

Central Asia-Caucasus Analyst

BI-WEEKLY BRIEFING

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Central Asia- Caucasus Institute
Silk Road Studies Program

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THE CENTRAL ASIA-CAUCASUS ANALYST

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The Central Asia-Caucasus Analyst is an English language global Web journal devoted to analysis of the current issues facing the Central Asia-Caucasus region. It serves to link the business, governmental, journalistic and scholarly communities and is the global voice of the Central Asia-Caucasus Institute & Silk Road Studies Program Joint Center. The Editor of the Analyst solicits most articles and field reports, however authors may suggest topics for future issues or submit articles and field reports for consideration. Such articles and field reports cannot have been previously published in any form, must be written in English, and must correspond precisely to the format and style of articles and field reports published in *The Analyst* (www.cacianalyst.org) and described below.

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KEY ISSUE: A short 100-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: Field Reports focus on a particular news event and what local people think about the event, or about the work of an NGdO. Field Reports address the implications the event or activity analyzed has 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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KAZAKHSTAN'S BANKING PROBLEMS

Richard Pomfret

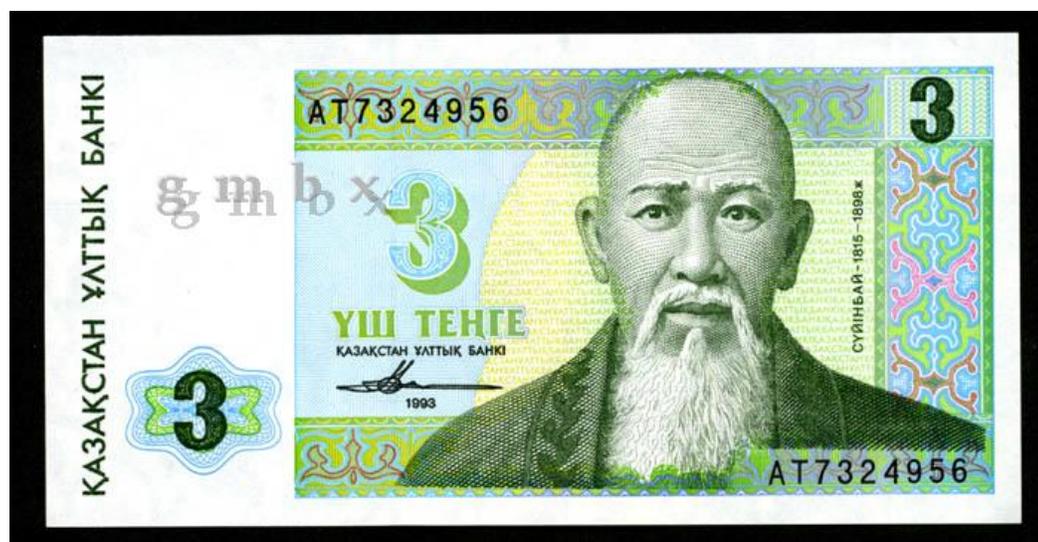
Kazakhstan's banks have been considered one of the country's major successes, but are currently facing serious difficulties. Foreign loans have to be repaid, but bank assets are tied up in loans with longer maturities. The government has begun to help the banks, but at the cost of fuelling inflation. Further help could come from pension funds or the national oil fund, if restrictions on their investments were revised. Will banks face a liquidity or a solvency crisis? If the former, then resources are available to resolve it albeit with some costs, but if the latter, then the country faces a serious challenge to its financial stability.

BACKGROUND: Over the last decade, Kazakhstan's economy has been the success story of Central Asia, with the Snow Leopard achieving East Asian Tiger growth rates. The boom started in 1999 as a rebound from the Russian Crisis, driven by a large devaluation, and has been sustained in the twenty-first century by the oil boom. Many observers have also credited the government with implementing economic reforms in the 1990s that have borne fruit in the 2000s, and with continuing the reform program. Among the jewels of the market-driven economy have been the banks, sometimes claimed to be the most efficient in the CIS, and expanding first into the Kyrgyz Republic, where over 70 percent of the assets of the banking sector are Kazakh-owned, and more recently into Tajikistan.

The resilience of Kazakhstan's banking sector is being tested in 2008 by a major challenge, which in the gloom-ridden international financial setting could turn into a crisis. Integration into global markets offers large benefits but also brings risks, of which one is the increased volatility associated with liberalized financial sectors having access to global capital markets. The problems arose because banks borrowed in international markets at shorter maturities to those

on their loan portfolios. In important aspects, the situation resembles that underlying previous crises, such as the 1997 Thai crisis when Bangkok, like Almaty and Astana in the mid-2000s, experienced a real estate boom. The banks lent to borrowers eager not to miss out in the property market.

After the devaluation, the central bank reverted in May 1999 to a *de facto* exchange-rate anchor. Although there had been fluctuations, the exchange rate in February 2006 was 130 tenge to the dollar, the same as at the end of May 1999, despite strong pressures for currency appreciation. With the expectation that there was little exchange rate risk, banks could make profits by borrowing in international markets at lower interest rates than they could charge eager borrowers at home. By 2006 Kazakhstan's banks were raising large amounts of capital abroad, where the cost of capital was less



than the double-digit interest rates that they could charge borrowers at home. In the first half of 2007 medium- and long-term debt-creating capital inflows more than doubled, largely due to external borrowing by the banking sector.

However, the economy had since 2003 been exhibiting signs of overheating due to demand pressure from large FDI-financed oil investments, fiscal and public sector expansion, and a credit-fuelled private boom. The central bank accumulated foreign exchange reserves, including oil fund assets, amounting to over twelve months of imports by the end of 2006, implying pressure for exchange rate appreciation. A move away from *de facto* exchange rate targeting began in the first half of 2006 and the dollar exchange rate was allowed to appreciate, reaching 120 tenge to the dollar in January 2008, but the net effect is unclear; between January 2006 and January 2008 the tenge depreciated against the euro (from 161 to 188), and to a lesser extent against the ruble (from 4.7 to 4.9).

Signs of stress in the financial sector emerged in 2007 when banks started to compete in making deposits more attractive. At the same time they substantially increased the interest rates on loans, which by the start of 2008 had reached about 20 percent, double the rates of two years earlier. In November 2007, the government provided support of around \$4 billion, targeted at construction projects in danger of being abandoned half-finished, and the central bank raised the official refinancing rate, which had been unchanged at 9 percent since July 2006, to 11 percent. The full amount owed by Kazakhstan's banks to foreign creditors is unclear; according to the *Financial Times*, in October 2007 Kazakh banks' international borrowings totalled \$40 billion, and conservative estimates put the banks' foreign debt due in 2008 at around \$12 billion. International rating agencies began to downgrade their creditworthiness in late 2007. Standard and Poor's downgraded Kazakhstan's sovereign debt to BBB-.

IMPLICATIONS: Among the consequences of the financial sector's problems have been an acceleration of inflation, which had been fairly stable around 7 percent in 2000-5 rising to 9 percent in 2006. Official year to December 2007 change in the consumer price index was 18 percent, but many consumers believe this is an

understatement. Particularly visible in 2007 were the doubling of bread prices and the over 50 percent increase in average house prices in Almaty, but the former was related to world wheat prices and the latter was a symptom of the asset bubble, not a consequence. Nevertheless, the government pumped \$4 billion into the economy in November, and the issue is not whether that was inflationary but by how much.

An indirect consequence is the increased pressure to accept higher tariffs on utilities. Energy generators, for example, need continuous borrowing to upgrade facilities, but with higher interest rates they need to have tariff structures that reflect their costs. As with the higher inflation, higher utility prices will undermine poverty alleviation efforts.

There could be external consequences. Kazakhstan's government has aimed at establishing Almaty as a regional financial center, and has encouraged cross-border expansion by the country's banks. Kazakhstan has also become home country to direct foreign investment in, for example, Georgia. The most exposed country is the Kyrgyz Republic, whose financial sector is dominated by subsidiaries of Kazakh banks and whose economy is most closely tied to demand in Kazakhstan, but the Kyrgyz banking authorities appear to have maintained a higher level of prudential regulation since the 1998 banking crisis, when several Kyrgyz banks went under.

Kazakhstan's banks, and the government, still have cards to play. Some banks are looking for a white knight to help resolve the liquidity crisis or to take an equity stake. The first substantial foreign investment in the banking sector was in November 2007 when the Italian bank UniCredit paid \$2.1 billion for a 91.8 percent stake in ATF Bank, Kazakhstan's fifth largest bank.

Potential domestic sources of financing include the pension funds, the oil fund and the central bank's foreign reserves. The pension funds have accumulated some \$20 billion since the introduction of individual accounts in Kazakhstan's 1997 pension reform. At present these funds are not allowed to have more than 20 percent of their assets in any one company, but there is pressure to raise the ceiling to 30 percent so that the

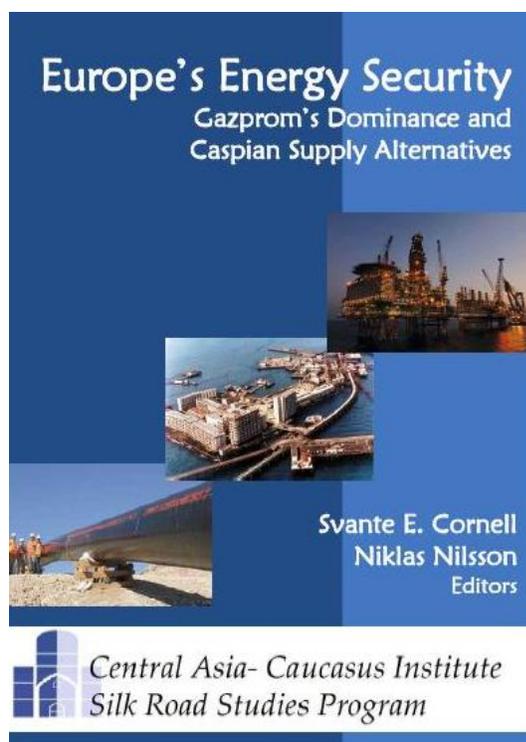
funds can take a larger stake in individual banks. The National Oil Fund also has assets in excess of what is needed to resolve the banks' problems; it accumulated over \$20 billion between its foundation in 2001 and the end of 2007. However, even more than with the pension funds, the oil fund is supposed to invest for the future, mainly taking foreign equity positions, and was not designed to bail-out companies in trouble. Despite rising oil production and prices, Kazakhstan's official reserves fell by over a fifth during 2007, from \$23 to \$18 billion, and these may have been used to assist the banks' foreign obligations.

CONCLUSIONS: As with many incipient financial crises, the ultimate question is whether the banks have a liquidity or a solvency problem. If it is a liquidity problem, sufficient options are available to avoid a crisis, perhaps at the cost of an inflation spike if the government becomes too involved in providing liquidity. Depending on the solutions adopted, other potential costs include undermining of the integrity of pension funds or the oil fund. On the other hand, a brief liquidity crisis which imposed some costs on banks would be a positive reminder that they had lacked sufficient prudence in lending to fuel a property

boom; that should result in a healthier banking sector in the long-run.

If, however, too many of the banks' loans become non-performing and the banks face a solvency crisis, then the outlook is bleaker. That outcome most likely depends upon exogenous factors, above all the price of oil, which will determine the extent to which Kazakhstan's high growth can continue despite blips. With high growth the many building projects in Astana and Almaty, both commercial and residential, will find tenants; the banks' loans based on optimistic projections will be repaid and the banks will be profitable, with cash to lend for future investment. Without high growth many borrowers will be unable to meet their payments; the banks will foreclose on assets of diminishing value, and that will be a financial crisis.

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NATO DEFENSE MINISTERS FIGHT IN VILNIUS OVER AFGHANISTAN

Richard Weitz

The military conflict in Afghanistan dominated the informal NATO Defense Ministers meeting in Vilnius on February 7-8. Although the ministers sought to downplay their differences and highlight their achievements, it quickly became apparent that their governments disagree sharply over how best to promote peace and prosperity in the country. The chaos in neighboring Pakistan has reinforced the urgency of shoring up NATO's commitment to Afghanistan at a time when the Kabul government is losing support among Afghan citizens frustrated by decades of war and poverty.

BACKGROUND: The NATO defense ministers strived to highlight recent progress in the Afghan security and political situation. According to the most comprehensive public opinion poll ever conducted in Afghanistan, however, approval of President Hamid Karzai and his policies remains high among Afghans but is declining.

The recent "Afghanistan in 2007: A Survey of the Afghan People," undertaken under the auspices of the Asia Foundation, involved 6,263 face-to-face interviews conducted by a trained team of 494 Afghan interviewers, of mixed gender and ethnicity, across all 34 provinces. It found that Afghans generally remain optimistic about their country's future. Respondents expressed particular approval of government-funded reconstruction activities. They also endorsed Kabul's policies regarding education, public health, and foreign relations.

But the study also found major sources of dissatisfaction at the national level. These included limited job opportunities in a sluggish economy and pervasive official corruption. At the local level, respondents complained about limited electricity, unemployment, inadequate water supplies, and low literacy rates.

The Afghan National Police and Afghan National Army remain the most popular government institutions, receiving support from more than 80 percent of those surveyed, but less than half of the respondents expressed confidence in the state court system, political parties, or the local militias. Afghan opinions diverged sharply on whether their security was improving, which reflects the influence of local factors (crime rates more than terrorism) on



Lead international forces in Afghanistan (ISAF)

perceptions of public safety.

In January 2008, Dr. Abdullah Abdullah, Afghanistan's Foreign Minister from June 2002 until March 2006, told an audience at the Carnegie Endowment for International Peace in Washington that, "From a situation where President Karzai was supported by an absolute majority of the people, and later on elected by an absolute majority vote, the situation as of now is where the political atmosphere is one of absolute mistrust between the players." Abdullah also spoke of a "growing gap between the government and the people," maintaining that "there is a lot of opposition to the government" even if only few people actually joined the Taliban.

Both Abdullah's assessment and the survey results suggest that the Afghan government's inability to provide essential public services, especially public safety, could create an opening for the local Taliban to establish a kind of parallel public administration. NATO, ISAF, and other international organization and foreign governments can further strengthen Afghan institutions, but the perennial problems the alliance has encountered in making the necessary commitments suggest a potentially worrisome lack of will to sustain the long-term effort required.

IMPLICATIONS: The one point on which the NATO defense ministers agreed was their collective need to provide greater assistance to the beleaguered Karzai government. NATO Secretary General Jaap de Hoop Scheffer urged the member governments to increase their military contributions and other efforts in the country: "The mission demands the sharing of responsibility and risks, but we haven't arrived at that point yet."

NATO took charge of Afghanistan's military security in 2006, when the alliance formally assumed responsibility for the International Security Assistance Force (ISAF) in that country. Since then, alliance members have repeatedly quarreled over the size of troop contingents each should provide, where they should serve, and under what conditions.

ISAF currently has over 42,000 personnel, from 40 nations, including all 26 NATO countries. The U.S. force contingent—which includes both 17,000 service members assigned to ISAF and 12,000 personnel under a separate command dedicated to special counterterrorist missions and training the Afghan Army—is the largest. Britain, Italy, Canada, and the Netherlands have also made major troop contributions, but ISAF commanders continue to complain about shortages in key mission areas as well as about the limitations ("caveats") that the national governments impose on the use of their forces.

Despite repeated pleas by NATO's political and military leaders, many troop-supplying countries refuse to allow their personnel to operate in the more dangerous southern parts of Afghanistan, except in an emergency. At their November 2006 summit in Riga, NATO governments agreed to provide additional ground troops and relax the national caveats

limiting their use, but NATO and U.S. representatives have chastised some European governments for not fully fulfilling their pledges.

Most of the recent controversy has involved the 3,000 German troops deployed in Afghanistan. Along with many other countries that have contributed smaller military contingents, German leaders have adamantly refused to deploy large numbers of their forces to sectors of the country that are experiencing more intense fighting. As a result, the American, British, Canadian, and Dutch



Robert Gates in Vilnius

forces have had to counter the Taliban's resurgence in southern Afghanistan without direct German military assistance.

German officials defend their efforts by noting that its northern sector encompasses 40 percent of the country. Besides the ground force deployments and the anti-terror naval patrols, they also point to their decision to dispatch Tornado Reconnaissance aircraft to Afghanistan last March despite opinion polls showing that over two-thirds of the German respondents opposed the move. Since Riga, German authorities have stressed that, like other NATO troops, their forces remain ready to operate anywhere in Afghanistan in an emergency.

Germans remain divided about their military involvement in Afghanistan. Only one party represented in the Bundestag, the isolated Left Party (Linkspartei), has actually demanded a complete withdrawal. Nevertheless, many influential Germans disapprove of what they see as Washington's overly militarized approach towards resolving the Afghan conflict, which they fear is leading to excessive civilian casualties and alienating Muslim communities in Afghanistan and elsewhere. The German public widely prefers that German soldiers engage exclusively in civic reconstruction and other non-combat missions.

In a February 10 speech at the 44th annual Munich Security Conference, Gates urged that, "The alliance must put aside any theology that attempts clearly to divide civilian and military operations." He warned of the potentially disastrous consequences of such an approach for an alliance of democracies adhering to the principle of collective security: "some allies ought not to have the luxury of opting only for stability and civilian operations, thus forcing other allies to bear a disproportionate share of the fighting and the dying."

The effects of Gates' exhortations will likely become evident only in early April, when NATO holds its next heads-of-state summit in Bucharest. Yet, recent experience is not overly encouraging. Almost exactly one year earlier, on February 11, 2007, the then newly appointed U.S. Secretary of

Defense told the 43rd session of the Munich Security Conference that it would be a "mark of shame" for NATO to fail to mobilize sufficient resources to win the Afghan war: "An alliance consisting of the world's most prosperous industrialized nations, with over two million people in uniform – not even counting the American military – should be able to generate the manpower and materiel needed to get the job done in Afghanistan."

Although the allies pledged at the time to overcome these problems, and some members did subsequently increase their military and economic assistance, the fundamental problems of inadequate overall troop levels, excessive restraints on their employment, and recurring efforts at buck passing rather than genuine burden sharing remain.

CONCLUSIONS: NATO governments and the other major ISAF contributors, such as Australia, are currently debating whether to appoint an international civilian coordinator to better integrate the diverse political and military efforts. For example, the incumbent could serve as a point of contact for the numerous foreign governments engaged in Afghanistan. He or she could also improve coordination among the Provisional Reconstruction Teams and with nongovernmental organizations, which continue to play a major role in Afghan reconstruction.

Until recently, Paddy Ashdown seemed the consensus choice for the position, but the Karzai government vetoed his appointment, probably because the Afghan President feared that such a strong figure would further weaken his authority. Even if a new person gains the job, it is unclear how he or she could induce the recalcitrant allies to considerably bolster their own force contributions at a time when many European publics seem preoccupied with homegrown terrorism and other security concerns.

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THE CHANGING DYNAMICS OF STATE-CRIME RELATIONS IN KYRGYZSTAN

Erica Marat

The new government appointed by Kyrgyz President Kurmanbek Bakiyev following controversial parliamentary elections in December 2007 is comprised of a small group of political leaders whose business interests largely interconnect. About 10-12 high-ranking officials in the president's administration and ministerial cabinet determine the country's entire economic policy and political climate. Meanwhile, unlike before, non-state organized criminal groups and their leaders are no longer able to significantly influence the political domain, thus marking a sizable shift in state-crime relations in the country.

BACKGROUND: State-crime relations in Kyrgyzstan underwent several stages. In the 1990s, both state and non-state actors were able to enrich themselves by using their connections in public structures and the criminal world. The first wave of capital accumulation in Kyrgyzstan allowed local entrepreneurs to profit from the developing market economy, open political climate, and a weak state. Towards the 2000s, non-state actors who had accumulated capital through legal and illegal businesses sought to enter state structures in order to secure continuity of their economic activities. Corruption in state structures was booming, however there was still a clear separation between the political and criminal worlds. Leaders of both worlds interacted whenever their interests met and often conflicted over ownership of businesses.

Such separation into criminal and political domains was disturbed after the regime change in March 2005. The chaotic division of political and economic powers among members of the new government led by Bakiyev, on the one hand, and leaders of organized criminal groups on the other, cost the lives of three parliamentarians and a number of criminal leaders. However, after the death of notorious criminal kingpin Rysbek Akmatbayev in May 2006, state actors no longer felt intimidated by organized crime and were able to act more unconstrained. Then, law enforcement structures in

particular sought to increase their influence over the remaining criminal groups.

The new government formed in two days in December 2007 promoted the most influential political and business figures into top positions. This brass of elite has both political power and controls the main sectors of the Kyrgyz economy – hydroelectric sites, customs controls, and the banking system. All three sectors are interlinked, often being intermeshed with illegal activities such as extortion of businesses, smuggling in drugs and weapons, and intimidation of political opponents. The new Prime Minister, Igor Chudinov, and Minister of Energy Saparbek Balkibekov, are former heads of major state hydroelectric enterprises infamous for their ineffective use of water resources and infrastructure. The profit made in the energy sector is processed through the local banking system controlled by individual public figures. President Bakiyev maintains influential allies controlling the parliament and security structures, including customs controls. These include Kamabarly Kongantiyev, the President's special representative in the parliament, and his brother Moldomusa Kongontiyev, Minister of Interior, one of the most influential ministries.

With such a government, Bakiyev was able to largely reduce the powers of the parliament and curb the activity of civil society activists. The

president was also able to form a circle of close allies with an interest in the continuity of his regime for the longest period possible. Bakiyev's efforts to centralize his regime and curb political opposition is facilitated by public fatigue with mass protests that have often been used as a lobbying instrument by civil society organizations and political opposition leaders.

IMPLICATIONS: In a recent public address, President Bakiyev outlined five points for rehabilitating the Kyrgyz economy in 2008. The privatization of major hydropower sites, KyrgyzGaz, and Kyrgyz Telecom were the president's first stated goals. All of these sectors and enterprises indeed require serious investment. However, any investor must have long-term interests in the country and be able to maneuver in the regional market. There is a risk that these sectors of the economy could turn completely bankrupt should an investor interested mainly in fast revenue be selected, who is unwilling to invest in the reparation outdated infrastructure and management. The transparency of the privatization process is largely in question, as Prime Minister Chudivnov already announced, prior to the parliament's approval, that Russia will invest into KyrgyzGaz. Investors for the remaining sectors are also likely to be predetermined. In effect, the privatization of the last remaining large state enterprises will constitute an informal division of ownership or control within the ruling elite. If deals with foreign investors will be masterminded by a select few top officials, it is likely that the primary beneficiaries will be these same officials, not the national economy. Already now it is obvious that Russia will be the primary investor in the energy sector.

With the government comprised of wealthy and often corrupt officials, much of the significant crime in the country is now conducted by the government as well. For instance, a recent incident with illegal transportation of radioactive cesium-137 particle on a train traveling from Kyrgyzstan to Iran pointed at the involvement of government structures in this alleged smuggling incident. On December 31, 2007,

Uzbek border guards detected the deadly train cargo that was uploaded in Kyrgyzstan and crossed three state borders – the Kazakh-Kyrgyz border twice and the Kyrgyz-Uzbek border once – before being apprehended in Uzbekistan. Kyrgyz security officials have remained largely silent about the incident, as the train compartment with the deadly cargo belongs to a government agency. Another mysterious incident took place in early January when one high-ranking official received a package containing the finger and ear of a dead person. The package warned the official of his cadre politics in security structures that conflicted with the interests of the ruling regime.

Kyrgyz experts believe that the president's younger brother, Zhanysh Bakiyev, with a background in military structures, is a gray eminence in the president's intimidation of political opponents such as this. Zhanysh was allegedly involved in intrigues around the planting of heroin on opposition leader and former speaker of parliament Omurbek Tekebayev. Tekebayev was arrested in September 2006 in Warsaw airport with heroin in his luggage, but set free as authorities concluded it had been planted on him. A Kyrgyz parliamentary commission watched security camera footage from Bishkek airport and discovered evidence, such as a letter from the airport security head saying he had been ordered by Zhanysh Bakiev to plant the heroin. Zhanysh was therefore fired as deputy head of the secret police, while maintaining his innocence.

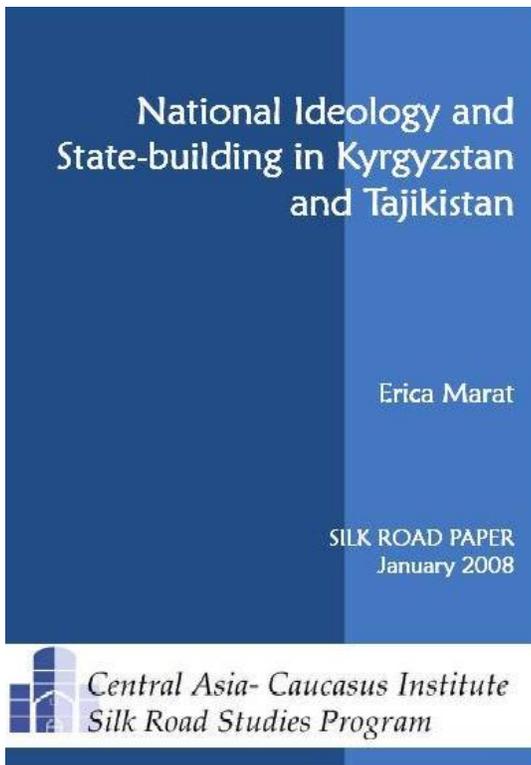
President Bakiyev is unconstrained from implementing his favored policies while the parliament and civil society, earlier the two strongest gears to counter-balance executive power in Kyrgyzstan, are suppressed by the regime. However, Bakiyev is aware of his low public approval ratings and the unlikelihood of their changing upwards anytime soon. The president also knows that should opposition and civil society groups cooperate, they have a proven ability to mobilize masses against his regime in the next parliamentary and presidential elections in 2010.

Yet as it appears presently, the president's closest government allies are interested in the continuation of his regime after 2010. Meanwhile, the inflation rate in 2008 is expected to reach 15 percent or more, and the economy is crumbling. The criminalization of the Kyrgyz state is likely to mean the further suppression of small and medium entrepreneurship in the country along with the political opposition. The Kyrgyz economy is, nevertheless, expected to grow in the short-run thanks to the booming economy in neighboring Kazakhstan, tourism, and remittances by labor migrants.

CONCLUSIONS: Today, about a dozen high-ranking government officials are in control of Kyrgyzstan's major economic sectors. They are not countered by either the parliament or civil society. They are also no longer afraid of intimidation from the criminal underworld, and are able to significantly influence security and law enforcement structures. Future economic policies concerning the remaining state enterprises are likely to be informally redistributed among this limited

group of people. This marks the emergence of a new type of state-crime relationship in Kyrgyzstan, where public figures are responsible for organizing major crimes in the country. Such a state of play has regional implications as well. If Kyrgyzstan's energy sector further deteriorates, neighboring states will suffer from shortages of water and electricity. Kyrgyzstan is also likely to increasingly serve as a transit zone for drug trafficking, with illegal deals possibly brokered at the top levels of government, bypassing law enforcement agencies. As such, Kyrgyzstan is on track to a situation reminiscent of that in Tajikistan where the bulk of Afghan heroin appears to be smuggled by state actors and institutions.

AUTHOR'S BIO: Erica Marat is a Research Fellow with the Central Asia-Caucasus Institute & Silk Road Studies Program Joint Center.



New Silk Road Paper:

*National Ideology and State-Building in
Kyrgyzstan and Tajikistan*

This 99-page Paper discusses the policies adopted, and the challenges confronted, by the weak and multi-ethnic states of Kyrgyzstan and Tajikistan to build national ideologies catering both to the titular nationality and to the inclusion of ethnic minorities.

The Paper can be downloaded free at www.silkroadstudies.org. Hardcopy requests should be addressed to Alec Fors at aforss@silkroadstudies.org.

THE ROGOZIN APPOINTMENT: A SIGN OF CONFRONTATION OR COLLABORATION?

Dmitry Shlapentokh

Dmitry Rogozin, one of the most well-known Russian nationalists, was recently appointed Russia's representative to NATO, a move understood in the West as an unfriendly act toward both NATO and the West in general. Rogozin's statement to Russia's movement against illegal immigration before his departure, and his clear affiliation with the movement, indicate the attitude toward the West of at least a good segment of the Russian elite. It shows that the elite is clearly disappointed with the West's approach to Russia. Still, it is not the West but Asia, especially Muslim Asia, which is seen by the elite as the major threat.

BACKGROUND: Before leaving for Brussels, Rogozin sent a message to DPNI (The Movement Against Illegal Emigration). The message implicitly reconfirms Rogozin's affiliation, at least informally, with the movement and implies that he shares the movement's basic ideological premises. In the message, Rogozin called on the members of the movement to be engaged in the work of officialdom and incorporate themselves in the establishment so as to carry out the ideas of the new movement in Russian life. This statement was not seen as being important either for Rogozin or, implicitly, Russia's approach to the West.

To place the ideology of DPNI in the broad context of Russian society, one should remember that the Russian oil and gas boom has affected a limited number of people and a limited numbers of regions. Even in the big cities, the major beneficiaries of Russian prosperity, there are a considerable number of poor, including some bitter and prone to violence, who are mostly ethnic Russians. Their members are even larger in small provincial cities, which are not affected by oil and gas riches. At the same time, neither small nor big cities have experienced an influx of ethnic Russians from the countryside, as was the case in the first half of the last century during the rapid industrialization process. Today's

immigrants, of different ethnicity, culture, and often religion, often have no desire to be assimilated. In the minds of ethnic Russians, the problems of daily life are often related to these immigrants. The government is seen here neither as a government of "capitalists and landlords" – the view of Russian masses in the 1917 Revolution – nor as a government of Jews – the point of the "red-brown" opposition during the Yeltsin era – but mostly as a government of or for Muslim migrants.

People from the Northern Caucasus are singled out as the major problem. The feeling that the government is actually on the side of the minorities could be easily detected in the Internet discussions concerning those who participated in ethnic riots in Kondopoga and Stavropol. There was even an assumption that the Chechen militias of Ramzan Kadyrov would play a role of janissaries of a sort in the case of a direct confrontation with ethnic Russians. This feeling is spread not only among the marginal poor but also among growing numbers of the Russian middle class, who increasingly appear to embrace the philosophy of "Russia for Russians." And it is this feeling that created the framework for the philosophy of the DPNI and, implicitly, for Rogozin's philosophy. But is this philosophy essentially anti-Western or even anti-American? A

reading of DPNI materials indicates that this is not actually the case.

IMPLICATIONS: Contributors to DPNI's Internet site published a lot of articles that present life in the West in a way quite similar to the way they present life in Russia. Just as in Russia, the white population of the West has increasingly suffered from the flood of immigrants and increasingly assertive minorities. And this has the direst repercussions for 'whites' in Europe and in the U.S.. The white people lose jobs to minorities, are the subjects of endless harassment, and are

hardly get jobs because of affirmative action. Moreover, white Americans live under the constant threat of minority terror. In fact, as one author published on DPNI asserted, any case where a black is killed by a white is seen as racist. At the same time, numerous murders of whites by blacks with clear racist motivation are completely ignored. Both in Europe and the U.S., whites have started to understand that the liberal/pro-minority governments should be replaced by a regime that would implement the slogan of "Europe for Europeans" and "America for White Americans" in the same way as Russians need to create a government that would implement the slogan "Russia for Russians."



Dmitry Rogozin (Kommersant photo)

under attack by minority criminals. The white Europeans cannot do anything because the government is on the side of the minorities. The reasons for this, in their view, are several. To start with, the European elite is debilitated. The intellectual and, in a way, moral degradation of the European elite in the view of DPNI contributors is due to the spread of "political correctness" and similar other liberal or leftist philosophies that prevent Europeans from acting against the minorities' oppression because of the fear of being accused of being racist. The situation is seen as essentially the same in the U.S.. According to contributors to the DPNI site, white Americans can

hardly get jobs because of affirmative action. Moreover, white Americans live under the constant threat of minority terror. In fact, as one author published on DPNI asserted, any case where a black is killed by a white is seen as racist. At the same time, numerous murders of whites by blacks with clear racist motivation are completely ignored. Both in Europe and the U.S., whites have started to understand that the liberal/pro-minority governments should be replaced by a regime that would implement the slogan of "Europe for Europeans" and "America for White Americans" in the same way as Russians need to create a government that would implement the slogan "Russia for Russians."

This essentially pro-European and pro-Western feeling – of course, for conservative and racist-tainted Europeans and Americans – defined Rogozin and, implicitly, the Russian elite's agenda. They regard the present Western foreign policy as inane as their internal policy; inside their countries, the Western governments cater to the interests of the minorities, which are seen as a mortal threat for the West, and persecute the wholesome Western nationalists. They do the same in foreign policy. On the one hand, Western governments once supported Muslim extremists against friendly conservative, racially benign, and Christian Russia. They also do this in Chechnya; and Rogozin, together with a majority of the Russian elite and populace, believe that Islamic extremism and terrorism, in general, is the result of Western encouragement. At present, and here Rogozin follows the line of the elite and most ethnic Russians, the extremists are ready to snatch Kosovo from Orthodox European Serbia and create an Islamic extremist state in the heart of Europe, which would be a source of instability, terrorism and crime. According to these views, when in the

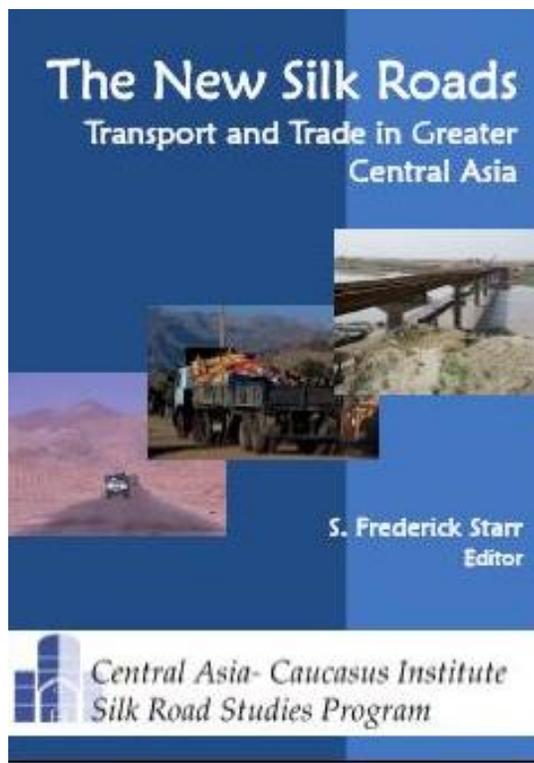
rare cases Western powers go after Islamic extremists as in Afghanistan, they demonstrate their faulty strategy and absolute powerlessness.

While doing their best to undermine the very existence of Western civilization by helping Muslims, the West still blindly sees Russia as its enemy; it was because of this blindness that the U.S. tried to put an anti-missile shield in Eastern Europe and all Western powers pushed considerable plans for including Georgia and even Ukraine in NATO, tightening the noose around Russia's neck, despite the fact that Russia is actually a natural ally of the West as a Christian European nation. Russia would happily embrace the West if it would depart from its inane foreign policy toward Muslims, and related policy toward Russia. In fact, Rogozin, before his departure to Brussels, made a rather conciliatory statement about NATO.

CONCLUSIONS: Rogozin's appointment to the position of Russian representative to NATO led

Western pundits to conclude that Russia has become extremely anti-Western. However, Rogozin's affirmation of his ideological ties with the DPNI paradoxically testifies to the opposite. In fact, DPNI is mostly targeted at Muslims and minorities, whom the members of the DPNI see as the threat for the entire 'White' race, including Russians. They believe that the present Western policy toward Russia is self-destructive as it helps the West's enemies and attacks the friends of the West. The philosophy of Rogozin and the Russian elite groups adhering to these views imply that if the policy of the West would change and rational-thinking conservatives or nationalists would come to power in the West, Russia would be their foremost ally.

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FIELD REPORTS

AZERBAIJANI PUBLIC OUTRAGED BY KOSOVO INDEPENDENCE

Azer Kerimov

As Kosovo announced its independence and a number of countries rushed to recognize its, official Baku has watched with a great deal of concern and suspicion the developments around this Balkan “state.” Many in Azerbaijan are concerned that the independence of Kosovo is creating a very negative precedent for the Nagorno-Karabakh conflict and could potentially result in Azerbaijan witnessing the same fate as Serbia did.

Nine years ago, when the Kosovo conflict erupted, few in the international arena could imagine that Kosovo would eventually become an independent state. Many countries continued to recognize the territorial integrity of Serbia and hoped that the Kosovo issue would not become a unique, but powerful violation of international law and the principle of territorial integrity. The latter is one of the most important pillars of the current nature of the international relations.

However, as the independence of Kosovo became more and more real, countries that have their own domestic conflicts of a similar nature refused to agree with the idea of that secessionist areas can be rewarded with eventual statehood.

Azerbaijani politicians have attempted to downplay the parallels between the Kosovo and Nagorno-Karabakh conflicts. Khazar Ibrahim, spokesman for the Azerbaijani Foreign Ministry, stated to media outlets on February 20 that “Kosovo is an intra-state conflict, whereas Karabakh is an inter-state

conflict.” Others, such as Azerbaijani political analyst Taleh Ziyadov in his article to the Georgian newspaper *The Messenger*, pointed out that the two conflicts are different because Kosovo’s status was guided by a UN resolution, whereas no such specific resolution exists for the Nagorno-Karabakh conflict, except for those resolutions adopted in 1993 calling for the immediate withdrawal of the Armenian military forces from the occupied territories of Azerbaijan.

Nevertheless, despite differences in the nature of the two conflicts, it is clear that the Kosovo case could become a powerful political, if not legal, precedent for the secessionist conflicts in the post-Soviet space. American politicians have rejected these parallels, out of fear that the independence of Kosovo, which official Washington recognizes and supports, could backfire for the settlement of the conflicts in the South Caucasus and ruin the fragile stability in this region.

While in Azerbaijan last year, Daniel Fried, the U.S. Assistant secretary of State for Eurasia, made it clear that the U.S. Administration does not see and will not consider Kosovo as a precedent for any other conflict. On the day when Kosovo announced its independence, the U.S. embassy in Baku issued a statement in which it once again assured the Azerbaijani public that the U.S. recognizes the territorial integrity of Azerbaijan and does not

consider the status of Kosovo as a role-model for the status of Nagorno-Karabakh.

Despite these assurances, a majority in Azerbaijan appears to believe that the West is playing a double-standard game, and that it could, some day in the future, treat the Nagorno-Karabakh conflict the same way. Azerbaijani commentator Vugar Seidov published an article in the Russian website rumbler.ru in which he accused the U.S. of double standards and even drew attention to the press release of the U.S. embassy, in which the latter cautioned the Azerbaijani government from diverting away from the established peace process and using other means to solve the conflict. Seidov called it a “threatening warning.” Such opinions further damage the public standing of the US and the West in general among the Azerbaijani public.

Both the official and non-official rhetoric these days in Baku is that hopes for a peaceful resolution to the Nagorno-Karabakh conflict are all in vain, and that the negotiation process under the umbrella of the OSCE – with the help of Western mediators – are

all fake attempts by the West to steal time. Many call for more hard-line positions in the negotiation process, and others even urge a rejection of Western mediation and a return to the military option for the resolution of the conflict and the restoration of Azerbaijani sovereignty over Nagorno-Karabakh and other occupied territories.

Indeed, as the negotiation process in the Nagorno-Karabakh conflict drags on for year after year, less and less people inside the country maintain their faith in the peace process. Increasing numbers of people believe that the eventual resolution of the issue lies with the military. They urge the authorities to empower the military capability of the country. On the other hand, the principle of territorial integrity, which has been the main argument of the Azerbaijani authorities, seems to be fading and losing its significance. It is high time to start paying attention to other forgotten elements of the Nagorno-Karabakh conflict, such as ethnic cleansing and human rights violations, if official Baku wants to win the case.

TAJIKISTAN – ON THE VERGE OF HUMANITARIAN EMERGENCY

Sergey Medrea

An unprecedented fuel and energy crisis alarms Tajikistan, impelling officials to announce a state of emergency. Prolonged power outages and an unusually long period of extremely cold weather has caused a food shortage. Intensely cold weather is wiping out hundreds of hectares of agricultural crops, leaving many gardens and vineyards desolated by the frost. Damage estimates run in the millions of dollars. While the government is appealing for international help, experts predict that a humanitarian catastrophe is unavoidable.

Rigid power curfews were enforced throughout Tajikistan several weeks ago. If the situation was

severe in early January, the energy crisis is now turning into a considerable humanitarian catastrophe. In the wake of government incompetence, people are left to suffer the harshest winter in recent years. Due to the unfolding crisis, foreign diplomatic missions warned their citizens to postpone visits to Tajikistan.

Most households in Dushanbe have power for ten hours per day, whereas the rest of the country is supplied with energy for less than two hours. In many houses, the sewage system went out of service due to frozen water facilities, leaving many people without household water. The supply of natural gas

to households is also restricted to several hours per day and in some cases it has even stopped altogether, because many people cannot afford to pay for gas after the price hike in late January. Small generators, known as *dvijok*, are one of the few popular ways to have uninterrupted light in the houses. One *dvijok* can generate enough power to have lights in one room and the TV running. This method, however, is quite expensive and requires 1.5 liters of gasoline per hour.

Not only households are on a restricted schedule but also most businesses, which, with the exception of several strategic ones, have had to interrupt work and thus send employees into involuntary, unpaid vacation. This includes small-scale private businesses, restaurants and cafés. Experts estimate the total material damage of the cold weather at approximately \$US250 million.

Tajikistan is paralyzed and plunged into darkness and the power situation does not appear to be improving. With the cold weather and resulting drop in inflow (on February 12, the water level was only 2.5 meters above the critical point), Tajikistan's main hydro station, Nurek, threatens the imposition of more severe energy restrictions to the country.

According to official statistics, approximately 232 newborns died in maternity wards during the last two months, because of the power cuts applied to the hospitals. It is rather uncertain whether "Barqi Tojik", the official power provider for hospitals, will be held accountable for the loss of these lives.

Prolonged cold weather has seriously damaged the agricultural sector. Around 700 hectares of potato fields and vineyards are completely destroyed. Most of the fall's harvest perished in the frost. The acute food shortage and the price hikes this generated are realities of today's Tajikistan, and experts estimate that the food shortage is likely to last for the whole spring until the new harvest. The shortages are particularly damaging in the mountainous, remote districts, where, according to UN information, more than 550,000 people suffer from severe shortage of produce, with 250 needing immediate help.

According to experts, if immediate measures to alleviate the energy shortages are not taken, the energy crisis can become unmanageable and trigger uprisings and riots. Consequently, The Tajik Government has already asked the international community to help alleviate the consequences of the natural disaster brought by the prolonged cold weather conditions and severe energy crisis.



External aid started arriving last week, when Turkmenistan sent eight trucks of diesel oil. During an official meeting with Emomali Rahmon, Iranian president Mahmoud Ahmadinejad agreed to speed up the construction of Sangtuda 2 and to invest in the construction of another small-scale hydro project. The Kazakh ambassador, Erlan Abil'daev, said that Kazakhstan would immediately send wheat, flour, as well as combustive-lubricating material. In addition, the United States sent \$US2.5 million. According to the US embassy news release, these funds will be spent on fuel, heaters, warm clothes and medicine and will be spread among the population. Various International Organizations

such as the UN, Care International and OSCE have also been actively involved.

Spring does not bring much promise. The food shortage will persist, prices for basic goods will rise due to the shortage, and, above all, people have ever

less money, since the biggest part of household income is spent for heating. In the near future, when the thaw begins, there will also be a high level of landslide and flood risk.

UZBEK BANKS: CONTROL OF PRIVATE BANK ACCOUNTS REMAINS

Erkin Akhmadov

In the beginning of February 2008, the press-service of the National Bank of Uzbekistan (NBU) gave an official notice of disapproval regarding an information leak stating that the government's special services inspect bank accounts of citizens receiving funds or remittances from abroad. The statement followed after a number of foreign media sources reported that accounts of the bank's clients were being interfered with. It was then argued that the information sought to destabilize the official money transfer market and reorient it to unofficial and illegal conduits.

The issue came out after several of the bank's clients were denied immediate cash withdrawals from their bank accounts. In effect, tightened control over money transfers to Uzbek citizens has been practiced for several years. The delays and difficulties with withdrawing cash from the bank intensified in December 2007. According to sources in financial circles, the government ordered the "freezing" of accounts of Uzbek citizens receiving transfers from abroad last year "until complete retrieval of information about the sending side". However, local observers claim that the rumors are

false and maintain that the situation is a result of cash-flow problems.

The National Bank has recently tried to boost confidence in banks and encourage people to deposit money by introducing new kinds of bank services

and operations. The proliferation of plastic (debit and credit) cards is one of these strategies. The bank offers its clients international cards such as Visa Classic and Visa Electron, debit Sum cards, overdraft credit cards, IAPA discount cards and Priority Pass. According to the NBU, almost four million out of a population of 28 million now hold plastic cards. Moreover, another service offered allows holders of the plastic cards to pay their utility bills at NBU specialized cashiers and terminals. Credit card



National Bank of Uzbekistan

emission rise for organizations' employees in the framework of salary projects, realization of regional complex programs with transfer of retail payments into cashless settlement using plastic cards, establishment and launch of ATMs and offering clients interactive services are all among the prospective directions in development of the bank services offered.

In addition, the NBU offers a wide range of deposit checking. Opening a deposit checking in foreign currency would allow for money transfer to any part of the world, in national currency – to pay for goods and services inside the country. All the money resources on the checking accounts are guaranteed by the “Citizens’ Bank Account Guarantee Fund”. Money transfer services are also within the system of the NBU services, with more than a hundred centers using the systems of Western Union, “Aziya Express”, “Contact” and “Migom”.

In March 2007, the president, perhaps out of concern with the growing discontent among bank clients, suspended the validity of an earlier decree empowering the prosecutor general to require state-owned and commercial banks to hand over information on the financial transactions of their clients. In November 2007, another decree was issued, designed to encourage Uzbeks to have more confidence in the privacy of their bank accounts. In January, the authorities launched electronic internal bank transfers for the first time and increased the number of cash machines.

With all the new services offered and decrees enforced, the secret services and their representatives within the banks still pay special attention to any money transfers exceeding

\$US1,000 sent to Uzbekistan from the U.S., Europe or from the addresses of representative offices of foreign organizations in neighboring countries,” said a clerk of the NBU. Furthermore, the new order enforced in the NBU requires that a client must present a number of documents as well as a written request addressed to a bank official, requesting to receive the sum transferred to his bank account. If he successfully proves that the funds transferred to his account are not a grant and do not present any other “suspicious” funds, he will be able to withdraw cash from his account within two to three days. This procedure contributes to a gross violation of bank operation rules, which normally guarantees confidentiality of accounts and balances, as well as immediate withdrawal of deposits and transfers upon a client’s request.

Control and inspection of private bank accounts may be permissible in cases when there is a direct threat and fear of external involvement in, or assistance to, certain “developments” in the country. That was allegedly the case in Ukraine and Kyrgyzstan. Thus, in Uzbekistan where security issues are of high priority, it appears that all the means are justified. The only question is to what extent the banks should be involved in supporting state affairs, affecting the interests and rights of their clients?

IMPLICATIONS OF PETROL PRICE INCREASE IN TURKMENISTAN

Chemen Durdiyeva

On February 8 2008, Turkmenistan’s president Gurbanguly Berdymuhammedov held an extensive Cabinet session where the major courses of Turkmenistan’s economic reform were discussed. One of the key issues was a petrol price shake-up that promptly caught the population’s attention and caused a nationwide panic among car drivers.

President Berdymuhammedov has put significant efforts into reforming the country’s economic and trade sectors in order to make them correspond to international standards and to move toward a market economy. Mr. Berdymuhammedov recently embarked on a project designed to conduct financial reforms by establishing a single exchange rate and declaring a currency denomination starting from

2009. As a part of his Cabinet speech, Mr. Berdymuhammedov spoke of developing a private sector by giving the growing businesses more incentives, such as tax relief and low interest rate loans. However, many wonder why the president would increase the price of petrol by a factor of almost ten while salaries remained unchanged.

Under the state welfare program, the population of Turkmenistan has consumed natural gas, electricity, salt and drinking water free of charge and petrol prices have been next to nothing. At the Cabinet meeting on February 8, Berdymuhammedov put an end to the old system of petrol trade by signing a new plan devised by his deputy prime minister for the oil and gas sector, Tachberdy Tagiyev. Starting from February 11, one liter of petrol costs between 2,800-3,100 manats, equivalent to 15-20 U.S. cents. Previously, one liter cost 1,5-2 cents (cheaper than a glass of soda), ten times under the newly established prices.

Despite the new price hike, the price of petrol is still significantly lower than in neighboring countries, let alone international rates. However, it strikes hard in the pockets of ordinary drivers and the general population. Upon hearing the news on February 8, car drivers hurried to petrol stations the next day, forming lines of several hundred meters, in an attempt to store extra petrol before the new rule took effect. Transportation prices in central cities and for intercity routes almost doubled. The symbolically low prices remained unchanged only for the government-subsidized transportation services in the capital city, Ashgabat. Similar buses for public transportation have long been anticipated in other cities around the country but have yet to appear. The radical shift to change the price has also caused a price increase for common consumer goods and most of the manufactured goods in the market.

The new regulation was met by muted but aggravated reactions. The people who used to pay almost nothing for petrol received the ten-fold increase with disbelief. A series of random interviews held among different layers of local society revealed that the majority of the population is disappointed with the reformist policies of the government. Some are hesitant to criticize the move, and regard the decision to stop a massive illegal flow of petrol and smuggling in other oil products into the neighboring countries as correct. As stated by petrol station employees, the increase in the price of petrol and diesel fuels will also affect the foreign heavy load trailer truck drivers who have benefited from low-priced refueling on their transit route through Turkmenistan.

In order to mitigate heavy resonance from the price hike, the authorities simultaneously introduced a system of rationing by establishing a quota of free petrol for Turkmen citizens. Consequently, car drivers are entitled to receive 120 liters per month, while trucks, buses and tractors receive 200 liters, and all types of motorcycles 40 liters of free petrol. Anything beyond the fixed allowance will be sold at the new price rates. The monthly allowance is given by issuing car owners with special coupons, which are distributed and obtained through the country's banks. However, obtaining the coupons for 120 liters of free petrol has already caused irritation among drivers. First, drivers complain that the allocated monthly amount is insufficient. Secondly, due to the limited number of banks in the smaller districts of the country, thousands queue to acquire the daily coupons, causing many drivers to give up their entitlement for a free allowance.

NEWS DIGEST

U.S. AMBASSADOR CRITICIZES KYRGYZ CONSTITUTION AS 'STEP BACKWARD'

8 February

In a statement in Bishkek, U.S. Ambassador to Kyrgyzstan Marie Yovanovitch on February 8 criticized the Kyrgyz Constitution as "a step backwards" in contributing to a "policy of decentralization of power." Speaking during a conference on local self-government, Yovanovitch explained that "the new Kyrgyz Constitution is a step backwards in this area," adding that "instead of directly electing" local leaders, the new constitution will allow the president to freely appoint and dismiss district-level officials, which "undermines the notion of local governance itself." She went on to add that "experience shows that without an effective control on the part of the public, the vertical chain of power increases the likelihood of making bad decisions." Instead, the ambassador affirmed that the United States hopes that draft laws on self-government, and administrative and territorial arrangements will address this problem and "clearly divide the functions of the local and central authorities." (www.24.kg)

ARMENIAN PRESIDENTIAL CANDIDATE COMPLAINS TO CONSTITUTIONAL COURT

8 February

Former President and opposition presidential candidate Levon Ter-Petrossian wrote on February 7 to Armenia's Constitutional Court complaining of "insurmountable obstacles" created by the authorities to his campaign for the February 19 presidential ballot, RFE/RL's Armenian Service reported on February 8. He mentioned specifically the negative coverage he has received over the past three months from Armenian State Television. Ter-Petrossian formally asked the court to remove those obstacles. The election law stipulates that the existence of such obstacles necessitates postponement of the ballot by two weeks. If after that time the obstacles have still not been removed, new elections must be scheduled after a 40-day interval. (RFE/RL)

LONG LINES REPORTED IN TURKMENISTAN IN PREPARATION FOR GASOLINE PRICE HIKE

9 February

For the first time in a decade, drivers in Turkmenistan on February 9 waited in long lines at gas stations in an attempt to stock up on gasoline prior to a planned price increase set to be introduced on February 11. According to the terms of a presidential decree introduced on February 8, gasoline prices are to increase by some eight times, from the current level of about 400 manats (\$.02) per liter to 3,100 manats (\$.15), although drivers will also be provided with a monthly coupon-based allowance of 120 free liters of gas. The monthly ration system also provides 200 liters of free gas to drivers of trucks and buses, and 40 liters for motorcycle owners. (Itar-Tass)

TAJIK PRESIDENT CONCLUDES STATE VISIT TO IRAN

10 February

After meeting with Iranian President Mahmud Ahmadinejad and Supreme Leader Ayatollah Ali Khamenei, President Emomali Rahmon on February 10 concluded a two-day state visit to Iran. Speaking to reporters at a press conference in Tehran following his meeting with the senior leadership, Rahmon said that Ahmadinejad proposed to construct a new hydroelectric power station in southern Tajikistan. He added that his talks with the Iranians focused on expanding bilateral cooperation in the areas of "transport, energy, joint investment, and culture." The Tajik delegation also reportedly reiterated the need for the "speeding up" of the Iranian construction of the Sangtuda-2 hydroelectric power station, warning of a recent energy crisis involving a serious decline in the availability of electricity in Tajikistan. (Asia-Plus)

AZERBAIJAN TO RAISE PRICE FOR NATURAL GAS

11 February

Azerbaijan has no choice but to raise the price it charges for natural gas to bring it into line with world prices, Industry and Energy Minister Natiq Aliyev

told journalists in Baku on February 11. Aliyev noted that Azerbaijan currently charges \$120 per 1,000 cubic meters of gas, but plans to raise the price to between \$180-\$200. He said the price Georgia will be charged for gas supplies in 2008 is currently under discussion; Georgia receives approximately 1.3 million cubic meters of gas per day from the offshore Shah Deniz field. Similar talks will also be started with Turkey. Russia's Gazprom last month registered an interest in buying gas from Shah Deniz, but those purchases would begin only when the second stage of exploitation gets under way, which is unlikely before 2012. (day.az)

ARMENIAN CONSTITUTIONAL COURT CALLS FOR ACTION ON ELECTION OBSTACLES

12 February

Armenia's nine Constitutional Court judges convened on February 11 to discuss the formal complaint lodged four days earlier by former President and opposition presidential candidate Levon Ter-Petrosian, RFE/RL's Armenian Service reported. Ter-Petrosian alleged insurmountable obstacles to normal election campaigning, specifically the overwhelmingly negative coverage of his political activities by state-controlled Armenian Public Television. In the event that such obstacles are not removed, election legislation requires the postponement of the election by two weeks. The court ruled after four hours of discussions that while Ter-Petrosian's complaints were "legitimate" and require action by the regulatory National Commission on Television and Radio and by the Central Election Commission, the actions he cited do not constitute an insurmountable obstacle to his campaign, and there are therefore no grounds to postpone the election, which is scheduled for February 19. (RFE/RL)

RUSSIA POLICE SAY FOUR KILLED IN CLASH WITH REBELS

12 February

Three insurgents and a security officer died in a shootout in Russia's volatile province of Dagestan on Tuesday, Russian media quoted police as saying. The incident took place at dawn in the Babayurt district in central Dagestan after police and Federal Security Service (FSB) agents blockaded a group of rebels inside a private house. Police suggested to the rebels they give themselves up, RIA news agency quoted a Dagestani police statement as saying. "But in return, the bandits threw grenades at the law enforcement officers, after which they opened fire," the statement said. A local FSB chief was killed and three policemen were wounded, it said. Three rebels were killed after

security agents returned fire, the news agency reported. (Reuters)

FOREIGN MINISTER PLAYS DOWN IRANIAN MISSILE THREAT

13 February

Foreign Minister Sergei Lavrov said in Geneva on February 12 that Iranian missiles do not pose a serious threat to Europe. He argued that "[our] position is based on facts, and the facts are that Iran, which [Washington calls] the main source of threat to Europe and the United States, simply does not have and will not have missiles from which one has to protect itself in the long term." Lavrov added that "even if the Iranian authorities have such plans [to build long-range missiles], they will not be able to implement them within 10 years, let's say. That's why we think it is excessive to adopt such measures that have been planned by the United States to ward off nonexistent threats." (RFE/RL)

CONTROVERSIAL GEORGIAN BUSINESSMAN DIES IN ENGLAND

13 February

Wealthy Georgian-born businessman Badri Patarkatsishvili died suddenly at his home in Surrey, southwest of London, late on February 12 at the age of 52, Georgian media reported the following day. Initial reports attributed Patarkatsishvili's death to heart failure, but his family have requested an autopsy and exiled Russian oligarch Boris Berezovsky was quoted on February 13 as saying that British police have opened an investigation. Georgian President Mikheil Saakashvili last fall accused Patarkatsishvili, who is wanted in Russia on criminal charges, of conspiring with Russian intelligence and Georgian opposition parties in a bid to overthrow the Georgian leadership; the Georgian Prosecutor-General's office later brought formal charges against him of plotting a coup and a political assassination. Patarkatsishvili registered in absentia as a candidate in the January 5 preterm Georgian presidential election and placed third with some 7 percent of the vote. (RFE/RL)

GEORGIAN GOVT READY TO FULFIL NUMBER OF OPPOSITION'S DEMANDS

14 February

Georgian government is ready to fulfil a number of demands set forth by the country's political opposition, parliament speaker Nino Burzhanadze said Thursday. "The authorities have drafted a memorandum that takes account of almost all the questions raised by the opposition," she said. Burzhanadze claimed that the government has made some drastic steps to reach agreement with the oppositionists. "I hope the

opposition forces will respond to the memorandum adequately and this will make it possible to have a normal pre-election process /meaning the parliamentary election/," she said. Burdzhnadzze promised that the government will release from jail all the people arrested in the wake of mass disturbances that rocked the capital Tbilisi November 7 last year. "If we do reach agreement, the election system will be changed and the opposition will have guaranteed presence on the electoral commissions of all levels to control the election procedures," she said. "We propose setting up a special agency for the solution of electoral disputes and to staff it on the grounds of parity between the government and the opposition," Burdzhnadzze said. She also promised that a contest for forming the board of trustees at Georgia's Public Television will be over by February 21 and "this board will elect the channel's director general shortly after that." At the time of reporting, it was still unknown how the opposition leaders had reacted to Burdzhnadzze's statement. "If the authorities fail to meet the opposition's demands, permanent peaceful actions will begin in Tbilisi February 15 and they will end with a change of state power," a spokesman for the opposition said. "If the demands are heeded, we will hold the meeting February 15 but it will end the same day," he said. (Itar-Tass)

KAZAKH SPACE AGENCY CHIEF REITERATES DEMAND FOR REDUCED RUSSIAN ROCKET LAUNCHES

16 February

Talgat Musabaev, the head of the Kazakh national aerospace agency, Kazkosmos, announced on February 16 that Kazakhstan is ready to consider Russian proposals on the number of Proton rocket launches from the Soviet-era Baikonur Cosmodrome that Moscow leases from Kazakhstan for some of its space launches. Musabaev said that he expects the Russian proposal to introduce a "gradual reduction" in the number of planned launches of rockets utilizing the toxic heptyl rocket fuel. He also reiterated Kazakhstan's "principled position" of demanding "at least some reduction in the number of launches" by the second half of 2008. In December, Anatoly Perminov, the head of the Russian Space Agency, promised that Russia would reduce the number of Proton rocket launches. The Kazakh demand for fewer launches of the rockets stems from the September 2007 crash of a Russian rocket, which caused considerable environmental damage from falling debris and subsequent contamination from the Proton's fuel. Two other Proton rockets crashed at Baikonur in 1999, leading to the imposition of a suspension on all launches at that time. (Interfax-Kazakhstan)

GEORGIA GIVES "NOTE PROTEST" TO RUSSIAN AMBASSADOR OVER RF FM STATEMENT

16 February

Russian Ambassador to Georgia Vyacheslav Kovalenko was summoned to the Georgian Foreign Ministry on Saturday to receive "a note of protest" in connection with the Russian Foreign Ministry's statement made on Friday. Earlier, Foreign Minister David Bakradze told journalists, "The Foreign Ministry of Georgia will demand official explanations from the ambassador of the Russian Federation regarding the February 15 statement of the Russian Foreign Ministry." "We are continuing to take steps to build good-neighbourly relations with Russia, but these relations will not be built at the expense of the territorial integrity of Georgia." "This is not a statement of a political or a political group. This is a statement made on behalf of the Russian executive authorities. We would like to express our profound concern over the statement of the Russian Foreign Ministry," Bakradze said earlier, commenting on the Russian Foreign Ministry's statement. "Georgia wishes to have neighbourly relations with Russia and is taking many steps to improve these relations," the minister said. "However, everyone should know that speculations over Kosovo or any other subjects, as well as any steps in violation of the Georgian territorial integrity will lead the Georgian-Russian relations to a very serious and deep political deadlock." The Russian Foreign Ministry said on Friday that Moscow would have to bear in mind a possible proclamation of Kosovo's independence in its policy with regard to Abkhazia and South Ossetia. The statement was made after a meeting between Russian Foreign Minister Sergei Lavrov and the Abkhazian and South Ossetian leaders. "The proclamation and recognition of independent Kosovo will certainly have to be considered in connection with the situation in Abkhazia and South Ossetia. At the same time, Russia reaffirms its invariable commitment to assist in the peaceful settlement of the Georgian-Abkhazian and Georgian-Ossetian conflicts within the existing formats and opposes any attempts to resolve the problems by force," the ministry said. (Itar-Tass)

SAKASHVILI CALLS FOR SETTLING RELATIONS WITH RUSSIA

16 February

Georgian President Mikhail Saakashvili called for "settling Georgian-Russian relations". Speaking at a meeting with governors in Tbilisi on Saturday, Saakashvili said, "We want all issues of bilateral Georgian-Russian relations to be solved in a civilised

and friendly manner, but we won't allow anyone to call the territorial integrity of Georgia into question." According to Georgian laws, "All people living in the Abkhazian and Tskhinvali districts are citizens of Georgia, and we have constitutional rights and obligations to take care of them and protect their rights," Saakashvili said. He stressed, "The people and authorities of Georgia will never allow any part of the country to be separated." (Itar-Tass)

SAAKASHVILI DISPLEASED BY LAVROV'S MEETING WITH ABKHAZIAN, SOSSETIAN LEADERS

16 February

Georgian President Mikhail Saakashvili expressed displeasure with a meeting between Russian Foreign Minister Sergei Lavrov and the leaders of Abkhazia and South Ossetia in Moscow. Commenting on the meeting, Saakashvili said "the granting of Russian citizenship to residents of the Abkhazian and Tskhinvali regions on a mass scale was unlawful". In his words, "No country, including Russia, may legalise the citizenship of residents of any part of our country without the consent of Georgian authorities". "Under Georgian laws, all people living in the Abkhazian and Tskhinvali districts are citizens of Georgia, and this is why we have constitutional rights and obligations to take care of them and protect their rights," Saakashvili said. He stressed, "The people and authorities of Georgia will never allow any part of the country to be separated." Saakashvili called for "settling Georgian-Russian relations". "We want all issues of bilateral Georgian-Russian relations to be solved in a civilised and friendly manner, but we won't allow anyone to call the territorial integrity of Georgia into question," the president said. (Itar-Tass)

KYRGYZ OFFICIALS EXPRESS CONCERN OVER HATE CRIMES TARGETING KYRGYZ NATIONALS IN RUSSIA

18 February

Following the slaying of a Kyrgyz citizen in Moscow on February 16, Kyrgyz National Security Council Secretary Tokon Mamytov expressed concern on February 18 over recent hate crimes targeting Kyrgyz nationals living in Russia. In a telephone conversation between Mamytov and his Russian counterpart, acting Russian National Security Council Secretary Valentin Sobolev, Sobolev promised that Russian authorities are ready to ensure the security of Kyrgyz nationals and noted that the Russian law enforcement agencies are actively investigating the recent killings of Kyrgyz citizens in Russia. Adding that the Russian authorities are undertaking "all necessary measures" to prevent such incidents in the future, Sobolev further stated

that such hate crimes also "damage the interests of Russia's national policy" and pledged "to provide all possible support to Kyrgyz nationals who work and live in Russia." In a subsequent telephone conversation with Mamytov later that day, Russian Interior Minister Rashid Nurgaliev said that he is assuming "direct personal control" of the investigation into the recent killings. During the last month alone, five Kyrgyz nationals were slain in Moscow and St. Petersburg. The leader of the Kyrgyz nongovernmental organization Demo Lux, Kanybek Abdykadyrov, also announced on February 18 plans to stage a public rally outside of the Russian Embassy in Bishkek in the coming days to protest the killings of Kyrgyz nationals in Russia. Abdykadyrov explained that the planned rally seeks to "draw Russia's attention to murders of our nationals in Russia." (akipress.org)

IRAN IMPORTS GAS FROM AZERBAIJAN TO MEET SHORTAGE

18 February

Iran has begun importing 1 million cubic metres of natural gas per day from Azerbaijan, an Iranian news agency said on Monday, in an apparent move to help compensate for shortages caused by a cut in Turkmen deliveries. The supplies will be in addition to a daily 1.1 million cubic metres of Azeri gas deliveries for transit through Iran to another part of Azerbaijan, said Ebadollah Ghanbari, a spokesman for the National Iranian Gas Company. He told ISNA the new gas imports from Azerbaijan started 20 days ago and were being used to meet a shortage in parts of northwestern Iran, while the country would pay the same price as that paid to Turkmenistan. But Ghanbari said the supplies from Azerbaijan were not intended to replace deliveries from Turkmenistan, which stopped its daily exports of 23 million cubic metres to Iran in December at the height of the cold season, citing technical problems. Iranian officials have suggested Turkmenistan's real aim was to raise the price of its gas and voiced anger at the cut, which led to criticism of the government in the north of Iran where supply shortages were felt. Ghanbari said Turkmenistan had not as yet resumed its deliveries but that the NIGC was reviewing the Central Asian republic's new price proposals. Despite having the world's second largest gas reserves after Russia, Iran has been unable to fully meet domestic demand and depends on imports to do so. Analysts blame the sector's slow development on politics, sanctions and construction delays. (Reuters)

GRYZLOV, BAGAPSH, KOKOITY DISCUSS KOSOVO'S INDEPENDENCE

18 February

State Duma speaker Boris Gryzlov met the presidents

of breakaway republics of Abkhazia and South Ossetia, Sergei Bagapsh and Eduard Kokoity, on Monday for talks on possible consequences of the proclamation of Kosovo's independence. The meeting was held on the initiative of Abkhazia and South Ossetia, the State Duma department for public relations and interaction with mass media reported. Gryzlov told the presidents about the Russian parliament's statement on the consequences of the self-proclamation of Kosovo's independence. "The recognition of Kosovo as an independent state will create prerequisites for building up a new format of relations between Russia and the self-proclaimed states in the area of Russia's interests, primarily on the post-Soviet space," Gryzlov said. Bagapsh and Kokoity stressed, "The peoples of Abkhazia and South Ossetia highly appreciate Russia's weighty approach and its contribution to ensuring peace in the conflict areas." (Itar-Tass)

WHO OFFICIAL TO ISSUE URGENT APPEAL FOR AID FOR TAJIKISTAN

19 February

Marc Danzon, a regional director of the World Health Organization (WHO), arrived on February 18 in Dushanbe to conduct a tour of the country in preparation for an appeal for urgent aid to help alleviate the effects of its severe energy crisis. Briefing Danzon, the local WHO representative in Tajikistan, Santino

Severoni, warned that roughly 50 percent of medical facilities in the country are currently experiencing serious shortages of water and electricity. Deputy Health Minister Sohob Rahmonov also noted that the shortage of electricity has contributed to "a tendency towards an increase in acute respiratory diseases among children." The local representative of the UN's World Food Program, Zlatan Milisic, also highlighted the fact that about 50 percent of the Tajik population is now suffering from malnutrition, with "over half of their earnings" being spent on food as prices continue to soar. (Asia-Plus)

GE, KAZAKHSTAN IN JOINT LOCOMOTIVE PROJECT

19 February

General Electric Co. will start production of new diesel-powered locomotives in the Central Asian state of Kazakhstan before the end of the year, its local partner said on Tuesday. GE and Kazakh state railway company Temir Zholy will finish construction of a \$125 million plant by mid-2009 to produce Evolution Series models this year, and invest more than \$600 million in production equipment, the Kazakh firm said. The plant will help Kazakhstan, a rapidly

growing oil economy and a country that is the size of Western Europe, upgrade its Soviet-era railway vehicles as it aspires to become a major transportation hub linking Asia and Europe. (Reuters)

ARMENIAN, KARABAKH, AZERBAIJANI OFFICIALS REACT TO KOSOVA INDEPENDENCE

19 February

The Armenian Foreign Ministry said on February 18 that it is monitoring international response to the previous day's declaration by Kosovo of its independence from Serbia, and will not comment for the time being, RFE/RL's Armenian Service reported. Speaking in Yerevan on February 16, Karabakh-born Armenian Prime Minister Sarkisian, widely regarded as the likely winner of the February 19 Armenian presidential election, said international recognition of Kosovo's independence would create "a rather favorable position for us" insofar as if other countries recognize the independence of Kosovo but then fail to recognize that of Nagorno-Karabakh, "we'll think of double standards," Reuters reported. In Stepanakert, capital of the unrecognized republic of Nagorno-Karabakh, parliament speaker Ashot Ghulian told RFE/RL's Armenian Service that what is currently happening in Kosovo parallels developments in Karabakh in September 1991, when the Karabakh parliament adopted a declaration of its independence from Azerbaijan in accordance with the provisions of the USSR Constitution; the Karabakh population then voted three months later overwhelmingly to support that independence declaration. Ghulian said international recognition of Kosovo "could create some kind of precedent." Asked whether the NKR will formally recognize Kosovo, Ghulian said that "nothing should be ruled out. But I think the discussions going on in international organizations right now will allow us to make the right decision." In Baku, Azerbaijani Foreign Ministry spokesman Xazar Ibragim branded Kosovo's unilateral declaration of independence from Serbia illegal and a violation of international legal norms, day.az reported on February 18. He further argued that there are numerous differences between the conflicts in Kosovo and Nagorno-Karabakh, the former being an internal Serbian conflict and the latter an international one. (RFE/RL)

RUSSIA'S GASPROM GETS KYRGYZ GAS FIELD LICENSES

20 February

It produces about 70,000 tonnes of oil and 30 to 40 million cubic metres of gas a year, but the government says there are sizeable unexplored hydrocarbon

reserves. Kyrgyzstan awarded Gazprom exploration licenses on Wednesday for two oil and natural gas fields and invited the Russian gas monopoly to buy stakes in its state-owned companies. Gazprom said it would invest up to \$300 million to develop the Central Asian nation's fields within the next four years. "We were given exploration licenses today," Gazprom Chief Executive Alexei Miller told reporters after meeting Kyrgyz Prime Minister Igor Chudinov in the capital Bishkek. "During the second stage Gazprom will invest about \$300 million into Kyrgyzstan." Chudinov said the government had also invited Gazprom to take part in the planned privatisation of two state-owned oil and gas companies -- Kyrgyzgaz and Kyrgyzneftegaz. Kyrgyzstan, an impoverished ex-Soviet nation, depends on gas supplies from neighboring Uzbekistan. Miller said the country might be able to meet domestic demand with its own output in several years with Gazprom's help. Kyrgyzstan, more known for its metals reserves, remains a small player on the Central Asian energy market dominated by oil-rich Kazakhstan and major gas exporter Turkmenistan. It produces about 70,000 tonnes of oil and 30 to 40 million cubic metres of gas a year, but the government says there are sizeable unexplored hydrocarbon reserves. (Reuters)

RUSSIAN CONTRACTOR WINS TENDER FOR PORTION OF TURKMENISTAN-CHINA GAS PIPELINE

20 February

Turkmenistan has awarded Russian contractor OAO Stroytransgaz the contract for building the local section of a major natural gas pipeline to China, the official newspaper Neitralny Turkmenistan reported Tuesday. The report did not state the value of the contract for the 188-kilometer (117-mile) section leading from the Malai gas field in the east of the country to the border with Uzbekistan. The entire 1,820-kilometer (1,130-mile) pipeline is to cross Uzbekistan and Kazakhstan before connecting with another pipeline in northwest China. The pipeline, with a planned annual capacity of 30 billion cubic meters (39 billion cubic yards), is a major move by Turkmenistan to expand and diversify its gas business. Currently, most Turkmen gas exports through pipelines crossing Russia, mostly in transit to other countries including many in Western Europe. Turkmenistan also exports gas to Iran. Turkmenistan has the second-largest natural gas reserves in the former Soviet Union after Russia, estimated at some 2

trillion cubic meters (2.6 trillion cubic yards) at least. (AP)

SERGEY SARKISYAN ELECTED PRESIDENT OF ARMENIA

20 February

Prime Minister Serge Sarkisyan has been elected new president of Armenia, said Garegin Azaryan, head of the Central Electoral Commission of Armenia, after processing 100 per cent of ballot papers. Sarkisyan got 52.86 per cent of votes. (Itar-Tass)

THOUSANDS PROTEST OVER ARMENIAN ELECTIONS

20 February

Thousands of protesters gathered in Armenia's capital on Wednesday claiming a presidential election was rigged to hand victory to Prime Minister Serzh Sarkisyan, but Western observers called it broadly fair. Sarkisyan has promised to continue the policies of outgoing President Robert Kocharyan, his close ally. The new leader's biggest challenges will be a simmering territorial conflict with neighboring Azerbaijan and frozen ties with Turkey. Sarkisyan took 52.86 percent of the votes, the Central Election Committee said, giving him enough to win outright in the first round. Nearest rival Levon Ter-Petrosyan, Armenia's first president after independence from the Soviet Union, had 21.5 percent. "Yesterday's presidential election in Armenia was conducted mostly in line with the country's international commitments," observers from the Organization for Security and Cooperation in Europe (OSCE) said in a statement. "Further improvements are necessary to address remaining challenges," it added. Earlier, Kocharyan congratulated 53-year-old Sarkisyan on his victory in what he called free and fair elections. Ter-Petrosyan's supporters though refused to recognize the result and said they would protest until Sarkisyan's victory was overturned. They said Tuesday's vote was marred by ballot-stuffing and intimidation of the opposition. Between 15,000 and 20,000 protesters gathered at a rally in central Yerevan, chanting "Levon! Levon!" and "Serzh: leave!," a Reuters reporter said. They were preparing to march towards the Central Election Commission building. Police kept their distance from the protesters. "Once again we have had our usual shameful election," Ter-Petrosyan told the crowd. "Once again crude force has committed an act of violence against the will of the people." "We will proceed calmly and with restraint, and with no doubt about our ultimate victory," he said. (Reuters)