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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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Submission Guidelines:

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.

Svante E. Cornell

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ECONOMIC CRISIS STRENGTHENS RATHER THAN WEAKENS MOSCOW'S INFLUENCE IN THE 'NEAR ABROAD'

Marlène Laruelle

The announcement of the eviction of the U.S. military from the Manas base in Kyrgyzstan is only an additional element in Russia's worsening relations with the U.S., which have been extremely tense since the Russo-Georgian war of August 2008. While some observers hope that the economic crisis impacting Russia will work to weaken it geopolitically, the crisis paradoxically seems actually to be helping Moscow to reinforce its control over its neighboring countries. The Kremlin seems to have made up its mind to invest significant sums of money to consolidate its sphere of influence in the CIS, a crucial stake in its eyes and therefore so far independent of economic contingencies.

BACKGROUND: Since the beginning of the 2000s, Putin-led Russia has managed to bring part of its Near Abroad back under a level of influence that can best be defined as control. Western analyses have often viewed it as the extension in foreign policy of Russian sudden economic wealth: Moscow used its energy reserves and export capacity to extend its political and geopolitical influence. The arrival of the economic crisis in Russia in the fall of 2008 has therefore made some hopeful that the Kremlin's ambitions in the region would be revised downward, and that it would settle for more modest aims enabling other international actors, in particular the United States, to continue to rely on a presence on the Eurasian scene. But Russia does not seem resigned to modifying its foreign policy priorities as a result of the certainty of a coming recession in 2009. Albeit less triumphant, today's Kremlin is no longer that of the beginning of the 1990s: even with revenues in decline, the foreign policy objectives and strategies for domestic control are well defined and will be maintained.

The sentiment of being geopolitically surrounded, which constitutes one of the most widespread

prisms of analysis in the Kremlin, elicits a response that the crisis itself does not affect. One of the flanks of the Russian reaction is strategic. In the south Caucasus, Moscow is planning to build three military bases in Abkhazia in order to counter all American presence in support of Tbilisi, but also to get closer to the energy export routes that lead to the West and to Turkey. Recall that the Russo-Ukrainian agreement enabling Kiev to rent the Sevastopol naval base to Moscow will end in 2017. If Kiev is hoping to see off the Russians, the latter naturally have a wholly different opinion. Russia will do everything possible to keep its presence in the Black Sea, whose strategic importance is growing given its future role in export routes for hydrocarbons.

In Kyrgyzstan, the pressures brought to bear on Kurmanbek Bakiev's government to close the American base at Manas seem to respond to contradictory interests. Indeed, Moscow is greatly concerned by the deterioration of the situation in Afghanistan, which could harm its interests in Central Asia; yet the short-term gain of evicting the U.S. seems to have taken precedence. Lastly, the creation of a special anti-air defense system in

the framework of the Russia-Belarus union has as its aim to reply to the deployment of an American anti-missile shield in Poland and the Czech Republic, despite Moscow's claims to the contrary. In addition, and more generally, Moscow is aiming to upgrade the Collective Security Treaty Organization by creating a Rapid Reaction Force of 15,000 men involving all member states, including a reticent Uzbekistan which is participating only grudgingly. Lastly, Moscow has announced the delivery to Astana of several systems of S-300 anti-air missiles whose objective is to protect Kazakhstani air space.

IMPLICATIONS: There is no reason to rejoice about the economic crisis that is impacting Russia and the other post-Soviet states. First of all, the populations themselves are affected. The pauperization of the Uzbek, Tajik and Kyrgyz

rural milieus will intensify the migratory flows over 2009. The emergent middle classes in Russia and in Kazakhstan, the theoretical supporters of political diversity and a western orientation, will be weakened. Lastly, the Kremlin will be able to regain control of economic and financial domains that to date have been controlled by oligarchs, which will reinforce Russian state capitalism and enable it to liquidate oligarchs perceived to be potential dissidents.

In Kazakhstan, and not without reason, the ruling circles are worried about the possible undermining of their contract with the population, which expects the promises of increased living standards to be held. Their worry is heightened by the prospects for possible succession to Nursultan Nazarbaev during the 2012 elections that will start to impact on the political checkerboard as of 2010.



(Itar-Tass)

Here, too, state capitalism comes out strengthened by the crisis, since the Samruk-Kazyna Funds is going to inject approximately US\$2 billion into the country's main banks, BTA as well as Alliance Bank, Narodnyi Bank and Kazkommertsbank, which will lead to a partial—and perhaps only provisional—nationalization of part of the Kazakhstani banking system.

Lastly, and above all, the crisis paradoxically enables Russia to invest large sums of money in its neighboring countries, and therefore to shore up its long-term economic positions. Thus, despite the vertiginous fall of the national currencies in relation to the dollar (a 73 percent devaluation for the Ukrainian hryvnia, 54 percent for the Russian ruble and 25 percent for the Kazakhstani tenge), Russia has proposed that a stabilization fund of US\$10 billion be set up, of which it will finance three-quarters. The countries that stand to gain from Russian aid are of course those who make the necessary political concessions: Kyrgyzstan thus hopes to get the promised US\$2 billion dollars to lift the country out of the economic impasse in which it finds itself. This is to include emergency aid in the amount of US\$150 million, a credit of US\$300 million at reduced interest rates, over one and a half billion earmarked for the Kambarata hydroelectric station, and a reconversion of Kyrgyz public debt to Russia into a holding in the capital of Dastan, one of the only enterprises of the Kyrgyz military-industrial complex.

This is also the case with Armenia and Belarus. Minsk has succeeded in negotiating the second installment of its US\$ 2 billion loan, and the preservation of a preferential rate for the purchase of Russian gas. Tajikistan is also making amends: at the end of 2008, Emomali Rakhmon recalled that Russia accounted for 20 percent of the country's foreign trade, that it was the source of 60 percent of direct foreign investments, and that several strategic sectors, such as uranium

processing, were potentially “reserved” to the Russian firms who would like to take an interest in them. Despite the rapprochement with Tashkent over questions of water management, nobody in Dushanbe can do without Russian economic support.

The massive aid that Russia is providing to those CIS countries that ask for it guarantees it a profitable hold over certain sectors. Indeed, even Astana had to admit to being in the middle of negotiations with Russia's premier bank, Sberbank, which is looking to invest in US\$5 billion on offer from Moscow. In the Kremlin, a special unit has been set up in the Ministry of Economics whose task it is to identify the assets up for sale in neighboring countries: the economic crisis offers Russia investment opportunities of the sort that it has not had for a long time.

CONCLUSIONS: The massive aid that Moscow is offering to its most economically fragile neighbors obviously does not come free on the political and geopolitical levels. Russia decides everything, for the simple and good reason that it is the sponsor. The countries of the region have a reduced room for maneuver: neither the European Union, nor the United States, nor even China have as yet offered such financial aid to facilitate stabilization, leaving the local governments, despite their displays of reticence, with little choice but to accept both Russian aid and its consequences.

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THE PROSPECTS FOR THE U.S.-GEORGIA CHARTER ON STRATEGIC PARTNERSHIP

David J. Smith

The U.S. fundamentally failed to understand the implications of the Russian aggression against Georgia in its early stages. Russia invaded Georgia, but it really attacked the East-West Corridor that connects the Black Sea to the Caspian, a vital American interest. Five days into the conflict, the Bush Administration was finally jolted into action. Once the war was over, American diplomats cast about for ways to bolster the overall U.S.-Georgia relationship. This relationship is now taking shape, through the signature of the United States-Georgia Charter on Strategic Partnership. It is now up to the Obama administration to fill this Charter with content.

BACKGROUND: Meeting on January 9 in the ornate Treaty Room atop the State Department Building in Washington, Rice and Georgian Foreign Minister Grigol Vashadze signed the United States-Georgia Charter on Strategic Partnership. “I want the people of Georgia to know,” said Rice, “that they will always have a friend in the United States of America.” “This is an historic day for my country,” Vashadze remarked. “This is the stepping stone which will bring Georgia to Euro-Atlantic structures, to membership within NATO, and to return to the family of Western and civilized nations.” The Charter affirms that the U.S. and Georgia are “friends and strategic partners.” It repeats America’s principled interest in supporting democracy and its geopolitical interests in South Caucasus stability and in the East-West Corridor. And it establishes a framework for broad cooperation between the two countries.

The two support “each other’s sovereignty, independence, territorial integrity and inviolability of borders.” “Our friendship derives from mutual understanding and appreciation for our shared belief that democracy is the chief basis for political legitimacy and, therefore, stability,” says one of the Charter’s Principles of Partnership. It

continues, “A strong, independent, sovereign and democratic Georgia, capable of responsible self-defense, contributes to the security and prosperity not only of all Georgians, but of a Europe whole, free and at peace.” Consequently, the United States shares Georgia’s goal of full integration “into European and transatlantic political, economic, security and defense institutions as Georgia meets the necessary standards.”

Then, nestled among the provisions on Economic, Trade and Energy Cooperation is one of the strongest statements yet on the geopolitical importance of the East-West Corridor: “We intend to build upon over a decade of cooperation among our two countries and Azerbaijan and Turkey, which resulted in the Baku-Tbilisi-Ceyhan and Baku-Supsa oil pipelines and the Baku-Tbilisi-Erzurum natural gas pipeline, to develop a new Southern Corridor to help Georgia and the rest of Europe diversify their supplies of natural gas by securing imports from Azerbaijan and Central Asia.” Moreover, the Charter implicitly recognizes that the East-West Corridor is more than oil and gas pipelines. With further economic development, “An increasingly democratic Georgia can unleash the full

creative potential of its industrious citizens, and thereby catalyze prosperity throughout the region and beyond.”

From this restated American interest in Georgia and the East-West corridor follow reiteration of a commitment to Georgia’s security and rejection of the outcomes of Russian aggression. America has a “vital interest in a strong, independent, sovereign, unified, and democratic Georgia.” That signal is

supports the efforts of Georgia to provide for its legitimate security and defense needs, including development of appropriate and NATO-interoperable military forces.”

In addition to the future energy transit projects and extensive security cooperation envisaged, the Charter commits Washington to “the right of dignified, secure and voluntary return of all internally displaced persons and refugees” to their homes. Additionally, “The United States

is committed to assisting the post-war reconstruction and financial stabilization of Georgia.” Finally, rather than simply calling for further democratic reform in Georgia, the Charter pledges the U.S. to assist with media development, law enforcement professionalization, judicial reform and educational exchanges.

IMPLICATIONS:

The Charter is partial recovery from NATO’s failure to

grant Georgia a Membership Action Plan at its Bucharest Summit last April and from Washington’s paralysis as Russian tank treads crushed American geopolitical interests in the South Caucasus last August. It is a broad, unequivocal statement to Georgia, to Europe and to Russia that America supports Georgia as a matter of principle and of interest and that it will not be bullied into abandoning its strategic partner. That said, two observations arise: First, the Charter is a framework that must be filled



(AFP)

undergirded by concrete plans. “The United States and Georgia,” the Charter says, “intend to expand the scope of their ongoing defense and security cooperation programs to defeat these threats and to promote peace and stability.” In the process, “the United States and Georgia intend to pursue a structured plan to increase interoperability and coordination of capabilities between NATO and Georgia, including via enhanced training and equipment for Georgian forces...The United States

in by intertwining diverse bureaucracies in both countries. That is not a bad thing—given the breadth of the document, it could not have been otherwise. The challenge for the new American administration will be to marshal the discussions and negotiations into timely concrete action. And time is of the essence. The second observation was presaged by Vashadze at the signing ceremony: “This document is not directed against anybody, but it is a very powerful signal.” Despite good intentions in Tbilisi or Washington, Moscow no doubt perceives the U.S.-Georgia Charter as a very powerful signal directed at Russia, which is a two-edged sword.

On the one hand, the Charter’s broad, unequivocal American commitment to Georgia is exactly what Moscow must hear to be deterred from further aggression against Georgia. On the other hand, having made the commitment, the U.S. must now rapidly fulfill it to preclude any Russian temptation to pre-emptive aggression. Allowing any impression that the Charter is just diplomatic banter to mask continued American paralysis could be disastrous.

It is, furthermore, clear that Moscow is contemplating further aggression. Georgian Government sources estimate that over 10,000 Russian troops now occupy the Georgian territories of Abkhazia, South Ossetia and the adjacent Akhagori District. They include light infantry, armor and special forces equipped with tanks, armored personnel carriers, helicopters, rockets and air defense batteries at new and renovated land, air and naval bases. The massive Russian buildup inside Georgia threatens the East-West Corridor. Russia’s air and missile strikes that bracketed the Baku-Supsa oil Pipeline last August were the first

shots in a Kremlin gambit to choke the East-West Corridor.

Perhaps hanging in the shadow of European diplomacy last summer, doubling back in winter with a broad U.S.-Georgia cooperation agreement was a deft way for America to pick up the gauntlet thrown by the Russian invaders. However, Washington must now understand that it has accepted a challenge. Each item in the Charter’s framework must be taken up deliberately, rapidly and unequivocally. Although it may be tempting to argue that security cooperation comes first, investment, further energy transit and trade are equally important. They will be the enduring guarantees of Georgia’s independence and America’s interest in the region.

Meanwhile, the Charter commits the U.S. to an “enhanced security cooperation program...to strengthen Georgia’s candidacy for NATO...including via enhanced training and equipment for Georgian forces.” That means two things: First, as Vashadze said on January 9, “Georgia will be getting the same thing as MAP under a different name.” Add democratization efforts to security cooperation and the Georgian Foreign Minister’s statement is about right. America cannot tell NATO when or how to have Georgia as a member, but what it can do is to implement an action plan that will remove any performance-based objection to membership. Second, the Charter settles the debate over whether and how to rebuild the Georgian Armed Forces—the U.S. believes that building an effective Georgian military is a legitimate objective that it will help fulfill. That means helping Georgia with doctrine development, training, defense management and military capability, including modern anti-tank and air defense weapons. This is a considerable commitment for America

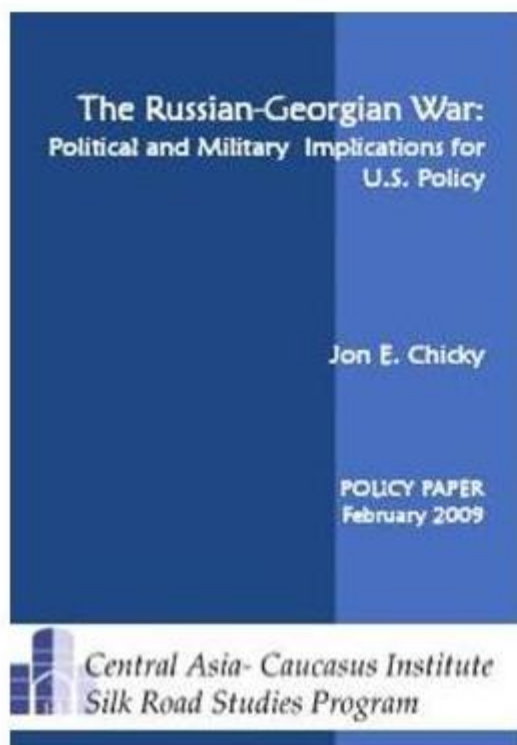
and for other western countries that similarly define their security interests in the South Caucasus.

CONCLUSIONS: The U.S.-Georgia Charter was signed just eleven days before U.S. President Barack Obama took office. Bush Administration and Georgian officials let on that it was negotiated and concluded with the tacit approval of the incoming administration. It falls to them to implement it and—just five weeks in office—one must forebear any criticism of too much deliberation.

Georgia took a prominent place in the Obama Administration's first major foreign policy address. "The United States will not—will not," Vice President Joe Biden told the Munich Security Conference on February 7, "recognize Abkhazia and South Ossetia as independent states. We will not recognize any nation having a sphere of influence. It will remain our view

that sovereign states have the right to make their own decisions and choose their own alliances." Less promising was U.S. Defense Secretary Robert Gates' February 20 statement after a NATO defense ministers meeting in Krakow, Poland: "We are involved in training. We are involved in military reform in Georgia. So this is an ongoing relationship. So I think it is proceeding as planned." More had been expected in Krakow. Whether Gates was reflecting ongoing debate in Washington or a laxity of purpose, America can ill afford it. Like the economy, Iraq and Afghanistan, the problem in Georgia is upon us.

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New Policy Paper:

***The Russian-Georgian War: Political and
Military Implications for U.S. Policy***

By Jon E. Chicky

This Policy Paper provides an analysis of the implications of the war in Georgia for the incoming U.S. Administration. It is written By Colonel Jon E. Chicky, presently of the U.S. War College, formerly Director for Eurasia and Black Sea Policy at the Department of Defense.

The Paper can be downloaded free at
www.silkroadstudies.org.

RECONCILIATION BETWEEN AKHMED ZAKAYEV AND RAMZAN KADYROV: A TRIUMPH OF HISTORICAL PRAGMATISM?

Kevin Daniel Leahy

Over the past year, there have been growing signs that the self-styled prime minister of the Chechen Republic of Ichkeria, Akhmed Zakayev, is preparing to align himself with the reigning pro-Moscow regime in Chechnya, led by Ramzan Kadyrov. During a press briefing last month, a spokesman for the Kadyrov administration referred to Zakayev in remarkably gracious tones. Zakayev, for his part, has spoken of the historically important role being fulfilled by Kadyrov in Chechnya. It is this trend toward a historically pragmatic appraisal of the Chechen conflict that is functioning as an ideological cushion for the ongoing Kadyrov-Zakayev flirtation.

BACKGROUND: Speaking at a conference in London last May, Akhmed Zakayev caused a minor sensation by conceding that Chechnya's pro-Moscow leader, Ramzan Kadyrov, had 'done very important work for the liberation of Chechnya.

Many of those present were taken aback by this remark, but this was by no means the first time that Zakayev has expressed such an opinion. In July 2006, following the death of the Chechen rebel leader, Shamil Basayev, Zakayev attempted to entice the Russian government to the negotiating table by floating a so-called 'Manifesto for Peace in Chechnya'. The contents of this document were generally unremarkable, but it was during a series of interviews Zakayev granted around this time that he first began speaking of Ramzan Kadyrov in positive terms. During the course of an interview with a Ukrainian publication, Zakayev provided the following controversial analysis of the role being played by Chechnya's pro-Moscow structures: '...these people do dirty but very useful work. Even Ramzan Kadyrov proved to be tactically useful. Until Russia withdraws its forces from Chechnya, it has to

pay money to its puppet government in the occupied republic, let alone all the social benefits, salaries etc. In general, this is a great help to the Chechen nation today'.

The Kadyrov phenomenon, Zakayev argued, represented a 'natural defensive reaction' to the Russian occupation, a historical trend that has repeated itself through the agencies of various pro-Moscow Chechens whenever the Russians have invaded Chechnya. He went on to boast of how the Chechenization project had essentially legalized over three thousand rebel fighters and how 'pro-Moscow' Chechen militias protect ordinary Chechens from the excesses of federal troops – in short, how the Ichkerians had fundamentally hijacked the Chechenization project. It seems strange, therefore, that such sensation should be created by Zakayev repeating this analysis, almost verbatim, nearly two years after he first gave vent to it.

There have occurred, however, some important changes in the intra-Chechen political dynamic since July 2006. Most importantly, a major rupture within the rebel ranks has taken place with Chechen nationalists, or Ichkerians, splitting with their former president, Doku



(AFP)

Umarov, and his supporters, who now eschew the goal of Chechen independence in favour of establishing a Caucasian Emirate. Umarov and his followers seem incapable of Zakayev's brand of subtle historical insight, and regard Kadyrov and his militias as irreconcilable opponents of their agenda. Apart from viewing them as guardians of the civilian population, Zakayev also sees Kadyrov's forces as a source of materiel and intelligence for Chechnya's rebel movement. Unlike Umarov, who makes no distinction between the pro-Moscow militias and the federal forces, Zakayev has made it clear that his followers' 'primary task' is to expel the Russian army from Chechnya rather than doing battle with indigenous pro-Moscow forces.

IMPLICATIONS: Over the past year, Ramzan Kadyrov has seemingly achieved mastery of the art of political seduction. Of

those who have recently succumbed to his advances, perhaps the best-known is the veteran Chechen journalist, Timur Aliyev, previously sympathetic toward Chechnya's rebel movement, who joined Kadyrov's staff last year as an advisor. Aliyev sees no contradiction between his collaboration with Kadyrov and his status as a Chechen nationalist — he recently told *Prague Watchdog* that he has 'no objections to the idea of independence as such'. Notably, Aliyev has refrained from showering Kadyrov with praise. In his interview with *Prague Watchdog*, he simply spoke of Kadyrov as 'a man who learns very fast'. He has also publicly refuted allegations of human rights abuses routinely leveled against Kadyrov.

Speculation that Akhmed Zakayev is on the cusp of similarly aligning himself with the Kadyrov regime has gained traction due to a number of recent developments. Firstly, Zakayev has reportedly sent a number of emissaries (including his own brother, Buvadi) to Chechnya over the past several months and these representatives have been received by high-ranking members of the local pro-Moscow government. Secondly, the return of the former Ichkerian health minister, Umar Khanbiyev, to



(AFP)

Chechnya has fuelled speculation that Zakayev might be preparing to follow in his footsteps.

The third source of this speculation has been the remarkably solicitous tones recently adopted by Kadyrov's spokespeople when referring to Zakayev. Late last month, Kadyrov's chief spokesman directly contradicted the official stance of the Russian authorities, stating that Zakayev had 'rejected terrorist methods of resistance' and was not linked to any serious crimes. This leads us onto the fourth source of the current speculation: Zakayev's increasingly felicitous attitude toward Chechnya's pro-Moscow authorities.

Indeed, the gracious words spoken about him by Kadyrov's spokesperson were occasioned by a slightly earlier statement by Zakayev that he was willing to enter into a dialogue with Chechnya's pro-Moscow authorities. All of this would seem to indicate that a reconciliation between Zakayev and Kadyrov is nigh, but there are other factors that one must take into consideration. For example: what will the Russian authorities make of Kadyrov's fraternization with a man they officially regard as an international terrorist? Scarcely a week before Zakayev's cozy exchange with Kadyrov's press office, the FSB announced that it had arrested an agent sent to the North Caucasus by Zakayev with the express mission of reviving the militant organization in the region. Zakayev denied any association with the arrested man and a Kadyrov spokesman described the revelation indignantly as an attempt to smear Zakayev, 'one of the most sober representatives of so-called Ichkeria'.

Given that Kadyrov has previously accused Zakayev of being a party to his father's assassination in May 2004, the spectacle of the Chechen president defending Zakayev is remarkable, and suggests strongly that Zakayev and Kadyrov have brokered some sort of agreement for future political cooperation.

CONCLUSIONS: Akhmed Zakayev's current appraisal of Ramzan Kadyrov is based on a pragmatic interpretation of the historical role being fulfilled by the latter. In Zakayev's view, the Kadyrov phenomenon, when considered historically, amounts to a necessary evil: for all his flaws, Kadyrov is at least a Chechen; has protected the Chechen people from the worst excesses of military occupation; and has even brought about the successful decolonization of Chechnya. For Zakayev, who was neutered politically and militarily by the October 2007 split in the rebel ranks, there are enough positive aspects to the current pro-Moscow regime for him to consider engaging with it. The possibility that Zakayev might join the Kadyrov government as a cultural attaché has been mooted by Kadyrov personally. The prospect of taking direction from a younger, less-well-educated man will doubtless be difficult for Zakayev to come to terms with; but the blow to his ego will be softened somewhat by the conviction he has set out in various statements and communiqués over the past two years, that the Kadyrov regime, when looked at objectively, is a boon for the Chechen nation.

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ARMENIAN BANKS UNDER THREAT OF FINANCIAL TURMOIL

Hushnudbek Yulchiev

Since 2002, the Armenian economy has recorded double-digit GDP growth rates. Consequently, the banking sector benefited from economic growth and showed a relative increase in total assets from 19,3% to 25% of GDP. Strong policies and correct vision contributed to the success of Armenia's banks. At times of financial turmoil, Armenian banks successfully demonstrated growth in total assets and profits. The slowing down in the Armenian economy nevertheless pulled the banking system down with it. Furthermore, the economic slowdown in Russia and neighboring countries and liquidity problems at foreign banks will have a negative impact on Armenian banks. Preliminary analyses show that 2009 will be the harshest year for Armenian economy.

BACKGROUND: The Armenian banking system has reached considerable results over the past decade, and despite of its relatively small size, it has evolved as the most advanced and efficient sector of the country's economy. The banking sector holds more than 90% of system assets and has experienced Compound Annual Growth Rates (CAGRs) of capital and assets at 34% and 25%, respectively, since 2002. Undoubtedly, by now the development pace of Armenia's banking system can be considered as far surpassing most other post-Soviet countries. These results were obviously the result of reforms in the banking system carried out by the Central Bank of Armenia. Since the Central Bank tightened bank capitalization requirements and pushed weak and undercapitalized banks into merging with stronger banks, the number of banks decreased by over 40. Currently, there are 22 registered banks with 367 branches operate in Armenia. The top ten banks are Ardshininvest Bank, HSBC Armenia Bank, ACBA-CreditAgricol Bank, VTB Armenia Bank, Uni Bank, Converse Bank, Armeconom Bank, Ameria Bank, Ineco Bank and Armbusiness Bank.

In the beginning of this year Araratbank, VTB bank and HSBC banks became member of NASDAQ OMX. Membership of NASDAQ OMX will enable banks to carry out exchange transactions in all corporate securities listed on NASDAQ OMX Armenia, as well as in Government bonds, REPO and foreign currency.

From merely US\$ 500 million in 2002, banking assets rose to more than US\$ 2,5 billion in 2007. According to the chairman of the Central Bank of Armenia Arthur Javadyan, the net profit of Armenian banks grew by US\$ 23 million, reaching US\$ 86 million in 2008. According to the Central Bank's preliminary data, the assets of the Armenian banking system grew by 33% in 2008 to US\$ 3.3 billion, and capitalization by 40%. The crediting of the economy reached US\$ 2 billion by late 2008 against US\$ 1.5 billion earlier this year. International financial institutions repeatedly pumped in millions of U.S. dollars into the economy of Armenia until 2008, allowing Armenian banks to maintain a high level of liquidity. The current liquidity crisis will put Armenian banks into a more challenging position, whereas international financial institutions should allocate limited

funds to a growing number of banks facing liquidity problems.

IMPLICATIONS: According to the Central Bank of Armenia, the banking system is currently moving towards Basel II standards, the new international standard to ensure banks have sufficient capital to support their market, credit and operating risks. Yet meanwhile, it is obvious that Armenian banks are still at an early stage of development. The only reason why Armenian banks were not badly hit by the global credit disaster is the low levels of Armenia's integration to international capital markets. However, Armenian banks are not secured from indirect effects of the financial crisis that has already affected the Armenian economy. GDP growth in 2008 was 6,8%, the lowest since 2002. Moreover, even though the Central Bank of Armenia forecast a GDP growth rate of 1,5-3,5% in the first half of 2009, the real scenario might be worse. In line with less optimistic forecasts, Armenia already started the year with a GDP decrease of 0,7%.

The current financial crisis is causing dwindling demand which is translating into a shrinkage in the price of products and services. Particularly, the price of metals decreased by about 50% in early 2008. This is not good news to Armenia, as 11% of all exports are related to the mining sector. The scenario worsens even further, if one considers that remittances make up close to 20% of the country's GDP. Russia's predicted zero or negative GDP growth for 2009 will have a negative impact on future remittance inflows to Armenian banks. Moreover, the number of unemployed reached 75,700 in Armenia by February 2009. This is 4.7% more than the same figure last year. Further, the liquidity measures already started to diminish. It particularly was felt at the end

of 2008, when banks faced enhancing spread and were looking for additional funds to finance their activities. This once again proves how dependent the Armenian banks are for funding from international institutions. Furthermore, the number of tourists visiting Armenia is likely to diminish drastically in 2009.

The widespread effect of the financial crisis on the world economy, with forecasted world GDP growth at zero to half a percentage point, hinders international financial institutions from saving all the sinking ships at a time. World Bank intended to give US\$525 million within four years but it is not specified how much will be allocated for 2009.

CONCLUSIONS: Despite the financial crunch, Armenian banks demonstrated growth of 33% in 2008, which is 11,1% less than the growth rate recorded in 2007. The profits for 2008 are mostly due to the favorable policies set by the Central Bank of Armenia and the low level of politicization of the country's banking system. But in spite of the favorable policies, Armenia is not secured from the global downturn, as falling prices and job cuts eventually lead to a slowdown of the economy. The economic slowdown in 2008 and the beginning of 2009, compounded with Moody's negative outlook gives no room for Armenian banks for an escape from financial turmoil. Lastly, 2009 is one of the difficult years ahead for Armenian banks. There is little to no hope that Armenian banks will score half of the growth rate that was demonstrated this year.

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FIELD REPORTS

CSTO RAPID REACTION FORCE REVEALS RUSSIA'S SECURITY PRIORITIES

Roman Muzalevsky

Russia's increasingly assertive foreign policy in the former Soviet Union after the war with Georgia has manifested itself in the CSTO's decision to create a Rapid Reaction Force (RRF), seeking to enhance security in Eastern Europe, the South Caucasus and Central Asia. The creation of the RRF signals not only Russia's intentions to bolster regional stability, but also its plans to halt NATO's advance in its traditional "backyard," bind the CSTO states to stronger commitments, and provide additional guarantees for security in the South Caucasus, especially in Nagorno-Karabakh, following Georgia's failed blitzkrieg in South Ossetia.

"We all agreed that the formation of joint forces is necessary," Russian President Medvedev said at the summit on February 4, adding that the RRFs would be "turning into serious forces, with capabilities not below those of NATO." According to Stratfor, the RRF would comprise 16,000 troops, with Russia providing 8,000 troops, Kazakhstan 4,000, and Tajikistan, Belarus, Kyrgyzstan and Armenia 1,000 troops each. Of the 16,000, Russia considers deploying 5,000 troops to Central Asia. Armenia will probably host a number of forces as well given tense relations with Azerbaijan on the Nagorno-Karabakh issue. The Russia-Belarus zone, near the Estonian border, is another area of possible deployment, where Russia aims to challenge NATO's positions in the Baltic region and Eastern Europe, Stratfor reports.

"In peacetime they will remain placed in permanent bases. In the event of a threat of aggression to the CSTO states, as well as in order to quickly react to crisis situations, they would be redeployed to

counter the threat upon the decision of the Collective Security Council of the CSTO," Russia's Deputy Foreign Minister Grigoriy Karasin emphasized. On February 10, the Commander In Chief of Russia's Air Force Colonel-General Alexander Zelin declared that Russia and its allies were also establishing regional air defenses in Eastern Europe, the South Caucasus and Central Asia.

Kazakh Defense Minister Daniyal Akhmetov underlined Kazakhstan's strong commitment to the RRF, declaring that "the Kazakh airborne assault brigade will be a worthy component of the CRRF." While securing a 25 % increase in the CSTO budget for 2009, Russia and Kazakhstan failed to convince their allies to contribute a brigade-size contingent to the RRF. No decision was made on the issue of unified command for the RRF as promoted by Russia, leaving the present arrangement, with units of other CSTO states remaining under national jurisdictions and deployed on national territories, in force. Kyrgyz Security Council Secretary Madumarov highlighted these contentious issues as arisen during the summit discussions. Uzbek President Karimov agreed to contribute troops on a case-by-case basis only, while Belarus indicated its willingness to operate exclusively as a part of Russia-Belarus forces. The cleavages in positions have been less apparent in the case of Armenia, which considers Azerbaijan to be undermining the peace process in Nagorno-Karabakh.

Armenian President Serzh Sargsyan emphasized that the RRF would reinforce the CSTO capabilities, which, to paraphrase Medvedev, as of

now "exist only on paper." Armenia voices its position amidst increasing tensions in Nagorno-Karabakh, which it claims arise from Azerbaijani provocations. All three parties have also recently blamed each other for violations of the peace process. Azerbaijani President Ilham Aliyev's point last year that "no one can find the obligation in the declaration that prohibits Azerbaijan from seeking a military resolution to the conflict" has significantly troubled officials in Nagorno-Karabakh and Armenia. The Minister of Foreign Affairs of Armenia, Edward Nalbandian, expressed his frustration: "On the one hand, in Azerbaijan they talk about the necessity of continuing the negotiations, on the other they produce the impression that they have forgotten the statements that the peaceful resolution of Karabakh conflict has no alternative." Russia's Ambassador to Armenia Nikolai Pavlov, however, has assured that "Russia has been and will be the guarantor of the reached agreements concerning the process of resolving the Karabakh problem."

The Head of the Caucasus Chair at the Institute of CIS Studies, Mikhail Alexandrov, believes that the RRF will be utilized if Azerbaijan initiates hostilities against Nagorno-Karabakh. Artur Aghabekian, head of the Armenian Parliamentary Committee on Defense and National Security, largely concurs with the proposition: "Armenia will

probably activate the collective force in the case of resumption of hostilities in Nagorno-Karabakh." Major General Hayk Kotanjyan, the head of the Institute of National Strategic Research of the Armenian Ministry of Defense, stressed the importance of the RRF for regional security: "Taking into account the sad experience of the war in South Ossetia in August of last year, forming a real mechanism of resisting aggression is an additional guarantee of preventing statesmen who cherish the hope of a military resolution of the Karabakh conflict from taking adventurous steps that threaten to undermine international security..."

The RRF, designed to promote regional security, including in Nagorno-Karabakh, will bolster Russia's already growing influence in the former Soviet Union. While 'unruly' Uzbekistan and Belarus continue to create complications for Russia's strategy to undermine NATO, Russia will most likely prove successful in tying the hands of the CSTO allies in Central Asia, the South Caucasus, and Eastern Europe. Aiming to enhance regional stability through the proposed RRF following the war in Georgia, Russia also seeks to acquire legitimacy and unwavering allies early on in case it needs to challenge NATO's plans and pro-Western aspirations either in Ukraine or Azerbaijan in the future.

IS A SPIRIT OF COOPERATION EMERGING IN UZBEK-TAJIK RELATIONS?

Erkin Akhmadov

On 18 February 2009, a government delegation from Uzbekistan, headed by first deputy prime minister and finance minister Rustam Azimov, arrived in Dushanbe. The delegation's main mission was to discuss and seek resolution to a set of issues, which for several years have been major stumbling blocks in the relations between the two countries. Many experts view the visit as a positive move towards

reconciliation in what has often been characterized as the most problematic inter-governmental relationship in the region. The only previous occasion on which a Tajik-Uzbek intergovernmental commission was gathered was in 2002. During the last seven years, the two states have barely held any interstate negotiations, except at international or regional forums and summits. In

light of the worsening energy and gas situation in Tajikistan and Uzbekistan's persistent refusal to accept the construction of Tajikistan's Roghun hydroelectric power station, the meeting of the delegations is widely viewed as a first step towards a thaw in relations between the two states.

The first official visit by President Islam Karimov to Tajikistan did not occur until 2000. While agreements of eternal friendship and the like were signed, the same year a visa regime was introduced between the two states, signaling a cooling in their relations. Furthermore, in 2001 the Uzbek side placed mines along the border with Tajikistan, presumably to prevent the penetration of Islamic Movement of Uzbekistan forces into Uzbek territory. Such official manifestations of dissonance between the states aside, the hardships of ordinary people who had to face multiple obstacles when crossing the borders or doing business are a major result of the poor relationship. The recent disagreement over the construction of the Roghun HES that would according to Uzbek officials affect the amount of water available for irrigation in Uzbekistan was only the most recent of a great range of issues that need to be addressed by two states.

The meeting of the delegations addressed numerous issues. These included the resumption of energy delivery to Tajikistan that was cut by half due to high debts; cooperation problems in the transportation sphere as well as the expansion of bilateral trade; as well as border delimitation and demarcation issues. However, a central issue in the meeting was the usage of water resources, for which a special group for was organized to engage in detailed consideration of the matter.

Generally the meeting displayed a positive spirit and hope for reaching consensus on the many disagreements, and it would not be a mistake to assume that such intentions are largely based on a statement of the Uzbek authorities made the day before, saying that Uzbekistan is ready to invest in the construction of hydroelectric stations in

neighboring states. At first glance, this statement would seem sensational as Uzbekistan strongly opposed these projects, fearing that they would affect the levels of water supply to the country, and the declaration could therefore imply a changing of Tashkent's position on the issue. However, one reservation on Uzbekistan's part is that an assessment of the project must be made by independent international technical/economical and environmental experts, based on principles of openness and full awareness of the parties concerned. This condition, seemingly quite fair in the given situation, would in fact be very hard to satisfy. Therefore, by stating such prerequisites, the Uzbek authorities once again reinforced their position: they approve the projects only if they will not affect Uzbekistan. Nevertheless, it seems that the Tajik side appreciates the mere fact that Uzbekistan opened up for a dialogue over the issue, stating that "Tajikistan is ready for cooperation with Uzbekistan in various spheres. We will accept any positive proposition for expanded cooperation by the Uzbek side."

Even though the heads of state did not attend the delegation's meeting, the event can be considered positive for further cooperation and overall relations between Tajikistan and Uzbekistan. It did prove that these states are able to hold a roundtable discussion without the intervention of third parties, like Russia. In fact, perhaps exactly because of Russia's ambiguous stance on the construction of hydroelectric stations that was revealed after President Medvedev's visit to Uzbekistan in January 2009, Tajikistan and Uzbekistan realized that the issue can be resolved only by active intergovernmental dialogue.

By the end of the meeting, the parties had signed a protocol on trade and economic cooperation and a protocol on the delimitation and demarcation of borders. However, the major issue of concern – the use of water resources – has yet to be resolved. The meeting may nevertheless well lay the ground for further negotiations at a higher level.

CRRF WILL NOT CHANGE THE MILITARY BALANCE IN THE SOUTH CAUCASUS

Haroutiun Khachatryan

On February 4, the presidents of all seven countries of the Collective Security Treaty Organization (CSTO) signed an agreement in Moscow on the formation of the so-called Collective Rapid Reaction Force (CRRF, for the Russian *Kollektivnye Sily Operativnogo Reagirovaniya*). This is the first time that this defense organization (created in 2002 under a treaty signed back in 1992), uniting part of the CIS countries, has agreed to create a real military unit for joint use of its member countries. The CSTO member countries are Russia, Belarus, Kazakhstan, Kyrgyzstan, Armenia, Tajikistan and Uzbekistan, the latter has joined the CRRF agreement with some reservations.

The purpose of the CRRF is declared to be the repelling of military aggression (against the member countries), executing special operations against international terrorism and extremism, as well as against transnational organized crime and drug trafficking, and for performing relief operations during emergencies.

It was reported that the CRRF will eventually be composed of some 15,000 troops, of which Russia will provide one airborne division and one airborne assault brigade, and Kazakhstan will provide another brigade. The five smaller countries of the organization will provide one battalion each. At the initial stage of the CRRF formation, it will include only one battalion from each of the seven members. All these subdivisions will have a joint command, and will be trained jointly. Russian president Dmitry Medvedev said these troops must present "a serious force," they will be equipped with the most modern technology and will have a military potential not inferior than that of NATO forces. The CRRF is expected to be located on Russian territory, although according to Russian officials, their principal goal will be to counter the dangers the CSTO countries face in the Central Asia, due to the situation in Afghanistan and in Pakistan.

The creation of the CRRF is, besides their declared goal, an evident attempt by CSTO members, primarily Russia, to consolidate control over the organization's territory. It may in particular be activated in case of social instability caused by the ongoing economic crisis. However, in the South Caucasus region, the actions of the CSTO and its future military unit, CRRF, raise additional concerns as the region houses conflicts between CSTO members and other former Soviet countries. In particular, concerns are expressed in Armenia that its participation in the CRRF may lead to Armenian involvement in future military clashes between two friendly countries, Russia and Georgia. On the other hand, Armenia evidently hopes that the creation of the CRRF will be an additional military factor against a possible resumption of warfare with Azerbaijan due to the unsettled conflict in Nagorno Karabakh. Armenia has constantly expressed concerns that, despite the documents recently signed including the Moscow declaration of November 2, Azerbaijani officials keep repeating that a military solution to the Nagorno Karabakh conflict is not excluded. Moreover, Armenia has recently reiterated its concern that Azerbaijan has violated the restrictions posed by the Conventional Arms Treaty in Europe. It was not by accident that the long discussed agreement about the CRRF became reality during the rotating presidency of Armenia in the CSTO, and the Armenian president Serzh Sargsyan has always been a supporter of the idea of forming military units within this organization. Moreover, Armenia has made clear that it will seek deployment of one of the CRRF subunits on its territory. Not surprisingly, the CRRF agreement has raised concerns in Azerbaijan about the possibility of shifting the existing military balance in favor of Armenia.

Whereas direct involvement of CRRF in either conflict in the South Caucasus is unlikely, as this contingent can be put into action only in case of consensus among all the CSTO member countries, the creation of this force per se may bring benefits to Armenia. First, by providing a battalion to the CRRF, it will get a new, well-equipped and professionally trained military subdivision, which can be used in case of renewed military conflict with Azerbaijan. Also, if Armenia proves successful in deploying part of the CRRF on its territory, this will be another strong psychological factor preventing Azerbaijan from opting for a military solution to Karabakh. In fact, if a non-Armenian CRRF contingent is deployed in Armenia, this will most likely be a Russian contingent and the current Russian force deployed in Armenia, the 102th military base in Gyumri, could potentially be doubled (there are some 3,000 troops in the Gyumri base now). It cannot be excluded that in case of a military clash between Armenia and Azerbaijan, this CRRF subunit will become involved, ignoring the restrictions posed by the CRRF agreement. However, such a development is possible only at later stages of the CRRF formation, and the economic crisis may be a factor preventing a rapid buildup of the CRRF.

Finally, the probability of a resumption of hostilities between Armenia and Azerbaijan in itself is unlikely due to pressure from foreign powers including Russia, among other reasons. Moscow is not interested in renewed instability in the volatile South Caucasus region, and it seeks to maintain good relationships not only with Armenia, its main military and political ally in the region, but also with Azerbaijan, an important trade partner (Russia is also the largest supplier of weapons to Azerbaijan).

The creation of the CRRF will not have any immediate impact on the military balance in the South Caucasus region. The primary goal of Russia is to consolidate the CSTO member countries against the threats posed by the instability south of Central Asia and by the ongoing economic crisis. This is evident from the fact that, in parallel with the signature of the CRRF agreement, a US\$ 10 billion anti-crisis fund was formed for the member countries of EurAsEC, an economic organization in which most of the CSTO countries participate. In parallel Armenia, which is not a member of EurAsEC, was promised a US\$ 500 million dollar stabilization loan.

RUSSIAN AND TURKISH POLICIES CREATE SECURITY DILEMMA FOR AZERBAIJAN

Tamerlan Vahabov

The August 2008 war between Georgia and Russia brought considerable changes to the politics in the South Caucasus and threatened to alter the region's traditional political configuration, with profound implications for Azerbaijan. Many in Azerbaijan believed that the Russian-Georgian war would make Russia more inclined to take a negotiating stance towards Azerbaijan. This was confirmed by the Kremlin's initiative to negotiate a peace declaration between Armenia and Azerbaijan. Azerbaijan's President Ilham Aliyev has seemed willing to

address issues of regional instability, examples thereof including a neutral stance in the Russia-Georgia war and a willingness to embrace Russian initiatives on the Nagorno Karabakh issue besides the regular format of negotiations. However, the US\$ 800 million arms transfer to Armenia, followed by evidence that the deal did indeed take place, were puzzling to Azerbaijan. The refutation provided by the Russian Ministry of Foreign Affairs is also dubious: it states that the quantities and number of weapon units indicated on the Azerbaijani web site

www.mediaforum.az were not transferred to Armenia. However, the statement still does not make it clear whether the arm transfer took place or not, seemingly implying that the arms transfer did take place but that the value was not the stated US\$800 million.

The recent decision of the CSTO to create rapid reaction forces deployable against any sort of threat to the CSTO member states puts Azerbaijan into a difficult situation in its bid to cement its ties with the West. Moreover, according to the Secretary General of CSTO Nikolai Bordyuzha, Armenia and Russia will launch a joint anti-missile defense shield, with little added value for other CSTO members than Russia. Rather, it seems that Russia wants to reassert its conventional operability in the CSTO area. Russian political-military adventures after its war in Georgia as well as Kyrgyzstan's recent decision to close the Manas airbase will make Azerbaijan and other non-CSTO members feel uneasy to say the least.

Elchin Hasanov, a Baku-based political analyst, said that Russia wants to include the former Soviet republics in the CSTO rapid reaction forces in order to secure itself from NATO expansion and its ultimate objective is to see Ukraine, Georgia and Azerbaijan put aside their desire to join NATO. At the CSTO meeting in September 2008, President Medvedev stated that a new security architecture must be established and that NATO should consider the consequences of expanding to the East.

Reactions to the CSTO initiative in Azerbaijan were ambiguous. In an interview to the Russian Marketing and Consulting Informational-Analytical Agency, the head of the International Relations Department of the Azerbaijani President's office, Novruz Mamedov, stated that the CSTO's decision does not threaten the security of Azerbaijan. Azerbaijan maintains good relationships with all CSTO members except Armenia. He also stated that Azerbaijan accepts Russia's refutation on the arms transfer to Armenia but if the transfer is substantiated, Azerbaijan's reaction "will be adequate". But the Azerbaijani opposition Member of Parliament Fazil Mammadov expressed his

concern over the CSTO rapid reaction forces, which may jeopardize Azerbaijan's security.

Subsequently, Sergey Patrushev, head of Russia's Security Council, presented a new national security strategy to the President. The document, entitled *Strategy of National Security of the Russian Federation up to 2020*, is to be signed by February 20, 2009. The author of the document considers the Caspian energy resources as a pivotal security element for Russia and the presentation of the document in the midst of active negotiations over the Nabucco gas pipeline hints that Russia seeks to counteract the realization of Nabucco project where Azerbaijan plays a key role. Added to the rapidly evolving Russian activity in the region and its increased military rapprochement with Armenia is Turkey's post-August behavior in the region. Turkey has sought to tie the transit of gas from the Caspian to its EU membership negotiations. "If we are faced with a situation where the energy chapter is blocked, we would of course review our position," Turkish Prime Minister Erdogan said, questioning whether there was enough gas available to justify Nabucco, which would enter Europe via Turkey.

As for the Caucasus Stability Platform that was initiated by Turkey, it will be advantageous to Armenia in its negotiations with Azerbaijan over Nagorno Karabakh. The initiative could allow Armenia to further delay the conflict resolution process, as it will feel less urgency in committing to solving the conflict. Fariz Ismailzade, a Baku-based political analyst, stated in a presentation in Washington recently that such a framework would further legitimize the occupation of Azerbaijani territory by Armenia.

The signs of Turkish-Armenian rapprochement are closely observed in Azerbaijan. Especially resonant was the report of the Turkish newspaper *Hürriyet* and the Azerbaijani news agency APA on the alleged armored water cannon vehicle transfer to Armenia by the Turkish firm Nurol Machinery and Industry Inc. Nurol Machinery's deputy general manager of marketing, Tanju Torun said during the demonstration of the firm's new six-wheeled armored personnel carrier *Ejder* (Dragon) that

Armenia had contacted them and negotiations were underway. However, the Armenian side refuted this information. The head of the press service of Armenia Lt. Colonel Sayat Shinian denied that such a deal did take place. Considering the current transformation of Turkey's South Caucasus policies, further Azerbaijani disappointment over Turkey's moves can be expected.

Despite the efforts of President Ilham Aliyev's government to bring Azerbaijan closer to all regional states, be it Turkey or Russia, Baku is getting ambiguous and at times outrightly

disappointing signals from these. The security dilemma is increasingly problematic for Azerbaijan, and holds both military and economic dimensions. Turkey's single-sided rapprochement with Armenia and Russia, its recent behavior on the Nabucco project, Russia's arms affair with Armenia and the CSTO issue have placed Azerbaijan in an awkward position in the region. As a result, Azerbaijan may increase its efforts to strengthen its ties with the West.

NEWS DIGEST

IRAN ENTERS TAJIK ENERGY MARKET AS U.S. AND RUSSIA IDLE

12 February

Iran is filling an investment gap in Tajikistan left by the United States and Russia, agreeing to spend on hydropower and other quality-of-life projects. Iran has offered to help Tajikistan complete the construction of the 3,600 megawatt Rogun hydroelectric power station on the Vakhsh River, 70 miles east of the capital, Dushanbe. If built, it would be Central Asia's largest. Begun in 1976, Rogun, if completed, would have been the world's highest dam, at 1,099 feet, but Moscow assigned it a lower priority. Until last month Dushanbe looked to Moscow as its best potential partner for achieving its hydroelectric dreams. In 2004 the Tajik government and Russia's Rusal aluminum company concluded an agreement to complete Rogun, whose electricity would be used to produce aluminum, but construction was stymied because of technical differences between Dushanbe and Rusal over the facility's specifications. In late August 2007 the Tajik government declared the agreement null and void but was unable to raise sufficient foreign interest to fund the estimated \$3.4 billion needed to complete Rogun, which by this time was 40 percent finished. Tajikistan remained optimistic that outstanding differences with the Kremlin over Rogun could be resolved, particularly since Russia is already a significant player in the Tajik energy market. The 670-megawatt, four-unit Sangtuda 1 hydroelectric project, currently under construction in southeastern Tajikistan, is a joint Tajik-Russian project in which Russia has a stake of more than 75 percent. Tajik hopes that Moscow might still participate in finishing Rogun were dashed last month, however, during a state visit to vast natural gas holder Uzbekistan by Russian President Dmitry Medvedev. The Uzbeks fear Rogun would harm the supply of water to agricultural needs in downstream states. Medvedev told journalists during the visit that new Central Asian hydroelectric facilities should be built taking into account not only the neighboring countries' interests but also international legal definitions of transboundary rivers' flows, adding Moscow "would refrain" from projects lacking legal accords. Tajikistan, furious at Moscow's apparent siding with Uzbekistan, delivered a formal note of

protest to the Russian government. Iran saw -- and seized -- the opportunity. During a Feb. 8 news conference in Dushanbe, Iranian Ambassador Ali Asghar Sherdust told reporters his country would assist in completing Rogun "both at the governmental level and via the private sector." Iran is also helping Tajikistan develop another hydroelectric project at Shurob. If completed, Rogun would even allow Tajikistan to export electricity, most notably to its power-starved southern neighbor, Afghanistan, as well as Pakistan. In turn, last week Tajik President Emomalii Rahmon telephoned Afghan President Hamid Karzai, who stated that he backed Tajik initiatives on use of regional water resources. Iran is preparing to put its cash into a "quality of life" project that Tajiks, who have suffered electricity cuts this winter of up to 14 hours, will view with gratitude. (UPI)

FIVE CHILDREN KILLED IN AFGHAN SHOOT-OUT WITH TALIBAN

13 February

Five children have been killed after a shoot-out between Taliban insurgents and Australian soldiers in Afghanistan, the Australian Defense Force said. The incident happened on February 12 in Oruzgan Province, where Australia's special forces were clearing a number of houses in the hunt for insurgents, defense officials said in a statement. "Current reporting indicates that those killed include a suspected insurgent and, sadly, local nationals including five children killed, and two children and two adults injured," it said. Those injured in the incident were treated at the scene and evacuated for further treatment. Australia's military has started an inquiry into the incident, but said the rules of engagement for forces in Afghanistan were designed to minimize civilian casualties. Australia has around 1,100 troops in Afghanistan, based mainly in the southern Uruzgan Province where the Taliban has a strong presence. (Reuters)

ALIYEV: AZERBAIJAN NEEDS NON-OIL GROWTH

13 February

Azerbaijan needs to advance in competitive areas in the non-oil sector in order to reduce dependency on the energy market, the Azeri president said. "We should increase attention to the establishment of competitive areas of production in order to lower Azerbaijan's dependence on oil production and oil prices," President Ilham Aliyev told Russian news agency Itar-Tass. He said the role of his country in the regional energy sector was in line with national objectives, but Azerbaijan needs to put a greater emphasis on other areas that are just as important as the oil sector. Aliyev hailed the job growth in the non-oil sector as a major achievement in economic and social reform, pointing to the creation of more than 500,000 new jobs in the past five years. "All these show that the social program and economic reforms carried out in our country are effective," he said. Azerbaijan sits on major energy reserves, notably in offshore fields in the Caspian Sea. It also hosts several major oil and pipelines. The U.S. Energy Information Administration says Azerbaijan produced roughly 860,000 barrels of oil per day in 2007. (UPI)

TURKISH, RUSSIAN PRESIDENTS ON CAUCASUS SECURITY

14 February

Russia and Turkey are willing to strengthen security in the Caucasus and cooperate on "supplementary" security measures for the region, the Turkish and Russian Presidents said after meeting in Moscow on February 13. "Our countries are naturally interested to strengthen security in the Caucasus region and to have a proper security in the Black Sea [region]. In this, we are fully in solidarity on number of issues, which can strengthen this security," Dmitry Medvedev said at a joint news conference with his Turkish counterpart, Abdullah Gul. "The August crisis, last year, showed how important coordination between all countries of the region is when such threat emerges; and it also showed, that we can deal with such problems ourselves, without the involvement of outside powers," he added. A joint declaration signed by the two presidents reads: "Recognizing that the stability and security of the Eurasian region is directly linked to the stability in the South Caucasus, the parties [Turkey and Russia] agree that effective measures are needed to be taken for resolving the frozen conflicts, which represent potential destabilizing

element for the South Caucasus. In this context, the parties consider the Turkish-proposed initiative of creating the Caucasus Stability and Cooperation Platform as constructive and supplementary to the already existing international mechanisms, which is capable to remove lack of confidence between the parties involved in the frozen conflicts." (Civil Georgia)

MOSCOW AFFIRMS COMMERCIAL TERMS OF U.S. CARGO TRANSIT TO AFGHANISTAN

3 February

Terms of U.S. non-military cargo transit to Afghanistan across Russia will be commercial, a source at the Russian Foreign Ministry's information and press department told Interfax on Monday. "The transit will be conducted on commercial terms. Most probably the first trains will cross Russia within the next few days," he said. The precise date of the transit is so far unknown, the source said. The first freight train is being formed in Riga, he added. (Interfax)

GEORGIA TO PAY FOR WATER FROM S. OSSETIA FROM APRIL 1

17 February

The South Ossetian government made a decision that consumers should pay for fresh and irrigation water supplied to Georgia from South Ossetia from April 1 at its meeting chaired by South Ossetian President Eduard Kokoity on Tuesday. "Inform the Georgian side about this. And we need to carry out relevant financial work in order to set the price for using water," Kokoity said. "If the Georgian side refuses, we will stop supplying water to the Georgian territory," the president said. (Interfax)

NEW TAJIK-AFGHAN-IRANIAN TV NETWORK DISCUSSED

18 February

Iran and Tajikistan are discussing the creation of a Tajik-Afghan-Iranian TV network with Iran providing the equipment, Afghanistan providing the air time, and Tajikistan providing the studios. Tajik State Committee of TV and Radio Director Asadullo Rahmonov told RFE/RL's Tajik Service that the director of Iranian International Broadcasting arrived in Dushanbe on February 17 to discuss ways to strengthen the two countries' partnership, which was established in 2007. Experts say that the main obstacles to the launching of the

network are Afghanistan's multilingual audiences and policy differences between the countries, such as Iran's insistence that female moderators wear the hijab. Rahmonov said he hopes that the sides can find a compromise on all issues. (RFE/RL)

KAZAKHSTAN NEEDS PIPELINE DEVELOPMENTS

18 February

Kazakhstan needs major expansions to handle the spike in oil exports expected once the offshore Kashagan field enters full production, Chevron says. Ian MacDonald, a vice president at the California-based supermajor, said Kazakhstan needs to boost its export capacity quickly to cope with anticipated production levels. The Wall Street Journal reported Wednesday. "With Kazakhstan expected to add a minimum of over 1.5 million barrels a day of production over the coming 15 years, it needs new, dedicated and reliable export capacity, and it needs it urgently," he said. The offshore Kashagan field was one of the biggest oil discoveries in the past three decades, but it lacks an export pipeline to hand exports. Plans are in the works for an export system to bring oil from western Kazakhstan to Caspian ports and on to oil transit routes in Azerbaijan. That project, however, may not be completed by the time full production at Kashagan begins, the Journal said. Kazakh oil made its debut, meanwhile, through the Baku-Tbilisi-Ceyhan oil pipeline, the world's second longest, in November, with promises of 120 million barrels of oil per year. This marked the first time crude oil outside Azerbaijan transited to the pipeline. (UPI)

GEORGIA, ABKHAZIA, S.OSSETIA AGREE ON TERMS OF PREVENTING, DEALING WITH INCIDENTS - KARASIN

18 February

The fourth round of the international discussions in Geneva has produced proposals on joint mechanisms of preventing incidents and dealing with them, leader of the Russian delegation, Deputy Foreign Minister Grigory Karasin said. "It is the first joint agreement to have been reached by the three Caucasus states after the end of the Georgian aggression in August 2008 and after Abkhazia and South Ossetia gained independence," Karasin told Interfax after the consultations on Wednesday. (Interfax)

OBAMA ORDERS 17,000 MORE U.S. TROOPS TO AFGHANISTAN

18 February

U.S. President Barack Obama, in his first major military decision as commander-in-chief, has ordered 17,000 more troops to Afghanistan to tackle an intensifying insurgency, the White House has said. But in an interview with Canadian Broadcasting Corporation (CBC) ahead of a visit to that country, Obama also said military means alone would not solve the problem. U.S. officials have said Washington and its allies are not winning in Afghanistan, more than seven years after toppling the Taliban for giving sanctuary to Al-Qaeda leaders thought to have been responsible for the September 11 attacks on the United States in 2001. The extra 17,000 troops will increase the U.S. military presence in Afghanistan by more than 40 percent. "This increase is necessary to stabilize a deteriorating situation in Afghanistan, which has not received the strategic attention, direction and resources it urgently requires," Obama said in a statement. But in an interview with CBC, Obama said, "I'm absolutely convinced that you cannot solve the problem of Afghanistan, the Taliban, the spread of extremism in that region, solely through military means." He added: "We're going to have use diplomacy, we're going to have to use development, and my hope is that in conversations that I have with [Canadian] Prime Minister [Stephen] Harper that he and I end up seeing the importance of a comprehensive strategy." (Reuters)

TAJIKISTAN, UZBEKISTAN SIGN DEAL ON POWER, WATER

19 February

Tajikistan and Uzbekistan have signed an agreement establishing closer economic ties that will ease the electricity shortage in Tajikistan, RFE/RL's Tajik Service reports. Parts of Tajikistan have been without power since December, when Uzbekistan stopped allowing Turkmen electricity to be carried to Tajikistan. Other regions of Tajikistan have been rationing electricity. The two countries also approved a debt repayment timetable, trading Uzbekistan's \$16 million debt to Tajikistan for Uzbek natural gas. A water-sharing agreement was also put in place for a reservoir in northern Tajikistan. Tajik experts say the agreement should ease the strained relations between the two countries. (RFE/RL)

KYRGYZ PARLIAMENT APPROVES US AIRBASE CLOSURE

19 February

Kyrgyzstan's parliament has voted overwhelmingly to approve a government proposal to close a U.S. air base in the Central Asian nation. The Manas air base is a vital transit point for U.S.-led troops fighting in nearby Afghanistan. The decision was passed by 78 votes to 1 against by the legislature dominated by the ruling Ak Zhol party. The closing of Manas, the last remaining U.S. air base in Central Asia, would pose a challenge to new U.S. President Barack Obama's plans to send additional troops to Afghanistan to boost NATO and U.S. military efforts to defeat Taliban insurgents. It also comes at a time of heightened rivalry between Moscow and Washington for control of Central Asia, a vast former Soviet region still seen by Russia as part of its traditional sphere of interest. "Once all the procedures are over, an official eviction vote will be sent and after that the United States will be given 180 days to wrap up operations at the air base," Kyrgyz Foreign Minister Kadyrbek Sarbayev told journalists after the vote. He could not say when President Kurmanbek Bakiev was expected to sign the approved decision into law, but under Kyrgyz that should happen within a month. Bakiev announced the closure plans this month after accepting more than \$2 billion in aid and credit from traditional ally Russia. He has accused Washington of refusing to pay more rent for use of the base. "We are definitely voting to close the base. We do not need other countries' military bases here. We have always called for strategic cooperation with Russia," Communist Party deputy Iskhak Masaliev said, addressing the chamber. Russia has an air base of its own in Kyrgyzstan, located in Kant just a few dozens kilometers away from Manas. (Reuters)

TAJIKISTAN TO ALLOW NONMILITARY NATO CARGO FOR AFGHANISTAN

20 February

Tajikistan has agreed to allow the transit of NATO nonmilitary cargo through its territory to Afghanistan, a U.S. military commander has said on Tajik state television. "Tajikistan has allowed [NATO] to use its railways and roads to transit non-military goods to Afghanistan," said Rear Admiral Mark Harnitchek of the U.S. Transportation Command. The announcement comes amid reports that Kyrgyz President Kurmanbek Bakiev has signed a bill approved by lawmakers on February 19 to evict U.S. forces from

a key air base near Bishkek to supply operations in Afghanistan. The president's signature reportedly clears the way for an eviction notice to the U.S. military, although U.S. Defense Secretary Robert Gates suggested during a NATO meeting in Poland that the U.S. is still negotiating for continued use of the facility. Reports suggest Washington is examining other possible supply routes, including talks with neighboring Uzbekistan for the possible use of a base there. U.S. and NATO officials have expressed particular concern over Russia's presumed role in encouraging the Kyrgyz move, which was announced by Bakiev during a visit to Moscow that included a Kremlin promise of billions of dollars in aid. (Reuters)

KAZAKH OIL THROUGH BTC INCREASING

20 February
The volume of oil from Kazakhstan through the Baku-Tbilisi-Ceyhan pipeline increased steadily since coming online in 2008, statistics show. Kazakh oil from the Kashagan field in the Caspian Sea made its debut through the BTC in November, marking the first time crude oil outside Azerbaijan transited to the 1,099-mile pipeline. The State Statistics Committee of Azerbaijan reported January transports of Kazakh oil reached 120,825 barrels, up from 89,475 barrels in November, the Azerbaijan Business Center reports. In January, the Turkish state-owned pipeline firm, BOTAS, said crude oil transports through the BTC passed 500 million barrels from June 2006. Kazakhstan's national KazMunaiGas and the State Oil Co. of Azerbaijan Republic in November agreed on the principles of the Trans-Caspian project to ferry natural resources across the Caspian Sea to ports in Azerbaijan. The initial stages of the Trans-Caspian system will transport 500,000 barrels per day across the Caspian, with later estimates eclipsing 1 million bpd. (UPI)

AZERBAIJAN SAYS THREE SOLDIERS KILLED NEAR REBEL REGION

23 February

Three Azerbaijani soldiers have been killed and one wounded recently in incidents near the breakaway region of Nagorno-Karabakh, the Azerbaijani Defense Ministry has said. Two were killed by a land mine on February 20. Another died and one was wounded in weekend clashes with Armenian soldiers over their tense front line. Ethnic-Armenian separatists, backed by Armenia, fought a war in the 1990s to throw off Azerbaijan's control over Nagorno-Karabakh. About 30,000 people were

killed. A fragile cease-fire is in force but a peace accord has never been signed and incidents are common. The dispute is one of the most intractable and potentially explosive in a region vital for oil and gas supplies from Azerbaijani reserves in the Caspian Sea to Western Europe. "As a result of violations of the cease-fire by the Armenian side, from February 19 to 22 three Azerbaijani soldiers died," an Azerbaijani Defense Ministry spokesman told Reuters. Azerbaijani ANS television reported four had died and one was wounded. Nagorno-Karabakh's de facto authorities reported "cease-fire violations," including sniper fire, through February 21, saying its soldiers had been forced to return fire. There were no Armenian casualties. International mediators from the Organization for Security and Cooperation in Europe (OSCE) said last month they hoped for an accord between Caucasus neighbors Armenia and Azerbaijan in the near future. Analysts say last year's war between Russia and Georgia, when Russia repelled a Georgian assault on breakaway South Ossetia, has lent fresh impetus to mediation efforts on Nagorno-Karabakh. (Reuters)

IRAN, USA READY TO NORMALIZE RELATIONS - IRANIAN MINISTER

23 February

Tehran expects that Iranian-U.S. relations will normalize, Iranian Foreign Minister Manuchehr Motaki has said in an interview with Azerbaijan's ANS TV channel. "Both sides have agreed to turn their ties in a positive direction. One side is speaking of change and the other - Iranian - has agreed to that," he said commenting on the intentions of the new U.S. administration to conduct a direct dialogue with Iran. "We are a very sincere state and we are following the changes they have made in their attitude. On our own part we are taking steps corresponding to the changes in their attitude," Motaki said. The minister said he favors defining the future agenda in all other spheres, not just the nuclear program. "All talk about this [nuclear] program is over already. In any case America is facing various issues and we hope that the right steps will be taken in the direction of bilateral relations," he said. (Interfax-Azerbaijan)

KAZAKH POLICE ROUND UP ILLEGAL MIGRANTS

23 February

Almaty city police have detained 111 illegal immigrants in one of the city's market places,

RFE/RL's Tajik Service reports. The majority of those detained on February 20 were from neighboring Central Asian states. Saltanat Azirbek of the Almaty city police told RFE/RL that 74 Tajiks, 14 Kyrgyz, and 10 Uzbeks were among those arrested. She said the majority of the migrants are likely to be deported, adding that the court will decide their fate. Almaty police say that more than 43,000 labor migrants in Kazakhstan's largest city broke the law last year. (RFE/RL)

EBRD SAYS TURKMENISTAN PROGRESSED ECONOMICALLY

24 February

The European Bank for Reconstruction and Development's (EBRD) transition report for 2008 says that Turkmenistan has made progress in carrying out economic reforms, though the country still has a long way to go in reforming and growing its private sector. Heike Harmgart, an EBRD economist and delegation head for Turkmenistan, told RFE/RL's Turkmen Service that "the gas export price has developed very positively for Turkmenistan, [and] that actually supports the overall growth forecast for Turkmenistan" and its GDP growth forecast. Harmgart added that the key challenge for Turkmenistan to reach its growth potential lies in private-sector reforms and reform of the banking sector. (RFE/RL)

AZERBAIJANI OIL GROUP SUSPENDS ENVIRONMENTAL PROJECTS

24 February

State Oil Company of the Republic of Azerbaijan (SOCAR) President Rovnag Abdullayev has announced that the company has frozen indefinitely money allocated for 2009 environmental projects due to financial constraints brought on by the global financial crisis, RFE/RL's Azerbaijani Service reports. SOCAR's environmental program said last year that it had cleaned up 500 acres of environmentally damaged property since 2006, a fraction of the total amount of land that requires clean-up. SOCAR had announced reductions in oil output earlier this year, and last month crude-oil production in Azerbaijan dropped by 8 percent, to 3.6 million tons, as international oil prices also fell by more than two-thirds against last summer's highs. (RFE/RL)

SOCAR ANNOUNCES CRUDE TENDER

25 February

The State Oil Co. of Azerbaijan Republic announced a tender for 600,000 barrels of its crude oil at the Supsa port available at the end of March. SOCAR said it would announce the results of the tender for the Azeri Light Crude volumes Thursday, the Azeri Press Agency reports. The 515-mile Baku-Supsa pipeline to the port boasts a maximum capacity of 55 million barrels of crude oil per year. Azeri customs agencies in December said

its vast pipeline networks accounted for 211.7 million barrels of oil exports as of Dec. 1. In 2008 Baku-Supsa carried some 2.6 million barrels of oil. The Baku-Tbilisi-Ceyhan oil pipeline, the world's second longest, carries the bulk of the oil from the region. Operators at the offshore Azeri-Chirag-Guneshli complex said oil production fell short of 2008 goals, with the latest estimates from BP Azerbaijan at just 668,500 barrels per day, compared with 900,000 bpd in 2007. (UPI)