survey*, 2005).

Organized crime is rife in the region and made the headlines once again in October 2005 when the inspection of a prison colony in Kyrgyzstan resulted in a prison riot and the deaths of both the head of the penitentiary system and of the chairman of the parliamentary defense and legal affairs committee, Tynychbek Akmatbaev. The latter's death brings the number of murdered Kyrgyz parliamentarians up to three since June 2005. All three deaths seem



Misrule and a Soviet legacy have engendered many opportunities for tensions among Central Asian ethnic and religious minorities
 Source: UN (May 2003)

to have involved organized crime – Akmatbaev had been charged with complicity in murder and kidnapping, but was then released in 2004 due to insufficient evidence; while his brother Rysbek has been charged with the November 2004 murder of a police general and is suspected of heading a local mafia group. The authorities' response to the prison riot was vigorous and included special forces units armed with large-caliber machine guns and grenade launchers to penetrate barricades. The leader of the rebellion, Aziz Batukaev, allegedly the underworld rival of Risbek Akmatbaev, had turned three floors of his prison wing into a private dominion, complete with billiard room, sauna, mares, goats, a kennel of fighting dogs, and a large stock of drugs and firearms. This extreme state of affairs reflects the need for judicial reform to tackle corruption in a country where prison staff do not have the means to afford official uniforms, where police officers only have access to five roadworthy vehicles and often lack the petrol to use them, and where only one of the 40 contract killings of the last 14 years has been solved (*International War and*

Peace Reporting, 5 Nov. 2005). Penal reform is also needed in Tajikistan where Soviet-era jails meant to accommodate 7,000 inmates currently house twice that number, resulting in high rates of tuberculosis, chronic malnutrition, and occasionally death by starvation.

To address the danger of terrorism, security chiefs from member states of the Central Asian Cooperation Organization (CACO) compiled a list of more than 100 banned terrorist and extremist groups in October 2004. The immediate threat of Islamic terrorism was substantially reduced after the Islamic Movement of Uzbekistan (IMU), which had set up base in Afghanistan, was largely wiped out with its Taliban allies by Coalition forces in fighting around Kunduz in November 2001. One of its two founding leaders, Juman "Namangani" Khojiyev, a former Soviet paratrooper with combat experience in Afghanistan and Tajikistan, has been presumed dead. The remaining IMU leadership, possibly including its other founder Tahir Yuldashev, formerly a political leader in Uzbekistan, renamed

the organization Islamic Movement of Turkestan (IMT) in what is seen as a futile attempt to increase its appeal to the Uzbeks of Kazakhstan and the Uighurs of China's Xinjiang province. (*Jamestown Foundation, 10 Feb. 2005*).

Despite the moribund state of the IMU/IMT, local authorities must strive not to estrange their Muslim constituencies, as other Islamic movements such as the banned Hizb ut-Tahrir (HT) could build renewed momentum when and wherever matters were brought to a head by political oppression, police corruption, and economic misrule.



Uzbek President Karimov and the Andijan victims.

Though Islamists failed to capitalize on the Andijan incident of 13 May 2005, the dramatic event provides a good example of the spiral of violence that could ignite at any time. According to reports, a score of businessmen were wantonly jailed, presumably to allow corrupt local officials to confiscate their businesses. Peaceful demonstrations against their incarceration turned ugly after the secret police began arresting protesters, as well as their relatives. A prison was stormed by the mob, weapons were seized, and the guards began killing in earnest. The protest continued to swell, and when negotiations with the authorities collapsed, troops lacking discipline began firing indiscriminately into the crowd. Reportedly, soldiers returned after a few hours to kill the wounded dead and limit the spread of eye-witness accounts of the massacre. A later government trial that many felt was staged to provide a veneer of legitimacy to the government's disproportionate reprisal. Uzbek President Karimov successfully weathered the Andijan episode, but he might have irretrievably compromised his regime's credibility and mid-term viability, as well as regional stability – particularly given reports of Uzbek fundamentalists exporting radical Islamist propaganda to Kazakhstan and Kyrgyzstan.

FOR WHOM THE BELL TOLLS

Independence did not come easy to the Southeast Eurasian republics (SERs) that had to endure a decade of turmoil and economic decline following the Soviet Union's collapse. Regional dynamics might have stabilized somewhat in recent years, but the SERs are still in the midst of a sensitive transition from an era of autocratic regimes with centralized economies orbiting around Moscow to a time of emancipated governments on the path of economic reform and courted by numerous foreign suitors.



US President George W. Bush demonstrating his support to Georgian President Mikhail Saakashvili in Tbilisi in May 2005.
Source: US Department of State

In November 2003, after 11 years in office, Georgian President Eduard Shevardnadze was ousted after a rigged parliamentary poll resulted in mass demonstrations, later dubbed the Rose Revolution. On 24 March 2005, Kyrgyz President Askar Akaev was abruptly toppled in the so-called Tulip Revolution, following two rounds of flawed parliamentary elections, popular fears of a dynastic succession, and enough police brutality to enrage protesters.

Georgia's Mikhail Saakashvili and Kyrgyzstan's Kurmanbek Bakiy are the only rulers of Southern Caucasus and Central Asia who can claim to derive the legitimacy of their power directly from the people, and they have both been beset by daunting domestic challenges since their Presidential accessions. Saakashvili has had to deal with secessionist provocations in South Ossetia and interethnic tensions in the poor and predominantly Armenian Samtskhe-Javakheti region, while Bakiy is facing murky affairs linking the assassination of parliamentarians to organized crime.

Armenia's Robert Kocharian was elected democratically in 1998, but his re-election in 2003 led to widespread allegations of ballot rigging, a negative impression that was partially offset by his endorsement of a successful referendum in November 2005 enabling constitutional amendments to provide a better separation and balance of power between the judicial, executive, and legislative branches of government. That same referendum, however, also granted legal immunity to the President after the expiration of his term.

Eurasian uprisings have usually been fueled by blatant government corruption, brought about by disputed elections, guided by opposition leaders who were once part of the ruling elite, and allowed to topple the ruling establishment because of weak or divided security services. If these are the common drivers of regime change, further revolutions are less likely to take place in the near term in Southeast Eurasia.

The Azeri parliamentary elections last November conformed with the country's Soviet legacy: the two main opposition blocs won only 10 of the 125 seats, with another 58 going to the ruling party, and the rest to independents broadly beholden to the government. Yet the elections ultimately marked a watershed in democratic reform: most candidates were allowed to register and given air time, voter registration was improved with the introduction of finger inking, foreign-funded NGOs were allowed to observe the elections, and the President acknowledged electoral irregularities in a televised address, invalidating results in certain districts and putting three governors and many other election officials under arrest (*Central Asia and Caucasus Institute*, 16 Nov. 2005).

In Kazakhstan, on which the West pins much hopes for progressive change, President Nursultan Nazarbayev has kept a grip on power since 1989, first as the head of the Kazakh Communist Party, then as its President in 1990, a mandate that was extended through referendum in 1995. Nazarbayev was re-elected in 1999 after his main rival was disqualified on a technicality, and won the Presidential elections once again in December 2005 amid massive allegations of electoral law violations ranging from refusals to provide premises to

opposition candidates to the disproportionate amount of airtime dedicated to the President. The election was also tainted by the assassination of a former governor (and leading opposition figure). To consolidate his stranglehold on power, Nazarbayev was granted a number of powers for life in 2000 (including a permanent seat on the Defense Council) and the President's private life, health, and financial affairs have been classified as state secrets. In 2003, his eldest daughter Dariga set up her own political party, possibly the prelude to a dynastic succession.

Tajikistan was the only country in the region to have a religious party in the ruling coalition, a legacy of the Islamic Revival Party's role in the country's civil war. But the Tajik government has increasingly become a monolithic authority following President Imomali Rakhmonov's consolidation of power: a referendum on constitutional amendments in 2004 allowed him to run for a further two consecutive 7-year terms when the current one ends in 2006, and in February 2005, his party won the lower parliamentary elections by a landslide. In October 2005, the US ambassador to Tajikistan declared while in Dushanbe that democratic processes in Central Asia were being suppressed, noting that independent media and the freedom for political parties to operate were key to democratic development.



Ashgabat is dotted with golden statues of its President, one of which is set on a revolving stand so as to face the sun at all times.
Source: Financial Times

In Turkmenistan, President Saparmurat Niyazov, in power since 1985, got his presidential mandate extended by five years through a referendum in 1994, and was elected President for life in 1999. With an absolute monopoly over the media, the self-styled Turkmenbashi (father of all Turkmen)

tolerates no opposition and expects Turkmen to abide by his laws, including his bans on opera and ballet. Speaking of the domestic situation at a meeting with CIS railway officials in Ashgabat in November 2005, Niyazov explained, "Nobody is striving for a multiparty system here... Why should there be a protest, if everyone has a good life, good salaries, and all the right conditions for living?" (*Turkmen TV 1st Channel, as quoted by the BBC monitoring service, 22 Nov. 2005*). The World Bank estimates 45 per cent of the population lives below the national poverty line.

Uzbek President Islam Karimov has been ruling the most populous country of Southeast Eurasia since 1989. His first presidential term was extended by referendum for five years and he won a second mandate unopposed in 2000. In 2002, a further referendum extended his term by two years to 2007. Two-thirds of the opposition candidates were unable to take part in the December 2004 elections for the Legislative Chamber of Uzbekistan's bicameral parliament, and the same vote supposedly endorsed a senator-for-life mandate and the lifetime immunity from criminal prosecution for the President. After the ruthless repression of an uprising in Andijan last May, authorities strengthened their stranglehold on civil society to preempt further popular unrest and forced many NGOs to close down. The Uzbek government is infamous for its appalling record on human rights, and was so angered by US calls for an independent investigation of the Andijan massacre that in January 2006, it served US troops (deployed at Khanabad Airbase since 2001 to support operations in Afghanistan) an eviction notice.

Southeast Eurasian governments have been known to invoke the need to counter rising terrorist and separatist activity in order to clamp down on legitimate political opposition figures and parties. Regional autocrats feel they have tangible bargaining power with the West in light of the Global War On Terror (GWOT), and can play foreign powers against each other given the world's ravenous appetite for energy resources. Uzbek President Islam Karimov was welcomed with open arms in Beijing and Moscow immediately after his Andijan fallout with the West, and signed a US\$ 600 million oil deal with China and an unprecedented defense alliance with Russia that guarantees support in case of further civil unrest or in the event of calls for UN Security Council sanctions. Two months after Andijan, the Chinese Vice Premier visited Tashkent and signed a framework agreement on investments worth US\$ 1.5 billion.

ENERGY FRENZY, A DOUBLE-EDGED SWORD

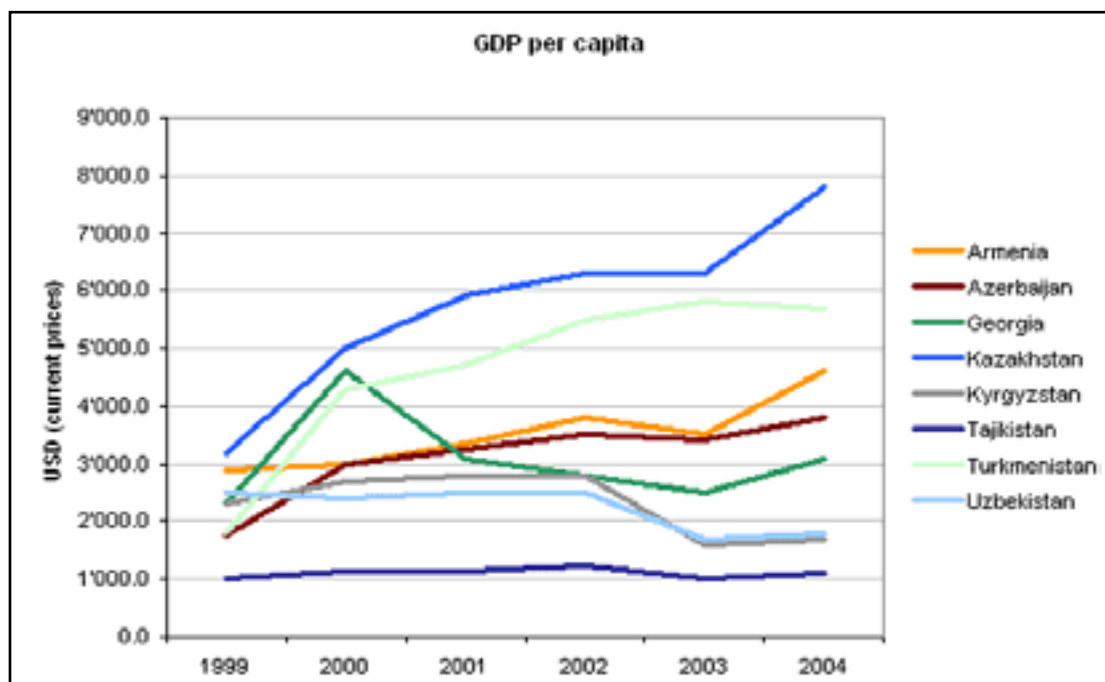
In 2000, the World Bank reported that one-in-five people in Eastern Europe and Central Asia survive on less than US\$ 2.15 a day compared with fewer than 1-in-25 a decade earlier. The sharp increase in poverty was driven in large part by the collapse in incomes and increases in inequality, compounded by the financial crisis of 1998. In the last five years, growth has rebounded and much has changed in these countries, even though 60 million people (12 per cent) still live in poverty.

Southeast Eurasia experienced a massive economic regression between 1990 and 2000, with GDP decreases of more than 50 per cent in Tajikistan and 70 per cent in Georgia for example. Worsening living conditions were aggravated by graft, institutional sclerosis, ethnic conflicts, and civil wars.

As the chart below indicates, economic trends have reversed since 1999 and some countries have stood to gain much from their mineral resources as world demand for energy grows.

Increasing economic cooperation among the region's stakeholders significantly contributed to the development of the SERs. In 1997, the Asian Development Bank (ADB) supported the creation of the Central Asia Regional Economic

Cooperation (CAREC) program to foster regional growth and raise living standards. Encompassing Mongolia and Xinjiang province in China, as well as the Central Asian countries, and soon to be joined by Russia, the states participating in CAREC operate in partnership with multilateral and regional institutions such as the Shanghai Cooperation Organization (SCO). In 2005-2006, CAREC investments will amount to US\$ 1 billion for transport projects, US\$ 200 million for energy infrastructure, and US\$ 10 million for trade facilitation and customs cooperation (*Asia Pulse*, 14 Nov. 2005), and another US\$ 1 billion is budgeted for 2006-2008 to transform the landlocked region into a "land-linked" one. At its October 2005 meeting, the SCO's Council of Heads of Government emphasized the importance and urgency of regional cooperation in oil and gas exploration and distribution networks, telecommunications, and transportation. For the first time, the meeting included India, Iran, Mongolia, and Pakistan as observers – underlining both the relevance of said concerns and the organization's increasing importance. In line with the trend in enhanced cooperation, the chairman of the the Central Asian Cooperation Organization (CACO) announced in late 2005 that the organization's merger with the Euroasian Economic Community. Membership



GDP in US dollars.

Source: US Central Intelligence Agency

of the new organization will include Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan and will focus on customs unification and the creation of a common market.

Regional cooperation is spurred by the global energy dynamic and the need to develop transnational pipeline networks. According to OPEC's World Energy Model, oil will remain the world's single most important source of energy for the foreseeable future, preserving a share of world fuel of roughly 40 per cent until 2020. While cumulative world oil production capacity will rise well above the expected rise in demand over the next five years, the picture downstream is that of continued bottlenecks: OECD refinery utilization has averaged 90 per cent this year, and refinery capacity will not match demand growth before 2007, thereby sustaining the volatility of oil prices in the near future. The head of the International Energy Agency issued a warning in May 2005 that global investments in oil and gas production, refining, power generation, and transmission were falling short of the US\$ 16 trillion needed by 2030 to meet projected demand. Ultimately, given technological advances and new reservoir development, the real issue is not reserve availability, but timely deliverability.

Asia is particularly vulnerable, as the region's share of global energy consumption will nearly double in the next 20 years to 48 per cent for oil and 22 per cent for natural gas (*McKinsey Quarterly*, 2005: No. 2). China has become the world's largest oil consumer after the US, the biggest producer and consumer of coal, and accounted for 12 per cent of the global consumption of energy resources in 2004, while representing 4 per cent of the global GDP according to recent reports by the Jamestown Foundation. China's dependence on oil jumped from 6 per cent in 1993 to 43 per cent in 2004 (i.e. oil imports of US\$ 43 billion) and is set to rise to 60 per cent by 2010. As the 2005 China Oil Forum underlined, by 2020, the country's oil consumption will reach 450 million tons, while its domestic output will amount to less than 200 million, leaving a 250 million ton supply gap that needs to be filled.

According to the Chinese government, the country can afford to rely on domestic energy production for 90 per cent of its current energy consumption. But despite the November 2005 effort to close the gap through the launch of its first oil-to-coal project in the Inner Mongolia city of Erdos, coal production—comprising 67 per cent of China's energy supply

—will not meet the increases in demand, nor could the related transportation infrastructure keep up.

Beijing wants to ensure reliable long-term supplies, and authorities are adopting a broad spectrum of measures to preempt the looming energy supply shortfall: the Chinese Communist Party's 11th Five-Year Plan stipulated the need for the industrial sector to cut energy use by 20 per cent and state planners intend to save energy resources at the annual rate of 3 per cent by 2020. At the end of 2005, China announced the full opening of its natural gas industry to foreign investors, and has invested massively in hydropower, including the US\$ 25 billion Three Gorges Dam project. China is also actively pursuing equity stakes in energy companies such as the failed bid by China National Overseas Oil Corp (CNOOC) to buy the 9th ranking US energy company Unocal Corp for US\$ 18.5 billion.

The Chinese policy of increased energy leverage is particularly relevant to countries of the Caspian basin, which holds a fourth of the world's crude oil reserves, and to Central Asia. The revival of a 1997 deal to finish the construction of a 3,000 km pipeline from Aktyubinsk in Kazakhstan to Keniak in Xinjiang and the China National Petroleum Company (CNPC)'s recent US\$ 4.18 billion purchase of PetroKazakhstan are both meant to secure China's access to Kazakh oil fields. The PetroKazakhstan deal represents the biggest overseas takeover by a Chinese Corporation and was achieved by paying 21 per cent above market price (*AFX*, 27 October 2005). China's pipeline agreement with Kazakhstan included the construction of a 250 km pipeline via Turkmenistan to Iran, the world's fourth-largest producer of crude oil. Finally, China is also eyeing the hydro-electric power potential of Kyrgyzstan, and offered last January a US\$ 900 million investment package for the construction of a hydroelectric station and the development of other key infrastructures.

China is not the only power coveting access to the region's mineral resources. The US and British-funded BTC pipeline is strategically conceived to bypass both Russia and Iran, and will carry one million barrels a day of crude oil from the Caspian to the Mediterranean; to avoid excessive reliance on Chinese buyers, Kazakhstan exercised a preemption right in 2003 to block the acquisition by Chinese Sinopec of a stake in the offshore oilfield of Kashagan in the Caspian, a likely source of BTC oil flow as of 2007. The extraordinary five-year aid package of US\$ 295 million awarded by the US



Existing and planned pipelines in Eurasia as of December 2004.

Source: US Energy Information Administration

Millennium Challenge Account to Georgia is another indication of the region's priority rating for Western policy-makers: the aid package bypassed many other countries that scored higher rankings according to the political and economic development criteria of the US Millennium Challenge Corporation, and included a provision forbidding Georgia to sell its main gas pipeline in the contract period.

Competition for control of the region's resources has also taken a negative aspect. As a leading energy exporter, Russia would benefit from China's prolonged energy supply vulnerability. It prevented the sell-off of Slavneft to China in 2002, tried to block the CNPC-Petrokaz deal, and in late 2005 committed last month to a Siberia-Pacific Coast pipeline that would supply crude oil to Japan "and other countries in East Asia" – a Damocles' sword over the head of Chinese energy planners. The first segment of the US\$ 10 billion Siberian Taishet-Pervoznaya pipeline is scheduled to be operational by 2008, with a capacity of 30 million tons set to increase to 50 million by 2015. The US is also trying to block the development of a US\$ 7.4 billion, 2,100km pipeline running from Iran to India via Pakistan by threatening sanctions under the Iran-Libya Sanctions Act, by using the World Bank's director Paul Wolfowitz to prevent multilateral financing of the project, and by providing civilian nuclear

technology to India (*Central Asia and Caucasus Institute*, 16 Nov. 2005).

Oil wealth is often a double-edged sword, and a resource curse looms over the region, most noticeably over mineral-rich Azerbaijan and Kazakhstan. Oil (often called "Black gold" and "the devil's blood") has led to serious economic distortion by generating significant foreign currency reserves, driving up the foreign exchange rate, and hurting the competitiveness of the country's other export sectors. This phenomenon, known as the "Dutch disease", increases a country's oil dependency and prevents the development of a broad-based economy, a key factor of stability and sustainable growth. This has been the case in Venezuela, Ecuador, and Nigeria after the 1970s oil shock, and seems to be the path that will be followed by Azerbaijan, where oil and gas make up 75 per cent of exports. The advent of the 1,800 kilometer BTC pipeline, which came on stream last May, should increase the Azeri federal budget by 60% and generate some US\$ 100 billion in revenues over the next 20-odd years (*Institute for War and Peace Reporting*, 23 Nov. 2005). A presidential purge of senior ministers following a late 2005 parliamentary election might reflect internal feuding over the spoils of the country's new-found riches. Azerbaijan was rated by Transparency International (TI) as one of the

most corrupt environments in the world, where “public contracting in the oil sector is plagued by revenues vanishing into the pockets of Western oil executives, middlemen, and local officials,” said TI chairman Peter Eigen at the October 2005 release of TI’s *Corruption Perceptions Index* report. Some 40 per cent of the Azeri population live below the national poverty line of US\$ 41 a month, while a recent survey revealed nine of the ten wealthiest Azeri are holding senior positions in the government (*The Guardian*, 5 Nov. 2005).

In Kazakhstan, oil output is set to triple by 2015 and the government has announced plans to invest US\$ 7 billion to build two gas refineries and move away from mere crude oil exports to more value-added products. Linking the giant offshore Kashagan oil field to the BTC pipeline in 2007 is also being considered.

As for Turkmenistan, its gas production is the world’s fifth largest, and currently supplies Russia, Ukraine, and Iran, while a deal to export gas to China may be signed in early 2006. Cheap Turkmen gas has relieved Russian Gazprom of much of the pressure to invest in natural gas exploration and production in Siberia, but this might change given Ashgabat’s decision to raise gas prices by 36 per cent to US\$ 60 per 1,000 cubic meters – which would still be US\$ 20 less than what the Chinese are expected to pay for Turkmen gas. Another major development is the proposed Turkmenistan-Afghanistan-Pakistan (TAP) pipeline designed to carry some US\$ 4 trillion worth of oil and natural gas to Asia and Europe via Arabian Sea ports. Unfortunately, the increase in revenues derived from energy exports will most likely fuel the durability of the region’s most eccentric personality cult.

Uzbekistan holds 1.2 per cent of the world’s gas reserves but lacks the pipeline infrastructure to exploit it. The Chinese are eager to develop the country’s energy sector and have invested some US\$ 600 million so far (*Jamestown Foundation*, 27 Sept. 2005). China is expected to continue propping up Karimov’s draconian regime to protect its share of the country’s gas export potential.

HEEDING NATURE'S CALL

The main environmental concerns in the Southern Caucasus relate to natural disasters, earthquakes in particular, and the degradation of environmental conditions in the Caspian Sea following heavy industry wastewater runoffs from its tributary rivers, rising demographic pressure on its shores, and the regional oil and gas export boom. The need for joint protection and management of the Caspian environment and its resources has been an ongoing issue for the Caspian States, resulting in the 2003 Teheran Convention and in the Caspian Environment Program (CEP), a regional initiative for the littoral states of Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan to promote the sustainable development of the area.

Agricultural irrigation systems in Kazakhstan and Uzbekistan have led to an ecological catastrophe, taking their toll on the Aral Sea by tapping most of the waters of the Amur Dar'ya and Syr Dar'ia rivers.

pollution carried by the winds destroys pastures and agricultural land in a 500 km radius. The regional incidence of typhoid fever, viral hepatitis, tuberculosis, and throat cancer are markedly above national averages. It is hoped the International Fund for Saving the Aral Sea (IFSAS), established in July 2003 by the Kazakh government with funding from the World Bank, will finance the necessary measures (e.g. dikes and improved irrigation systems) to stop the water basin's decline and allow for a substantial recovery of the northern portion of the Sea in the following decades.

The lack of a proper water management system could become a security issue, as the situation in China illustrates. According to an August 2005 report by the Jamestown Foundation, 53 per cent of major waterways, half of all lakes, and a third of all ground water in China are unfit for human consumption due to rampant pollution and a lack



The Aral Sea has endured severe desiccation over the last decades

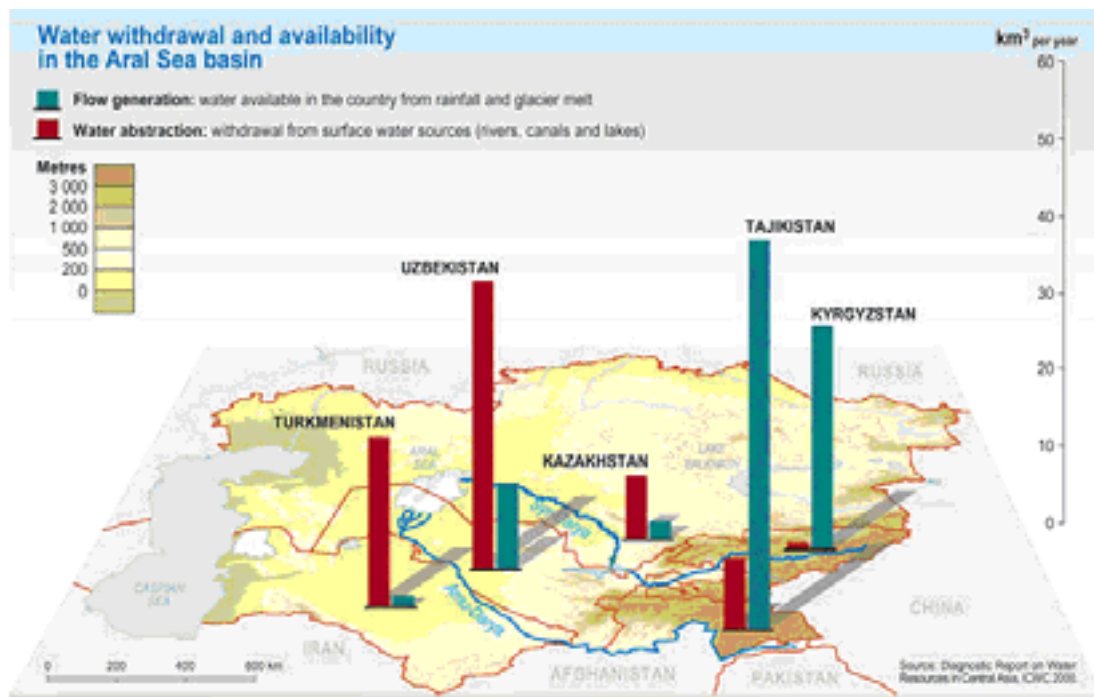
Source: NASA

Since the beginning of the water diversion process by Soviet planners in the 1960s, the Aral Sea – which is in fact a freshwater lake – has shrunk by some 50,000 square kilometers with a 150km retreat of its shores, lost two-thirds of its volume with a 13m drop in water level, and seen its salinity increase greatly. At current rates of decline, some experts forecast its complete desiccation by 2020. Fishing ceased completely in the early 1980s, and salt

of sewage treatment capacity. There are water shortages in about 60 per cent of China's 660 cities, extreme shortages in 110 of them, and no access to safe drinking water for 500 million people in rural communities. The Chinese Minister of Water Resources Wang Shusheng had argued the water crisis might be turning into a national security threat. The pollution of the Yellow River alone costs the Chinese economy roughly US\$ 1.5 billion every year.

The redirection of water resources will prove even costlier, as exemplified by estimates that the North-South Water Diversion project will cost US\$ 25 billion. The emerging water crisis in China could present water-rich Tajikistan and Kyrgyzstan with interesting economic opportunities in the near future.

Besides water shortages, nature also threatens national security through the risk of large-scale epidemics. The advent of the Human



Tajikistan and Kyrgyzstan both stand to gain from the emerging water supply shortage in China and neighbouring Central Asian countries
Source: UN Environmental Program (April 2005)

Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS) in Central Asia has also brought health issues to the fore. While there were officially 500 reported cases of HIV/AIDS in 2000, this figure had risen to 12,000 in 2004. The US Center for Disease Control and Prevention estimates 90,000 Central Asians are living with the disease. UNAIDS estimates there are 16,500 people living with HIV/AIDS in Kazakhstan, 3,900 in Kyrgyzstan, and 11,000 in Uzbekistan, most are aged under 30 years. In May 2005, the Central Asia Cooperation Organization (CACO) launched a US\$ 27 million project to minimize the human and economic impact of the epidemic in Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The spread of the epidemic has been driven by the use of drugs, but there are worrying signs that sexual transmission is on the rise, an indication the virus is going mainstream: in Kazakhstan for example, more than 25 per cent of newly registered infections in 2004 have been attributed to unprotected sex, and fewer than 5 per cent of those in need of antiretroviral therapy actually received it. A recent World Bank study forecast the epidemic would have a negative impact on economic growth rates by 2015 to the tune of 21 per cent in Uzbekistan and 10 per cent in both Kazakhstan and Kyrgyzstan.

EURASIA AWAKENING

The causal links between poverty, repression, and militancy are hard to deny, and the nefarious trio can fast turn a country into a breeding ground for would-be terrorists – the Northern Caucasus region of Chechnya is a case in point. Can democracy in the Southeast Eurasian Republics (SERs) take root given the current institutional framework, or must the people resort to some form of revolution to establish constituency-based regimes?

The international political manoeuvring will continue to impact developments in the Eurasian corridor. Russia is likely to keep exerting its influence, during its G8 presidency in 2006 and beyond Putin's succession in 2008, in order to reduce the pace of democratic change along its southern borders and extend its leverage on the distribution of regional energy supplies. Following its eviction from Uzbekistan, the US secured its right to continue operations in Kyrgyzstan and Tajikistan, and may replace the Karshi-Kanabod (K-2) Airbase with a new one located in Azerbaijan, thereby shifting its strategic focus to increase its ability to protect the Baku-Tbilisi-Ceyhan (BTC) pipeline and coincidentally allowing it to establish a forward military outpost on Iran's northern flank (*International Institute for Strategic Studies, August 2005*). Despite the new Iranian President Mahmoud Ahmadinejad's extensive overhaul of the country's diplomatic corps, Iran's foreign policy towards the Eurasian corridor is likely to remain the same: counter US influence by deepening its economic ties with the SERs and developing a naval alliance with Russia in the Caspian Sea, and extend the region's pipeline infrastructure to increase the country's access to the world's energy markets, notably China and India. The alignment of strategic interests between China and Iran will continue, as the former is desperate to secure new energy sources, and the latter is in dire need of massive infrastructure investments to remain a major oil exporter while meeting soaring domestic demand, and to exploit the full potential of its natural gas reserves (the world's second largest). The economic cooperation trend will continue to shape regional dynamics, as the Shanghai Cooperation Organization (SCO)'s scope has broadened from regional security issues to stability, trade, and science.

The longevity in power of national leaders is likely to be determined by their success in addressing the expectations of domestic and international

stakeholders. The popular revolt in Kyrgyzstan and the international outcry following the Uzbek repression of protesters in Andijan were both indicative of waning tolerance for blatant authoritarian practices. Yet both the international community and the citizenry of Southeast Eurasia seem willing to endure a Faustian bargain with undemocratic regimes if they can harness their countries' resource wealth, foster economic growth, and contribute to international security promotion efforts. The country outlooks below discuss key factors for change for each in the near future.

Armenia

Armenia was formed in 1921 as a Soviet republic following the large-scale emigration of Armenians from Turkish Anatolia. The resolution of the diplomatic cold war with Turkey on the issue of the 1915-1917 mass killing of Armenians by the Ottoman Empire would allow the reopening of the border and contribute significantly to the country's sustainable economic growth. It would also reduce Iran's economic leverage on Armenia and thereby play to the United States' hand. In February 2005, President Kocharian issued guidelines to build a new US\$ 20 million highway to facilitate trade with Iran; while work on the 120 km. pipeline to Iran continues in earnest since it began in November 2004. The pipeline would allow Armenia to break its energy dependency on Moscow, as Russia is currently the country's sole supplier of natural gas. Bringing final closure on the status of Nagorno-Karabakh and the pending state-of-war with Azerbaijan could unlock the country's full potential as a leading tourist destination, drawing on its striking scenery of historic monuments, mountains, lakes, and hot springs to generate a substantial amount of additional revenues – more than 300,000 tourists visited Armenia in 2005. Recent constitutional amendments allow for dual citizenship, a certain boost as the country lost up to a quarter of its population since independence as citizens went looking for better prospects abroad – notwithstanding the 5 million or so members of the Armenian Diaspora established around the world. Eleven years of continuous growth finally enabled the country to recover its pre-transition GDP level in 2004, but income inequalities remain because of a lagging private sector: 45 per cent of the labor force works in the agricultural sector, which generates a quarter of the country's GDP, and 43 per cent of the population lives below the national poverty line.

Azerbaijan

In ancient times, fire-worshipping Zoroastrians erected temples around burning gas vents in Azerbaijan, and in the early 20th century the country supplied almost half of the world's oil. Azeri oil drew a US\$ 7.4 billion pipeline deal in 1994 with a consortium led by British Petroleum and will remain a key driver of the country's development until its expected oil production peak in 2011, new reserve discoveries notwithstanding. If properly harnessed through tools such as the 1999 State Oil Fund of the Azerbaijan Republic, oil revenues might help address a number of social issues such as the country's 49 per cent poverty rate or the plight of 600,000 refugees displaced by the Nagorno-Karabakh conflict with Armenia; closed borders have also economically gutted the territory of Nakhichevan, an Azeri enclave in Armenia, and led to mass emigration. Politically, Heydar Aliiev's death marked a turning point in the national governance model, and the November parliamentary elections showed an improvement in electoral practices, possibly the first sign of a process leading to increased governmental accountability. Bolstered by a double-digit GDP annual growth rate in 2004-2008, current President Ilham Aliiev might create the appropriate framework for a smooth democratic transition by supporting further economic diversification from the oil and gas sector and by striking the right balance between continuity and change.

Georgia

The object of a rivalry between Iran, Turkey, and Russia, Georgia was annexed by the latter in the 19th century. It formally proclaimed its independence in 1991, but breaking free of the Soviet spell was not that easy. The country is still dependent on Russia for its energy supply; Russian troops will be stationed on its soil until 2008; and three of its regions bear the landmarks of its bearish neighbor's influence: Abkhazia, which has become a crime-ridden enclave; South Ossetia, whose citizens have been able to obtain Russian citizenship, last September openly declared last September its aspiration to unify with Russia's North Ossetia; and the Pankisi Gorge, a hornet's nest of Tchetchen guerillas and international Islamic extremists. The implementation of a January 2005 action plan for a political settlement of the South Ossetian conflict will test the international negotiation capabilities of President Saakashvili, whose public governance reforms since the Rose Revolution increased government revenues by a remarkable 4.5 per cent in GDP terms. The US is lending Georgia's new government its support with a US\$

295 million economic aid package, military training, and the facilitation of private investments in the BTC pipeline. The country can also rely on its geo-strategic location as a natural trade conduit, on its fertile land with a long history of viticulture, and on significant mineral and hydropower potentials to foster economic growth and reduce its 52 per cent poverty rate.

Kazakhstan

With a territory the size of Western Europe, vast mineral riches and the highest GDP of the eight Southeast Eurasian Republics, Kazakhstan is a key regional player courted by China, Russia, and the US. Its President Nursultan Nazarbayev has been in power since 1989, and in light of the recent state visits of former US Secretary of State Henry Kissinger and current US Secretary of State Condoleezza Rice, his authoritarian practices still seem to enjoy the backing of the United States. Relinquishing power would mean inter alia renouncing the spoils of the oil boom – having Bermuda as one of the country's main export partners speaks for itself (CIA World Factbook). With its network of pipelines to Russia and China, and possibly soon to Turkey through a link with the BTC pipeline, Kazakhstan is expected to become one of the world's largest oil exporters by 2015 and has recently announced US\$ 7 billion investments to add value to its crude oil and gas exports through the development of refined petroleum products. Oil and fuel constitute 63 per cent of exports, but with one of the lowest poverty rates in the region and GDP growth rates hovering at 9 per cent there is little incentive for economic diversification. Agriculture only accounts for 8.4 per cent of GDP, and its major contribution has been the extensive desiccation of the Aral Sea (once the world's fourth largest body of freshwater) over the last 40 years due to inefficient irrigation systems. Astana won support from the World Bank to begin an environmental recovery program of the Aral, but the laudable effort likely is too little, too late.

Kyrgyzstan

Democracy is new to Kyrgyzstan, and it shows. President Kurmanbek Bakiiev was elected in 2005 in the aftermath of the Tulip Revolution on a platform to fight against corruption, nepotism, and poverty. Since then, the murders of three members of parliament and other personalities have revealed the extensive infiltration of politics by organized crime. Relatives of the three members of parliament, with no previous experience in politics, are vying to replace them on the basis of their families' economic power bases in their

respective constituencies. The judiciary system does not have the means to bring the underworld to boot. Forty per cent of the population lives below the poverty line and the country's total debt-to-GDP ratio reached 94.3 per cent in 2004. Despite an equitable land reform and a steady growth rate in recent years, the economy remains vulnerable to weather conditions, natural disasters, and external shocks, and needs diversification from its current reliance on hydropower, agriculture, and gold. To meet the country's development challenges, Bakiev knows it can rely on US and multilateral support as the US fallout with Uzbekistan and the ensuing US eviction from the Kant Airbase have forced Coalition and NATO strategists to design a new air corridor to Afghanistan via Kyrgyzstan and Tajikistan.

Tajikistan

Tajikistan is a primary transit platform for Afghani heroin exports to Russia and the West, and extensive Uzbek border restrictions severely constrain its international trade potential. Drug use has fueled the spread of HIV/AIDS, and the number of people officially registered to be living with the virus increased by 20.5 per cent in the first nine months of 2005. The agricultural sector, which employs the majority of the population, is seriously hampered by the country's lagging irrigation system, a poorly executed program of land privatization, and a lack of financial capital for farmers. Tajikistan holds 65 per cent of all of Central Asia's water supply but lacks the proper infrastructure to manage and distribute the water flow as the flooding of the Panj River along the Afghani border during the summer of 2005 (causing US\$ 50 million damages) illustrates. In-depth reforms and massive foreign investments are required to allow the country to recover from the US\$ 7 billion physical damage of the civil war and overcome its poverty rate of 64 per cent.

Turkmenistan

Turkmenistan's proclaimed neutrality prevents it from using its strategic position as a bargaining chip with foreign powers such as the United States or Russia. But its President has still agreed to support Russian realpolitik, as Turkmen gas exports were pre-committed to Russia in 2003 for a 25-year period, with no spare pipeline capacity left for exports to Ukraine from 2007 onward. Kiev and Ashgabat have discussed plans for the construction of a new pipeline separate from Gazprom's network, but they would need Moscow's endorsement and a joint proposal elaborated in May 2005 has yet to elicit feedback from Putin's government. Time is on Russia's side, given that it wants to pressure Kiev

into turning Ukraine's gas system into a Russian-Ukrainian consortium. Ukraine must also settle its Turkmen gas bill arrears of US\$ 500 million for 2005, to be paid in the form of bartered goods and construction services given Kiev's inability to pay cash. Richly endowed with hydrocarbon resources, Turkmenistan has been reluctant to privatize its economy and is the only CIS country to date that has not introduced current account convertibility, allowing the parallel market exchange rate to thrive. Misrule has left a lagging infrastructure that hinders the development of the country's full natural gas potential, a significant deterioration in the quality of education and health services since independence, and a private sector hampered by state interference and a one-to-five differential between the official and the parallel exchange rates.

Uzbekistan

Western calls for an independent investigation of the grisly 13 May 2005 repression in Andijan marked a turning point in the country's history. President Islam Karimov returned to the fold when he signed an unprecedented defense alliance agreement with Moscow in the aftermath of Andijan. Yet the regime has not addressed any of the uprising's underlying causes, and the sustainability of security and armed forces employing close to a third of the population is questionable. (*The Economist*, 3 Nov. 2005) As Uzbekistan is Central Asia's most populous state and has the mightiest military of the eight SERs, US willingness to trade-off use of the Kant Airbase in the name of humanitarian values is a demonstration of operational nimbleness and the possible indication of a strategic shift towards a greater US focus on Southern Caucasus. The US disengagement and the funding freeze declared by the European Bank for Reconstruction and Development because of the government's human rights record mean Uzbekistan will have to tap other sources of support to fund its growth and reduce its 28 per cent poverty rate. Given the level of state interference in the economy and the lack of systemic transparency, the level of foreign direct investments – even from its partner China – is likely to remain one of the lowest per capita in the CIS territory. The country needs to reform and privatize its agricultural sector, which accounts for 31 per cent of GDP, and diversify its economy, which is largely comprised of primary sector exports such as gold and cotton fiber (80 per cent of all exports). The desiccation of the Aral Sea following excessive water diversion for agriculture is also adversely affecting economic activity, particularly in the

ADB	Asian Development Bank
BTC	Baku-Tbilisi-Ceyhan pipeline
CACI	Central Asia and Caucasus Institute
CACO	Central Asian Cooperation Organization (Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan)
CAREC	Central Asia Regional Economic Cooperation program (China, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, Russia, and Uzbekistan)
CasFor	Caspian Rapid Reaction Force
CEP	Caspian Environment Program
CIS	Commonwealth of Independent States (11 former Soviet Republics: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan)
CNOOC	China National Overseas Oil Corporation
CNPC	China National Petroleum Company
CSTO	Collective Security Treaty Organization (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Russia)
GWOT	Global War on Terrorism
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
HT	Hizb ut-Tahrir
IFSAS	International Fund for Saving the Aral Sea
IMU/IMT	Islamic Movement of Uzbekistan / of Turkestan
IPI	Iran-Pakistan-India pipeline
IWPR	Institute for War and Peace Reporting
NATO	North-Atlantic Treaty Organization
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development (30 member states, including 24 high-income countries)
OPEC	Organization of the Petroleum-Exporting Countries
OSCE	Organization for Security and Cooperation in Europe
SCO	Shanghai Cooperation Organization
SER	Southeast Eurasian Republic (i.e. Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan)
TAP	Turkmenistan-Afghanistan-Pakistan pipeline
TI	Transparency International
UNODC	United Nations Office on Drugs and Crime
WMD	Weapons of Mass Destruction

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