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# HANGING IN THE TRADE BALANCE: IS FREE TRADE A CURSE FOR KAZAKHSTAN?

*Sergei Gretskey*

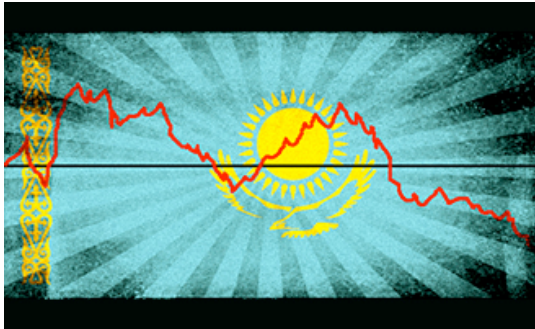
*The creation of the Eurasian Economic Union (EEU) was presented as a vehicle for economic development of Belarus, Kazakhstan, and Russia as a result of the removal of barriers to free movement of goods, capital, and labor between the three states and creating a common market. Its inauguration on January 1, 2015, happened at a very inopportune moment as Russian economy, the largest of the three, was sharply contracting due to falling global commodity prices and western sanctions over Ukraine. Economic recession in Russia has had a negative ripple effect on Belarusian and Kazakhstani economies, which led some in Kazakhstan to second-guess the benefits of joining the EEU.*

**BACKGROUND:** Instead of the expected free flow of goods across the Kazakhstani-Russian border as of January 1, we got what many rushed to call a trade war between the two countries. Media has been full of stories about the seizure of tons of beef, poultry meat, milk, chocolate, and other foodstuffs crossing to Kazakhstan from Russia allegedly for “not meeting technical regulations.” Russia reciprocated by refusing to let tons of Kazakhstani cheese and other dairy products into Russia for “not meeting quality and safety requirements.” On March 5, a “temporary” ban on imports of Russian gasoline was put in place as President Nazarbayev invoked EEU regulations that allowed protective measures, such as temporary bans on imports, in exceptional cases. Curiously, the latter measure was taken despite the chronic shortage of gasoline in Kazakhstan. Kazakhstani businessmen representing other sectors

of the economy are now advocating a ban on Russian imports.

The immediate explanation for this turn of events is the ruble’s depreciation by 47 percent against the tenge in 2014, resulting in a displacement of domestic products with significantly cheaper Russian imports. Though Kazakhstan’s National Bank anticipated the ruble devaluation and devalued the tenge in February 2014, it did so only by 19 percent and has so far resisted further devaluation. Some experts anticipate that the double-digit inflation in Russia will eventually close the price gap on the same goods between the two countries. This, however, has not yet happened and remains a hypothetical scenario. Meanwhile, Kazakhstan’s National Bank spends, according to the estimates of Moody’s Investors Service, US\$ 2-3 billion per month to maintain the tenge’s current exchange rate, while Russian products continue to flood the

country, pushing local producers out of the market.



(Source: Wikimedia Commons, S. Sutherland)

A case in point is the automobile industry. In November 2013, construction began on a car factory in Ust-Kamenogorsk, a city near the Russian border, to produce 120,000 vehicles a year, three times the automobile production in the country. The decision to build the factory was based on the expectation that under the EEU free trade regime, car exports to Russia would bring windfall revenues. In 2014, Kazakhstan planned to assemble 60,000 cars, 50 percent more than in 2013. Instead, by January 2015, the official automobile market had contracted by 28.5 percent, with the share of domestically produced cars dropping by 62.2 percent. As a result, the market share of cars assembled in Kazakhstan is only 12 percent, compared to 62 percent for cars assembled in Russia.

This is a good illustration of the overall trade balance between the two countries. In January 2015, Russian imports to Kazakhstan increased by 7.3 percent year-on-year, while Kazakhstani exports to Russia dropped by 41.2 percent.

**IMPLICATIONS:** Is Russia – and Kazakhstan’s membership in the EEU – to blame for Kazakhstan’s negative trade balance with its northern neighbor and the current misfortunes of Kazakhstani manufacturers? Are Kazakhstani entrepreneurs right when they blame the EEU for creating unfair competition? It is instructive that within the same timeframe, Kazakhstan’s trade balance with other EEU members reflect similar dynamics. Kazakhstan’s imports of Belarusian and Armenian products have increased by 19.8 and 33.4 percent respectively, while Kazakhstan’s exports to Belarus dropped by 46.1 percent and to Armenia by much more than that. It is also telling that a 20 percent decline in Kazakhstan’s trade turnover with Russia and Belarus in 2014, which resulted in the negative trade balance, comes on the back of a 20 percent increase in Kazakhstan’s trade turnover with China.

It is clear that currency fluctuations can only partially explain Kazakhstan’s negative trade balance with Russia (and other EEU member-states). At issue is the fact that Kazakhstan has little to offer the outside world other than its natural resources, whose share of Kazakhstan’s exports has been consistently increasing. In 1995, the share of oil and metals in Kazakhstan’s total exports was 42.3 percent. In 2007, it was already 76.4 percent, and had by 2014 increased to 89.2 percent.

In this light, the main underlying cause of Kazakhstan’s negative trade balance with Russia and other EEU countries is the lack of economic diversification.

Despite multiple programs adopted by the government to promote diversification, these have so far yielded no tangible results. Even in sectors where Kazakhstan could be expected to have a comparative advantage, such as oil and agriculture, one can observe a failure to create value-added products. Whereas 18 out of 25 million tons of crude oil were refined in Kazakhstan in 1991, only 14 out of 80 million tons are today. The country imports up to 40 percent of its gasoline and other fuels from Russia. In fact, Kazakhstan's membership in the EEU, and the Customs Union which preceded it, annually saves the country US\$ 500 million in custom duties that otherwise would have been imposed. As for agriculture, Kazakhstan had a net-export of 180,000 tons of meat in 1990, but by 2011 had a net-import of 20,000 tons. The government set the goal of boosting export-oriented meat production in the country and to export 60,000 tons to Russia and other countries by 2014. Instead, it imported 7,500 tons from Ukraine in 2013.

Today, Kazakhstan imports over 90 percent of its consumption of powder milk, cheese, butter and other dairy products. The only success is in grain production, where Kazakhstan has become one of the world's top ten grain producers and the number one flour exporter.

The lack of diversification is partially explained by the inaccessibility of bank loans for startup businesses, a problem that also hampers the growth of existing companies. Kazakhstan's

National Bank has enabled high interest rates on loans exacted by the banks by setting a ceiling at 56 percent annually in 2012. As a result, the real sector of the economy avoids banks and looks elsewhere to fund its operation and growth. Only 22 to 24 percent of companies, particularly small and medium-sized enterprises, seek bank loans whereas the rest resort to self-financing. High interest rates on bank loans and a lack of capital to finance the expansion of existing companies, which would have enabled them to achieve economies of scale, explains why Kazakhstani products are both expensive and priced out of the market at the slightest change of regional or global terms of trade.

**CONCLUSIONS:** The current predicament of Kazakhstan's negative trade balance with Russia (and other EEU members) is self-inflicted. Complaints by Kazakhstani producers that they are priced out of the domestic market by cheaper Russian imports should be directed not against the EEU, but economic policies of their own government. The same complaints were heard from the same producers during the 2008-2010 global financial and economic crisis. Yet little has been done to increase the competitiveness of Kazakhstani products and to avoid their displacement by cheaper imports. Until the country takes effective steps to diversify its economy away from reliance on the extraction of its mineral resources, it is bound to repeatedly experience negative trade balances. This is valid for any free trade agreement that Kazakhstan has committed to, and will occur at the

slightest change in the terms of trade (as measured by the effect of the decline in raw material and agricultural prices on the difference between exports and imports). In this sense, Kazakhstan's membership in any free trade economic block, be it the EEU or WTO, will indeed have a negative impact on its domestic producers in non-extractive sectors. WTO agreements do not cover oil and other mineral resources, which compose about 90 percent of Kazakhstan's exports. Therefore, the only benefit for Kazakhstan, which liberalized its trade policy well before its accession to the EEU and pending accession to the WTO in 2015, is cheap imports.

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# SHIFTING RUSSIAN POLICIES TOWARDS ALLIED SEPARATIST REGIONS

*Michael Hikari Cecire*

*In late May 2015, Russia signaled its abandonment of the “Novorossiya” project in eastern Ukraine, which came only a few months after Moscow signed “integration treaties” with the breakaway Georgian regions of Abkhazia and South Ossetia. While the end result was not uniform in each of these cases, these recent developments point to a return to status quo ante Russian policies towards friendly separatist regimes – namely, their utility not only as local proxies, but as means of positive as well as negative leverage within their origin countries.*

**BACKGROUND:** In late May 2015, unexpectedly and almost abruptly, Russian officials, state organs, and even pro-Moscow separatists “indefinitely” put on hold plans for the creation of “Novorossiya.” Originally, the Russia-aligned Novorossiya project was envisioned as a separatist confederation between the self-proclaimed Luhansk and Donetsk people’s republics as well as any future pro-Russia breakaway regions in eastern Ukraine. But amid severe economic pain induced by international sanctions, and on the heels of a diplomatic offensive by U.S. Secretary of State John Kerry in Sochi, the ambitious Novorossiya agenda was shelved.

The demise of Novorossiya was only the most recent wrinkle in a series of fluctuations among Russia’s constellation of loyalist breakaway regimes along its periphery. Only several months earlier, between December 2014 and February 2015, Russia signed “integration treaties” with the *de facto* governments of

Abkhazia and South Ossetia in Georgia. While the wording of the agreements varied in scale and scope, much like the two regions themselves, the end result was clear: Moscow had extended its control over both rebel statelets, despite having formally recognized each region’s “independence” following its brief war with Georgia in 2008.

However, the disruption of the Novorossiya project as well as the Abkhazian and South Ossetian integration treaties illustrate not only a shift in tactical Russian policies towards friendly separatist regimes, but a return to the strategic *status quo ante*. Instead, rather than merely using separatists as local proxies, their chief purpose is to provide means of both positive as well as negative leverage over their origin countries. This represents a return to a standard policy from which Moscow deviated following the 2008 war with Georgia, when it recognized the “independence” of Abkhazia and South Ossetia despite

having already comprehensively defeated Georgian military forces on the battlefield.



(Source: Wikimedia Commons, [Flickr User Firdaus Omar](#), S. Sutherland)

While Russia's leadership in 2008 likely hoped that its swift military victory combined with the psychological blow of Russian recognition of Abkhazia and South Ossetia would topple then-President Mikheil Saakashvili and his government, Saakashvili's party was only later ousted in 2012 through democratic elections. Meanwhile, Russian political leverage in Georgia had considerably dwindled. The war and the recognition of the Georgian breakaway territories had transmuted Moscow's role from an irascible broker to an occupying power. Short of the threat of renewed invasion, Russia had few means or mechanisms for representing its interests in Tbilisi after 2008. Diplomatic relations had been severed, economic ties were marginal, and Georgia had long ago already weaned itself from Russian energy supplies.

**IMPLICATIONS:** The conclusion of the Novorossiia project and the integration treaties with the Georgian separatist regimes represent two sides of the same coin. Moscow is positioning its proxies in both Ukraine

and Georgia to have an optimal impact on policy considerations in Kiev and Tbilisi, respectively. With the threat of Novorossiia lifted, and Russian officials once again calling for a solution that preserves the idea of a united Ukraine (albeit without Crimea), eastern Ukrainian rebels are being positioned to maximize Russian leverage over the Kiev government. Conversely, while a Ukraine shorn of the Donbas would be a territorial catastrophe, the remaining population would be more united, largely pro-Kiev, and predominantly Western facing in its geopolitical instincts.

In Georgia, although Abkhazia and South Ossetia are too far divorced from Tbilisi to serve as comparable leverage to eastern Ukraine, Moscow has sought to integrate both regions as deeply within Russia as possible without outright annexation. This is the primary reason why Moscow is unlikely to annex either region, including the under populated, oblast-sized South Ossetia. Moscow effectively exercises considerable direct control over both regions – and especially South Ossetia, whose relationship to Moscow is by now largely indistinguishable from official annexation – but does not wish to compound the mistake made in 2008 in recognizing each region's independence.

Instead, Moscow hopes to dangle the possibility of returning the separatist regions, and particularly South Ossetia, to Georgian control under certain circumstances. In Georgia, growing pro-Russia civil society groups and anti-West political movements can and



have declared their ability to win key concessions from Russia on trade, economic development, and territorial reintegration. Should a pro-Moscow force come to power in Georgia, Moscow may be prepared (or present the appearance of intent) to reverse its earlier determination and return South Ossetia as a means of empowering local political allies. In short, control over South Ossetia could be relinquished as a means of obtaining fealty from Georgia as a whole.

The Russian annexation of Crimea in early 2014 is, in many respects, the exception that proves the rule. In the case of Crimea, Russian intent was relatively straightforward and unambiguous. Crimea was treated not as an instrument of leverage over Kiev, but as a key strategic asset to be secured as well as a historical accident, in the Russian view, to be corrected. If anything, Moscow's decision not to recognize Crimean independence could serve as a kind of indictment on the recognition strategy that Russia employed in 2008 in Abkhazia and South Ossetia. Similarly, separatist elections in the Donbas region were met by statements of "respect" in Russia, rather than recognition, as was widely expected.

Russia is unlikely to annex the existing separatist regions in Ukraine or Georgia, as it hopes instead to better utilize those regions as means of leverage against the Kiev and Tbilisi governments. However, this strategy neither reduces the potential for instability nor makes Russian influence any less malignant. Although Russian

annexation of these regions would have the benefit of being symbolically rich, it offers few strategic benefits for Moscow and could even jeopardize the durability of Russian sway over the origin state. Russian support for titular unity would not necessarily impede its influence – such as in Moldova's Transnistria region now, and Abkhazia and South Ossetia before 2008 – but offers Russia a certain degree of strategic flexibility.

This diplomatic ambiguity is, in many respects, an extension of Russian hybrid warfare. Russia maintains the trappings and observes the protocols as a neutral observer – and uses its preponderance of power and influence to shape outcomes in its favor while attempting to appear as a constructive partner. This has the effect of preserving Russian interests at the expense of conflict resolution. However, this "constructive" Russian role will likely contribute to further splitting threat perceptions in Europe, as some states will welcome a less openly aggressive Russian approach, while others will perceive it to be a more insidious threat.

This shifting Russian approach will also divide opinions within the victimized states themselves. Russian support for separatist forces invariably raises territorial integrity in these states as a top political issue. Yet it is through concessions to Moscow that at least some territorial grievances could be most easily and quickly ameliorated. Like with South Ossetia in Georgia, Moscow would be likely to "reward" at least some eastern Ukrainian territory

to the political movement that successfully secures key foreign policy concessions that favor Russian interests.

**CONCLUSIONS:** Western hesitation to take a more active role in limiting and countering Russian actions in Ukraine and Georgia may leave their governments with few choices but to accede to concessions as a matter of political or even state survival. The 2014 NATO summit in Wales and the recent Eastern Partnership summit in Riga showcase the continued political toxicity of Euro-Atlantic expansion within Europe. The promise of Euro-Atlantic conditionality, a font of European soft power, appears comprehensively, and perhaps permanently, derailed. Ukraine, Georgia, and Moldova remain on the outside of Euro-Atlantic retrenchment with few appreciable mechanisms for continued, long-term integration. Shifting Russian policy towards separatist proxies is likely meant to harness growing local frustration with Western quiescence in Ukraine and Georgia as a means of expanding Russian influence through political means.

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# AFGHANISTAN-PAKISTAN INTELLIGENCE COOPERATION AND THE PROSPECT OF PEACE

*Sudha Ramachandran*

*Pakistan and Afghanistan have signed a landmark deal providing for cooperation between their intelligence agencies. Jointly tackling terrorism is the ostensible aim of the pact. Will it help bring the Taliban to the negotiation table and contribute to Afghan reconciliation or will it trigger a new round of fighting in Afghanistan? The pact's future is uncertain as it faces fierce resistance in Afghanistan. More importantly, Pakistan has not reciprocated Afghan President Ashraf Ghani's gestures. Is Ghani's plan to bring peace to Afghanistan backfiring?*

**BACKGROUND:** Bitter adversaries over the last several decades, Pakistan and Afghanistan are poised to work together to tackle terrorism. Under a Memorandum of Understanding (MoU) signed last month, Pakistan's and Afghanistan's intelligence agencies – the Inter-Services Intelligence (ISI) and the National Directorate of Security (NDS), respectively – will share intelligence, cooperate on counter-terrorism operations and conduct joint investigations of terrorism suspects. According to reports, ISI would also equip the NDS and train its personnel.

This is a landmark pact given the hostile relations between the two countries, which was mostly due to mutual suspicion between their intelligence agencies, especially in the context of the role that ISI played in the birth and nurturing of the Taliban. While Afghanistan's former President Hamid Karzai openly displayed his animosity towards Pakistan and did not hesitate to blame

the ISI for attacks in Afghanistan, his successor, Ashraf Ghani, has adopted the opposite strategy.

Since assuming the presidency in September last year, Ghani has made several overtures to Pakistan. He made it the destination of his second state visit, and even ignored protocol to meet the army chief Raheel Sharif at the military headquarters in Rawalpindi. Clearly, Ghani recognizes the importance of wooing the military in Pakistan. The success of the Afghan peace process hinges on the Pakistani military and the ISI being brought on board. Pakistan and Afghanistan are said to be cooperating in "ways not known before." Soon after the December 16 massacre in a Peshawar school, troops from both sides conducted coordinated operations along the border.

Ghani has bent over backwards to address Pakistan's concerns regarding Indian influence in Afghanistan. India seems to have been relegated to the outer circles of Ghani's foreign policy

radar. He visited Delhi seven months after he became president; in the same period he visited Pakistan twice and importantly, he suspended a request for Indian weapons. In a major policy shift, Afghanistan under Ghani is also turning to Pakistan for military training. Unlike the Karzai years, when Afghan soldiers headed to India for training, six Afghan army cadets were sent early this year for training at the Pakistan Military Academy (PMA) in Abbottabad. At the PMA's recent passing out parade, the chief guest was Afghanistan's army chief of staff General Sher Muhammad Karimi. The pact on ISI-NDS collaboration on countering terrorism will give depth to this bilateral bonding.



(Source: Wikimedia Commons, S. Sutherland)

**IMPLICATIONS:** The two sides have different motivations for signing this deal. Pakistan hopes that Afghanistan will shut down Tehreek-e-Taliban Pakistan (TTP) bases on its soil. But more importantly, Pakistan's expectation of making gains vis-à-vis India is driving its interest in the pact. It hopes to acquire "strategic depth" – a long-standing goal of Pakistan's policy towards Afghanistan – by using this deal to enhance its own influence in Kabul. Pakistan is believed to have made its support for the peace process

conditional upon Afghanistan's refusal to allow India's pursuit of any "security-related work" there. Thus, if the ISI-NDS deal moves forward, Pakistan's presence in Afghanistan will grow exponentially at India's expense.

The decision on the ISI-NDS pact was taken by Ghani, not the Afghan government. Reconciliation is a top priority for the Afghan president. Realizing that the peace process will be a non-starter without the Taliban on board and recognizing that he will need the ISI to get the Taliban leaders to the negotiation table, he has taken the gamble of shaking hands with Pakistan. Indeed, it was with these considerations in mind that he roped in China, a close ally of Pakistan's, to broker the peace process, no doubt hoping that China will push Pakistan to cooperate with the peace process.

The ISI-NDS deal is under fire in Afghanistan. Anti-Taliban Pashtuns and ethnic minorities such as the Tajiks are furious with Ghani's decision to collaborate with the ISI, which they see as the cause of much of their woes over the past two decades at least. Some Afghan parliamentarians are calling for a nullification of the pact, objecting to some of the deal's provisions as well as the manner in which Ghani clinched it. Afghanistan's Chief Executive Officer, Abdullah, was reportedly not informed about the deal until after it was inked and NDS chief Rahmatullah Nabil was kept out of at least one crucial meeting between Ghani and the ISI chief, Rizwan Akhtar.

A groundswell of anger is growing and it could snowball into a major problem for Ghani. Afghanistan is already reviewing the pact. Much trouble lies ahead should he go ahead with the agreement. The pact has ruffled feathers in the neighborhood as well. Afghanistan's neighbors are wary of Pakistan and the Taliban's rising profile in Kabul, and could add fuel to the fire.

Adding to Ghani's woes is the fact that Pakistan has done little to convince Afghans of its commitment to peace in Afghanistan. Not only has it so far failed to deliver any of the Taliban leaders to the negotiation table, but the ISI has also not reined in the group. Violent Taliban attacks have surged over the last couple of months as the insurgents have embarked on a "spring offensive."

Ghani appears to have begun backtracking. He took to some tough rhetoric against Pakistan by accusing it of waging an "undeclared war." In a letter issued to the media at an international conference in Doha, Ghani said that the Taliban is carrying out "massive terrorist attacks" in Afghanistan. "The public is asking whether there has been any return from President Ghani's efforts to secure enduring peace and cooperation with Pakistan," he pointed out in the statement.

**CONCLUSIONS:** Supporters of the ISI-NDS pact hail it as an important step towards ending the mistrust that has traditionally defined relations between Pakistan and Afghanistan. It is

seen as an attempt at resetting relations between Islamabad and Kabul.

But what are the chances of success for the ISI-NDS pact? If sustainable peace is its main goal, this seems rather remote. Whether or not it succeeds in bringing peace, it is likely to enhance Pakistan's influence in Kabul especially if the ISI uses the pact's "intelligence sharing" provision to effectively infiltrate the Afghan intelligence services. The reset in relations has been rather one-sided, with Afghanistan making all the concessions and only Pakistan making gains; so far the verdict on the pact is that it has given Islamabad the advantage. If the pact does not end the war and ends up only enhancing Pakistan's clout in Afghanistan, it will have serious political consequences for the Afghan president.

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# TURKEY-ARMENIA RELATIONS AFTER TURKEY'S ELECTIONS

*Armen Grigoryan*

*The outcome of Turkey's recent parliamentary elections may partly reduce tensions in relations with Armenia, stopping the mounting hostile rhetoric of recent months. A normalization of bilateral relations should not be expected at this stage, but the trend of increasing cooperation in the humanitarian area, and in culture, tourism, and the media in recent years will likely continue. At the same time, some policies may need to be reassessed in consideration of regional security risks, including the growing level of militarization in the South Caucasus, increased tensions on the line of contact in Nagorno-Karabakh in the absence of progress in the negotiation process, as well as Russia's capacity for manipulating the regional conflicts.*

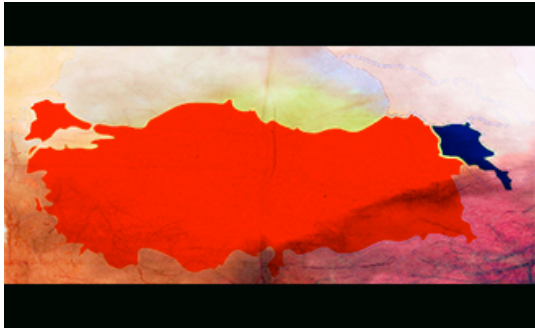
**BACKGROUND:** On February 16, Armenia's President Serzh Sargsyan announced his decision to withdraw the Armenian-Turkish protocols from the parliament. Sargsyan described the decision as motivated by "Turkish authorities' continuous attempts to articulate preconditions" and "the intensified policy of denialism and history revision on the eve of the genocide centennial." Sargsyan restated his position in an interview with the *Hurriyet Daily News* in April.

Sargsyan's decision was expected, as Turkish officials have asserted on a number of occasions that establishing diplomatic relations and opening the border with Armenia will not occur until Armenia reaches an agreement with Azerbaijan. However, the timing of Sargsyan's move, which he made just two months before the centennial of the mass massacres of Armenians in the Ottoman Empire (which are widely considered to constitute genocide, a term Turkey rejects), allowed him to consolidate the support from certain

political circles in Armenia and the diaspora.

The centennial predictably took the level of Armenian-Turkish relations to a new low, and simultaneously put a strain on Turkey's relations with several states. Turkey recalled its envoy from the Vatican City State after Pope Francis I, during a mass commemorating the massacres of Armenians during World War I, referred to the events as "the first genocide of the 20th century." Turkey reacted adversely to statements by the French and German presidents, and Russian President Vladimir Putin's statement during his visit to Yerevan on April 24, during the commemorative service, received an angry response. Turkish President Recep Tayyip Erdogan said that Russia should explain its own actions in Ukraine and Crimea before calling the 1915 mass killings "genocide." Turkish officials had previously avoided strong criticism of Russian policies vis-à-vis Ukraine. However, during a NATO foreign

ministers' meeting in Antalya on May 13, Turkish Prime Minister Ahmet Davutoglu also mentioned "the illegal annexation of Crimea."



(Source: [Wikimedia Commons](#), S. Sutherland)

**IMPLICATIONS:** Despite the low level of trust and strong tensions in Armenian-Turkish relations, particularly in connection with the recent commemoration of the genocide, the Turkish government's reactions have received some criticism domestically in Turkey. Suat Kınıklıoğlu, who was a member of the executive board of Erdogan's Justice and Development Party (AKP) and spokesman of the foreign affairs committee in the Turkish Parliament at the time when the Zurich protocols were signed, criticized Erdogan's approach in an article in *Today's Zaman* on April 30, arguing that Erdogan had made normalization impossible by linking it to the Nagorno-Karabakh issue. Kınıklıoğlu challenged the assertion of some Turkish and Western analysts that the closed border is a strong leverage on Armenia to make concessions in the Nagorno-Karabakh peace talks, while opening the border would not decrease Yerevan's motivation in the peace process. He argued that if the border had been opened, "the South Caucasus

would have been a much safer region." Moreover, Kınıklıoğlu confirmed with the opinion expressed by several Armenian analysts soon after the Zurich protocols were signed, that Russia had disclosed the draft protocols to the Azerbaijani side, who then pressured the Turkish government by means of lobbying, media efforts, alleged manipulation of gas prices and other means.

In November 2014, Turkey's former ambassador to the United Kingdom, Ünal Çeviköz, made an argument similar to Kınıklıoğlu's. Çeviköz suggested in *Hurriyet Daily News* that the border should be opened, noting that an environment of sustainable peace and stability can hardly be created in the Caucasus without a normalization in Armenian-Turkish relations. However, Çeviköz also predicted that the "2015 syndrome," i.e. the increasing pressure on Turkey to recognize the genocide, would worsen Armenian-Turkish relations, as well as Turkey's bilateral relations with a number of other states.

It should be noted that the failure to normalize relations with Turkey has not resulted in concessions from the Armenian side but instead helped advance Russia's goals. In 2010, when linking normalization to the Nagorno-Karabakh issue made ratification of the protocols impossible, Russia easily persuaded Armenia to extend the deployment of its military base in Gyumri until 2044. In 2013, Russia's security guarantees vis-à-vis Azerbaijan and Turkey became an excuse for persuading Armenia to join the

Eurasian Economic Union instead of signing an Association Agreement with the European Union, after which Russia's military presence in Armenia has continuously grown. Simultaneously, Russia has contributed to the intensive militarization of the region by selling offensive weapons worth billions of dollars to Azerbaijan, thereby reducing Yerevan's possibilities for maneuver even further. (Russia has long provided arms to Armenia at discount rates.)

The U.S. and EU's current attitudes towards Armenia reflect an understanding of the security risks posed by Yerevan's excessive dependence on Russia, among other factors. While the September 2013 decision not to sign the Association Agreement with the EU caused strong disappointment, the EU recently offered a new cooperation agreement providing for some financial assistance and investment promotion, and a few days ago the U.S. signed a Trade and Investment Framework Agreement with Armenia. The U.S. and EU have seemingly chosen not to disregard Yerevan completely but to make careful attempts to provide some policy alternatives. Any Western support to Yerevan may help reduce the risk of large-scale war. This is particularly important, keeping in mind that a series of clashes both on the line of contact in Karabakh and along the border between Armenia and Azerbaijan have already resulted in dozens of casualties in the recent months. There is a real risk that Yerevan could be persuaded by Moscow to agree to a Russian "peacekeeping" operation; and further

isolation of Armenia could induce it to participate in possible hostile Russian actions against Georgia.

**CONCLUSIONS:** The recent parliamentary elections in Turkey could pave the way for a modified policy towards Armenia. A quick normalization of bilateral relations, including opening of the border, seems unlikely, particularly due to Azerbaijan's strong influence in Turkey. Yet, the currently tense bilateral relations may become partly relaxed as neither Ankara, nor Yerevan, is interested in a further increase of tensions as both must deal with a range of different internal and external problems. After the elections, Erdogan's confrontational and antagonizing rhetoric during the campaign period to mobilize voters, e.g. labeling some representatives of the opposition "agents of the Armenian lobby," will likely give way to a more balanced, pragmatic approach. Although this will now also depend on the outcome of coalition talks, there is hardly any incentive to promote further hostility. The two countries will therefore likely continue their cooperation in the humanitarian area, culture, tourism, and the media, slowly expanding its scope.

However, Armenia's excessive dependence on Russia remains the main issue requiring a solution. Armenia's isolation has only helped Russia increase its influence in the region, adding to Moscow's capacity for manipulating the conflict in its own interest. Moreover, the habitual determination to use that capacity may



have grown because of Moscow's perception of relations with the West, especially concerning its influence in the post-Soviet area, as a zero-sum game; a perception that has become strongly aggravated by Russia's aggression against Ukraine resulting in the present strife with the West.

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## GEORGIA'S POLITICAL LANDSCAPE TRANSFORMS AS SENIOR UNM MEMBERS DEFECT

*Eka Janashia*

In May, Georgia's main opposition party, the United National Movement (UNM), lost four prominent members. Since the 2012 parliamentary elections, over a dozen UNM members have broken ranks but this was the first time long-standing and high-profile associates quit the party.

Zurab Japaridze, Pavle Kublashvili, Goga Khachidze and Giorgi Meladze decided "to establish a new, open political center, to attract and engage political process professionals," in order to counter pro-Russian forces aspiring to win a majority in the 2016 parliamentary elections. Private consultations with individuals are ongoing and the prospect of cooperation with other political groups is not yet certain, Japaridze said.

According to the former UNM members, the UNM was the only political force capable of challenging oligarch Bidzina Ivanishvili's "puppet government." The party peacefully handed over power to the victorious political force after the 2012 parliamentary elections and even survived despite significant pressure from the new government. However, UNM failed to renew itself in order to regain the confidence of the Georgian public. According to a joint statement by the former UNM members, the "Complete renewal and openness of a political force is required for achieving a victory," implying that the affiliation

with former President Mikheil Saakashvili is a major drawback for UNM. In 2013, Saakashvili was re-elected chairman of UNM, apparently putting the party's ability to renew itself into question.

The four insisted then that they preferred to stay with the party as they felt obliged to contribute to its unity and survival. However, as parliamentary elections are approaching, they now endeavor to "reshape the political spectrum" in order to defeat the "oligarchic rule."

UNM lawmakers termed the decision an "absolutely irresponsible" move, made at the most decisive moment, and suggested that it was a consequence of the enormous pressure from Georgian authorities. While UNM claims that the party "stands firm" and additional defections from within its ranks is not expected, PM Irakli Gharibashvili asserted that UNM is in a process of disintegration.

Most political analysts say that a new re-grouping among the pro-western parties should be considered normal, given the large number of undecided voters. According to a public opinion survey, conducted throughout Georgia in April by the National Democratic Institute (NDI), 27 percent of the respondents were undecided on which political party they would vote for if parliamentary elections were held tomorrow; 6 percent did not intend to

vote at all and 12 percent declined to answer. Several political actors are now repositioning to target hesitant voters, who now compose 45 percent of the electorate.

For example, the recently established social movement Iveria, co-founded by former foreign minister and Saakashvili associate Grigol Vashadze, plans to unite people of different professions and to establish the structure for a political party by the fall. It is composed of former high-ranking officials who occupied different posts during UNM's term in power but were never actual members of the party.

Meanwhile, the Free Democrats, once a part of the ruling Georgian Dream coalition, did not exclude cooperation neither with the four former UNM lawmakers, nor with Iveria. The re-composition of pro-western political forces could well be a tactical maneuver aiming to introduce a new political coalition detached from Saakashvili's leadership.

Nevertheless, it is not clear to what extent the moves of these former Saakashvili confidantes will convince potential voters. Japaridze might be an exception in this regard, as he joined the UNM after the recent parliamentary elections and then became the party's executive secretary in September 2014. In contrast, the remaining three have long been prominent UNM members and Saakashvili allies. Kublashvili was chairman of the parliamentary committee on legal affairs in the previous parliament, while Khachidze

was Minister of Environment Protection and Natural Resources in Saakashvili's government. The same can be said for high-profile officials now converging around the social movement Iveria.

However, rumors about the UNM's disintegration and its disappearance from the political scene are likely exaggerated. The UNM is a party with great managerial skills and has shown an ability to deal with the challenges it has faced over the last few years. From the Rose Revolution in 2003 to its current role as an opposition party, the UNM has managed to keep a reasonable degree of unity. Despite the vast public discontent in 2007 and the war with Russia in 2008 and its painful implications, the UNM preserved the legitimacy to run the country. After handing over power to the winning coalition, the party was subjected to intensive pressure. Former Prime Minister and UNM Secretary General Vano Merabishvili, former Defense Minister Bacho Akhalaia, as well as former Tbilisi Mayor Gigi Ugulava were arrested and sentenced while pre-trial detention in absentia has been ordered for Saakashvili. Despite these setbacks, the UNM has yet to fall apart.

Given its high disapproval rating, the party has focused on international issues with a focus on Ukraine, and has sent several officials and experts to advise the Ukrainian government. On May 30, Ukrainian President Petro Poroshenko appointed Saakashvili chairman of the state administration (governor) of Ukraine's Odessa province.

Apparently, the UNM expects to contribute to Ukraine's withdrawal from the Russian orbit, in turn helping Georgia to sustain its Euro-Atlantic path, and by extension to regain public confidence in the UNM at home. According to Saakashvili, "If Odessa ever falls, God forbid, then Georgia might be wiped out from the map."

## KYRGYZ PARLIAMENT PASSES “FOREIGN AGENTS” LAW IN FIRST READING

*Arslan Sabyrbekov*

On June 4, after more than two years of deliberations, the Kyrgyz Parliament overwhelmingly approved amendments to the law on “non-commercial organizations” in its first reading. According to the new amendments, NGOs receiving funding from abroad will be labeled “foreign agents.” If passed in two more readings and approved by the President, the bill will impose severe limitations to the activities of civil society actors and will put the country’s democratic development into a great jeopardy.

In his address to the Kyrgyz Parliament, Tursunbai Bakir Uulu, a lawmaker and one of the initiators of the amendments, stated that locally registered NGOs have received around US\$ 10 million from foreign countries over the past 3 years. In his words, “NGOs receive funding from abroad and try to influence our internal politics. Therefore, we have the full right to know where their money goes and for which purposes they are used. The bill will improve our national security.”

By contrast, local and international human rights organizations believe that the law fully resembles the one passed in Russia in 2012 and has nothing to do with national security. “The bill is aimed at taking full control of the institutions that speak against certain unpopular policies of the Government,” according to Dinara Oshurakhunova, a

Bishkek-based civil society activist. The bill would indeed, as the Russian experience shows, limit the activities of civil society institutions. It will impose burdensome reporting requirements on them and allow governmental agencies to send representatives to participate in internal activities and decide whether this or that organization complies with its objectives or not. Failure to do so will result in their immediate termination.

Local experts are therefore hotly discussing the degree of Russia’s involvement in the development of these legislative changes that speak against the fundamental values of democracy. Several media sources have even reported that the Kremlin has a direct influence on these processes by buying off MPs and exercising direct pressure on the government, and that this process will likely exacerbate as Bishkek is now an official member of the Russia-led Eurasian Economic Union.

The position of Kyrgyzstan’s President is another interesting aspect of the controversy. During his trip to Brussels in 2013, President Atambayev stated clearly that there was no need for Kyrgyzstan to adopt a law on “foreign agents.” However, in a recent interview to the public channel, the president seemed to be in favor of adopting the bill. Atambayev said, “I will check if the law corresponds to the interests of

the country, whether it complies with human rights standards. Now I do not want to promise you anything. Today we are facing the fact that under the guise of human rights organizations, NGOs are opening and trying to destabilize the situation in the country and international relations.” The sudden shift in the president’s opinion can be explained by Bishkek’s new international orientation, which seemingly comes at the expense of the country’s relatively successful democratic transition.

In its first reading, the bill was supported by 83 parliamentarians against the 23 who opposed it. Daniyar Terbishaliev, an MP from the ruling coalition, argued that based on the suggested law, all MPs must also register as “foreign agents.” In his words, “all the MPs interact with international organizations and civil society groups go on study tours funded by them. We all know that our country is donor dependent, and it is wrong to underestimate the degree of the international community’s assistance.”

Some experts also believe that the initiators of the bill want to pass it before the upcoming parliamentary elections in October 2015, in an effort to take control over the democratic institutions. If adopted, the law will pave the way for persecution and pressure on NGOs that will observe the elections and address political concerns.

In the meantime, civil society activists have already launched a campaign to collect citizens’ signatures against the bill. According to the legislation, 10,000 signatures will allow for the submission

of a new bill to the parliament, which would repeal the document on foreign agents.

## AZERBAIJANI DIPLOMAT UNDER ATTACK AFTER COMMENTING BAKU FIRE

*Mina Muradova*

An internal investigation in Azerbaijan's Foreign Ministry has erupted in a scandal over the comments of a diplomat who publicly criticized the government after a deadly fire in a Baku apartment-building.

In early June, President Ilham Aliyev recalled Azerbaijan's Ambassador to Ukraine and Permanent Representative to the GUAM Organization for Democracy and Economic Development Eynulla Madatli. Although no official explanation was given, local media reported that it was connected to his "like" of a status posted by another diplomat, Arif Mammadov, on his personal Facebook page.

Mammadov, Head of the Permanent Observer Mission of the Organization of Islamic Cooperation to the European Union, sharply criticized Azerbaijani officials over the May fire that killed 15 people in the Binagadi district of Baku. "There is no nation that would stand that shame and injustice," Mammadov wrote on his Facebook page in May. "Officials earn millions on our people's sufferings, and if they are not afraid of our people's anger, then they must be scared of God's anger!" Four of the 16 residents who died were young children. Fifty others were injured, and most were later said to be in serious condition.

The government swiftly set up a commission to investigate the tragedy, and President Aliyev chaired its first

meeting on May 20. Deputy Prime Minister Abid Sharifov, appointed to head the commission, said residents of the apartment block would be given temporary accommodation and 20,000 manats (US\$ 19,500) per household in compensation, while families who lost members would get another 15,000 manats each. Sharifov indicated that building and safety standards had not been observed, and Prosecutor General Zakir Qaralov pointed to the exterior plastic cladding, saying it had not been certified.

"The preliminary theory is that the facing materials used in the repairs were of poor quality and non-fireproof. I have repeatedly raised the issue of repairs carried out in Baku: first of all, repairs must be carried out with good quality and hazardous substances must not be used, Aliyev said. "Representatives of relevant government agencies have repeatedly told me that all the materials used are of good quality and fireproof. But the incident has shown that this information is false." These materials have been used in Baku for many years, but no previous incidents have occurred. The minister for emergencies, Kamaleddin Heydarov, clarified that a certificate submitted to the state anti-fire service had confirmed that this material is resistant to fire.

The city's mass rebuilding has been spurred by the oil and gas boom of recent years. Heydarov noted that over

260 building exteriors are covered with similar material and that all of them were being controlled. The cladding, made of a plastic called Styrofoam, was only put on recently, apparently to decorate Baku and other cities ahead of the European Games, which Azerbaijan is hosting on June 12-28.

The horrific event sparked extensive expressions of grief on social media, fueled by amateur videos of the fire and photos of victims, including one widely-circulated shot of two-year-old Farah Maharramova celebrating her birthday days before her death.

In some Baku districts, city authorities ordered workers to remove the panels from aging buildings. Elsewhere, private residents used hammers and sometimes their fingers to chop off chunks of the material surrounding their apartment windows and ground-floor walls. A notice on Facebook invited 24,000 Azerbaijanis to participate in removing the new facades: "It's stupid to put up with this in silence. We have to act ... We have dismantle this idiotic facing ... Life is worth fighting for."

Mammadov's post was considered a call to "revolution" against the government. Some pro-governmental media outlets termed it a "mutiny" within Azerbaijan's diplomatic corps. In a June 3 article, [Haqqin.az](#) described Mammadov as a "traitor" and "a new opposition activist."

Hikmat Hajiyeu, a spokesperson for Azerbaijan's Foreign Ministry said, "We were informed about it. The

Foreign Ministry will thoroughly investigate the issue in accordance with its internal procedures. Such behavior from the diplomat, if confirmed, would be inappropriate and far from ethic norms. It would be irresponsible and unprofessional behavior that is unacceptable." As a result of the internal investigation, a number of the Foreign Ministry's employees have been dismissed.

In response, Mammadov commented on his Facebook page on June 7 that the government had started "the hunt against the best diplomats of the country ... The repression order came from the repressive factory of the country. It is beyond understanding that the country's best diplomats are fired for 'liking' on Facebook my words expressing condolences to the families of those killed during the tragic fire in Baku ... Diplomats are forced to write derogatory statements. I would say that the actions taking place now can only be called insanity of the power."

Mammadov refused an offer from Belgium's Foreign Ministry to protect him and his family. "Several media have reported that I am looking for political asylum in Norway. No way! My determination to fight obscurantism and injustice against my great nation is limitless," Mammadov stated.



## THE RIGA SUMMIT AND NEW PROSPECTS FOR EU-ARMENIA RELATIONS

*Erik Davtyan*

Ahead of the EU's Eastern Partnership summit in Riga, possible perspectives of Armenia's relations with the EU became one of the most discussed issues on Armenia's foreign policy agenda. After Armenia decision in 2013 to decline initialing an Association Agreement with the EU, instead opting to join the Russia-led Eurasian Economic Union (EEU), the two parties have decided to promote bilateral cooperation in a new format matching the new realities in the South Caucasus.

On May 11, Armenia's Minister of Foreign Affairs Edward Nalbandian received the political directors of Poland's and Sweden's Foreign Ministries, Yaroslav Bratkevich and Torbjörn Sohlström, who reportedly arrived in Yerevan to hold consultations in the lead-up to the Riga Summit. The interlocutors discussed issues relating to preparations for the Riga Summit. Nalbandian reaffirmed that Armenia aims to develop and deepen cooperation with the EU in different fields, given Armenia's obligations under other international integration formats. Bratkevich and Sohlström represent the two EU member states that have played a key role in defining the EU's new policy towards neighboring post-Soviet states. In 2008, the Swedish and Polish foreign ministers, Carl Bildt and Radosław Sikorski, presented the idea of creating an Eastern Partnership (EaP) between

on the one hand the EU, and on the other Belarus, Ukraine, Moldova, Armenia, Georgia and Azerbaijan.

Simultaneously, on May 11, Armenia's permanent representative to the EU, Tatoul Margarian, met with the EU Commissioner for the European Neighborhood and Enlargement Negotiations Johannes Hahn, discussing the bilateral preparations on the eve of the EaP Riga Summit. Towards the summit, politologist Narek Galstyan expressed the view that the EU has changed its attitude towards the six post-Soviet republics and has adjusted its policy to follow a bilateral, rather than regional track. In other words, the EU has decided to take an individual approach towards all six states, including Armenia.

On May 21, Armenia's President Serzh Sargsyan paid a working visit to Latvia to take part in the summits of the European People's Party and the EU's Eastern Partnership. During the visit, President Sargsyan met with Latvia's President Andris Bērziņš. The presidents praised the political dialogue between Armenia and Latvia, which has been developing in the spirit of mutual understanding, and the dynamics of interstate relations, and stressed the importance of boosting these dynamics. Bērziņš also considered Armenia's decision to join the EEU pragmatic and welcomed Armenia's balanced multilateral approach.

Sargsyan also met Germany's Chancellor Angela Merkel. Both Sargsyan and Merkel emphasized the fact that Armenia and Germany have significantly enlarged and enriched their cooperation agenda through around six dozen cooperation agreements. They also commented security issues in the South Caucasus, especially in the Nagorno-Karabakh peace process under the auspices of the OSCE Minsk Group Co-Chairs.

The Riga Summit, held on May 21-22, resulted in the signing of a declaration which touched upon a myriad of issues. In relation to Armenia, the declaration states that "Participants welcome the common understanding reached on the scope for a future agreement between the EU and Armenia aimed at further developing and strengthening their comprehensive cooperation in all areas of mutual interest." The parties welcomed "the progress to date in the implementation of the Visa Facilitation and Readmission Agreements (VFA/RA) with Armenia" and expressed hope that the EU and Armenia will promote a visa dialogue, provided that "Armenia continues to ensure sustained progress in the full implementation of the VFA/RA." The signing parties also underlined that "they look forward to the launching of negotiations on an EU-Armenia Aviation Agreement at the earliest opportunity." The declaration also mentioned the Nagorno-Karabakh issue, reiterating "full support to the mediation efforts by the co-chairs of the Minsk Group on the Nagorno-Karabakh conflict, including at the level

of Presidents and their statements since 2009".

Reacting to the Summit, EU Commissioner Hahn expressed his confidence in obtaining a mandate to start negotiations. The European Commission has issued a positive report on Armenia which stresses that "the EU and Armenia have reached an understanding on the scope of their future contractual relations that take into account the other international commitments of Armenia, in particular its decision to join the Eurasian Economic Union (EEU)."