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Contents

Analytical Articles

MOSCOW TAKES COUNTERPRODUCTIVE SECURITY MEASURES AHEAD OF SOCHI 3

Valeriy Dzutsev

PRESIDENT'S SON APPOINTED HEAD OF CUSTOMS IN TAJIKISTAN 6

Oleg Salimov

AFGHANISTAN AND INDIA DEEPEN STRATEGIC COOPERATION 10

Richard Weitz

U.S.-IRANIAN RAPPROCHEMENT: IMPLICATIONS FOR AZERBAIJAN 13

Farhad Aliyev

Field Reports

BISHKEK AND OSH ELECT NEW MAYORS 16

Arslan Sabymbekov

PRESIDENT NAZARBAYEV SETS PRIORITY GOALS UP TO 2050 18

Georgiy Voloshin

GEORGIA'S NATIONAL CURRENCY CONTINUES TO DEPRECIATE 20

Eka Janashia

ARMENIA'S FORMER PRESIDENT ATTACKS PRIME MINISTER 21

Haroutiun Khachatryan

THE CENTRAL ASIA-CAUCASS ANALYST

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Analytical Articles require a three to four sentence Key Issue introduction to the article based on a news hook. Rather than a general, overarching analysis, the article must offer considered and careful judgment supported with concrete examples. The ideal length of analytical articles is between 1,100 and 1,500 words. The articles are structured as follows:

KEY ISSUE: A short 75-word statement of your conclusions about the issue or news event on which the article focuses.

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.

IMPLICATIONS: 300-450 words of analysis of the ramifications of this event or issue, including where applicable, implications for the local people's future.

CONCLUSIONS: 100-200 words that strongly state your conclusions about the impact of the event or issue.

Field Reports focus on a particular news event and what local people think about the event. Field Reports address the implications the event or activity analyzed for peoples' lives and their communities. Field Reports do not have the rigid structure of Analytical Articles, and are shorter in length, averaging ca. 700-800 words.

Those interested in joining *The Analyst's* pool of authors to contribute articles, field reports, or contacts of potential writers, please send your CV to: <scornell@jhu.edu> and suggest some topics on which you would like to write.

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MOSCOW TAKES COUNTERPRODUCTIVE SECURITY MEASURES AHEAD OF SOCHI

Valeriy Dzutsev

As the attacks of the North Caucasian insurgency appear to move closer to the region of the Winter Olympics in Sochi, the government further increases the security precautions. Apart from the failings of the Russian security services, the attacks highlight the growing support for the insurgents among the general population in the North Caucasus. Nearly extreme measures taken by Moscow to shield the Olympics from the North Caucasian insurgents further contribute to the isolation of this region from the rest of Russia and the rise of ethnic tensions. The situation around the Olympics looks increasingly odd as the sport event appears to be destined to take place in an area surrounded by a war zone.

BACKGROUND: On January 8, Russian law enforcement agencies in Stavropol region reported finding four cars with six murdered people in them. As the investigators tried to approach the crime scene, an Improvised Explosive Device (IED) exploded, but no one was hurt. Subsequently it was announced that each of the cars with killed people had an IED nearby. According to the specialists, the IEDs were similar to those used by insurgents in the North Caucasus.

The murder victims were found in two southern districts of Stavropol region, Predgornyy and Kirovsky. Both districts border Kabardino-Balkaria to the south, while Stavropol region borders Krasnodar region, where Sochi is located, to the west. The authorities quickly announced the names of the four suspects, members of the armed Kabardino-Balkarian underground movement. On January 9, the government introduced a special counterterrorist operation regime in parts of the two districts that lasted for more than two days and yielded no tangible results.

Government sources appeared to be reticent about the details of the crime and even tried to play down its importance, asserting that it was a mere attempt of the insurgents to extract ransom payments from local cab drivers. The official version implied that this was a mere criminal incident that had corollary relationship with the activities of the insurgency, thereby reducing its importance for the nearby Olympics. Sources among cab drivers vehemently denied this allegation in interviews with the Caucasian Knot news agency. Moreover, they stated that the suspects did not kill people at random, but practically established an outpost on a highway in Stavropol region where they stopped cars, checked people's documents and let some go.

The latest violent events in Stavropol region took place after the government announced an increase in patrols in the region on January 1, seriously damaging the credibility of the government's recent statements about introducing an "increased security regime" in the region. On December 27, 2013, an explosion



took place near the headquarters of the road police in the city of Pyatigorsk. Three bystanders were killed in the attack, but the Investigative Committee in the region stated that “there were no grounds to assert that this was a terrorist attack.” The authorities later reversed their calming statements and introduced a counterterrorist operation regime in the Stavropol region's southern parts on January 9 and in its east on January 16.

The location of the attacks has certain significance. While the terrorist attacks in the city of Volgograd in December 2013 took place far away from the site of the Sochi Olympics, they were still linked to the Olympics. However, the recent attacks in Stavropol region, bordering Krasnodar region where the Olympics are held, amplify fears that the international sporting event may be affected by the ongoing violent campaign in the North Caucasus.

IMPLICATIONS: The awkward attempts by the authorities to cover up the dangers of terrorist attacks in Stavropol region and their inability to protect the public even after one attack took place certainly point to bureaucratic negligence. Also, while the Russian security forces display formidable skills in sealing off suspected individuals in their homes and killing everyone inside the building from a distance, they have

been decidedly less successful in conducting more fine-grained activities, such as gathering reliable intelligence information.

The problem is not only the lack of skills among the Russian security services, although several reports have suggested that corruption has significantly reduced their preparedness. The civilian population that the security services are dealing with is another side of the issue that is often overlooked. After significant efforts of the Russian security services to instill peace and quiet in the North Caucasus in the run up to the Olympics in Sochi, attacks still occur and they even get closer to the location of the Olympics. This essentially means that the insurgency enjoys support among the civilian population, because without such support the government would have no difficulties in obtaining reliable intelligence from locals and preventing terrorist attacks.

The extraordinary security measures that the Russian government has undertaken may have protected the Sochi Olympics so far, but they have also put the Olympic principles at odds with the surrounding environment. Krasnodar region and Sochi have become heavily fortified areas that feature long lines of cars trying to get in. More importantly, ethnic North Caucasians, specifically ethnic Ingush, Chechens and Dagestanis, are virtually banned from visiting Krasnodar region until the Olympics are over.

According to a report of a former official in Ingushetia, Kaloy Akhilgov, residents of these regions must apply for visits to the Krasnodar region and be approved by the Krasnodar branch of the Russian security services. The authorities weakly

denied these allegations. These discriminatory policies create divisions among North Caucasians, dividing them into “good” and “bad” peoples. The rules also create another barrier between the North Caucasus and the rest of the Russian Federation. Yet, most importantly, these exclusionary policies overshadow the Olympic Games themselves, turning them into a sport event that practically excludes entire ethnic groups and territories.

Since the government puts so much effort into protecting the Olympics from possible attacks, the potential attackers naturally also put an extra effort into trying to spoil what is increasingly seen as “ethnic Russians’ feast.” Given the government policies aimed at excluding North Caucasians from the grand sport event, they have low incentives to protect the Olympics.

A vicious cycle has emerged as the Russian government seeks to protect the Olympics by referring entire ethnic groups to the list of “dangerous people.” The latter then lose all interest in intercepting any possible threats from the insurgents, while the corresponding increased activities of the insurgents further convince Russian officials that they should not trust these ethnic groups. Thus, domestic Russian entanglements of quasi-colonial policies come into play in the Sochi Olympics and make the event perhaps one of the oddest Olympic games in decades.

CONCLUSIONS: Security concerns have led the Russian government to implement extraordinary measures to protect the Sochi Olympics. These, however, have not provided enough assurances to the public, as attacks continued in other regions of the Russian

Federation, apart from Krasnodar. The latest attacks in Stavropol region cast further doubt on the effectiveness of government policies. At the same time, the harsh policies of the Russian government appear to undermine the very foundations of the Olympic movement that should foster peace and understanding among the nations. Instead of bringing peace to the war-torn North Caucasus, the Olympics implicitly bless the entire spectrum of the Russian government’s moves to crack down on everything that it considers to be a threat to the Olympics and to the regime in the Kremlin.

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PRESIDENT'S SON APPOINTED HEAD OF CUSTOMS IN TAJIKISTAN

Oleg Salimov

On November 30, 2013, Tajikistan's recently reelected President Emomali Rakhmon decided to appoint his son Rustam Emomali as the head of the State Customs Administration. Although some have argued that the move was tantamount to preparing the ground for Rustam as Rakhmon's successor on the presidential post, the actual reason for the high-profile appointment seems to be more trivial and less politically motivated. The immediate motivation for the appointment seems to be economic, rather than political, since it will greatly enhance the opportunities to gain wealth for the Rakhmon family.

BACKGROUND: Nepotism is frequently mentioned among the problems undermining democracy and stimulating corruption in Central Asia, and is clearly manifested in the practices exercised by the countries leaders' to retain political power. In Tajikistan in particular, several changes to the constitution were implemented in order to extend Rakhmon's presidency until 2020. Rakhmon, who was reelected on November 6, 2013, made nominal changes in the government through his common practice of shuffling government officials around.

Advancing his son to the highest post in one of the privileged law enforcement agencies, Rakhmon shattered the credibility of promises to curb the practice of nepotism that were given in October of 2011. Back then, responding to the increased international criticism and domestic resentment of the level of corruption, Rakhmon's political party implemented a set of tough-worded amendments to the anti-corruption law particularly targeting nepotism. Still, Tajik officials frequently hire their

relatives and employ the shuffling principle as a cover-up.

Thus, in January of 2012, Minister of Interior Ramazon Rakhimov, complying with the anti-nepotism provisions, fired his brother from his post in one of the police departments but later appointed him to another high-level position in the Customs Administration of Sughd region.

Rakhmon's family has accumulated a significant amount of control over Tajikistan's politics and economy. According to local media, three out of Rakhmon's nine children regularly make the list of the most influential people in the republic. They are his son Rustam and daughters Takhmina and Ozoda. Takhmina reportedly owns a number of large business ventures in Tajikistan and has a reputation of a business "predator." She imports construction materials and food products from Iran, Afghanistan, and Pakistan. Ozoda serves as Tajikistan's deputy foreign minister. Another daughter, Parvina, controls transporting business, and owns the country's airports and the Somon Air airline. Other family members include



Khasan Sadulloev, the head of Orientbank and state-owned aluminum-smelting plant; Amonullo Khukumov, head of the National Railroad Company; and Sherali Gulov, who up until very recently (November 21, 2013) was the Minister of Energy and Industry and is likely to reappear in another governmental post. Many additional members of Rakhmon's clan have positions in crucial business enterprises and governmental agencies.

Prior to his latest appointment, Rustam held several governmental posts of diverse political significance. He previously headed the State Customs Administration smuggling control department and served as the deputy head of the Youth Union. He has been a head of department in the State Investment Committee, a member of Dushanbe city council, a member of the central committee of the ruling party, and president of the country's soccer federation. He is believed to control imports from China, the United Arab Emirates, and Turkey. He also owns a grain mill plant and a carpet plant that exports its products to Europe and Asia. Earlier, members of the ruling party and government officials in Tajikistan reacted positively to Rustam's rapid career advancements. In 2011, Usmon Solekh from the ruling National

Democratic Party of Tajikistan stated that Rustam's achievements were a result of his talent and qualifications. Back in 2010, in an interview with local media, the head of the Strategic Research Center under the President of Tajikistan, Sukhrob Sharipov, justified the nepotistic practices of Tajikistan's president as a natural expression of Tajik culture.

IMPLICATIONS: Although open to various interpretations, the appointment of Rustam as the head of State Customs Administration serves a very definite purpose. The appointment finalizes the business structure of Rakhmon's family. Lacking its own production and natural resources, Tajikistan relies heavily on import of consumer goods, raw materials, and fuel. With family members controlling large portions of Tajikistan transportation and import-export businesses, the patronage of the State Customs Administration constitutes an important tool for avoiding fees, restraining competitors, and increasing personal profit. At the same time, the income from the export of aluminum produced at the Tajik aluminum-smelting plant, which is controlled by one of the closest family members, is long rumored to be almost entirely appropriated by Rakhmon. Rustam's appointment provides an opportunity for unmonitored and unregistered export of aluminum which can multiply the personal wealth of Rakhmon's family.

In Tajikistan, the State Customs Administration can perform both profit generating and law enforcement functions. The actual power and functions of the law enforcement agencies in Tajikistan are often intermixed, as the agencies disregard each other's orders or extend their power

beyond their professional area. The roots of this problem in Tajikistan are traced back to the Civil War when competing commanders were frequently placed on leading positions in various law enforcement agencies. Their continuing rivalry, as well as the level of their personal loyalty to Rakhmon, resulted in blurred functions and spheres of influence of their agencies. As the president's son, Rustam can enhance the position of the Customs Administration among other law enforcement agencies and exploit it for securing and enforcing the power of his family, alongside the National Presidential Guard and other militarized or armed formations loyal to the president.

In spite of the common perception that Rakhmon is grooming his son Rustam to take over the presidency, the latest development demonstrates the opposite. According to Tajikistan's laws, a person serving in a law enforcement agency is prohibited from membership in political parties and the legislature. Appointing Rustam as the head of the State Customs Administration, Rakhmon removed him from the political arena where Rustam could have established himself as a worthy leader of the country. Notably, Heydar Aliyev of Azerbaijan worked zealously to advance his son Ilham through the ranks of the ruling party and parliament. During his time as a party member and legislator, Rustam was rarely if ever seen making political statements or interacting with the public and media. The opposition rarely considered Rustam a meaningful presidential candidate due to his lack of support among the political elites and the public.

It is possible that by 2020, the expiration date of Rakhmon's presidency, Rustam will return to politics. The next seven years can provide Rustam with an opportunity to gain more experience in political maneuvering and obtain the support of political elites, but the chances of his father giving up power will be slim. In 2020, Rakhmon will turn 68. He could well be capable of staying in office, especially if compared to his long-term colleagues in the region; Nursultan Nazarbayev of Kazakhstan is currently 73 and Islam Karimov of Uzbekistan is 75. Neither is showing any inclination to retire from politics.

Although the Tajik Constitution prohibits Rakhmon from running for office again in 2020, the modern history of Central Asia suggests the opposite. Rakhmon can opt to remain in office as a life-term president like Nazarbayev, or simply disregard the Constitution like Karimov. However, the potential threat of an Arab Spring scenario could discourage Rakhmon from retaining his presidential post for too long. Reports on state financial reserves disappearing to offshore accounts suggest that Rakhmon may be preparing a safe exit in case of revolutionary events unfolding in Tajikistan. Therefore, it is possible that by appointing Rustam as the head of the Customs Administration, Rakhmon simply pursues immediate financial objectives and not long-term political goals.

CONCLUSIONS: While Rustam increases the amount of wealth of Rakhmon's family through important governmental posts, he is not yet in a position of significant political power. Without clearer political advances, it is not possible to conclude with certainty

that Rakhmon is preparing the ground to make his son the next president of Tajikistan. Being fairly young, Rakhmon reserves the post for himself while expanding the financial resources of his family. Rakhmon's next seven years in office will demonstrate his real intentions; whether he plans to leave politics and the country or transform the presidency in Tajikistan into his family business.

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AFGHANISTAN AND INDIA DEEPEN STRATEGIC COOPERATION

Richard Weitz

India has made major economic, political, and strategic investments in Afghanistan since the Taliban lost power in 2001. The two countries share an interest in Afghanistan's postwar reconstruction, pursuing common diplomatic goals, and cooperating against mutual security threats. For years, India has been undertaking programs to bolster Afghanistan's security capabilities and integrate the country into regional diplomatic and economic structures. Now with the withdrawal of Western combat forces, India is acceding to longstanding Afghan government requests and deepening bilateral security cooperation, despite the risks of provoking a strong and adverse reaction in Islamabad, as well as enlarging their economic collaboration.

BACKGROUND: Indian engagement aims to win Afghans' hearts and minds through foreign aid, with special focus on building roads, medical facilities, education programs, power generation networks, and other critical infrastructure sectors. India's extensive private investment aims to integrate Afghanistan into regional trade arrangements that will promote the type of economic growth that is critical for Afghanistan's long-term stability. Furthermore, the Indian government has promoted Afghanistan's regional economic integration, such as securing its membership in the South Asian Association for Regional Cooperation. Despite growing ties with Kazakhstan and other Central Asian countries, India's lack of direct access to the region continues to impede its commercial opportunities there. Developing international rail and road links with Afghanistan strengthens that country's economy as well as India's access to important Central Asian trade and energy markets. Indian investors would like to help market the trillions of dollars of mineral resources Afghanistan is thought to have beneath its soil. Indians also see Afghanistan as partners in their economic outreach to Iran. Bilateral security cooperation has also been growing. Indian security strategists see Afghanistan and Central Asia as falling within India's "extended strategic neighborhood." Given New Delhi's concerns about geopolitical encirclement, Pakistani and Chinese activities in Afghanistan and Central Asia have traditionally received much attention. Since the USSR's disintegration, India's Eurasia strategy has sought to prevent Afghanistan and other Central Asian states from joining any "Islamic camp" that could adopt anti-Hindu policies. New Delhi's nightmare would be the emergence of a bloc of hostile Islamic governments in Central Asia, Afghanistan, and Pakistan, linked closely with China, which would seek to contain India, support terrorism in Kashmir, and perhaps stir up trouble among India's other Muslim minorities. The growth of terrorism and Islamic radicalism has become a more recent concern. Though Kabul follows a balanced rhetoric aiming



to prevent alienating Islamabad, Afghans perceive New Delhi as a more reliable strategic partner. In their 2011 Strategic Partnership Agreement, India agreed to train Afghani military officers and provide light-weapons useful for counterinsurgency operations.

Yet, New Delhi's generally cautious foreign policy and concerns regarding Pakistan's reaction to its growing role in Afghanistan have constrained the Afghan-Indian strategic partnership. The ties between India and Afghanistan naturally worry Pakistanis, who fear strategic encirclement through a pro-Indian regime in Kabul. Pakistani strategists desire to create "strategic depth" and limit India's influence in South Asia. They also want to retain their preeminent role in Afghanistan's politics and economy. For some Pakistanis, the danger of "encirclement" through increased Indian influence in Afghanistan justifies increasing support for the use of jihadi proxies to weaken Kabul, or to conduct further terrorist attacks against India. In partnership with Washington, which seeks to promote trilateral cooperation among these countries, Indians have unsuccessfully tried not to alarm Pakistanis about their growing ties with Afghanistan.

IMPLICATIONS: The stressed India-Pakistan relationship and U.S. concerns have constrained India's military involvement in Afghanistan. The Obama

administration is seeking to assuage Pakistanis' regional security concerns and secure Islamabad's support for an Afghan peace settlement. Aside from a 500-person police force, India has had no troops on the ground. But changing circumstances—specifically the declining U.S. military presence and influence in the region, have led Indians to elevate their engagement with Afghanistan. As analyzed in the [08/01/2014 issue of the CACI Analyst](#), the U.S. is the great power whose strategic and economic policies - preserving a regional balance of power and promoting regional integration between Central and South Asia - best align with India's goals. China and Russia have different goals and lack the will and capacity to intervene militarily in Afghanistan with their own forces.

Although Singh declined to press Afghanistan's President Hamid Karzai to sign the Bilateral Security Agreement with Washington, Indians share the same unease that one finds throughout Eurasia that the end of the U.S. and NATO combat missions in Afghanistan could result in a deteriorating security situation in that country, as occurred after all U.S. troops withdrew from Iraq. A security vacuum in Afghanistan could worsen the competition for influence among Pakistan, Iran, Russia, China, and India for influence in Central Asia. At worst, Afghanistan could again become a hotbed of radical Islam in alignment with Pakistan's radical Islamist terrorism, posing a threat to India's security. Since there is no popular desire to deploy combat troops to Afghanistan, the Indian strategy is to deepen support for the Afghan National Security Forces (ANSF) and provide more direct and indirect

economic aid. The World Bank estimates that by 2021 or 2022, maintenance and operating costs for the ANSF will absorb some 17 percent of the Afghan government's budget, which will be unsustainable without further economic growth through more trade, investment, and regional economic integration.

During Karzai's visit to India last month, the two governments announced they would deepen their defense ties, with several initiatives designed to increase the capabilities of the ANSF as NATO combat forces leave the country. India will raise the number of ANSF members it trains each year to some 1,000 soldiers. For the first time, this training will include a group of 60 Afghan Special Forces, who will receive instruction at India's military facilities in the Rajasthan desert. According to Afghanistan's ambassador to India, about 350 Afghan army officers now receive annual training in India, with a total of 1,400 trained since 2003. An Indian defense spokesman said that the "focus of the training is on conduct of counter insurgency and counter terrorism operations, with special emphasis on operations in built-up areas and rural areas in a realistic environment." An obvious goal of the augmented training is to help the ANSF battle the Taliban, which is widely seen in Afghanistan and India as a tool of Pakistan's national security establishment.

Yet, fear of Pakistani reprisals for Indian support for Kabul may be the reason why Singh stalled on acquiescing to Karzai's "wish list" of helicopters, tanks, guns, and other heavy weapons. Indian officials also claimed that Russia needed to give permission to transfer these Soviet-era arms. Concerns that the next

Afghan president to be elected in a few months will be less pro-Indian than Karzai also may have made New Delhi cautious, at least for now.

CONCLUSION: India seeks a stable regional security environment to continue its steady economic ascendancy. To that end, Afghanistan's post-occupational security becomes of paramount concern. The recent meeting between Singh and Karzai clarified how this enhanced security cooperation could develop. Although Indian officials declined to fill all of Karzai's shopping list, Afghan-Indian military cooperation will likely increase still further now that the U.S., which has generally bolstered India's growing regional influence even while discouraging New Delhi from assuming a major security role in Afghanistan for fear of further antagonizing Pakistan, is losing regional influence. Broader defense cooperation with the Afghan government helps both protect India's economic interests in Afghanistan and counter larger regional destabilization scenarios detrimental to New Delhi's foreign policy aspirations.

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U.S.-IRANIAN RAPPROCHEMENT: IMPLICATIONS FOR AZERBAIJAN

Farhad Aliyev

The Geneva interim agreement in November, 2013, between six world powers and Iran on its disputed nuclear program could mark the start of one of the most significant transformations in the Middle East over the last decades, with ramifications across Eurasia. Azerbaijan, as one of Iran's neighbors and sharing certain religious, ethnic, and cultural commonalities with Iran, should be considered among the countries most influenced by the success of negotiations with Iran, even in terms of Azerbaijan's domestic development.

BACKGROUND: Since restoring its sovereignty, Azerbaijan has been one of the key elements in the context of the U.S.'s policy of containing Iran's regional influence. During Azerbaijan's first years of independence, Iran sought to extend its influence over Azerbaijan, mainly through promoting radical Shiism. According to scholar Farideh Heyat, this strategy had two main components. On the one hand, it contained "massive and much publicized assistance to Azerbaijani refugees, something that attracted sympathy and support. And on the other, Iran through its seminaries in Qom trained a new generation of Azerbaijani Shiite clerics, something that also promoted an Iranian point of view."

Nevertheless, by the end of the 1990s Azerbaijan's government had started taking measures to restrict Iranian influence. Moreover, in 2001 the State Committee for work with religious organizations was established with the purpose of monitoring and diminishing the import of religious literature. In addition, legislative requirements for registering religious groups with the above-mentioned state body were also introduced.

Since the very start of Azerbaijan's independence, Iran has for several reasons been a complicated neighbor. Iran has established economic contacts with Armenia in light of its conflict with Azerbaijan over Nagorno-Karabakh and it has "exported" its religious ideology in order to influence Azerbaijan's population, a majority of which are Shia Muslims. Iran also possesses the ability to, in case of domestic upheavals in Azerbaijan, influence the country's southern regions populated by the Talysh, an ethnic minority speaking an Iranian language and having cultural ties with Iran. In 1993, during a serious deterioration of the domestic situation in Azerbaijan, the Talysh movement declared an Autonomous Republic, the leaders of which were jailed after Heydar Aliyev's ascent to power.

Azerbaijan's close economic and military ties with Israel and the U.S. have also been a complicating factor, as have contradictions between the two countries over the status of the Caspian Sea.

Iran is still one of the key reasons for Azerbaijan's geopolitical relevance. The very fact that Azerbaijan borders Iran has significantly added to the special importance to Azerbaijan. This fact, to a



certain extent, allows Azerbaijan's ruling elite to justify serious drawbacks in its human rights, democratization and corruption records, and is a counter-argument to Western criticism regarding these systemic shortcomings.

IMPLICATIONS: There are differing estimates concerning the possible consequences for Azerbaijan of the ongoing U.S.-Iranian negotiations. Of course, the rapprochement should not be overestimated, since it is a complex issue and might turn out to be a long process exposed not only to the impact of domestic Iranian dynamics, but also to congressional opposition in the U.S. and domestic processes in certain states of the region, such as Israel, Saudi Arabia, Syria, Turkey and Russia. In addition, regional dynamics including the Sunni-Shia tensions in the Middle East, the Syrian crisis, Russia's increased activity in post-Soviet Eurasia, unpredictable developments in Central Asia after the U.S. military withdrawal, the growth of Chinese influence, and the threat posed by radical Islam, testify to the necessity of even distribution of U.S. attention and priorities in this broad and ever volatile region, making it imperative for the U.S. to avoid "putting all eggs in one basket." Assuming that the ongoing rapprochement will continue, Azerbaijan could face important consequences of further deepened relations between the U.S. and Iran, which would likely

weaken Azerbaijan's international position. In particular, a future growth of economic ties between Iran and Western democracies; an increase in Iran's export of hydrocarbons and a contingent decrease of world oil prices on which Azerbaijan's economy significantly depends; and the workable establishment of Iran as a key transportation hub in broad Eurasian context, would all contribute to diminishing Azerbaijan's geopolitical importance.

Nevertheless, it should be pointed out that a key goal of the U.S. has since the early 1990s been to promote diversification of Europe's natural gas supplies, especially developing an alternative to Russian natural gas. Recent dynamics around the Shah Deniz gas field and the Trans-Anatolian Pipeline, presupposing transportation of Azerbaijani gas through a network of three new pipelines via Georgia, Greece, and under the Adriatic Sea to Italy, indicate that even in case of success in U.S.-Iran negotiations Azerbaijan will in the nearest future continue to play an important role in the context European energy security.

Moreover, the deep existing contradictions between the Iranian regime and the U.S. should not be underestimated. A univocal and irreversible reconciliation between Iran and the U.S. is hardly in the cards as long as the current Iranian regime stays in power, though tactical advances in a rapprochement might be expected.

In a short-term perspective, Azerbaijan will likely retain its geopolitical position in light of the need to diversify European energy supplies. Yet, if Iran succeeds in broadening its export of hydrocarbons and promoting its transportation

potential, Azerbaijan's importance for the U.S. and Europe will be significantly diminished in the mid- to long-term perspective.

The U.S.-Iran rapprochement will likely contribute to a re-estimation of current regional geopolitical realities by Azerbaijani decision-makers, some of whom appear to have become overly optimistic in the context of the country's significant economic growth and relative economic independence in the last several years.

As Murad Ismaylov points out: "with multi-billion dollar oil revenues flooding the Azerbaijani economy, Baku has gone through a period of exceptionally strong GDP growth, a fact that immeasurably boosted the country's economy, raised the level of its self-sufficiency and self-reliance, and, consequently, has given Baku the self-confidence that it can make its own way..." In this context, a rapprochement between the U.S. and Iran will likely have a sobering effect on the Azerbaijani ruling elite. A decrease in exports and transportation revenues in the mid- to long-term perspective could impact Azerbaijan's economic and political stability and become an impetus for local social unrest, especially in light of Russia's pressure from the north, Turkey's domestic developments and ongoing instability in the Middle East.

CONCLUSIONS: Irrespective of Azerbaijan, even a success in the negotiations with the current Iranian regime is unlikely to contribute to an "Iranian drift" in U.S. foreign policy in the region. At the same time, rapprochement with Iran could become quite advantageous for the U.S. in terms of strengthening its positions in Eurasia. This will be an additional justification for

a balance-of-power strategy, within which such regional actors as secular (Sunni) Turkey, Sunni Saudi Arabia, Shia Iran, Israel and Russia, among others, will be counter-detering each other, thus directly or indirectly favoring the regional strategy of the U.S..

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BISHKEK AND OSH ELECT NEW MAYORS

Arslan Sabyrbekov

On January 15, the two mayors of the cities of Bishkek and Osh in Kyrgyzstan were elected based on the new legislation approved by the country's President Almazbek Atambayev last December. In accordance with this new legislation, the mayors were elected by secret ballot in local municipal councils, instead of being directly appointed by the President. Due to their political significance, these mayoral elections have been closely followed by the country's general population and observers, leading to a number of worrying conclusions.

The new mayor of Bishkek, Kubanychbek Kulmatov, was unanimously nominated by the country's ruling Social Democratic Party and supported by all the other parties in the ruling coalition. As the only candidate for this post, Kulmatov received 41 votes of the City Council's 43 members. The uncontested nature of the Bishkek mayor elections was heavily criticized by the country's political elite, experts and civil society activists. An opposition member of the Kyrgyz Parliament, Ravshan Jeenbekov, went on to state that "the elections were a simple formality and must be perceived as yet another successful effort of the Kyrgyz President in power consolidation."

Kulmatov is a figure widely known to the Kyrgyz public. Before his election as the new mayor of Kyrgyzstan's capital, he worked as the representative of the Government in the Northern province of Chui and has also previously headed the State Customs Service Agency, which according to local estimates has always

dominated the list of the most corrupt state agencies. Kulmatov also received public attention due to a dispute in the Kyrgyz Parliament over his citizenship. A number of parliamentarians from the Respublika Party cited information from the Federal Migration Service of the Russian Federation that Kulmatov holds Russian citizenship. The parliamentarians called for his immediate resignation based on the state service law and criticized President Atambayev for his tacit support of Kulmatov.

Later, representatives of the Kyrgyz government and the General Prosecutor's Office issued a statement that Kulmatov cancelled his Russian citizenship, therefore making the accusations groundless.

In Kyrgyz political circles, Kulmatov is indeed perceived as a trusted associate of President Atambayev. After his unanimous election as new mayor of Bishkek, some local media sources described him as the President's possible successor. Jeenbekov, the opposition parliamentarian, stated that "these speculations are not groundless and this has to do not only with the president himself but with certain Russian political forces as well." In the meantime, Bishkek continues to face a number of problems with regard to its infrastructure and the newly elected mayor promised to deliver certain results within the next 100 days.

On January 15, elections also took place in Osh, the second largest city of Kyrgyzstan. The municipal city council elected the pro-presidential candidate

Aitmamat Kadyrbaev as a new mayor. Many had indeed expected the re-election of the former controversial mayor Melis Myrzakmatov, who during his time in power was in direct confrontation with the national authorities and had personally participated in protest rallies supporting the former parliament speaker Akhmatbek Keldibekov, arrested on charges of financial crimes. A few days after these protests, the Kyrgyz Prime Minister issued a decree firing Myrzakmatov. Local experts claim that the central government was eager to replace Myrzakmatov and this was the right timing.

Immediately after the elections, the defeated former mayor Myrzakmatov stated that “the elections were held completely unfairly and unlawfully, in a way that anyone would despise.” The defeated candidate added that “those who cheated the nation are those who cheated your hopes. That will never bring good results. It will never bring anything good. Those in power should have remembered that.” According to local media sources, up to 10,000 of Myrzakmatov's supporters gathered in central Osh protesting the election results and made attempts to storm the regional administration building. The rally in support of Myrzakmatov dispersed

peacefully, after he asked his supporters not to succumb to provocations and pledged to begin a nationwide opposition movement. During this rally, the former police chief of Osh, Abdulla Kapparov, brought a portrait of President Atambayev and publicly burned it.

According to political analyst Marat Kazakpaev, Myrzakmatov enjoys widespread support in the South and would have easily won popular elections. This in turn presents a problem for the newly elected mayor Kadyrbaev, who took office with thousands of people protesting the election results. Kadyrbaev must indeed focus on resolving the city's socio-economic problems to change public attitudes towards him and gain their support. Kyrgyzstan is in the meantime preoccupied with the possibility of more popular mass protests in the South in support of the defeated Myrzakmatov.

PRESIDENT NAZARBAYEV SETS PRIORITY GOALS UP TO 2050

Georgiy Voloshin

On January 17, Kazakhstan's President Nursultan Nazarbayev made his annual address to the Nation, outlining key government priorities for the upcoming year. Most of his speech was dedicated to the implementation of the "Kazakhstan 2050" strategy that he unveiled in December 2012. An earlier strategy entitled "Kazakhstan 2030" was adopted back in 1997 and subsequently declared largely implemented by the president. In line with Kazakhstan's new strategic course, the country has set out to become one of the world's top 30 developed nations by the turn of this century.

Speaking before an audience comprised of high-ranking public officials, including the heads of the two chambers of Parliament and the Prime Minister, Nazarbayev said that Kazakhstan would seek to maintain annual GDP growth above four percent, after its economy grew by six percent last year. While the country has scaled back its growth expectations due to the diminished prospects of the global hydrocarbon market, it now intends to boost the development of non-extracting sectors. With the number of urban dwellers set to increase by at least 15 percent by 2050, Kazakhstan's small and medium enterprises should account for half the country's GDP by that date, instead of the current 20 percent.

Kazakhstan is also keen to attract more foreign direct investments, bringing their overall share up from 18 to 30 percent of its GDP. According to Nazarbayev, the government should by September 1,

2014, work out a new package of laws regulating the field of venture investments. In this vein, the best practices introduced by members of the Organization for Economic Cooperation and Development (OECD) are likely to serve as the general framework for Kazakhstan's innovative development initiatives.

Since higher education and science were mentioned in the "Kazakhstan 2050" strategy as the core focus areas of the national policy agenda for the next several decades, four cities have been identified by the president as having the potential to become innovation hubs. Besides Astana and Almaty, Kazakhstan's former and present capitals, Aktobe and Shymkent, respectively in the west and south of the country, should receive both public and private funding to develop cutting-edge scientific and technological projects.

In his speech, President Nazarbayev deplored regular shortages of gasoline and aviation fuel in a country widely known for its well-developed oil and gas production industries. Currently, Kazakhstan has three oil refineries on its territory, all undergoing comprehensive overhauls aimed at increasing their production capacity. Last year, the Oil and Gas Ministry already noted that a fourth oil refinery might be constructed by 2025, when the three existing facilities will have become largely incapable of satisfying the constantly growing demand. The president, however, ordered his government to

prepare a detailed plan for the construction of a new refinery by the end of this year's first quarter.

Nazarbayev also said that his country would need to accelerate the construction of a nuclear power plant to generate cheaper and abundant electricity. Previously, Kazatomprom, Kazakhstan's state-owned uranium company, made public its decision to locate the nuclear facility in the country's west. In 1972-1999, a power generation and desalination installation was already in operation in the city of Aktau on the Caspian Sea. However, it has been decommissioned and is currently being closed in stages, waiting for a replacement. Russian, French and American firms are said to be in competition to build a modern nuclear power facility, the exact location of which is yet to be determined.

Furthermore, the president ordered the National Bank to come up with a plan to reduce inflation to some three or four percent annually, although it already amounted to only 4.8 percent last year, due to a less upbeat economic performance. In 2014, Kazakhstan's central bank should also elaborate a state program for the development of the domestic financial sector up to 2030, in a bid to incentivize securities trading and

ensure a better exposure of local companies to potential overseas investors. The first quarter of 2014 should also see the adoption of a comprehensive privatization scheme, in line with Nazarbayev's intention to generate extra budget revenue by downsizing the Samruk-Kazyna sovereign wealth fund and transferring some of its key assets into private hands. Finally, Nazarbayev stressed the importance of enhancing Kazakhstan's transit potential and developing close transport ties with neighboring markets, especially within the Customs Union with Russia and Belarus.

While the extent of Nazarbayev's proposals is ambitious as usual, their actual feasibility is far from certain. They will surely require not only coherent, timely and well-managed policies but also continuous political leadership which may be found lacking in case of a presidential succession. Kazakhstan's freedom of action may further be constrained by its membership in the Customs Union set to become the Eurasian Economic Union as of January 2015 as well as any future turbulence on the energy markets.

GEORGIA'S NATIONAL CURRENCY CONTINUES TO DEPRECIATE

Eka Janashia

2013 saw a significant depreciation of the Georgian national currency Lari (GEL) compared to both the US\$ and the Euro. From the beginning of last year until now, the Lari's exchange rate has dropped against the U.S. and EU currency by over 5 and 7 percent respectively. Georgia's Minister of Finance, Nodar Khaduri, Minister of Economy and Sustainable Development, Giorgi Kvirikashvili, and the President of the National Bank of Georgia (NBG), Giorgi Kadagidze, insist that there is no reason for panic. However, the steady and speedy depreciation of the Lari has already triggered undesirable expectations among consumers and the business sector.

The depreciation of the Lari started in May 2013, when US\$ 1 cost GEL 1.65. In mid-December, the Lari declined by 1.7 percent against the US\$ compared to November, and by 2.8 percent compared to December 2012. The corresponding figures for the fall against the Euro were 3.1 and 7.4 percent respectively. The pace doubled in the middle of January this year when US\$ 1 became equivalent to GEL 1.79 and 1 Euro to GEL 2.44. This is the Lari's lowest rate since 2011. The national currency exchange rate was relatively stable between March 2011 and May 2013.

To curb the Lari's slump, the NBG intervened and sold US\$ 80 million in November, but the measure hardly decelerated the process. If the Lari's depreciation prompts inflation, NBG will replicate its intervention in the market,

Kadagidze said. Georgia has a floating exchange rate intended to stabilize the current economic progressions automatically. Due to the last two years' deflation, the NBG's monetary policy has been mollified but in case of rapid inflation it will get stricter, he said.

Likewise, minister Kvirikashvili declared that the Georgian government discourages unhealthy maintenance of the Lari rate at the detriment of international reserves. The government ensures that NBG holds sufficient reserves, amounting to US\$ 2.82 billion, to stop the depreciation if necessary.

Initially, minister Khaduri assessed the process as a "seasonal phenomenon" related to the New Year activities when the demand for US\$ naturally increases. Later, however, when the Lari continued its depreciation, Khaduri said "the process will be stable and there will not be any difficulties."

Such a general statement instilled fears among ordinary Georgians with a limited hardly grasp of the complexities of the financial market, and the issue triggered multiple speculations about its causes. Some politicians and economists suggest that the process is induced by the government artificially to deal with the imminent deficit in the state budget. A depreciated Lari will help fill the anticipated budget deficit which may fluctuate between 500 million to 1 billion Lari, according to some economic analysts.

Another set of explanations link the depreciation of the Lari to the

unprecedentedly high capital outflow in the third quarter of 2013, to which the government has not adequately responded.

Financial analysts criticizing the country's monetary policy argue that the Lari rate has always been strongly regulated by NBG rather than floating as it is declared officially. Since nearly 80 percent of goods are imported, Georgian currency is closely related to commodity prices. This linkage requires constant intervention into the currency market to eschew speculative attacks on the Lari. Consequently, NBG has regularly intervened to maintain the Lari's value high in relation to other currencies. From this point of view, the ongoing depreciation seems to result from a defective monetary policy which failed to intervene in the currency market and made the Lari vulnerable to speculative manipulations. If depreciation is not stopped in a timely manner, the recovery of the Lari will need more international reserves later, market analysts suggest.

Even critics of Georgia's monetary policy agree that the depreciation of the Lari is a temporary problem and is no reason for panic. Nevertheless, it has already had a negative effect on the country's economy. The prices on fuel and dairy products have increased, and what is worse, the anticipated inflation could further boost the prices of primary food products. This will most negatively affect the socially vulnerable population under the minimum living standards. Another segment that will suffer from the Lari depreciation is those who have loans in US\$ but receive their income in national currency.

However, if Lari purchasing power will continue weakening while prices are increasing, the process will affect all Georgians getting their salaries in Lari.

Moreover, the abrupt depreciation is a negative signal for long-term investment as it provides a less predictable financial environment. Finally, it discourages savings in national currency and stimulates the process of "dollarization."

ARMENIA'S FORMER PRESIDENT ATTACKS PRIME MINISTER

Haroutiun Khachatrian

Armenia's second President Robert Kocharyan presented an unexpectedly harsh criticism of Prime Minister Tigran Sargsyan's economic policy. The attack demonstrates that cooperation between Kocharyan and Armenia's third President Serzh Sargsyan, may be deteriorating.

Late last year, Armenia saw many important events. One of them was Tigran Sargsyan's long press conference

of on December 27, the first in its kind since April 2009. During the event, the Prime Minister commented on the country's economic performance and said the robust growth of the preceding period was mainly due to growth in the construction sector, which he considered to be a bubble. According to Sargsyan, the country needs a more balanced and

diversified economy now that the construction bubble has exploded.

Kocharyan's unexpected reaction came two days later. Kocharyan's presidency (1998-2008) included an interrupted period of rapid GDP growth during the years 2001 to 2007. In an interview with a local information site, Kocharyan presented other reasons for the current problematic situation in the construction sector, primarily negative migration trends and worsened mortgage conditions. During the interview, Kocharyan denigrated the current government using abusive formulations: "...the previous government and ... saucer men should not be blamed for this. The crisis has nothing to do (with them) ... So, there is no possibility here to become free of responsibility ... If the Prime Minister does not understand this, then he has got degradation of his mind ... Probably, we have the case of total harmony of degradation of the mind and the morality. In any case, a bastard prime minister is a luxury for a country," he was quoted to say.

PM Sargsyan presented a non-economic and very polite answer on Facebook. The quoted interview was followed by several other attacks, which often included other officials. Thus, the government's press-service and the office of the National Assembly Deputy Karen Avagyan provided additional responses – which gave rise to a wave of jokes since National Assembly members usually have no special offices in Armenia.

Kocharyan then blasted the recently signed gas agreement between Armenia and Russia and the ongoing pension reform, and some cabinet members got involved in the exchange. Among them was Armen Movsisyan, the minister of

energy and natural resources. The latter has been in office since 2001, and was hence in government during Kocharyan's presidency. Finally, the spokesman of the Republican Party, vice-chairman of the National Assembly Eduard Sharmazanov criticized the former President for the abusive wording in his discussion with PM Sargsyan.

PM Sargsyan has become a close associate of President Sargsyan after his appointment in 2008, when then non-partisan PM Sargsyan entered the president's ruling Republican Party, became a member of its board, and even the party's vice-president. In March 2013, President Sargsyan declared that if the country's GDP does not grow by 7 percent or more per year, then the government must present its resignation. In December, it became evident that GDP growth in 2013 would hardly reach 3 percent, but PM Sargsyan made clear that his government would continue working.

Kocharyan's move was a surprising to most Armenian observers. Judging from outward appearance, Presidents Kocharyan and Sargsyan have normal working relations. Kocharyan attends most events organized by Sargsyan, in contrast with Armenia's first president Levon Ter-Petrossian, the first president of Armenia. Both Sargsyan and Kocharyan are Karabakh-born men and are known to be Russia-oriented politicians. These factors were believed to be a basis of accord between the two, and schemes have even been suggested according to which they could replace each other in a fashion similar to that of

Vladimir Putin and Dmitri Medvedev in Russia.

Kocharyan's accusations against PM Sargsyan were interpreted by many local observers as a bid by Kocharyan to return to the national political scene, whereas he has avoided direct attacks on the incumbent president due to his friendly relations with the latter. A factor substantiating this assumption is that Kocharyan criticizes the government in a fashion very similar to that of opposition. Kocharyan himself has not confirmed these speculations. He is currently a member of the Board of Directors of Sistema, a large Russian company. However, most Armenians remember his

address shortly before the end of his second term when Kocharyan, who turns 60 this year, said he would not become the youngest pensioner in the country.

The exchange with PM Sargsyan still revealed that cooperation between the two presidents is being complicated. This is at least the third instance where Kocharyan has expressed disagreement with President Sargsyan's policies. He said while in office that Armenians and Azerbaijanis are incompatible, whereas Sargsyan has sought to build trust between the two peoples. Kocharyan has later said that he did not agree with Sargsyan's approach to Turkey.