

Central Asia-Caucasus Analyst

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CENTRAL ASIA
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THE CENTRAL ASIA-CAUCASUS ANALYST

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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.

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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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CHINA-RUSSIA SUMMIT MEETING UNDERScores ENTENTE OVER CENTRAL ASIA

Robert M. Cutler

The success of the recent summit between the Russian and Chinese presidents is significant not only for agreements reached between the two sides but also for the absence of disagreements over Central Asia. Speculation abounded after the Soviet break-up over possible Russo-Chinese competition; but by the time the U.S. military established a presence in Central Asia in support of Afghanistan operations, a Sino-Russian entente had begun to close over the region. Today Sino-Russian energy cooperation outside Central Asia and deepening political elite-level friendships signify the re-assertion of that bilateral entente as the U.S. diminishes its profile in Central Asia.

BACKGROUND: Following the break-up of the Soviet Union, observers inevitably speculated about prospects for Russo-Chinese competition in Central Asia, but this did not occur any more than did the Turkish-Iranian competition in the region that was equally loudly bruited at the time. In the 1990s Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan came together as the “Shanghai-5” to deal with post-Soviet border issues before deciding in 2001 to establish the Shanghai Cooperation Organization (SCO). The recent meeting between Vladimir Putin and Xi Jinping marks the three-fifths waypoint since the entry into force of the bilateral Treaty of Good-Neighborliness, Friendship and Cooperation signed in 2001 (itself the first bilateral treaty since a similarly-named treaty of 1951), which provides for a “strategic cooperative partnership” that should be developed “from a long-term view and in a comprehensive manner.” The recent bilateral summit is remarkable for how little Central Asia or the SCO figured in discussions. This development signifies the further decline of regional multilateralism

despite outsiders’ continuing attention to the SCO. It marks a continuing Sino-Russian emphasis on bilateral economic and strategic cooperation, in which Central Asia is just one part, and no longer even the most significant one.

The most recent set of summit agreements is a follow-on to those signed last May between the two sides at a trade and investment forum in Moscow. Reports of the recent summit naturally highlighted agreements over energy cooperation, but one principal agreement that was little noted was the quadripartite Memorandum of Understanding (MoU) signed by Russia’s State Bank for Foreign Economic Affairs (Vnesheconombank, VEB), the Russian Direct Investment Fund (RDIF, announced in 2011 as a vehicle for then-President Dmitri Medvedev’s never-implemented 2009 privatization program, and of which VEB now owns the whole management company), China Investment Corporation (CIC, the sovereign wealth fund) and the China-Russia Investment Fund (CRIF, a creature of RDIF and CIC). The MoU itself



identified three main themes for future Chinese investment in Russia: favored projects will (1) require growth of new infrastructure and logistics, (2) focus on natural-resource processing including products with high value-added, and/or (3) target leading manufacturing and services companies. This means rapid development of heavy industries, and does not involve any Central Asian participation or economic activity in the Central Asian countries.

IMPLICATIONS: Many of the agreements reached are really agreements to agree rather than done deals. However, neutral observers close to the events have noticed a definite change in the atmosphere. Xi had expressed a desire to make his first foreign trip as president something to remember. Towards the end of last year the Kremlin touted that figures for Chinese-Russian trade turnover in 2012 could reach US\$ 90 billion. Although such projections are typically very optimistic and sometimes conflate actual trade with agreements signed for future trade, nevertheless by last autumn China had become Russia's largest trade partner, due significantly to the energy commodities.

The just-mentioned MoU complements the various agreements over energy cooperation

discussed at the summit. Two of these are of especial note. First, the planned doubling of the Skovorodino-Daqing oil pipeline to over 600,000 barrels per day looks to be on track. If actually doubled, the pipeline could account for close to 10 percent of Chinese oil demand. Thus the agreement signed March 22 provides for Rosneft to borrow US\$ 2 billion from China Development Bank, guaranteed by 25 years of oil supplies. As part of the quid pro quo, the Chinese energy firm CNPC will explore three offshore Arctic areas for oil together with Rosneft and a few Western energy majors.

Second, an agreement for export of Siberian gas now appears possible. The two countries have been unable to agree on a price for over a decade, as Russia has asked for European prices, US\$ 300-400 per thousand cubic meters (tcm) while China bid no more than what it offers to Turkmenistan, about US\$ 250/tcm. According to reports, CNPC may finesse this difference with an advance payment for up to 30 years of gas, in essence an upfront interest-free loan. Moreover, the two sides have agreed to develop the "Eastern" route for the gas rather than the "Western" route, which Russia had preferred. Designed for an eventual capacity of 61 billion cubic meters per year (bcm/y) the so-called Power of Siberia project would begin with 38 bcm/y projected to start in 2018, exported through a roughly 2,500-mile gas pipeline to be constructed from Yakutia (Chayanda field) to Vladivostok via Khabarovsk.

The opening up of Siberian and Arctic energy projects to Chinese participation cements the gravitation of Russia's

international economic policy towards the East. Exactly how this will play out remains to be seen; but as in the Rosneft-CNPC venture, we might expect, in its general contours, some combination of Chinese capital, Western capital as well as technology, and Russian land and labor. As for Central Asia, Russia is complacent about Chinese economic penetration there; even in the energy sector so long as this prevents the region's resources from reaching the European markets, over which Russia has sought for over a decade to establish a dominant role through North Stream, South Stream, and other well-known projects. Although Russia is still a presence in the Central Asian energy complex, it does not seek, as does China, to extract large amounts of hydrocarbons there for its own domestic use. Rather, Moscow prefers to leverage capital from Beijing to develop the Siberia and the Russian Far East. Still, China will drive hard bargains.

CONCLUSIONS: The success of the recent summit meeting between Presidents Putin and Xi is significant, not only for agreements that were reached between the two sides, but also for the notable absence of disagreement over Central Asian issues. The Shanghai Cooperation Organization (SCO) remains largely a shell that houses a periodic forum for multilateral meetings, where the most interesting conversations are the bilateral ones in the corridors. Yet the formation of a U.S.-sponsored "global anti-terrorist coalition" has not undercut the basis for the Sino-Russian rapprochement signaled by SCO's institutionalization and, separately, also by the first bilateral Sino-

Russian treaty in fifty years, both in 2001. Indeed, one of the few permanent organs of the SCO with any practical significance is the Regional Anti-Terrorist Structure (RATS) headquartered in Tashkent. Cooperation in this field with the Russian-led Collective Security Treaty Organization (CSTO) has been institutionalized since the end of the last decade, with appropriate lip-service to China's campaign against the "Three Evils" (terrorism, separatism, and extremism) that Western human-rights NGOs have long contended conflates terrorism with domestic dissent in practice. The Central Asian states have shown China exceptional deference in these matters.

If in the 1970s under the Nixon Administration the U.S. played the "China card" against (Soviet) Russia, then today Russia is returning the favor. By the beginning of the present century, a Sino-Russian entente had already begun gradually to close over Central Asia. Unexpected U.S. "boots on the ground" in support of the military operations in Afghanistan seemed for a while to monkey-wrench that pattern. But today, with the U.S. extricating itself from that adventure, from which it distracted itself fatally in Iraq, that entente is re-asserting itself even if the economic presence of European, Asian, and indeed some U.S. economic-industrial interests prevents this from approaching a status of condominium ("joint rule").

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NEW DOMESTIC CRISIS IN ARMENIA IN THE WAKE OF ANOTHER DISPUTED ELECTION

Mikayel Zolyan

After the February 18 presidential elections, opposition leader Raffi Hovannisian refused to accept the official results, which awarded victory to incumbent President Serzh Sargsyan. Opposition supporters rallied in Yerevan and in the regions in defense of his claims. They are struggling to sustain the momentum of the protests, at least before the May local elections in Yerevan. These developments may influence the ability of Armenian government to react to external challenges at a time when Armenia is facing a serious dilemma in terms of its foreign policy: while negotiations on an Association Agreement with the EU are advancing, Armenia is also facing pressure from Russia to join the so called Eurasian project.

BACKGROUND: Few surprises were expected in the Armenian presidential election on February 18, 2013. Incumbent President Sargsyan was projected to win without serious competition. Yet, expectations existed that this presidential election would be the first in Armenia in a decade without major accusations of fraud, and that the opposition would hence accept the incumbent's victory as legitimate. The opposition has refused to accept the official results in virtually all of Armenia's previous presidential elections. This pattern repeated itself in 1996, 1998, 2003 and 2008. Moreover, after the latest presidential election in 2008, opposition protests lead to a government crackdown and the tragedy of March 1, which left 10 people dead and dozens wounded. Disputed elections and post-election protests have contributed to a lack of government legitimacy, which has in turn resulted in the government's inability to carry out reforms necessary for Armenia's development, further contributing to the

government's alienation from Armenian society.

This year the government camp hoped to break this vicious cycle and resolve the legitimacy issue. These hopes were based on the fact that the most influential political forces, including Levon Ter-Petrosyan's Armenian National Congress, Gagik Tsarukyan's Prosperous Armenia Party, as well as Dashnaktsutyun, one of Armenia's oldest parties, had decided not to take part in the elections. Hovannisian, a former Minister of Foreign Affairs who was born in the U.S. and moved to Armenia in the early 1990s, remained the only credible opposition leader in the race, but was expected to gain no more than 10-15 percent of the votes.

However, even according to official results, Hovannisian received just below 37 percent, quite a substantial figure considering post-Soviet realities. Sargsyan was declared the winner with 58 percent, but Hovannisian refused to accept the official results and accused the government of large-scale election fraud. In the days following the



elections, Hovannisian's supporters held rallies in Yerevan and in the regions. The meeting between Hovannisian and Sargsyan on February 21 did not produce any substantial results and Hovannisian held a hunger strike for 20 days to protest the official results.

Today rallies, albeit drawing smaller crowds than the initial one, continue on a weekly basis. Hovannisian continues to declare himself the president-elect, though he has also stated his readiness to negotiate with Sargsyan. Hovannisian's supporters are planning to hold an alternative inauguration for Hovannisian on April 9, the day when Sargsyan is expected to be sworn in as president. Calls to participate in a "march of a million" on April 9 to show support for Hovannisian have been circulating on the Internet. Hovannisian's movement has already been dubbed "barevolution", a combination of the Armenian word "barev," meaning hello, and the English word "revolution" – a reference to Hovannisian's pre-election campaigning when went door to door and greeted strangers in the street.

IMPLICATIONS: While the accuracy of Hovannisian's claims is difficult to assess, they present a serious challenge for the

authorities since a large portion of Armenian society tends to mistrust the official results given the country's history of disputed elections. Opposition supporters claim that the authorities used inflated voter lists, and that these non-existent votes were crucial to Sargsyan's victory. They argue that the government's refusal to make public the voting protocols with voters' signatures means that the government is trying to hide something. They also stress that Hovannisian won with an overwhelming majority in urban areas, while rural areas were taken by Sargsyan, arguing that voting in urban areas is more difficult to falsify, given the large numbers of voters and presence of journalists and observers, both international and local, while rural precincts are more vulnerable to voter intimidation and ballot stuffing.

While these arguments may appear convincing to those familiar with the electoral technologies often used by incumbents in post-Soviet countries, Hovannisian's camp still lacks hard evidence to prove his victory, and was further weakened by the Constitutional Court's decision to reject the appeals by Hovannisian and another candidate, Andrias Ghukasyan. Yet, Armenia's Constitutional Court has a history of siding with the incumbent government, implying that neither the protesters themselves, nor the wider public are likely to accept the court's decision.

Importantly for the government camp, its version of events seems to have been largely accepted by the international community, albeit with certain reservations. While

international observers criticized certain aspects of the elections, particularly the extensive use of administrative resources by Sargsyan's campaign, they did not go so far as to question the official election results, and even praised the campaign in some respects, e.g. for a relatively balanced media coverage. Sargsyan's position was boosted by the congratulations he received from all Armenia's neighbors except Azerbaijan, as well as from important global and regional players including Russia, the U.S. and the EU.

In this context, Hovannisian's camp faces serious difficulties in sustaining the momentum of the protests. Other opposition parties, which did not take part in the elections, have so far failed to voice unequivocal support for Hovannisian, while they have also distanced themselves from the government's position. Hovannisian's camp hopes to rally support through participation in the Yerevan City Council election, scheduled for May 5. Yerevan is home to more than one third of Armenia's population; therefore taking control of the capital could be instrumental in changing the power balance. However, the attempt to create a united electoral block failed: major opposition parties will run on separate lists.

The government camp, however, is also in a difficult situation. If facing a political crisis, Sargsyan will have to rely on the party's old guard, the corrupt bureaucracy, as well as the so called "oligarchs," wealthy businessmen with government connections who control large chunks of Armenia's economy. This will dramatically curb the government's ability to fight corruption and

monopolization of Armenia's economy, to attract foreign investment and implement other reforms that Armenia badly needs. The government camp is also weakened by contradictions between various groups within the ruling elite: while Sargsyan's Republican Party seems monolithic on the outside, it is internally fractured between various factions, clans and interest groups.

The lack of domestic legitimacy can also influence the government's ability to respond to external challenges. A questionable position at home will impede Sargsyan's room for maneuver regarding such sensitive issues as Armenia-Turkey relations and Nagorno-Karabakh conflict resolution. Consecutive Armenian governments have been reluctant to appear weak and compromising on these issues and it is highly improbable that Sargsyan will take such a risk if confronted with a protest movement at home.

The domestic situation will also complicate Sargsyan's relations with the West as well as Russia. Sargsyan's government has played a complicated game in recent years, seeking to balance its strategic security partnership with Russia with closer ties to the EU, particularly within the framework of the Eastern Partnership program. Armenia signed a visa facilitation agreement with the EU in December 2012, and is expected to sign an Association agreement and a Deep and Comprehensive Free Trade Agreement in the near future. Simultaneously, Armenia faces pressure from Russia to join the so called Eurasian project, particularly the Customs Union between Russia, Belarus and Kazakhstan, which will exclude the

possibility of similar arrangements with the EU. Armenia is moving closer to a stage where it will have to make a choice between the two alternatives, which will be extremely difficult for a government that enjoys limited legitimacy and is vulnerable to external pressures.

CONCLUSIONS: Even though Sargsyan was declared the winner, the elections on February 18 failed to resolve the issue of government legitimacy. Moreover, allegations of fraud, Hovannisian's hunger-strike and mass rallies in his support have

further contributed to the erosion legitimacy. While it is at this point difficult to predict how the standoff between government and opposition will end, it is obvious that the government was weakened by the recent elections and faces serious issues at home, which may also influence its ability to deal with external challenges.

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DAGESTAN: LOCAL LEADER TO SELECT FORMAT FOR GUBERNATORIAL ELECTIONS

Kevin Daniel Leahy

In light of the mass anti-government street protests witnessed by Moscow in late 2011, Russia's then-President, Dmitri Medvedev, proposed introducing a system whereby regional governors would be selected by way of popular elections. This proposal raised the specter of direct gubernatorial elections taking place in regional jurisdictions throughout the Russian Federation for the first time since 2004. But while there is a possibility that eligible voters in many of these regions will henceforth be allowed to cast their ballots for the candidate of their choosing, it seems that voters in the North Caucasus, specifically those in the republic of Dagestan, will be denied this opportunity.

BACKGROUND: Medvedev's proposals encountered resistance from the outset and were actually pre-empted by comments made by Vladimir Putin – at that time Russia's prime minister – to the effect that the staging of direct gubernatorial elections ought to be subject to a “presidential filter,” as has been the case since 2004. Despite this proviso, subsequent remarks made by Putin indicated that he was not in principle opposed to such elections; he later described Medvedev's initiative as “necessary and correct.” The prime minister's cautious welcome was echoed by Vladislav Surkov, then a senior aide to President Medvedev, who described the proposed reform as a reaction to a popular desire to see change in a “dull and stupid system.”

That Putin and Surkov should welcome Medvedev's initiative, however guardedly, was interesting indeed, for these two men were responsible for the nationwide abolition of direct gubernatorial elections in 2004. The decision to dispense with such elections was directly preceded by the

dramatic events which transpired that September at school no. 1 in Beslan, North Ossetia. During a speech he gave to a gathering of Russian businesspeople in mid-2004, Surkov emphasized the dangers he regarded as inherent in the pre-Beslan system of direct elections. It was not that the voters could not be trusted, he reasoned, “[b]ut wouldn't it be the last straw if Dagestan elects some Wahhabi follower [a radical Islamist] as its governor?”

The possibility of such an inimical scenario occurring is one of the main reasons why Putin was so keen to keep a “presidential filter” in situ. No doubt mindful of these concerns, Medvedev's initiative provided for consultations between prospective candidates and the Russian president. When pressed by reporters on this subject, however, a spokesperson for Medvedev conceded that, contrary to the post-2004 arrangement, candidates would be entitled to run for office irrespective of their “consultation” with the president.



A bill giving legal form to this political initiative was passed by Russia's legislature in April 2012 and came into force in June of that year. However, by March 2012 Vladimir Putin had returned to the Russian presidency whereupon a steady dilution of his predecessor's initiative commenced. The federal government introduced so-called "municipal filters" (a designation evocative of Putin's presidential filter) which made it incumbent on prospective gubernatorial candidates to gain the approval of 5-10 percent of the deputies in their regional legislature, a forbidding prospect.

IMPLICATIONS: With two gubernatorial contests scheduled to take place in the North Caucasus in 2013 (in Dagestan and Ingushetia) this revision of Medvedev's proposals assumed particular urgency as 2012 drew to a close. In December, a group of deputies in the State Duma introduced a bill that would allow the sitting governor to choose the mechanism whereby any pending gubernatorial selection process would be carried out in his or her jurisdiction. At the governor's discretion, elections might be carried out under conditions of universal suffrage ("one man, one vote"), or alternatively, the successful candidate might

be determined by a restricted franchise such as a regional legislature. Indeed, according to some interpretations of this legislation, the presiding governor is within his or her rights to simply dispense altogether with the need for elections should he or she see fit. This bill was passed by the Russian State Duma in January 2013 and is almost certain to be signed into law.

The implications of this controversial bill for the forthcoming gubernatorial elections in Dagestan have been the object of extended discussion in Makhachkala for several months. Magomed salam Magomedov, the Head (Governor) of Dagestan, announced that he was in favor of direct popular elections taking place in his jurisdiction. He predicted that the staging of such an electoral process in Dagestan, the first such in its history, would be "successful." Barely a month after expressing these sentiments, however, Magomedov was prevailed upon to resign from his office, with some analysts drawing a direct correlation between his fall from grace and his public position on this issue.

The new acting head of Dagestan is Ramzan Abdulatipov, at various times an academic, a diplomat and a parliamentarian, who has echoed his predecessor's call for direct elections in Dagestan later this year. "I have always stood for general elections, but we must take into account the situation, look at the place, consult with deputies and the public. This will determine what action will be taken on the issue of direct elections," said Abdulatipov recently. However, some sources have cast doubt on whether Abdulatipov's enthusiasm is genuine by

suggesting that (not unlike Putin and Surkov) his interest in participatory democracy may be subject to various caveats and perhaps even to more fundamental misgivings.

It should be acknowledged that even were direct elections to proceed this year in Dagestan, the “presidential filters” advocated by Vladimir Putin would ensure, in one way or another, that Surkov’s doomsday scenario would not come to pass. For example, the possibility of a firebrand Mullah persuading even a small minority of Dagestan’s parliamentary body – let alone any of the political parties currently active in the republic – to publicly endorse his candidacy would be remote at best. However, while the idea of an Islamic extremist coming to power in Dagestan via this new electoral process might seem far-fetched, the prospect of some other rogue party – an independent secular politician, or a truculent oligarch perhaps – furthering their influence by way of this process remains a possibility.

Notwithstanding this analysis, it is all but certain now that direct elections will not take place in Dagestan, or indeed in Ingushetia, this year. Citing a source in the Putin administration, *Kommersant* reported in early March that the Kremlin had already decided not to permit any such elections in the North Caucasus region. It is interesting to note that the Kremlin’s designated manager for the upcoming electoral cycle is Vyacheslav Volodin, a senior aide to President Putin. Abdulatipov has already signaled his desire to lead Dagestan beyond his current remit. With September 8 confirmed as the date on which the elections

are to be held, we can expect an announcement from Abdulatipov shortly as to the exact conditions they will be conducted under.

CONCLUSIONS: Although he has been careful to rule nothing out publicly, it is likely that Abdulatipov will ultimately exercise his soon-to-be acquired prerogative under federal law by announcing that the next leader of Dagestan will not be chosen by way of direct, popular elections. Instead, it seems probable that a more limited franchise – perhaps the 121 members of the republic’s legislature, the People’s Assembly – will be tasked with selecting a suitable gubernatorial candidate.

Abdulatipov will doubtless accept full responsibility for this decision, arguing that “the time is not right” for direct elections to take place in the republic. Such an argument is not altogether invalid: the political situation in the republic is subject to a volatile multi-ethnic tapestry featuring competing clans and business interests. Moreover, as mentioned previously, Dagestan has no historical experience of direct elections on a grand scale and it is impossible to confidently predict that they will not adversely affect inter-ethnic relations.

Abdulatipov, Putin and Volodin are unwilling to commission such a grand democratic experiment in Dagestan. All three are fearful of the ethnic strife such an election could give rise to. However, for the latter two, and for other policymakers in the Russian elite, there is the additional fear that an unregulated process of this type might be manipulated by certain independent parties

(oligarchs, Islamists etc.) to install a powerful new political actor in Makhachkala that would be less sensitive to Moscow's strategic interests in the region.

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TURKMENISTAN SETS AMBITIOUS PRODUCTION TARGETS AMIDST BLEAK GAS SALE PROSPECTS

Tavus Rejepova

High level government officials from Turkmenistan's oil and gas sector have announced that the country plans to produce 250 billion cubic meters (bcm) and export 200 bcm of natural gas per year by 2030. Yet, while these highly ambitious production figures and several events in Europe, Asia, and Middle East to promote investment in Turkmenistan's energy sector over the past six months demonstrate the government's optimism, western energy companies are increasingly wary of the country's energy export plans and the future of large-scale projects such as the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline.

BACKGROUND: On November 14-16, 2012 Turkmenistan organized the 17th International Oil & Gas Conference (OGT) and Exhibition 2012 entitled "the Main Trends of the Development of the Oil and Gas Industry of Turkmenistan and International Cooperation." Over the past seventeen years, OGT has become an important regional and international event that provides access to the latest information on national and regional developments in the oil and gas sectors. The conference focused on assessing the achievements in the oil and gas sectors, covering all aspects of exploration, production, storage, transportation, distribution and oil and gas processing. High level Turkmen officials talked about the investment opportunities in Turkmenistan's refining, gas processing and petrochemicals industries, seeking to attract foreign direct investment and future prospects of Turkmenistan's oil and gas sector.

Under the coordination of the Asian Development Bank (ADB), a high level delegation from TAPI member countries

went to Singapore, London and New York City in October 2012 to seek funding and create a consortium for constructing and operating the TAPI pipeline. On March 13-14, 2013, Turkmenistan organized a major oil and gas conference in Dubai and re-iterated its plans to diversify its energy export routes in the near future.

International oil companies (IOCs) maintain a strong interest in Turkmenistan's major lucrative oil and gas fields despite the government's unwillingness to give these IOCs access to the country's onshore resources. The government firmly believes that Turkmenistan can reach the production target of 250 bcm by 2030 without granting any Production Sharing Agreements (PSAs) or concessions to IOCs for development and ownership of onshore resources.

In July 2012, Turkmenistan committed to supply 65 bcm to China by 2020. According to CNPC's (China National Petroleum Corporation) General Manager in Turkmenistan, over 40 bcm in total was supplied to China since the Turkmenistan-China pipeline was inaugurated in 2009. As



per the estimates of Gaffney, Cline & Associates, Turkmenistan's Galkynysh (former South Yoloten) gas field contains the world's second largest gas deposit of over 24 trillion cubic meters of natural gas.

During the OGT 2012, Turkmenistan's authorities announced plans to start production in Galkynysh in 2013. The state company Turkmengaz granted service contracts worth US\$ 9.7 billion to companies such as Petrofac International LLC and Gulf Oil & Gaz Fze (UAE), CNPC Chuangqing Drilling Engineering Company Limited (China) and a Consortium of LG International Corporation and Hyundai Engineering Co. Ltd. (South Korea) for industrial development of the Galkynysh field. Kakageldi Abdullayev, former Acting Minister of the Oil & Gas Industry and Mineral Resources and current Chairman of Turkmengaz, said Turkmenistan is currently operating about 60 out of 160 known gas fields in the country.

The World Investment Report (WIR) 2012, released by the UN Conference on Trade and Development (UNCTAD) for 2009-11, notes that Turkmenistan ranks among top ten countries following Hong Kong, China, Belgium, Singapore and a few others that

attracted the highest level of investment. According to WIR, the estimated investments in Turkmenistan reached US\$ 3.168 billion in 2011, US\$ 3.631 billion in 2010 and US\$ 4.553 billion in 2009.

Turkmen energy officials have stated that of all investments in Turkmenistan, 57 percent was channeled toward the energy sector. However, it is not clear whether these figures also include China's US\$ 8 billion loans to Turkmenistan in 2010-11 in exchange for gas supplies. Given the figures above, it appears that Turkmenistan is both attracting enough investment and possesses sufficient gas deposits to live up to its commitment to produce 250 bcm by 2030.

IMPLICATIONS:

However, Turkmenistan's ambitious production plans and constant rhetoric about the "vast" investment opportunities in Turkmenistan will not suffice to convince potential investors as long as IOCs are not offered access to onshore resources. Despite the government's ambitious production plans and extensive regional tours in search of investors, Turkmenistan's business climate remains challenging with limited opportunities for IOCs, as noted in the Business Monitor International's (BMI) Turkmenistan Oil & Gas Report Q2 2013. In order to attract genuine foreign direct investment into the country and meet the annual production target of 250 bcm in 2030, Turkmenistan is confronted with the choice to grant IOCs upstream concessions or face the challenge of extracting gas by itself and let IOCs operate under service contracts only.

Major IOCs are reluctant to participate in projects such as TAPI and the Trans-Caspian pipeline unless given upstream concessions or other arrangements that would guarantee potential returns. "Moving from where Turkmenistan is today to where you want to be in 2030 will require long-term partnership and tens of billions of US Dollars of investment" said Douglas Uchikura of Chevron Onshore Europe.

The two U.S. giants Chevron and ExxonMobil, Britain's BP, Germany's RWE and Malaysia's Petronas are seeking a role in this project but no breakthroughs are expected in negotiations in the near future. Expecting no concession offers or PSAs from the government, ConocoPhillips closed down its office in Ashgabat and left Turkmenistan in the fall of 2012. Others are maintaining a toehold in Turkmenistan's market under small service contracts, hoping that the investment climate for onshore resources improves and that the government changes its policy of "selling gas at the border." BMI advises that "increasing foreign participation in the gas upstream would ensure Turkmenistan has access to the technical and capital requirements to best commercialize its substantial gas resources."

According to the International Energy Agency's (IEA) forecasts, Turkmenistan's production level will reach 138 bcm in 2035, which is considerably lower than the government's forecasted 250 bcm in 2030. The U.S. Senate Foreign Relations Committee report, "[Energy and Security from the Caspian to Europe](#)" released in December 2012, also states that the energy

majority such as IOCs not only have the necessary technology and expertise to develop Turkmenistan's challenging gas fields, but an energy major's ownership of part of the gas through PSAs will be necessary to make advance sales to privately finance the Trans-Caspian and TAPI pipelines.

Turkmenistan's insistence on selling gas at its borders and the inability of its energy officials to offer alternative options for building any multinational pipeline projects jeopardize the construction of major gas pipelines like TAPI. Pakistan and India are slowly losing hope in TAPI due to Turkmenistan's sluggish decision making process and inability to reach a price deal with neighboring Afghanistan, and have already started looking for alternatives to TAPI. On March 11, 2013, Mahmoud Ahmadinejad and his Pakistani counterpart Asif Ali Zardari officially inaugurated the final construction phase of the close to US\$ 6 billion Iran-Pakistan (IP) gas pipeline project, expected to carry over 7 bcm of Iranian gas to Pakistan annually from 2014. Despite U.S. objections, Iran is seeking to extend this pipeline to India and can possibly offer a more realistic alternative to TAPI by bypassing the unstable Afghanistan. On the other hand, Afghanistan is also planning to survey and develop more of its own gas deposits in its northern regions close to Turkmenistan's giant gas fields of Dovletabat and Galkynysh.

CONCLUSIONS: Turkmenistan's energy conferences and investment forums are increasingly becoming an arena for the

government to gather major international oil and gas companies without offering realistic opportunities to invest in Turkmenistan. The government's efforts to create incentives for foreign direct investment by avoiding double taxation and providing guarantees against nationalization are only minor steps in improving the investment climate. The government needs to create a genuine business-friendly environment to reap the benefits of its oil and gas sector. The prospects for implementing gas pipelines such as TAPI are complicated given the security concerns in neighboring Afghanistan and a lack of political will on

Turkmen side. If the current situation continues, it will take decades before the country reaches a production level of 250 bcm per year. Establishing long-term partnerships with IOCs is important in order to reach what some energy experts term "off-the-charts" production levels. Turkmenistan cannot merely rely on "selling gas at the border" and needs to proactively develop a realistic business model and export infrastructure to take advantage of its energy resources.

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FIELD REPORTS

POOR PERFORMANCE OF ENERGY COMPANIES COMPROMISE KAZAKHSTAN'S 2013 GROWTH AGENDA

Georgiy Voloshin

While Kazakhstan prepares to launch a series of costly infrastructure projects, including the modernization of its three oil refineries and the much-awaited start of production at the Kashagan oil field, the economic data recently unveiled by the country's Statistics Agency and major energy companies are far from reassuring. In early 2013, Kazakhstan's statistics body stated in its annual report that the Kazakhstani economy had grown by a meager 0.5 percent in 2012 as compared to 3.5 percent one year before, let alone the spectacular figures reported in earlier periods both before and even during the world financial crisis. According to most expert opinions, the structure of Kazakhstan's economy, which is still heavily dependent on the lucrative oil and gas sector as well as mining activities, has largely remained unchanged, despite a broad range of initiatives aimed at greater diversification. At the same time, the major energy companies whose cumulative revenue permitted the country to prosper in better times now face multiple challenges and can

further undermine Kazakhstan's growth prospects.

In late March 2013, Kazakhmys Plc, one of the world's ten mining giants and the biggest employer on Kazakhstan's domestic market, made public its consolidated performance in 2012. While the company registered US\$ 930 million worth of net earnings only two years ago, its 2012 results have turned out to be much less positive, revealing US\$ 2.27 billion worth of losses. These highly alarming statistics are mostly due to the deteriorating market position of the Eurasian Natural Resources Corporation (ENRC), another energy giant in which Kazakhmys has an important stake. However, even if the ENRC-driven losses are temporarily excluded from the overall calculation, Kazakhmys's growth opportunities are likely to remain dim, in the context of flagging production and recurrent strikes by Kazakhstani workers demanding safer working conditions, higher wages and more responsible management.

Kazakhstan's richest man Vladimir Kim, who has been at the helm of Kazakhmys' activities since August 1997, announced last May that he was going to step down as the chairman of its board of directors. The next board meeting scheduled for mid-May 2013 is expected to anoint Kim's successor already hand-picked from among the company's top managers. This change of leadership is therefore taking place against the backdrop of Kazakhmys's eroding performance, with its shares losing 8.6 percent in value at the London Stock Exchange (LSE) after the publication of last year's financial results. Furthermore, increased uncertainty about the copper giant's ability to restore its erstwhile standing has recently led the LSE to remove it from the FTSE-100 list, which includes the most successfully traded companies, in favor of the less prestigious FTSE-250 category. According to Kazakhstani experts at Halyk Finance, this move would most certainly entail an additional devaluation of Kazakhmys's shares and further reduce its market attractiveness.

As regards ENRC owned by Kazakhmys, Kazakhstan's Ministry of Finance and a troika of homegrown oligarchs, it was forced by last year's poor market trends to write off over US\$ 1.5 billion worth of its assets' value. While its contract with Russia's Rusal first concluded in 2006 will run through 2015, the low price of argil dictated by the downward market trends is likely to keep ENRC's margin of maneuver extremely limited and its chances to regain profitability as low. A similarly difficult situation has been observed at ArcelorMittal Temirtau whose

steel production dropped from 3.2 million tons in 2011 to 2.8 million tons last year. In early 2013, the company's management announced the forthcoming departure of more than 2,000 employees by the end of 2013 (it currently employs over 23,000 people).

Finally, Kazakhstan's oil and gas sector was not immune to the troubling dynamics already observed in the case of the aforementioned mining giants. In 2012, oil production in Kazakhstan was at the level of 66.5 million tons, which is 1.9 percent lower than the year before. This is also the worst result of the last ten years. Moreover, KazMunaiGas Exploration & Production, the industrial branch of Kazakhstan's state-owned oil and gas company, scored poorly in terms of net earnings (US\$ 1.1 billion between January and December 2012 or 23 percent lower than in 2011), mostly due to the unending fallout from massive strikes organized by oil workers in Mangistau province in May-December 2011. Conversely, the financial performance of KazTransOil, in charge of exporting Kazakhstani oil to foreign markets, was highly positive in 2012, although this achievement should be primarily attributed to a temporary rise in external demand and favorable domestic tax amendments. Overall, the continuing uncertainty on the world's energy markets could seriously compromise Kazakhstan's ability to implement its ambitious plans, while its economy continues to rely on revenues from the sale of hydrocarbons and other minerals, in spite of the official rhetoric in favor of better diversification.

LATEST ROUND OF GENEVA TALKS YIELDS LITTLE PROGRESS IN GEORGIA – RUSSIA RELATIONS

Eka Janashia

The most recent round of the Geneva Talks, held on March 27 in Switzerland, did not yield any concrete results but confirmed the continuity of negotiations under this format. The inability to reach a non-use-of-force agreement continues to be one of the most challenging issues preventing the participants, Georgia, Russia, Abkhazia and South Ossetia, to overcome the deadlock in the discussions.

The co-chairs of the 23rd round of Geneva Talks, the EU's Special Representative Philippe Lefort, the UN Representative Antti Turunen and the OSCE Special Representative for Conflicts Andrii Deshchytsia, declared that negotiations on the draft "statement of the Geneva International Discussions on non-use-of-force" would certainly continue. Whereas the first deputy foreign minister and head of the Georgian delegation, Davit Zalkaliani, welcomed the co-chairs' efforts, he stressed that "this declaration [referring to the draft statement] should not be considered as a substitute for Russia's unilateral pledge on non-use-of-force."

President Mikheil Saakashvili unilaterally declared adherence to non-use-of-force while addressing the European Parliament in Strasbourg on November 23, 2010. To buttress the pledge, the Georgian parliament adopted a resolution restating the same aspiration on March 7, 2013. In the recent talks, the Georgian side reiterated its call on

Moscow to reciprocate the move and fulfill its obligation. As Russia does not consider itself to be a party to the conflict, it contests this demand from the Georgian side. Tbilisi's insistence that Russia should renounce the use of force is "completely unacceptable" for Moscow according to Grigory Karasin, Russia's Deputy Foreign Minister and head of the Russian delegation.

Another important security issue put forward by Georgian delegates involved the so called "borderization" process along the occupation line in South Ossetia. According to Georgian delegates, South Ossetian authorities have recently intensified the installation of barbed wire fences in the yards and gardens of the residents of villages Tamarasheni-Dvani, Atotsi, Didi Khurvaleti, and Gugutiantkari, preventing locals from moving on their own properties and artificially creating barriers that reduce the population's living standards.

The Georgian side insisted that the imposition of severe restrictions on the freedom of movement across the occupied regions negatively affects local inhabitants' social and economic rights as well as their access to education and healthcare and blamed Russia for the violation of these fundamental human rights. In response, Karasin said that from December 2012 to March 2013, 31,300 persons and 7,200 vehicles had intersected the so called Georgian-Ossetian administrative boundary line

(ABL). The corresponding numbers for the Georgian-Abkhazian ABL in the same period amount to 120,900 and 7,500, suggesting that the movement of the people residing within and in the vicinity of the conflict regions is not restricted, Karasin said. In an attempt to provide practical solutions to humanitarian and human rights issues, Georgia proposed that the South Ossetian side agrees on the restoration of gas supply to the Akhgori district, which the latter has previously rejected.

While the negotiations produced no tangible results, the sides agreed to support humanitarian visits under the auspices of the UNHCR to facilitate interaction between the divided communities and preserve cultural heritage situated in the occupied territories. The issue of missing persons and the safe and dignified return of IDPs and refugees to the places of their original residence were also discussed, in contrast to previous rounds that have failed to address the issue of IDPs.

The Georgian side raised concerns over the Gali Incident Prevention and Response Mechanism (IPRM), which is suspended since March 2012, and underlined the need to resume its operation. Sukhumi has denounced the head of the EU Monitoring Mission in Georgia (EUMM) Andrzej Tyszkiewicz as an “undesirable person on Abkhaz territory.”

After the discussions of the two working groups operating in the framework of the Geneva talks, a “short information meeting”

took place. During a preceding round in November 2012, Sukhumi insisted that the working groups respectively focusing on security and humanitarian issues are merged. Against this backdrop, the co-chairs emphasized that the “short meeting” merely aimed to ensure better communication among the participants and should in “no way be interpreted as a change of format.”

The recent Geneva Talks confirmed that the general positions of the Georgian side remain unchanged with the new government. Nevertheless, before the Geneva meeting, Georgia’s State Minister for Reintegration Paata Zakareishvili stressed that the new authorities are taking a “flexible and result-oriented approach,” reflected in avoiding radical rhetoric while addressing issues related to breakaway Abkhazia and South Ossetia. According to Zakareishvili, this approach has already yielded results through the moderation of rhetoric coming from Sokhumi and Tskhinvali as well.

However, at a meeting of senior clerics from the Georgian and Russian Orthodox Churches shortly after the 23rd round of Geneva discussions, Abkhazia’s leader Alexander Ankvab stated that “ties between the Abkhaz clergy, Abkhaz Orthodox Christians and the Georgian Orthodox Church have long been lost and cannot be restored.” Hence, Zakareishvili’s assertion regarding the shift in rhetoric on the Abkhaz and Ossetian sides seems premature.

PRESSURE ON DOMESTIC OPPOSITION INCREASE IN AZERBAIJAN

Mina Muradova

Azerbaijani opposition leader Ilgar Mammadov has released an open letter from prison, reading: “Here in prison it is particularly striking to see how the international community is ridiculously trying to play by civilized rules with the rich Azerbaijani dictatorship, while the latter is laughing right in the face of that community and of its own citizens...”

The letter was issued one month after Mammadov’s arrest on February 4, 2013, along with another prominent opposition leader, Tofiq Yaqublu. Mammadov chairs the opposition REAL movement. The two were charged with organizing mass disorder in relation to protests in the town of Ismayilli, 150 kilometers northwest of the capital. Both opposition leaders could face up to three years in jail if found guilty.

Mammadov states in the letter that he visited Ismayilli briefly at daytime, when things were calm, between two nights of violent clashes between locals and the police in order “to observe the situation ..., now, Azerbaijani authorities accuse me of organizing that spontaneous, but unfortunately violent protest against corruption...” Many observers consider the arrests to be politically motivated as REAL has nominated Mammadov for the 2013 Presidential elections appointed on October, while Yaqublu is deputy chairman of the opposition Musavat Party.

On March 14, the prison term of both men was extended by two months. Mammadov’s lawyer stated that “the investigators fear that Ilgar Mammadov could run away, but the reality is that investigation cannot present any real evidence to justify the charge.”

March has also seen several arrests of activists in the opposition NIDA Citizen’s Movement. On March 30, a court in Baku ordered two board members of NIDA to be held for up to three months in pre-trial detention. Two alumni of the Central European University, Rashadat Akhundov and Uzeyir Mammadli, faced charges of illegal weapons possession and up to eight years in prison if found guilty.

Four other NIDA activists were arrested for alleged possession of illegal drugs and weapons before a March 10 protest over the noncombat deaths of conscripts in the Azerbaijani army. NIDA Board member Rashad Hasanov and members Mahammad Azizov, Bakhtiyar Guliyev, and Shahin Novruzlu were arrested in early March on charges of possession of drugs, arms and explosives in their houses. They were kept in the Ministry of National Security (MNS) and filmed under pressure giving testimonies against the movement’s board members. Their families believe that the drugs and ordnance was planted by MNS.

All six members of NIDA were active on social networks, especially Facebook, calling

on supporters to join the protest held on March 10, 2013 under the slogan "Let's put an end to soldier's deaths!" Hundreds of youth and civil activists gathered to protest the non-combat death of a military conscript and alleged abuse of conscripts. Human rights activists stated that Azerbaijani police used excessive force to disperse the peaceful protest in downtown Baku. Police used water cannons and teargas against the protesters who offered no resistance.

"The Azerbaijani government shows no shame with its blatant trampling on people's fundamental right to express their grievances peacefully," said Rachel Denber, deputy Europe and Central Asia director at Human Rights Watch. "The authorities should immediately release those detained and investigate police behavior."

According to Ali Huseynli, chairman of the parliamentary committee on legal policy and state building, the police acted in accordance with European standards during the protest and had grounds to use special tools to disperse the protesters. The protest "... was supported and instigated by anti-Azerbaijan forces abroad and the radical opposition. Of course, those forces abroad are providing financial and technical support," Huseynli stated to APA agency.

On March 30, the NIDA Movement issued a statement defining the recent arrests as the "authorities' tool of repression and influence

against NIDA" and demanded the "immediate release of illegally detained members." The statement says that NIDA "does not fear these arrests" and "will continue our struggle with more determination." NIDA's manifest explicitly declines violence and encourages non-violent methods of struggle in its activities.

In recent weeks, media has also reported on the detention of Dashqin Malikov, a young member of Azerbaijan's People's Front Party who was also charged with illegal drug possession. In addition, the recently elected leader of the opposition Musavat Party branch in Nakhchivan has been hospitalized after being severely beaten by unknown attackers.

Political observers consider this year's pre-election environment to be different from previous ones and predict an increase of social and political tension in the country ahead of the elections in October. Political analyst Zafar Guliyev thinks this year is risky for the current government, as it is headed for elections without strong external support from international partners and international organizations, while the number of domestic protesters is increasing. The recent repressive actions of the authorities, who show a tendency to declare any opponent as an enemy of state, could therefore be interpreted as a sign of perceived weakness on part of the Azerbaijani regime.

US TO CUT AID TO CENTRAL ASIA

Aigul Kasymova

According to the Congressional Budget Justification by the Department of State (FY2013), the U.S. will make a cut of 13 percent in aid to the Central Asian region. Assistance from the U.S. will stress the importance of security programs in the region rather than programs aimed at the economy, politics, health and/or education. Despite the drop in aid, U.S. policies toward Kyrgyzstan will continue to support programs aimed at assisting the country's development.

Kyrgyzstan has since its independence in 1991, similar to its neighboring countries in Central Asia, become a new market for foreign aid. The U.S. Agency for International Development (USAID) has been providing assistance to Kyrgyzstan since 1992 and is the largest single-country donor organization in the country. According to USAID, it has provided around US\$ 460 million in programs aimed at supporting the country's development in various sectors such as health care, the economy and democratic institutions. In Kyrgyzstan, USAID works in various fields such as education, economic growth and trade, agriculture and food security, global health, democracy, human rights and governance, and crisis and conflict management.

Over 21 years of assistance from USAID, Kyrgyzstan has overcome various obstacles as a nation-state. It went from being an authoritarian regime to having a parliamentary system. With two revolutions

in 2005 and 2010 which were accompanied by violence, Kyrgyzstan is today working towards establishing government accountability and transparency. The flow of foreign aid greatly assists the government in creating a favorable environment in this regard.

According to the U.S. Annual Submission to the OECD/DAC via USAID's Foreign Assistance Database, Kyrgyzstan received US\$ 54.1 million from USAID alone in 2011, and an additional US\$ 4.3 million from the U.S. Department of State. The same year, Central Asia as a region received a total of US\$ 28.9 million from both U.S. agencies. Out of all Central Asian countries, Kyrgyzstan was the largest recipient of USAID assistance in the region in 2011, whereas Uzbekistan received the smallest amount. The State Department's aid to the region of Central Asia in 2013 would amount in total to US\$ 118.3 million. Compared to 2012, the overall aid to the region has been cut by US\$ 15.3 million. However, despite the drop in aid, U.S. security assistance to the region will remain largely unchanged.

According to the Department of State's foreign assistance program, the main U.S. objective in Kyrgyzstan in 2013 will be "the consolidation of democratic gains in the country and the development of a more representative government that provides improved access to justice and better citizen services." In other words, the U.S. will in 2013 allocate funding for programs that will focus on supporting democratic processes

and building democratic institutions, respect for human rights and rule of law, and decreasing the level of inter-ethnic conflict. Like in previous years, the U.S. will continue to support the development of a parliamentary system and engagement of civil society.

Under the Peace and Security category, the U.S. will work with the government of Kyrgyzstan to fight corruption and raise overall capacity and professionalism. Programs under this category will focus on combating human trafficking, improving border control and security, increase the level of military professionals, reforming the state's security structure, and fight international terrorism including early detection of terrorist threats. It is clear that such programs aim to secure the borders of Central Asian states ahead of NATO's 2014 withdrawal from Afghanistan.

Under the Governing Justly and Democratically category, aid programs aim to assist the government in developing a

more transparent and representative government. In order to achieve the aim, programs will focus on the parliament, applicable ministries, civil society representatives and media. Previous assistance from the U.S. to Kyrgyzstan has targeted programs aimed at supporting parliament and civil society.

Despite the cut in aid, Kyrgyzstan remains the biggest recipient of U.S. foreign assistance among the Central Asian countries. With the new foreign assistance program for 2013, it becomes evident that with troops pulling out in Afghanistan in 2014, the U.S. is preparing so called "transit countries," Kyrgyzstan being one of them, for future threats involving international terrorism. Thus, despite the recommended cut in aid to the region, programs directed toward security will continue to receive approximately the same amount of aid. Programs under the Peace and Security category will hence be the main focus of U.S. foreign aid policy in Kyrgyzstan.