

# Central Asia-Caucasus Analyst

BI-WEEKLY BRIEFING  
VOL. 10 NO. 21  
12 NOVEMBER 2011

## Contents

### Analytical Articles

- IRAN'S NEW DIPLOMACY IN THE CAUCASUS** 3  
Stephen Blank
- RUSSIA'S 'LESSONS' FROM THE GEORGIA WAR:  
IMPACT ON MILITARY REFORM PLANS** 6  
Roger McDermott
- TOWARDS A WATER REGIME IN THE SYR DARYA BASIN** 9  
Erica Marat
- KAZAKHSTAN CHALLENGED BY THE WORLD FINANCIAL CRISIS** 11  
Marlène Laruelle

### Field Reports

- NEW ROUND OF DEMONSTRATIONS STARTS IN TBILISI** 14  
Niklas Nilsson
- RUSSIA-TAJIKISTAN RELATIONS: POLICIES OF THE STRONG AND THE WEAK** 15  
Sergey Medrea
- BERDIMUHAMMEDOV TO IMPORT KOREAN ECONOMIC MODEL** 17  
Chemen Durdiyeva
- THE CURRENT SITUATION IN THE FATA OF PAKISTAN** 18  
Zahid Anwar

# THE CENTRAL ASIA-CAUCASUS ANALYST

**Editor:** Svante E. Cornell

**Associate Editor:** Niklas Nilsson

**Assistant Editor, News Digest:** Alima Bissenova

**Chairman, Editorial Board:** S. Frederick Starr

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

The Analyst aims to provide our industrious and engaged audience with a singular and reliable assessment of events and trends in the region written in an analytical tone rather than a polemical one. *Analyst* articles reflect the fact that we have a diverse international audience. While this should not affect what authors write about or their conclusions, this does affect the tone of articles. Analyst articles focus on a newsworthy topic, engage central issues of the latest breaking news from the region and are backed by solid evidence. Articles should normally be based on local language news sources. Each 1,100-1,500 word analytical article must provide relevant, precise and authoritative background information. It also must offer a sober and analytical judgment of the issue as well as a clinical evaluation of the importance of the event. Authors must cite facts of controversial nature to the Editor who may contact other experts to confirm claims. Since *Analyst* articles are based on solid evidence, rather than rumors or conjecture, they prove to be reliable sources of information on the region. By offering balanced and objective analysis while keeping clear of inflammatory rhetoric, *The Analyst* does more to inform our international readership on all sides of the issues.

The Editor reserves the right to edit the article to conform to the editorial policy and specifications of *The Analyst* and to reject the article should it not be acceptable to our editorial committee for publication. On acceptance and publication of the edited version of the article, The Central Asia-Caucasus Institute of The Johns Hopkins University-The Nitze School of Advanced International Studies will issue an honorarium to the author. It is up to the individual author to provide the correct paperwork to the Institute that makes the issuing of an honorarium possible. The copyright for the article or field report will reside with the Central Asia-Caucasus Analyst. However, the author may use all or part of the contracted article in any book or article in any media subsequently written by the author, provided that a copyright notice appears giving reference to the contracted article's first publication by the "Central Asia-Caucasus Analyst, Central Asia-Caucasus Institute, The Johns Hopkins University, Nitze School of Advanced International Studies."

## **Submission Guidelines:**

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

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

**BACKGROUND:** 300-450 words of analysis about what has led up to the event or issue and why this issue is critical to the region. Include background information about the views and experiences of the local population.

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

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

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

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

## **Svante E. Cornell**

Research Director; Editor, Central Asia-Caucasus Analyst  
Central Asia-Caucasus Institute & Silk Road Studies Program  
Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University  
1619 Massachusetts Ave. N.W., Washington, D.C. 20036, USA.  
Tel. +1-202-663-5922; 1-202-663-7723; Fax. +1-202-663-7785

# IRAN'S NEW DIPLOMACY IN THE CAUCASUS

Stephen Blank

*Russia's war with Georgia has triggered a diplomatic upheaval across the region, but also in the international relations of the Caucasus. Not only has Russia laid down a forceful marker claiming its right to an exclusive sphere of influence there and across the CIS, it has moved to follow it up by placing pressure on Azerbaijan's foreign, defense, energy, and economic policies. Turkey also has jumped into the fray with the revival of an older plan for a region-wide mechanism to address the Caucasus' frozen conflicts. As a result of this war and the diplomatic currents it has unleashed, Iran too has had to assert its presence by vigorous diplomacy. Iran's assertion in the Caucasus reflects the complex connections between the regional powers and the larger arena of world politics and cries out for explanation.*

**BACKGROUND:** In the aftermath of the war, Iranian diplomacy has had to contend with new possibilities and factors affecting its position in the Caucasus but also its broader position in world politics. First, it now must reckon with Russia's determination to be the sole security manager for the Caucasus, a region where it has extensive interests, but from where, as Iranian leaders have never forgotten, it has sought to extend its influence on numerous occasions into Iran. Second, Turkey has now launched its initiative, which implicitly recognizes Russia's achievement but also seeks to define a place for itself in this new constellation. Both of these trends could lead to a situation where Iranian influence, which is based particularly in Armenia and is a matter of expediency, not affection, is reduced or even excluded from any major role in the region. While Moscow has recently threatened Georgia against allowing itself to be used as a base against Iran for the United States, Tehran cannot be sanguine about allowing Moscow to pose as the defender of

Iranian security. This is not just due to the historical memory of past Russian encroachments upon Iranian territory and sovereignty.

The third point coming out of this war is that it has greatly intensified Russo-American rivalry, but made clear at the same time that Iran is regarded by Russia as a bargaining card vis-à-vis the West. On numerous occasions, Russia has indicated it would more strongly oppose Iran's nuclear program in return for a cessation of NATO enlargement. More recently, despite Putin's threat to stop cooperating with the West over Iran if it continued to oppose Russia on Georgia, Russia has again voted for sanctions, though watered down ones, and announced that it will not sell Iran its advanced air defense missile, the SA-300 surface to air missile. Both the Iranian media and the government are very aware, and quite unhappy, about the fact that Russia is a fair-weather friend that seeks to use Iran for its purposes

although it is quite unlikely that the Iranian government is surprised at this fact.

**IMPLICATIONS:** Nevertheless, the heightened tension in the Russo-American and more generally East-West relationship poses interesting possibilities for Iran, especially as the Bush Administration comes to an end. On the one hand, Iranian leaders could conclude that an intensified rivalry between Moscow and Washington, especially as Washington is increasingly eager to get out of Iraq and confronted by seemingly ever more intractable problems in Afghanistan, might be more amenable to dealing directly with Iran and its agenda. Certainly Russia seems eager to tie Iran to its plans as it is pushing ever more integration of their energy economies and a renewed effort for a gas OPEC, including Iran. Obviously one purpose of this is to lock Iran up as a pro-Russian force under Moscow's influence and preclude its return to the West. But this rivalry thus offers Iran opportunities as for example British Prime Minister Gordon Brown has publicly called for Europe to find new energy supplies that can only imply a deal with Iran among other providers.

On the other hand, given the wholly instrumental approach to Iran in Moscow, Iranian leaders and media express the concern that Moscow might seek to alleviate tensions with the West at Tehran's expense so as not to further aggravate the situation. The Russian vote for sanctions and Moscow's refusal to sell the SA-300 missile both point in that direction. Finally, as part of Turkey's initiative to create an organization to deal with the region's remaining frozen conflict, Nagorno-Karabakh, and other issues, Turkey has made historic overtures to Armenia and bilateral discussions are already underway from which Iran is excluded. Iran cannot afford to lose its

connection to Armenia with nothing to show for it, to either Turkey or Russia, or both.

In either case, it is essential for Iran to show that it is an important player in the Caucasus whose interests must be taken into account by all the key regional players, i.e. Georgia, Armenia, Azerbaijan, Turkey, and Russia. Only by asserting its ability to offer tangible benefits to local governments and to contribute in a meaningful way to their security can Iran hope to impress upon everyone the legitimacy and credibility of its role in the Caucasus and also convince Russia that it gains nothing from trying to sell it out to the United States. It also thereby tells Washington that it is a recognized and valued legitimate partner to local governments in an area whose importance to the United States has grown. Therefore its equities in the Caucasus and elsewhere as well must then be respected and taken into account in any future regional order.

Iran's new and vigorous overtures to South Caucasian regimes underscore the complex texture of the region's international relations and its multiple connections to critical issues in the broader arena of international politics, nuclear proliferation, energy, etc. It also underscores the ever-changing balance of considerations driving each of the main actors here, the three South Caucasian states, Russia, Turkey, the United States, the EU, and Iran. As the conference to resolve the issues opened up by the war in Georgia begins to function, Iran is making a clear bid to be recognized as an indispensable and legitimate regional actor that must be consulted if that conference and the surrounding multilateral diplomacy are to succeed in recreating a legitimate and durable regional order in the South Caucasus.

**CONCLUSIONS:** Especially as a new administration will be taking power in

Washington, we may see the jockeying for influence and leverage among all the players in this region, as well as possibly in Central Asia, further intensify. Certainly, following Senator Obama's success in Presidential elections, Iran can expect that he will try, as he has promised, to launch an initiative offering direct negotiations on all points of interest to both sides. While the Caucasus and energy will not be the most important issues there, they almost certainly will figure one way or another in that agenda. Had Senator McCain won, Iran would likely have calculated that it needs its Russian insurance policy even more lest Russia either sacrifice it to Washington to gain better ties with the new Administration or President McCain would have continued and even

intensified the harsh Bush policy towards Iran. Iran must still demonstrate to both its major interlocutors in Moscow and Washington that it is an important and legitimate regional actor that must be taken into account and is not easily pressured or excluded from areas where it has important or even vital interests. For these reasons it is very likely that we will continue to see an intensified Iranian diplomacy in both the Caucasus and Central Asia for some time to come.

**AUTHOR'S BIO:** Professor Stephen Blank, Strategic Studies Institute, U.S. Army War College. The views expressed here do not represent the views of the U.S. Army, Defense Department or the U.S. government.

## RUSSIA'S 'LESSONS' FROM GEORGIA WAR: IMPACT ON MILITARY REFORM PLANS

Roger McDermott

*Russian military reform plans have been adjusted as a result of the Georgia war. However, these early 'lessons learned' may only result in some minor modifications to overall reform plans. That approach is in itself mixed, as some Russian generals believe the war provided an opportunity to assess the inefficiencies and shortcomings of the Russian military ranging from equipment issues to tactical command and control, while others take comfort in the demonstration of a rapid conventional military victory over a United States and NATO trained army. These issues must also be examined carefully by Western military planners in order to make necessary calculations regarding how best to tailor their assistance in rebuilding the Georgian armed forces in the years ahead.*

**BACKGROUND:** Lieutenant-General Vladimir Shamanov, chief of the armed forces' Main Combat Training and Service Directorate, recently explained that the Russian military is in the process of developing new combat training programs that will utilize experience gained in recent conflicts including the war in Georgia in August 2008. "Training programs for services and service arms are being reassessed with due account taken of the specifics of the operation to rebuff the Georgian aggression against South Ossetia, and of the experience gained in Chechnya. We are also bearing in mind the Soviet Army's experience in Afghanistan, the United States' operations in Iraq, and other armed conflicts," Shamanov said.

The 'five-day war' revealed very serious equipment problems in the inventory of the Russian Army. Unlike the Georgian armed forces at that time, Russian units did not have appropriate systems of communications, reconnaissance, and target designation.

Reportedly, one Russian commander during operations had to ask a journalist for his satellite phone in order to contact one of the units. Shamanov also confirmed that Russia's Defense Ministry is compiling a list of modern tactical weapons and military hardware based on an analysis of its deficiencies during what it styles the 'five-day war' in the South Caucasus. Russian Officers who participated in the conflict told President Medvedev during a recent presidential visit to Vladikavkaz that they found the Georgian army superior in its equipment. Medvedev concluded that a rearmament program is urgently required to address this weakness.

During combat operations in South Ossetia, five regimental tactical groups (that is, reinforced motorized-rifle regiments) from the 19th (North Ossetia) and 42nd (Chechnya) Motorized-Rifle Divisions were deployed in the theater of operations. It appears that the command and control of this grouping was not carried out by the divisional staffs or even by

the staff of the 58th Army (Vladikavkaz), but directly by the planning staffs of the North Caucasus Military District (MD) through a specially-formed group. This three-link structure of military district-operational command-brigade which has now been proposed by Defense Minister Serdyukov as a key part of Russia's military reforms, seems like the formalization of this scheme.

In fact, the most ambitious element of Serdyukov's military reform program to 2020 is the plan to transform the structure of the Russian army essentially abolishing its mobilization status: in other words, the Russian army will transfer to permanent readiness formations, with more contract personnel and a new structure. This will move away from the traditional division-regimental structure of the Russian Ground Troops and switch to a brigade based organization. "Today we have a four-link command-and-control system: military district, army, division, regiment. We are changing over to a three-link system: military district, operational command, brigade. That is, the division-regimental link will fall away, and brigades will appear," Serdyukov said. Such reforms are intended to increase the effectiveness of troop command and control; while all non-fully manned (cadre) units will be disbanded, and only permanent combat-readiness units exist in the Russian Army. Of course, such reform plans predated the Georgia war, but they have been given new importance as a result of it and some implications are beginning to emerge.

**IMPLICATIONS:** The war in Georgia identified the need to make available the GLONASS satellite navigation system, since the Russian units had weak reconnaissance, both satellite and that which is conducted by unmanned aerial vehicles, resulting in limited

sight of the battlefield and was in evidence in cases of inaccurate targeting for artillery and multiple launch rocket systems. Medvedev consequently set the objective to urgently evaluate the situation and adjust military expenditure to what is actually required to address these problems. Funding will be increased by 67 billion roubles immediately for the GLONASS program alone. However, these priorities raise serious issues surrounding financing such reforms that ensure such change will occur only gradually.

"We are not yet talking about increasing the financing -we discussed the optimization of resources within the framework of what has already been allocated," Deputy Head of Committee for Defense Mikhail Babich told *Izvestiya*. "We have to determine what our priorities are and purchase whatever the Army needs -communications, reconnaissance, and targeting systems. It is obvious, however, that in time we will need additional expenditures, especially due to the fact that only since the beginning of the year, much of the military products have become 40 per cent more expensive," Babich noted. Of course, with the global financial crisis and Russia facing its most serious financial crisis since 1998, ambitious military reform programs will be subject to changes and fluctuations.

While Russian military planners wrangle over the nuances of current plans to reform the army, it is clear that Moscow learned that with its existing forces in the North Caucasus Military District, it can still overwhelm a reformed and re-equipped Georgian military and secure its operational objectives. However, ensuring this in perpetuity will require re-equipping the Russian army, carrying out changes to its structure and prioritizing airborne troops in order to enhance the mobility

and rapid deployment of forces during any future emergency.

Army General Vladimir Boldyrev, the commander-in-chief of Russia's Ground Troops, has highlighted that the Russian army faced and overcame the tactics of an American-trained army during the conflict in August. "For the first time we faced actions of military formations that have organizational and personnel structures and have been trained on the basis of NATO standards. Their tactics corresponds to the view of the U.S. Army on fighting a battle. A particular characteristic of this tactics is inflicting maximal damage on the adversary predominantly without coming into combat contact," Boldyrev explained. Thus, in Boldyrev's view, U.S. and NATO assistance to the Georgian armed forces had concentrated on setting up combined units balanced in terms of their means of reconnaissance, control and engagement using NATO principles and standards and once contact was established, they encountered a force equipped with Western equipment and Russian-made weapons and equipment modernized in Bulgaria, Czech Republic, Israel, Ukraine and elsewhere. Boldyrev believes that morale amongst Russian troops was a positive factor that influenced the collapse of Georgian resistance.

**CONCLUSIONS:** Russia's military victory in the war with Georgia exposed fundamental weaknesses within the Russian army, which

Moscow is keen to redress in its current military reform plans. It also exposed profound fissures within the Western-trained Georgian armed forces, which Russian forces exploited all too easily. This in large measure resulted from Russian intelligence accurately profiling enemy forces and identifying their multiple weaknesses. With Russian military bases now planned for Abkhazia and South Ossetia and Russian Military Intelligence (GRU) recently confirming that it attaches high priority to these areas, Russia clearly intends to tighten its grip and increase its influence in the South Caucasus. In the longer term, however, as the Georgian armed forces are rebuilt, Russia plans higher readiness formations, manned by contract personnel combined with the use of rapid reaction forces and probably using enhanced equipment as well as precision guided munitions to guarantee its interests and regional superiority. In the meantime, Georgia will remain high on the agenda of Russian intelligence.

**AUTHOR'S BIO:** Roger N McDermott is a an Honorary Senior Research Fellow, Department of Politics and International Relations, University of Kent at Canterbury (UK) and Senior Fellow in Eurasian Military Studies, Jamestown Foundation, Washington DC. He specializes in the militaries and security issues in Russia, Central Asia and the South Caucasus.

# TOWARDS A WATER REGIME IN THE SYR DARYA BASIN

Erica Marat

*In the coming years the countries of the Syr Darya basin (including upstream Kyrgyzstan and Tajikistan and downstream Uzbekistan and Kazakhstan) face the task of finding a common water regime in order to tackle growing energy and water demands as well as avert future crises of poor inter-state coordination of water resources. Any effort to facilitate cooperation and better management of water in the region by the international community, however, are stalled by the Central Asian governments' unwillingness to compromise, inability to plan in the long-term, or their mere lack of knowledge of international law.*

**BACKGROUND:** The Syr Darya River originates in the Tian Shan mountains of Kyrgyzstan (as the Naryn River), flows to eastern Uzbekistan, crosses mountainous Tajikistan and then again flows into Uzbekistan, reaching southern Kazakhstan and ending in the northern part of Aral Sea. On its way to the sea, the river crosses a dozen of water reservoirs, feeds over 20 million people, and irrigates thousands of cotton fields. The river has long been a source of dispute among the Central Asian states, with upstream countries claiming their right to sell water as a commodity, while downstream countries having natural gas leverage against Kyrgyzstan and Tajikistan.

This year, facing growing troubles with water release from the Toktogul reservoir in Kyrgyzstan that found itself left with critically low levels of water ahead of the cold season, all four states of the basin tried to come up with a regional solution to water regulation. The first several rounds of negotiations held in September failed, with Uzbekistan refusing to show up because its prerequisite of the transboundary status of the Syr Darya River being recognized, which Kyrgyzstan did not meet. Despite these disagreements, Kyrgyzstan was able to broker deals with Uzbekistan, Kazakhstan and Turkmenistan on provision of gas and electricity since water at the Toktogul

reservoir will be saved for the irrigation season. Yet, promised imports of gas and electricity may not be sufficient for Kyrgyzstan's needs, and shortages of electricity may be felt already in February 2009.

The current dilemma in the Syr Darya Basin – in rough term – reflects Kyrgyzstan's misinterpretation of international regulations and Uzbekistan's disinterest in building hydro-power plants (HHP) in Kyrgyzstan. At the same time, the Kyrgyz government is trying to sell water to Uzbekistan as a commodity since it has the ability to regulate water release from the Toktogul reservoir. According to international law, however, upstream countries have the right to sell only services associated with water resources such as storage and release of water at HPPs. Uzbekistan, in turn, opposes any idea of additional HPPs in Kyrgyzstan or Tajikistan due to both states' prospective ability to unilaterally manage water services. Uzbekistan is right to claim the transnational status of Syr Darya, however, it is in the country's best interests to have Kyrgyzstan build hydro-energy infrastructure that will allow the release of water even during low water periods.

**IMPLICATIONS:** Amid the crisis in Kyrgyzstan's hydro-energy sector, the Kyrgyz government has been producing false reports

about the state of the sector. Among the more disingenuous government statements were those concerning the construction of the Kambarata-2 HHP on the Naryn River. Kyrgyz president Kurmanbek Bakiyev promised the building of Kambarat-2 without clarifying who would be the investor, and whether the Kambarata-1 plant would be constructed as well. According to an analysis by the World Bank, however, Kambarata-2 HPP will not be able to function properly unless Kambarata-1 is installed. Furthermore, both projects are economically unattractive to foreign investors, and Kyrgyzstan is short of necessary financial resources and expertise to complete them. Bakiyev's promises, in essence, reflect the detrimental lack of expertise in the hydro-energy sector among policy-making community in Kyrgyzstan and its interest in acquiring fast revenues from questionable deals as opposed to long-term planning.

Local experts have been pointing at rampant corruption around Kambarata-2, including alleged embezzlement of the state budget under the cover of the construction project. Both Kambarata-1 and Kambarata-2, rather, are political investments as opposed to economic ones. Their returns are unclear, and construction costs are high. But once finished, they would have the potential of producing more hydro-energy and manage water in the Syr Darya River so it would meet the interests of downstream Uzbekistan as well. Earlier Kazakh investors showed some interest in investing into the Kambarata HHPs, but the economic crisis hindered any visible Kazakh initiative. Speculations about the U.S.-based AES Corporation's involvement in Kyrgyzstan are widespread as well, but there is little evidence to speak of.

International experience in transnational water management has shown that building transnational water regimes often takes decades to complete. Most water regime agreements are concluded on the basis of UN laws on the

recognition of the transboundary status of rivers that defines access to water resources as a human right independent of citizenship, and on upstream countries' right to sell water services to downstream countries. Although some Central Asian experts today are voicing their concerns about the state of the energy sector, only a handful delve into its specifics. Most experts blame corruption in the government, yet are unable to identify concrete corruption schemes. Inside the sector itself, the level of professionalism is declining as well. The sector relies mostly on professionals educated during the Soviet period, who are bound to work after passing the retirement age.

The team leader for Central Asia energy programs at the World Bank, Raghuvier Sharma, told Kyrgyz news agency that the hydro-energy sector in Kyrgyzstan needs urgent administrative reform to attract investors. Such reform would take 3-5 years to complete, but promises high returns as Kyrgyzstan would be able to export electricity to Pakistan and other South Asian countries where energy demands are rising.

**CONCLUSIONS:** Any transnational water regime requires political decision-makers' accountability to the domestic public as well as neighboring states. All parties involved should plainly and comprehensively outline the potential of water services should new construction or renovation projects be planned. This practice is alien to Central Asian governments. Therefore an expert scrutiny of the decision-making process on the hydro-energy sector and increasing the public debate over its future direction is necessary. Central Asian leaders need to look beyond national borders and examine the implications of a region's water and hydro-energy needs through the eyes of local communities. For many local government experts and analysts, official border divisions serve as catalysts for confrontation over scarce land and water.

# KAZAKHSTAN CHALLENGED BY THE WORLD FINANCIAL CRISIS

Marlène Laruelle

*In summer 2007, the American subprime crisis had an impact on the Kazakhstani real estate market, and then, in 2008, on its entire banking sector, which after Russia's is the most developed in the CIS. This sector is facing major difficulties owing to its massive lending sprees in international financial markets and its overexposure to the real estate sector. For the first time since the Russian crash in summer 1998, Kazakhstani authorities are faced with managing a major shock, compelling them to test, in real time, not only the solidity of the country's most dynamic economic sectors, but also the effectiveness of the state intervention mechanisms. Astana ultimately seems to have demonstrated its overall financial solidity, but the long-term social and regional costs remain unclear.*

**BACKGROUND:** Boosted by great petrol reserves and looking for quick ways to make a profit, Kazakhstani banks borrowed significant sums of money from U.S. banks involved in hedge funds. Today, they are paying the price for their success and face two principal problems. First, the weighty role played by the construction sector in their development (which, for example, constitutes 45% of the Alliance Bank's loan portfolio), and, second, their massive foreign borrowings, which amount to more than 50% of their total borrowings, as compared, for example, with the 18% borrowed by Russian banks. During 2006 alone, Kazakhstani banks obtained more than US\$18 billion in international credits. Today, the servicing of Kazakhstan's foreign debt that will have to be repaid by 2009, has reached a level equivalent to 42% of its exports. In 2007, the country had a bill of US\$4 billion to pay, tripling brutally to 12 billion as a result of the crisis. Kazakhstani banks, for their part, hold US\$40 billion worth of foreign loans, a significant share of which now has to be refinanced at very high rates.

Nevertheless, the Kazakhstani authorities quickly stepped in to regulate and stabilize the

situation. In spring 2007, Kazakhstan's Central Bank set up an aid fund for small banks with insolvency problems. When Standard & Poor's and Moody's Investors Services downgraded the credit ratings of Kazakhstani banks, the state decided to invest US\$11 billion of emergency money (nearly a quarter of the Central Bank's reserves) in order to halt foreign borrowings and avoid a credit ratings collapse. Astana also set up a Stabilization Fund of US\$4 billion to ensure liquidity, but this did not suffice to reassure foreign investors, especially when the Renaissance Capital's Rencasia Index for Central Asia, which is dominated by Kazakh equities, collapsed in September 2008 after Lehman Brothers' announced its bankruptcy.

In October, Astana announced it would give US\$5 billion in aid to the major national banks for about a quarter of their shares (the state already directly or indirectly controls a third of corporate deposits). Thus, the BTA Bank, the largest in the country, is expecting a state injection of more than US\$2 billion, while Kazkommertsbank, the country's second largest, is awaiting a boost of US\$300 million, and the Halyk and Alliance Banks US\$500

million each. BTA was the most affected because of its high-level involvement in the construction sector, but it was the collapse of the Alliance Bank that caused the most ink to be spilled. After becoming the leading retail lender and the fastest growing banking institution in Kazakhstan in only a few years, the Alliance Bank spectacularly collapsed; in the first semester of 2008, its net income fell by almost half. In the short term, this situation is going to facilitate foreign banks to establish themselves in the Kazakhstani market, as their share had previously been a modest 15 percent. Now, for example, Italian UniCredit, South Korean Kookmin, Israeli Hapoalim, Abu Dhabi-based private equity fund Alnair Capital, and the London-based HSBC, all have their sights set on snapping up sections of Kazakhstani banks. Moreover, Raiffeisen International and the Bank of Tokyo Mitsubishi are planning to open offices in Almaty in the first half of 2009, the second to facilitate Japanese firms' entry into the Kazakhstani raw materials market.

The banking crisis continues to lean heavily on the Kazakhstani real estate market, estimated at US\$30 billion. The banks have massively increased their credit rates, making it difficult to obtain a loan with annual interest repayments of less than 20 percent. As a result, the construction market has collapsed in all the major cities and especially in the two capitals, Almaty and Astana, which have reportedly plummeted by 40 percent in a few months. The building on many construction sites has been blocked, and in Astana itself, financing shortages have halted construction on nearly every second site. The decrease of the price per square meter is making itself felt, especially since the real estate prices had literally shot through the roof, increasing by 900 percent in

four years. Tens of thousands of people have been unable to obtain their recently bought apartments, whose construction has been halted. In order to forestall a total market collapse, the government has set up a US\$500 million aid program for construction companies unable to get credit terms and has bought thousands of apartments in Astana. Kazakhstani companies that previously invested in national real estate today are now purchasing in foreign markets, while others have decided to stop selling housing altogether and wait for prices to go up again.

**IMPLICATIONS:** This crisis has multiple implications. It caused major liquidity shortages for the country. Attaining record levels of 18 percent in 2007, inflation has continued to climb in 2008 to around 20 percent, and the tenge's stability remains fragile.

Concerning domestic political stability, the crisis is not in President Nursultan Nazarbaev's favor. In fact, the President's popularity has been staked on the country's economic success, on his twin resolve to have it gain entry into the exclusive club of the world's ten largest exporters of crude oil, and to catch up to the living standards of Central European countries. Disappointed social expectations could turn into political discontent. On the other hand, in the "Family's" somewhat concealed war against the technocrats and certain oligarchs, the crisis paradoxically plays into Nazarbaev's hands. Since the start of this decade, the Presidential clan has sought to re-establish "vertical power" in the domain of resource management. This goal has been partially accomplished through the Samruk holding, which has reinforced the preponderant role of the state in the management of the country's large companies (e.g. KazMunayGas, and Kazakhstan's telecom, postal, railway, and electricity companies). As a

result, the oligarchs have concentrated their oppositional forces in the world of finance and banking, as well as in the metallurgy industry, which both are still privately held. The tycoons, including figures such as Nurlan Subkhanberdin, who is often presented as the “Kazakh Khodorkovsky”, Alexander Mashkevich (Eurasian Group), and Vladimir Kim (Kazakhmys), all make appeals for the diversity of economic actors to be preserved. The sudden weakening of these milieus, in particular of the banking circles, facilitates a recentralizing of the Kazakhstani economy around the state. In the short term, this development raises questions about access to resources for private actors, and, in the long term, questions about the stability of property at the time of the next Presidential succession.

On the societal level, the crisis not only affects the population of Kazakhstan, but that of the entirety of Central Asia. Over recent years, Kazakhstan has become the economic motor of the whole region. It is particularly important for Kyrgyzstan, since, with trade levels reaching nearly 450 million dollars in 2007, it rivals Russia and China as the country’s largest trading partner. Moreover, Kazakhstan is establishing itself more firmly in Tajikistan, continues to be one of Tashkent’s most important partners (for example, in cereals), and Kazakhstani-Turkmen cooperation in the domains of hydrocarbons and uranium extraction is certain to develop in coming years. Any collapse of Kazakhstani investments in the region, especially via bilateral Investment Funds (Kazakh-Kyrgyz and Kazakh-Tajik), would be detrimental to the whole region, even more so at the present moment when Bishkek and Dushanbe both face huge energy shortages and the latter significant deficits of foodstuffs.

In addition, Kazakhstan has an indirect influence on its neighboring economies, since, after Russia, it is the second most favored destination for Kyrgyz and Uzbek migrants. Since the beginning of winter 2008, construction sector workers, mainly Central Asian immigrants, have not received any or only substantially reduced proportions of their salaries. As a result, they can either no longer send remittances home or are compelled to return to their countries without the hoped-for money, which has all of a sudden deprived hundreds of thousands of families of revenue at the onset of winter.

**CONCLUSIONS:** In the end, this crisis may come to have positive consequences. It will streamline the Kazakhstani banking sector by getting rid of those companies that placed all their bets on speculation. It will also act as a corrective to the over-evaluation of real estate and encourage investment in more productive sectors. The crisis has demonstrated that the country’s overall financial basis is solid enough to enable Astana to contain a market collapse. Kazakhstan’s central bank still has about US\$20 billion in reserves and the country’s oil fund stands at about US\$15 billion. Nevertheless, the long-term social impact remains unclear, and were the “Kazakhstani model” to fail as a result of this crisis, it would have a detrimental impact on the rest of Central Asia.

**AUTHOR’S BIO:** Marlène Laruelle is a Senior Research Fellow with the Central Asia-Caucasus Institute & Silk Road Studies Program Joint Center. She is the author of, among other, the recently published *Russian Eurasianism: An Ideology of Empire* (Washington DC: Woodrow Wilson Press/Johns Hopkins University Press, 2008).

## FIELD REPORTS

# NEW ROUND OF DEMONSTRATIONS STARTS IN TBILISI

*Niklas Nilsson*

On November 7, one year after the Georgian police's crackdown on demonstrators in Tbilisi, parts of the Georgian opposition and their supporters gathered for protest rallies against the authorities. The rallies were organized by the New Rights Party, the Conservative Party, the People's Party, the Labor Party, and the Movement for United Georgia, as well as several independent politicians, representing most of the parties in the opposition coalition which is boycotting parliament following the May Parliamentary elections.

On November 6, these parties issued a leaflet stating that November 7 would mark the beginning of recurring protests against the Georgian government, and outlining demands. These demands include an independent investigation of events during the August war, freedom of broadcast media (mainly referring to the Imedi TV channel), reforms in the Georgian election code and the release of 16 persons arrested on criminal charges during the events one year ago.

However, the main objective outlined is a change of government, something the opposition intends to achieve through demanding reruns of the January Presidential, and the May Parliamentary elections. The opposition terms both elections rigged and thus claims the government has depleted its legitimacy with the Georgian people. The

opposition is nevertheless divided on how such changes are to be achieved. While some promote "gradual changes" and have opened for international mediation and negotiations with the authorities, others demand the president's immediate resignation.

The opposition has also outlined a schedule for their continued activities. This includes the setting up of a "united political organization" to take the lead in continued protests and potentially including unnamed figures of the United National Movement, demonstrations outside Parliament in January to demand new Presidential elections and intensified protests starting April 9 if demands are not met.

It can however be questioned whether the opposition will prove able to gather significant support for these activities. Attendees at the rally on November 7 were estimated to be between 10,000 and 15,000, thus a little over one tenth of the crowds gathered at the peak of the demonstrations last year. Also, recent opinion polls indicate that while public support for President Saakashvili may have dwindled over the last year, support for the opposition parties as well as for protests, are considerably lower.

The Georgian political climate has been extremely polarized since the beginning of organized opposition protests in September last year. During the August war and in its immediate aftermath, most political forces

nevertheless toned down their otherwise quite harsh rhetoric, limiting their criticism of the government to questioning some of its actions during the war. However, it now seems that things are turning back to normal and that the coming months will again expose the severe divisions in Georgian politics.

The opposition may nevertheless be embarking on a complex balancing between pushing its demands on the government while at the same time coming forth as credible supporters of the Georgian state in the aftermath of Russia's August invasion of the country. The chosen tactic seems to be to connect the two issues of regime change and national defense against Russia. Protests on November 7 featured the slogan "Stop Russia, stop Misha", and a speech delivered by Zviad Dzidziguri of the Conservative party highlighted the skepticism voiced by some representatives of Georgia's western allies after the war. Thus, the Georgian president was portrayed as representing authoritarianism and recklessness, as responsible for Georgia's loss of the breakaway regions of Abkhazia and South Ossetia, and his remaining in power as hampering Georgia's integration with the West, and serving Russian

interests. It is likely that differing portrayals of Russian interests in Georgian politics will continue to be exchanged in the coming period. The government has so far focused on the need for unity in Georgian politics in order to face the external threat, but may also be tempted to accuse certain opposition politicians of collaboration with Russia, as was done during the events last November.

President Saakashvili as well as other high Georgian officials declared that the events one year ago were an important lesson to all actors involved, including the authorities, that dialogue across the political spectrum is needed, and pleaded for continued national unity after the war. The Georgian government will nevertheless again face the test of maintaining the credibility of its own democratization efforts, also in the face of a vocal opposition. Its ability to offer reconciliation and deal with the country's political polarization in a peaceful and democratic manner will be crucial for maintaining its good standing with its Western partners, among some of which the government's actions during both November 2007 and the August war are questioned.

---

## RUSSIA-TAJIKISTAN RELATIONS: POLICIES OF THE STRONG AND THE WEAK

*Sergey Medrea*

On October 25-26, Tajikistan hosted the third Inter-parliamentary forum "Russia-Tajikistan: Potentials for Inter-Regional Cooperation" with the participation of the Tajik president, Emomali Rahmon; the Chairman of the Federation Council of the Russian Federation,

Sergei Mironov; and parliamentarians and representatives of the business communities in the two countries. The forum's agenda included plenary sessions and roundtables devoted to issues of intra-regional trade, mutual investments, economic partnership and

cooperation, aiming to increase the overall turnover between the two countries by 20%, bringing the total to US\$ one billion in the coming year. The first day of the forum took place in the Tajik capital, Dushanbe, as a Tajik-Russian open business forum, with the second being held Khujand, the second biggest city of Tajikistan. The forum closed with Tajikistan and Russia signing a treaty of cooperation and collaboration, which is meant to strengthen partner relations to solve important problems of social and economic development to mutual benefit.

The legal foundation of Tajik-Russian cooperation includes 174 agreements signed on the interstate, intergovernmental and interagency levels, covering almost all fields of bilateral cooperation between the two countries. It is estimated that 15% of Tajik commodity turnover is with Russia, which was behind over 60% of overall foreign direct investment in Tajikistan in the past nine months. Emomali Rahmon took part in the opening ceremony, where he lamented that little progress was made after similar forums in the past and expressed his hopes that new agreements made would be fully implemented by the two sides. Among many subjects discussed in the forum, the issue of labor migration received special attention. Local authorities asked Russian officials to increase the number of days given to labor migrants for registration as legal residents from the current three to ten days on the grounds that three days is often insufficient. Another highlight of the meeting was the president's invitation to Russian businessmen to participate more actively in investing into the local economy. Emomali Rahmon promised to provide a stable, profitable business environment, and emphasized that Tajikistan

was still waiting for a Russian offer to extract and process local uranium.

In early November 2008, the third unit of the Sangtuda-1 hydropower plant of 670 MW, was put into operation, increasing much-needed electricity supplies to residential customers and enterprises. The Sangtuda-1 is a joint Tajik-Russian project, completed only due to Russian investments which consequently gave Russia 75% of the shares, with 25% remaining for Tajikistan. The construction of the Rogun hydropower plant is another joint Tajik-Russian project, where Russia's passivity, constant wavering and request for more than 90% of the entitlement made Tajikistan opt out and turned the project unprofitable. It is obvious that without Russian capital, these projects would have stagnated; however, when Russia decides to invest, it tends to adopt an "all to me" policy.

A current ongoing dispute over the military airport in Ainy known as "Hissar" is another instance of this policy on Russia's part. While official Dushanbe insists on a joint utilization of its national airport, Russia offered a scheme according to which the airport should fall under Russia's full authority. Abdugani Mamadazimov, a representative of the National Association of Politicians commented that since the agreement on the joint exploitation of "Hissar" in itself represents a geopolitically significant favor made to Russia, giving Russia full rights to the airport should not even be discussed. Countries like India and United States have frequently expressed their interest in using the base, but the Ministry of Defense of Tajikistan refused, citing the president's statement that "there are no, were no and will never be any foreign bases on the territory of Tajikistan, but Russian ones."

The agreement on joint utilization of the “Hissar” airport was finalized on August 29, 2008, between the Tajik president and Dmitry Medvedev, who pledged that Russia will finalize existing construction works on the airport. Today, Russian officials object to this agreement, saying that it does not see the necessity in finalizing the constructions, claiming that they can be used in their present condition. It was estimated by Tajikistan that the final completion of the airport will cost approximately US\$5 million.

Tajik-Russian military cooperation is of mutual interest to the two sides. Given Tajikistan’s scarce military and economic resources, a Russian military presence is deemed necessary for neutralizing external and internal threats. However, it is clear that Russia’s military-political presence in Tajikistan will not be effective and durable unless complemented by the development of mutually beneficial economic cooperation, and above all, investments in the country’s production potential.

---

## BERDIMUHAMMEDOV TO IMPORT KOREAN ECONOMIC MODEL

*Chemen Durdiyeva*

On November 5, President Gurbanguly Berdimuhammedov paid a three-day state visit to South Korea for the first time in his presidency. Having met with his counterpart President Lee Myung-bank and a wide circle of business elite representatives, Berdimuhammedov vowed to follow the Korean experience of economic development.

Waiving the state flags of both countries, lines of people headed by Korean state officials provided a warm welcome in all places visited by the presidential delegation in the cities of Seoul, Pusan and Ulsan. On the second day of his visit, Berdimuhammedov met President Lee and held extensive negotiations in the presence of state delegations from both sides. As a result, a joint communiqué consisting of five major points was ceremoniously signed in the presidential palace.

The communiqué includes the following points:

1. memorandum of mutual understanding on

cultural cooperation between Turkmenistan’s Ministry of Culture and Broadcasting and the Ministry of Culture, Sports and Tourism of the Republic of Korea; 2. bilateral agreement between the governments of both countries on opening airway services; 3. agreement on establishing a joint commission on mutual cooperation; 4. memorandum on mutual understanding between the Foreign Affairs Ministry of Turkmenistan and the Ministry of Foreign Affairs and Trade of South Korea; 5. agreement on canceling the visa requirement procedure for holders of diplomatic passports.

In the second half of the day, Berdimuhammedov visited the Hyundai shipbuilding and automobile plants, and praised the quality and design of Hyundai vehicles. It is noteworthy that new Korean buses have already been purchased and put to use in public transportation in Ashgabat. As these buses are being tested in the capital city, 490 more Hyundai buses are expected to be ordered

shortly for other regions of Turkmenistan. However, some skeptics believe that these new buses may easily go out of service, since Turkmenistan does not have service centers for Hyundai vehicles, and ordering spare parts from Korea could become more expensive than importing more of the Russian- or Iranian-made buses already in use.

Turkmenistan is a relatively new market for Korean and East Asian companies; however, Samsung and LG have been present for some time. But at the meeting with more than 100 CEOs of Korean firms and international companies including LG, Samsung, Daewoo, Hyundai and Kasko in Seoul, Berdimuhammedov called for their greater participation in Turkmenistan's national projects. In particular, the Turkmen leader announced that most favorable conditions would be given for companies willing to invest in Turkmenistan's textile industry and in its energy sector. Exploring new gas and oil wells in the Caspian Sea was also widely discussed at the governmental level in Seoul.

In addition to efforts to attract more investment into the Turkmen economy and establish trade routes between the two countries, the sides also agreed on educational and cultural exchange. In this context, Ashgabat will host a huge Turkmen-Korean folk art festival in 2009 and more Turkmen students will be sent on exchange to Korea.

While the President's three day visit to the Republic of Korea and his constant agreements on eternal friendship and cooperation may sound sensational from the economic and political point of view, real changes for the people of Turkmenistan are yet to be seen. Numerous structural changes have officially been declared at the national level since the current administration was sworn in but little has been done, especially in development of small businesses and privatization. The tenets of the old system of 'one-man-rule' from top to bottom still create many barriers to the liberalization of the economy and society, and speaking of a Korean model of economic development especially in further districts of the country may be premature.

## THE CURRENT SITUATION IN THE FATA OF PAKISTAN

*Zahid Anwar*

The Area Study Centre of the University of Peshawar and the Hanns Siedel Foundation (Germany) jointly organized a two day conference on, "The Current Situation in the FATA of Pakistan" in Peshawar on October 22 and 23, 2008. Many retired ambassadors, civil and military officers, journalists, academics, and area research scholars met to discuss the mayhem in the tribal areas of Pakistan.

Dr. Azmat Hayat Khan, Vice-Chancellor of the University of Peshawar, said in his address that

the current situation in FATA is the outcome of our past policies. Brig. Saad Muhammad Khan stated that Pakistan cannot resolve the problem in isolation, as it is dependent on developments in Afghanistan and external elements have entered the area to destabilize Pakistan. While a counter-insurgency strategy should be multifaceted, Pakistan is relying on the military component only. Counter-insurgency operations should be surgical and carried out against known locations, however,

indiscriminate use of fire power during the operations in FATA caused tremendous collateral damage. He further stated that the infrastructure in Swat is in shambles, and that America does not need to send it to the Stone Age, as Pakistan has done that by itself. He claimed that the U.S. is fighting a completely wrong war in a completely wrong way, while the next regime in the U.S. will likely have a better understanding of the situation.

Ambassador Rustam Shah Mohmand stated that during the Soviet occupation of Afghanistan, the FATA remained calm. After 9/11, Pakistan plunged itself into a war it should not have fought. "We are obsessed with government writ in tribal areas, what about Karachi, where in some areas there is no writ of the Government. Pakistan should not allow its territory to be used by any group for any act of subversion in any country. There is a tremendous insurgency in the Kunar province. We should tell our coalition partners that the domestic cost of this policy has become unacceptable; it is destabilizing Pakistan to the core. We should strike agreements with the tribes and begin to pull out our troops."

Lt. Gen. Asad Durrani, former DG, ISI, stated that the military operations in FATA are an effect of U.S. pressure. The government has handed over Pakistani citizens to foreign powers without diplomatic formalities. Brig. Mahmood Shah remarked that after the Soviet withdrawal, the U.S. neglected Afghanistan and it was beyond Pakistan's capacity to clean up the mess of the last battlefield of the Cold War alone. Pakistan's government policy is inconsistent; highlighting the human aspect of the issue, he said artillery is a weapon targeting entire areas, killing innocent people. After 9/11, the U.S. should have developed stabilizing strategies. Being a special area, the FATA system needs to be changed in a camouflaged

manner; reforms should be introduced with specific targets to be achieved within a given time frame. The U.S. should give free access to Pakistani exports, textile etc.

Juma Khan Sufi stated that the Taliban have their own checkpoints and FM radio in Swat. The current situation created in Afghanistan by the U.S. and NATO is not in the interest of the people of Afghanistan. Col. Yakub Mahsud stated that FATA received attention only after 9/11. When peace is restored, the army should pull back. An overhaul of the system is needed but any sudden introduction of a new system will alarm the tribesmen. FATA should be merged into NWFP but large development plans should be implemented before the merger. The culture of the tribal people should be respected and we should ourselves decide what is best for us. Col. Yahya Affendi expressed the opinion that coalition partners should establish joint headquarters either in Kabul or somewhere in Pakistan, in order to overcome the current lack of trust.

Delawar Khan, a journalist from Waziristan said that when the government made deals with the militants, they stopped attacking the army but then targeted killings of pro-government Maliks (influential locals) started. Two hundred and fifty such Maliks were killed in South Waziristan alone. Over the last sixty years a handful of local people benefited from the system, while the majority remains deprived.

In the concluding session it was claimed that negotiations help to know who is who in the troubled areas. When there were joint military operations, the collateral damage was small, but when US started operations on their own collateral damage increased. It was also stated that militants are receiving assistance from actors in the Middle East and from forces interested in destabilizing Pakistan.