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THE CENTRAL ASIA-CAUCASS ANALYST

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

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

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

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

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
Beijing and Islamabad have completed the groundwork for the implementation of the China-Pakistan Economic Corridor (CPEC). A final decision with a clear roadmap is expected during Chinese President Xi Jingping’s much-awaited visit to Pakistan in May 2015. The CPEC is the largest project not only in the relationship between the two states, but also in Pakistan’s history. The future of Sino-Pakistan relations will hinge upon corridor’s success.

BACKGROUND: China and Pakistan claim to have an “all-weather” friendship. Their geographical proximity adds geo-economic significance to their overall relationship. To optimize the benefits of their shared border, the two sides in 1982 completed the legendary Karakorum Highway (KKH), connecting China’s Kashgar to Pakistan’s Hasan Abdal, a town near Islamabad, via the Khunjerab Pass. During the 2000s, the highway was expanded and modernized to make it operational for all types of traffic, year-round. An inland network of roads connects Hassan Abdal with Pakistan’s Gwadar and Karachi ports in the south of the country.

The proposal to establish an economic corridor emerged in the 2000s, but gained momentum with the advent of “assertive” Chinese leadership under Xi Jinping. It has since become a central theme of discussion in Sino-Pakistani high-level interaction. In February 2013, state-owned China Overseas Ports Holding Limited took “administrative” control of the Gwadar Port. During Premier Li Keqiang’s visit to Pakistan in May 2013, the two sides signed agreements on the blueprint for the CPEC. In November 2014, China allocated US$ 45.6 billion for the project, including US$ 33.8 billion for energy and US$ 11.8 billion for infrastructure development, including US$ 622 million for developing the Gwadar Port. Informed sources state that China’s actual allocation is more than double this amount, subject to progress on the CPEC.

This was the single largest foreign commitment in Pakistan’s history, indicating the significance that Beijing attaches to this project. Moody’s has termed the CPEC “credit positive” for Pakistan, as it will “spur investment activity, boost bilateral trade flows and help ease the country’s growing energy shortages.” Although China has established a number of Silk Roads, including the 21st Century Maritime Silk Road, the CPEC is unique in its short distance and the fact that it involves only one country, Pakistan, with whom China has cordial relations.
The CPEC also provides a bridge between land and maritime silk roads.

In addition, the CPEC offers more than mere road connectivity. It is a comprehensive concept aiming to integrate Pakistan economically and strategically with China in the long term. China offers to restore Pakistan’s “glorious” past by economic assistance. This is a long-term task that will be implemented gradually. Currently, the two countries are upgrading existing roads and building new ones to consolidate land connectivity. They have also completed studies to construct railways, oil and gas pipelines, and fiber optic lines along with the corridor. At Gwadar, they will construct an international airport, storage facilities, and oil refineries. Pakistan will establish industrial and economic zones with tax incentives at Gwadar and along the corridor.

(IMPLICATIONS: The significance of the CPEC stems from Pakistan’s geographical location and that of the Gwadar Port, which is at the heart of this project. The country is at the crossroads of Central, South and West Asia and in close proximity of China. Gwadar, a natural deep seaport, is located close to the Strait of Hormuz, the Persian Gulf and the Middle East. Islamabad hopes that the CPEC will provide inter and intra-regional connectivity and facilitate the flow of goods and energy. Two proposed west-east pipelines, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) and the Iran-Pakistan-India (IPI) pipelines, intersect with the CPEC at different points. The CPEC can benefit landlocked Afghanistan and some Central Asian states.

Pakistan’s Prime Minister has stated that the CPEC could be a “game changer” for the region. It serves key Chinese economic and strategic interests. Over 70 percent of China’s trade and energy transit the Indian Ocean and the Malacca Straits. This area is infected with pirates and patrolled by the U.S. and Indian navies. Any conflict could choke off China’s energy supplies. The CPEC provides a short and safe alternative. It can become a gateway for trade between China and the Middle East, Africa and beyond. Oil shipments originating in the Middle East could be offloaded at Gwadar for onward transport to China, via roads, railways and pipelines. This will reduce time, distance, freight cost, and is above all safer than the Malacca Straits. In addition, the CPEC will complement China’s drive to modernize its Western regions, and to address separatism in Xinjiang through economic and trade activities.

The CPEC and the Gwadar port is a cause of concern to especially the U.S. and India, who consider it part of China’s “string of pearls” strategy aiming to encircle India. Alongside Gwadar, China has assisted the
Hambantota Port in Sri Lanka, Chittagong in Bangladesh, Kyaukpyu and Sittwe in Myanmar, and a “dry port” at Larch in Nepal. These developments, along with China’s construction of a blue-water navy and its activities in the Indian Ocean raise concerns. While the current structure of the CPEC and Gwadar is economic and commercial, these facilities could be utilized for military purposes if needed.

Aside from the CPEC’s stated economic and strategic implications, the project faces daunting challenges at this stage. Pakistan’s chronic security situation is the primary hurdle to its implementation. The corridor passes through the unruly Khyber Pakhtunkhwa and Baluchistan provinces, which face a low-scale insurgency. Some Baluch tribes also oppose the development work in their province. Potential spillover from Afghanistan could add to the instability. It will take a long time for Pakistan’s government to establish its writ in those areas. Moreover, the country is divided along political lines, which prevent consensus on the project. A conflict over the change in the corridor’s route recently divided the legislatures of different provinces, exposing these fault lines.

Furthermore, aside from Pakistan’s fanfare, the CPEC is only one of China’s several new Silk Roads. If Islamabad fails to address its domestic challenges to the CPEC’s implementation, China could decide to focus on others projects. Finally, China’s investment in Pakistan has been quite modest in the past, but was coupled with China’s observance of the principle of non-interference in Pakistan’s internal affairs. Observers argue that after such huge investments, China could change its behavior and take positions on domestic Pakistani policies that affect its interests.

**CONCLUSIONS:** Given the historically close relationship between China and Pakistan, the CPEC could indeed become a game changer. If implemented successfully, it could serve China’s economic, energy and strategic interests on the one hand and boost Pakistan’s moribund economy on the other. It cannot be ruled out that the CPEC could be used for military purposes if either side requires it. Roads and ports built for economic purposes can be equally useful for defense purposes. However, aside from this potential, the CPEC faces several challenges, mostly originating in Pakistan. Until these are addressed, the CPEC will remain a dream. In the context of rapid changes in the region, especially China’s gradual rise from a regional to a great power and growing Sino-Indian rapprochement, Pakistan has lost some of its traditional importance in China’s calculation. The success of the CPEC is therefore crucial for the future of Sino-Pakistan ties.

**AUTHOR’S BIO:** Dr. Ghulam Ali is a Postdoctoral Fellow at Peking University, Beijing. The views expressed in this article are his own. He can be reached at: ghulamali74@yahoo.com.
DAGESTAN’S INSURGENTS SPLIT OVER LOYALTIES TO CAUCASUS EMIRATE AND IS

Emil Souleimanov

Recent months have been hectic for Dagestani jihadists. Since mid-2014, this hotbed of the North Caucasian insurgency has witnessed a gradual split, with numerous Dagestan-based jihadist commanders pledging oath (bayat) to the leader of the Islamic State, Abu-Bakr al-Baghdadi. In response, the Caucasus Emirate’s formal leader, Aliaskhab Kebekov, himself a Dagestani, criticized the disloyal commanders for splitting the ranks of the local insurgency. In mid-February, the newly appointed amir of the Dagestani Vilayat, Kamil Saidov, joined Kebekov in his condemnation of those submitting to Baghdadhi’s authority. Given the North Caucasian and Dagestani jamaats’ weakening capacity, the ongoing developments in Dagestan could break the unity in this last bastion of the regional insurgency.

BACKGROUND: In 2014, insurgency-related violence decreased in Dagestan – after continuously rising since the mid-2000s. The capacity of the Chechen insurgency became debilitated particularly because kadyrovtsy deployed lethal violence against insurgents’ relatives and supporters (see the 02/06/2013 and 12/10/2014 issues of the CACI Analyst). Instead, Dagestan became the epicenter of the North Caucasian insurgency (see the 09/29/2009 issue of the CACI Analyst). Dagestani jamaats have been on the defense ever since the eve of the Winter Olympic Games in Sochi (2014), due to increasingly intense counterinsurgency operations. Among other things, tens of thousands of Russian troops and police have been redeployed to the republic (see the 11/12/2012 issue of the CACI Analyst) and the increasingly frequent deployment of mop-up operations, known as zachistkas (see the 04/16/2013 issue of the CACI Analyst).

It is in this context that a number of Dagestani jihadist leaders, among them influential amirs, have since mid-2014 broken their oath to Kebekov, nom de guerre Sheikh Ali Abu-Muhammad, and instead pledged an oath to the leader of the Islamic State. Among them is, most importantly, the former amir of the Dagestani Vilayat Rustam Asilderov (in charge of Central Dagestan’s Kadar sector), followed by the amir of the Shamilkala sector Arsanali Kambulatov (in charge of the towns of Karabudakhkent and Gubden of Central-Eastern Dagestan), the amir of the Aukh jamaat Suleyman Zaynalabidov (in charge of Central-Western Dagestan), and some other South and Central Dagestani amirs. As yet, the amirs of the Mountainous (Central-Western Dagestani), Khasavyurt, and Buynaksk jamaats,
alongside the chief sharia judge, qadi, of the Aukh jamaat, remain true to their initial bayat to Kebekov.

(Source: Wikimedia Commons)

IMPLICATIONS: Kebekov and those loyal to his authority appear seriously concerned over the shifting loyalties of Dagestani jihadists. Several days after Asilderov's public oath to al-Baghdadi, Kebekov released a video in which Asilderov was accused of treason and of instigating a dangerous split among North Caucasian mujahedeen. According to Kebekov, if someone wishes to fight for the Islamic State, he should leave for the Middle East and let the North Caucasians fight their war. Kebekov called on the “brethren” to remain loyal to the Caucasus Emirate and refrain from supporting the “defectors.” Aside from practical considerations, Kebekov also questioned al-Baghdadi’s perceived status as a caliph, pointing to the ongoing discord between al-Zawahiri, al-Baghdadi, Mullah Omar, and others. In addition, Kebekov referred to the negative stance taken by renowned Islamic scholars on al-Baghdadi’s authority as the leader of a self-proclaimed Islamic theocracy. Soon thereafter, the qadi of the Caucasus Emirate Magomed Suleymanov, nom de guerre Abu Usman and second in the virtual theocracy’s hierarchy, released his own video statement criticizing the decisions of Asilderov and others to switch allegiances on political and theological grounds, followed by a similar statement from Saidov.

Even before the massive defection of late 2014, a rift had emerged between North Caucasian jihadists deployed in their homeland and in Syria (see the 08/05/2014 issue of the CACI Analyst). For instance, as early as in 2012, the Caucasus Emirate’s previous leader Doku Umarov lamented that “no one provide[d] help to the jihad in the Caucasus,” urging his fellow Chechens and North Caucasians to “do the jihad” in their home region instead of traveling to Syria. Ultimately, Umarov ex post facto half-heartedly supported the mounting involvement of North Caucasians in the remote jihad – in simple recognition of the fact and in order not to contradict the mainstream view of jihad among his fellow fighters as a divine duty superior to ethnic, national, and racial divisions.

Since then and until Umarov’s death in early 2014, Dagestani and particularly Chechen jihadists engaged in the North Caucasus have frequently been accused of nationalism and non-Islamic particularism by North Caucasians participating in Syria. Umarov’s successor Kebekov was also unwilling to accept the trickle of fighters to Syria. While the North Caucasian insurgency has been on the defense, with jamaats in Kabardino-Balkaria and Ingushetia virtually non-existent, Chechen jamaats confined to a few dozen, and
Dagestani *jamaats* facing increasingly high casualties, around a thousand natives of the region are involved in a war thousands of kilometers away from their homeland. However, Kebekov’s appeals to North Caucasians involved in Syria have been met with ridicule. In 2014, soon after his “appointment,” Kebekov was advised by the Syria-based North Caucasian jihadists to “eat leaves” rather than comment on Umar al-Shishani, an influential Chechen commander of the Islamic State with rigorous combat experience and a reputation as a fierce fighter. This illustrates the depth of the chasm between jihadists based in the North Caucasus and Syria, and the superiority complex of the latter who have come to regard themselves as those “writing history” instead of hiding in the mountains.

The declining capacity of the Dagestani insurgency and the weak position of the North Caucasian jihadists’ leadership in general, and of Kebekov in particular, have made the regional insurgency essentially inferior to the jihad waged by the Islamic State in Syria and Iraq. In 2014, unlike previous years, the North Caucasian insurgency proved incapable of inflicting any serious blows to the enemy, in the region or in Russia’s interior, perhaps with the exception of the *de facto* suicide attack on Grozny in early December. In the North Caucasus, few currently believe that the insurgency will ever stem the tide of the local low-scale conflict, given the immense superiority of Russian authorities – and perhaps even more importantly, the local population’s ambiguous attitude to the jihadists’ cause, even in the region’s most Islamicized republic (see the [02/18/2015 issue of the CACI Analyst](#)).

Simultaneously, the Islamic State has proven capable of taking over huge swathes of land and controlling it, running a *de facto* state with a budget of hundreds of millions of dollars and being feared for its military capacity. For at least some jihadists, prestige appears to play a role; associating themselves with a successful organization feared worldwide may help raise their profile, either in terms of recruitment, financing, or self-esteem. In contrast, the North Caucasus insurgency – as a matter of fact, the Dagestan Vilayat – is a rather loose network of *jamaats* operating on their own rather than a unified military organization with hierarchical command. For the *amirs* of the jihadist groups on the ground, whether they submit to Kebekov’s authority or not is of little practical relevance as they rely upon themselves in terms of recruitment and financing.

**CONCLUSIONS**: In this context, pledging an oath to al-Baghdadi may help increase recruitment from among young frustrated Dagestanis, some of whom sympathize with the Islamic State as a strong and intransigent organization, while increasingly skeptical of the Caucasus Emirate. In addition, given the wealth of the Islamic State, this move may be explained by the “treacherous” commanders’ hope to attain financing from the Middle East, given the drying out of their local fundraising as local sources of money have increasingly
been clenched by the authorities. It comes as no surprise then that relatively weaker – in terms of financing, profile, and recruitment – *jamaats* dominate the list of jihadist groups who have recently switched allegiances, while more established *jamaats* have remained loyal to the Caucasus Emirate.

**Author’s Bio:** Emil Aslan Souleimanov is Associate Professor with the Department of Russian and East European Studies, Charles University in Prague, Czech Republic. He is the author of *Individual Disengagement of Avengers, Nationalists, and Jihadists*, co-authored with Huseyn Aliyev (Palgrave Macmillan, 2014), *Understanding Ethnopolitical Conflict: Karabakh, Abkhazia, and South Ossetia Wars Reconsidered* (Palgrave Macmillan, 2013), and *An Endless War: The Russian-Chechen Conflict in Perspective* (Peter Lang, 2007).
GEORGIA’S ECONOMIC CRISIS AND POLITICAL BRINKMANSHP

Ariela Shapiro

Since November 2014, Georgia’s national currency, the lari (GEL), has devalued an estimated 28 percent against the dollar, measuring at 2.23 to 1 dollar as of April 10, 2015. This currency crisis has severely impacted local Georgian consumers and the operating capacity of Georgian businesses while undermining foreign investor confidence. The current crisis was externally catalyzed by falling oil prices, the Russian ruble’s harsh inflation and regional political and economic destabilization due to the Ukrainian conflict.

Domestically, the economic crisis has been exacerbated by the Georgian government’s ambiguous, often ad hoc, economic strategy. Amidst the failing economy and falling domestic confidence, the Georgian political landscape remains deeply fractured and no party has demonstrated political willingness to create a multi-partisan solution to the economic crisis.

BACKGROUND: The external factors negatively impacting Georgia’s economy are protracted and will not be resolved in the short-term: the Russia-Ukraine crisis, the deepening recession in Russia, both of which create ripple-effects through the region, and currency devaluations in key trading partner countries.

Domestically, as of March 15 Georgia’s exports were 26 percent lower than one year ago while remittances from Georgian workers abroad have decreased an estimated 22.4 percent to US$ 157.4 million. In reality, Georgian citizens often do not report received remittances to avoid taxation, and local analysts estimate that the real decrease in remittances is closer to 50 percent. In addition, large asset bank loans are fixed to a dollar value while most Georgian citizens are paid in GEL, which has resulted in many loans increasing in GEL-based value by almost 30 percent. In another instance, export-based businesses, such as grocery stores, are facing critical financial shortfalls as all imported goods are purchased in dollars or euros but sold to local consumers in GEL. While food prices have increased only marginally, many Georgians are struggling not to default on mortgages and small business loans.

In order to stave off an economic recession, the national government is reportedly reducing administrative spending and focusing on social programs and infrastructural projects, the latter of which are intended to increase employment. In late February, the government announced its decision to privatize key Georgian state owned assets, which aims to raise an estimated US$ 300 to 350 million. Depending on the strategic value of the asset in question, the privatization will either be full or partial, as is the case with 230 MW Combined Cycle Thermal Plant in Gardabani. Additionally, in an effort
to stabilize the GEL, the Georgian Central Bank has intervened four times between February and March by auctioning US$ 120 million.

The international community and donors have been passively supportive and apolitical, and has continually emphasized the need to “implement reforms” as a guaranteed mechanism for economic future growth. Following a recent mission to Georgia, an IMF delegation stated that the “(Georgian) Central Bank was doing a good job ... while Georgia is well placed to overcome the current challenges (as long) as it continues to accelerate reform and ease restrictions on foreign businesses.”

IMPLICATIONS: While the government’s tactics may work to stabilize the economy, they are reactive and not integrated into a long-term national and larger economic and governmental operational strategy. Critically, the actions of the ruling Georgian Dream (GD) coalition and relevant ministries are viewed as ineffective by the Georgian business community while the government has lost considerable confidence among the voting public.

According to a March 31, 2015 International Republican Institute public opinion survey, Georgian confidence in the GD coalition has decreased to 36 percent compared to 50.8 percent in June 2014. Per the survey, two of the ruling government’s greatest failures are inflation and the economic crisis, 64 percent felt the economy was worse compared to June 2014 while economic issues were the most critical for every household polled.

The economic crisis has further polarized the already deeply fractured Georgian political landscape. The United National Movement (UNM), the main opposition party, has worked to exploit the economic crisis to regain voters’ confidence by publicly calling for the ruling coalition’s resignation. On the other hand, the GD coalition has not tried to create a constructive dialogue with members from any of the multiple opposition parties. In addition, former Prime Minister Bidzina Ivanishvili’s statement that the head of the Central Bank and UNM appointee Giorgi Kadagidze’s “wrong actions” which led to the “crisis” may have resonated with voters but did not gain any points with the international community.

On March 21, UNM representatives held a Tbilisi based street rally, which was attended by an estimated 40-50,000 people, calling for the ruling government’s resignation and promising future protests. On March 23, UNM attempted to launch proceedings for a no-confidence vote against the ruling coalition but lacked the necessary votes as Irakli Alasania’s party, Free Democrats, refused its
involvement. Adding further fuel to the fire, Ivanishvili in March launched a reality television show called “2030”, which is intended to provide an alternate view on politics to Rustavi and Imedi television stations, both of which Ivanishvili views as supportive to UNM.

Currently, this political brinkmanship has produced no victor and the country still lacks a clear economic strategy, while no opposition party has recommended constructive tactics for economic growth. The Central Bank’s decision, on March 25, to keep its key rate at 4.5 percent may encourage public-private partnerships with foreign investors but the constant GEL fluctuation may be perceived as too high a risk for potential investors. In another example, the ruling government’s decision to privatize key state assets, such as the Partnership Fund’s 49 percent ownership of the Gardabani Combined Cycle Thermal Plant, may potentially be intended to attract funds and a joint operating company.

However, the ruling coalition has not publicly communicated to the general public, the Georgian business community, foreign investors, and the international community how this activity and other tactics are integral pieces in a countrywide economic plan. As a result, the ruling coalition is facing a voting public with failing confidence in its ability to rule, a wary business community and tentative foreign investors. Currently, none of the opposition parties have enough political support to win a parliamentary election, but voters may change their minds if the ruling coalition does not develop a clear economic plan with tangible results.

**CONCLUSIONS:** In conclusion, Georgia’s economic crisis and the GEL’s tremendous devaluation are due to protracted external regional factors as well as the dollar’s international appreciation relative to all major currencies. At a domestic level, the GEL devaluation and the resulting economic slowdown negatively impacts the operability of most Georgian businesses as well as many households. At present, the ruling coalition’s statements and tactics have been reactive and have produced no tangible results. The opposition parties have moved quickly to exploit the failing voter confidence and further polarized the Georgian political landscape. At this juncture, it would be wise for the international community, represented by the World Bank and or the IMF, to develop with the Georgian government an immediate mechanism to inject capital into the Georgian economy in the form of active projects, such as further infrastructural development. By publicly supporting the Georgian government at such a critical time, the international community would gain a great deal of trust from the Georgian people and help ensure the country’s transition to a western democracy.
THE CHINA-ARMENIA DECLARATION AND BEIJING’S PROSPECTS IN THE SOUTH CAUCASUS

Eduard Abrahamyan

The visit of Armenia’s President Serzh Sargsyan to the People’s Republic of China on March 24, following his moderate criticism of Russia’s arms deliveries to Azerbaijan, emanated in the signature of a bilateral comprehensive declaration signed between Armenia and China. One of the document’s significant pillars is Armenia’s enrollment in China’s “Silk Road Economic Belt.” Another is an accord to cooperate in the defense and military sphere, emphasizing mutual “military support.” The declaration combined over ten special agreements, involving various ministries of both states, and a preferential loan for adapting and modernizing customs services. China’s agreements with Armenia, coupled with its interest vis-à-vis Azerbaijan and Georgia, heralds China’s economic and political penetration in the South Caucasus.

BACKGROUND: China has in recent years become a dominant actor in Central Asia in terms of economic investments in infrastructure, railways and pipeline projects. Beijing has methodically enhanced its geo-economic presence in region, gradually excelling its regional competitors, particularly Russia, despite the stark differences in the strategic approaches of these powers in Central Asia.

In September 2013, China’s leader Xi Jinping put forward the grandiose economic project “Silk Road Economic Belt” as a permanent and substantive trade-economic initiative to connect China to Europe via Central Asia. With an initial funding of US$ 40 billion, the project will provide a considerable share of China’s economic investments in Central Asia, laying the ground for involving the South Caucasus in China’s geo-economic plan. Geographically, trade routes through the South Caucasus could connect Central Asia to Europe, providing an alternative to unpredictable Russia and avoiding the currently unstable Middle East. Beijing’s interest in the South Caucasus should be seen primarily in the context of its ability to connect with Europe.

Contemporary relations between Armenia and China were established in a common communiqué signed in 1996, opening for the first mutual declaration between Armenia and China on economic, political and defense cooperation in September 2004. Over a decade later, and as Armenia faces an increasingly tense international situation, China’s Embassy diligently initiated the visit of Armenia’s president to Beijing. Via its new declaration with Armenia, Beijing seeks to define its functions, political
disposition and political-economic agenda in the South Caucasus.

These recent Chinese efforts represent an attempt to engage Armenia and the South Caucasus in general in the “Silk Road Economic Belt,” in order to employ existing or potential transit capacities. Chinese investment in the South Caucasus on par with Central Asia could transform region into a trade corridor, integrating it both with the EU and with Asia.

**IMPLICATIONS:** In its approaches to Central Asia, China has not prioritized the geopolitical aspect of its policy in the region, instead pursuing largely geo-economic objectives. In comparison with Central Asia, the South Caucasus is a small region, consisting of three internationally recognized states with different political orientations and frozen conflicts, affected by the competing political activities and interests of the EU, Russia, Iran, Turkey and the U.S. The realism in Beijing’s economic objectives in the South Caucasus therefore hinges on its willingness to become engaged in the regional geopolitical game. The South Caucasus with its geographical and geopolitical specifics is far beyond China’s traditional spheres of influence, which Beijing cannot afford to ignore in its calculations.

However, Beijing’s recent activity in the region and the political accents of its declaration with Armenia makes clear that Beijing grasps the region’s geopolitical realities and looks to slowly but persuasively boost its political influence and economic presence.

From Armenia’s point of view, a boosted relationship with China is a tangible chance to restore the foreign policy balance that was disrupted as a consequence of Russia’s policy of coercion against Yerevan since September 2013. In addition, Armenia’s deplorable economic situation and the growing public discontent towards its political elite favored the decision to join the Eurasian Union, calling into question country’s sovereignty and development.

After this decision, Armenia’s opportunities are limited, whereas it only three years ago had a substantive option to integrate closer with Europe through an Association Agreement with the EU. The developing ties between Armenia and China are likely favorable to the EU as well, as they contribute to diminishing Russia’s predominant influence over Armenia’s politics and economy, which could in turn stimulate more independent negotiations with the EU.

China is first and foremost interested in expanding its economic and geopolitical interests to the South Caucasus, viewing Armenia as a convenient target for the first political and economic approach. Suffering from economic and political decline,
Armenia will accept any even minor economic or political initiative that will reduce its almost complete dependence from Russia and motivate its integration with the EU – China’s main partner in the Silk Road project.

Armenia’s strategic and geographical properties also speak to a complementary Chinese interest. The partnership with Armenia appears to be important in terms of maintaining a geopolitical balance in the region. Regarding the energy sector, Beijing during the meeting on March 24-26 demonstrated a conspicuous interest in Armenia’s hydro-electric and nuclear capacities, particularly highlighting the importance of detailed discussion on the construction of new nuclear power plant. This initiative, which will likely be elaborated soon, has the potential to substantively reduce Armenia’s dependence on Russia for its energy supply.

Beijing plausibly realizes that Russia will react negatively to any international initiative with Armenia, as Russia seeks to strategically isolate the South Caucasus as its geopolitical prerogative. Therefore, any independent international political activity by Armenia threatens to reduce Russia’s influence in region, especially if such activities include geopolitical and geo-economic initiatives that imply integration with partners other than Russia. To this end, China’s extension of its Silk Road project to the South Caucasus can be viewed favorably by the EU and to some extent by Turkey and Iran.

Simultaneously, Moscow should not underestimate the threat that Beijing’s gradual integration of Armenia into its economic sphere poses to Russian interests. A case in point is Russia’s failure in Central Asia, where Moscow no longer opposes Beijing’s economic rapprochements with its Central Asian partners and allies. Also in the South Caucasus, Russia over time risks becoming excluded by competing economic and political projects.

**CONCLUSIONS:** China’s declaration with Armenia is a first step in its approach to the South Caucasus. The prospect for a nuclear deal with Iran has opened alternative avenues for China to implement its “Silk Road Economic Belt” across the Central Asia, through Iran and the South Caucasus towards Europe, promoted by Xi Jinping. A favorable geopolitical outcome in Armenia will boost China’s motivation for regional projects with Azerbaijan and Georgia, cultivating new realities in the South Caucasus.

As for Armenia, the new prospects raise the question of whether the country’s leadership may succeed in shaping at least an economic equilibrium between Russia and China, bearing in mind its failure to establish a European foreign policy dimension in the aftermath of its decision to join the Eurasian Union.

**AUTHOR’S BIO:** Eduard Abrahamyan holds a PhD from Yerevan State University. He is currently based at the University of Westminster, and is a fellow of Policy Forum Armenia, Washington DC.
GEORGIA’S FORMER DEFENSE MINISTER BLAMES GOVERNMENT FOR DAMAGING STATE INTERESTS

Eka Janashia

On April 3, former Defense Minister Irakli Alasania claimed that Georgia’s government thwarted a crucially important defense deal with France likely due to Russia’s objection to Georgia’s enhanced defensive capabilities.

According to Alasania, French President François Hollande agreed during his visit to Tbilisi last year to sell air defense capabilities to Georgia. The move marked the end of an arms embargo informally imposed against Georgia after the 2008 August war as western partners hesitated to sell defensive weapons to the country.

The government worked out subsequent proposals and tasked Alasania with striking an initial deal—a non-binding memorandum of understanding (MoU)—with the French side. He arrived in Paris in late October, but was just before the signing of the document deprived of his mandate to do so. Alasania asserts that Billionaire Bidzina Ivanishvili decided to prevent the deal under pressure from the Kremlin.

The MoU envisaged the conclusion of a final agreement at the end of March, which would aim to reinforce Georgia’s air defense system and shield the country from attacks of fighter aircraft and even short and medium-range ballistic missiles. The deal also foresaw specific training to familiarize the Georgian servicemen with the system.

Importantly, the deal would be paid for through a long-term loan, which would not have been painfully reflected in the state budget, the former minister said.

As Alasania refused to comply with the “illegal instruction,” of the “informal ruler [Ivanishvili],” the ministry’s general staff officials were arrested to raise the pressure on him. Nevertheless, Alasania signed the document in order not to lose the chance that “opened up for Georgia after many years of embargo.”

Shortly thereafter, he was sacked from the post of Defense Minister and his Our Georgia-Free Democrats (OGFD) party left the Georgian Dream (GD) ruling coalition. Yet Alasania has not disclosed the MoU-related sensitive details until now (see the 11/11/2014 issue of the CACI Analyst).

The government made efforts to reject Alasania’s allegations. On the same day, PM Irakli Gharibashvili indicted him for exposing state secrets and the Ministry of Defense released an interview with the French ambassador saying that discussions on military cooperation between Georgia and France military, which started last year, were still underway.

However, it remains a fact that the final agreement, allegedly envisaged in the MoU, was not signed at the end of March, 2015. OGFD requests the formation of an ad hoc parliamentary
commission with access to classified information to cast light on the issue and confirm or deny the assertions that Alasania made on April 3.

It seems that Alasania has been awaiting the government’s failure to meet the deadline to raise the matter. However, there could be another reason why he raised the criticism at this time.

On April 1, the U.S. NGO International Republican Institute (IRI) published the results of public opinion research conducted throughout Georgia on February 3-28, 2015. The survey mapped the foreign and domestic policy preferences as well as the ratings of political parties and their leaders.

A clear trend unveiled by the polls is the waning popularity of GD. In local elections held in June 2014, the coalition garnered just over 50 percent of the votes, while according to IRI research, the likely number of GD voters has dropped to 36 percent. It is followed by United National Movement (UNM) with 14 percent, OGFD with 10 percent, Labor Party with 6 percent, Alliance of Patriots of Georgia and Democratic Movement–United Georgia with 5 percent each. Alasania’s favorability rating is 57 percent, with a disapproval rating at 34 percent, while the corresponding figures for PM Gharibashvili are 56/39 percent respectively. Alasania is the most favored candidate among the opposition leaders.

In terms of foreign policy priorities, the poll showed that Georgians strongly support their country’s integration with Euro-Atlantic structures. 85 percent of the respondents favor Georgia’s membership in the EU and 78 percent support its accession to NATO. 76 percent of Georgians deem the Russian Federation as a threat to the country while 88 percent think Russian aggression toward Georgia is ongoing or likely to resume.

Another striking trend disclosed by the survey is the apathy and skepticism that has been growing among the population since 2014. People are less optimistic about the future than a year ago. 55 percent of the respondents think Georgia is on the wrong track, and only 25 percent approve the country’s current trajectory.

Although GD, as well as some experts and politicians, expressed skepticism regarding the polls, it might be a mistake to ignore the overall context that the survey has outlined. What is a warning for the ruling coalition might be an opportunity for the opposition parties. Talking about the air defense affair, while most Georgians fear continued Russian aggression, is beneficial to Alasania and OGFD. This shift in opinion is also reflected in the declining support for GD and the growing popularity of Alasania.
ARMENIA-EU RELATIONS
ENTER A NEW PHASE
Erik Davtyan

The second half of March saw several high level meetings and agreements signed between EU representatives and Armenian authorities. On March 16, the Vice-President of the European Investment Bank (EIB) Wilhelm Molterer and Armenia’s Minister of Finances Gagik Khachatryan signed an agreement, according to which the EIB will lend EUR 10 million to finance the construction of an electricity transmission line and a high voltage direct current station to develop a link between Armenia and Georgia. Georgia plays a crucial role in Armenia’s energy security system; a fact emphasized both by Khachatryan and Molterer. Commenting on new cooperation in the energy sphere, EU Ambassador Traian Hristea said the EU confirms its “willingness ... to support the basic needs of Armenian citizens and in particular their access to sustainable energy through efficient electrical networks.” In turn, Armenia’s Prime Minister Hovik Abrahamian also welcomed the signing of the agreement.

The next important event in EU-Armenia relations was the 4th session of the Euronest Parliamentary Assembly (EPA) that took place in Yerevan. On March 18, the Parliamentary Assembly adopted a resolution on the 100th anniversary of the Armenian Genocide. Though the representatives of Belarus and Azerbaijan were missing, the EPA “called on Turkey to reconcile with its past.” The Co-Chairperson of the EPA, Heidi Hautala, described the resolution as “a very important decision.” This resolution followed the European Parliament’s March 12 call on the EU states to recognize the Armenian Genocide. Regarding the future of Armenia-EU relations, Hautala stated that the parties are discussing a new bilateral agreement.

The fact that the EPA held its first session in Yerevan was of great importance for Armenia. At the opening ceremony of the EPA session, Armenia’s President Serzh Sargsyan personally welcomed the parliamentary delegation and called that week a European one, reiterating that while being a part of the Eurasian Economic Union, Armenia will “accommodate the EU’s deep and comprehensive agenda.” The EPA session was attended by the EU Commissioner for European Neighborhood and Enlargement Negotiations, Johannes Hahn. In his meetings with President Sargsyan, Prime Minister Abrahamian and Foreign Minister Nalbandian, Hahn welcomed the progress in Armenia-EU relations, especially in the context of the Mobility Partnership.

On March 18, President Sargsyan paid a working visit to Belgium, attending the summit of the European People’s Party (EPP). On March 3, the EPP had adopted a resolution condemning the Armenian Genocide. During the visit, Sargsyan held several meetings with
EU high officials, including the President of the European Council Donald Tusk, and German Chancellor Angela Merkel.

The third important event in EU-Armenia relations was the 15th session of the Commission for Armenia-European Union Parliamentary Cooperation, held on March 19-20 in Yerevan. On March 20, the Commission adopted a Final Statement, concerning the condemnation of the Armenian Genocide, the future of EU-Armenia relations, as well as the Nagorno-Karabakh conflict. The Commission expressed its strong support for the efforts of the OSCE Minsk Group Co-Chairs in the peace regulation process between Armenia and Azerbaijan. During the session, a deputy of Armenia’s National Assembly, Stepan Margaryan said that there is no common position in the South Caucasus regarding international organizations, and that Armenia therefore needs a new agenda for its future relations with the EU. As to the economic aspect of relations, Armenia’s Minister of Economy Karen Chshmaritian emphasized the EU’s role in supporting Armenia’s budgetary and economic policy.

The fact that the Armenian Genocide was on the eve of its 100th anniversary recognized by various European institutions was highly appreciated by all political parties and scientific circles of Armenia. However, politicians and experts have different views regarding the future of Armenia-EU relations. According to the head of the European Integration NGO, Karen Bekaryan, “the stage of uncertainty in Armenia-EU relations is overcome.” He believes that a new agreement will be prepared at the threshold of the Eastern Partnership summit in Riga.

Summarizing the March negotiations, the director of the Caucasus Institute Alexander Iskandaryan believes that there is a great possibility that the parties will sign a new document at the Riga summit. According to Iskandaryan, the EU is Armenia’s biggest economic partner and, in any case, bilateral relations will continue. On the other hand, the head of the Modus Vivendi Center, Ara Papian, thinks that considering Armenia’s membership in the EEU, its recent activities towards the EU, its recent activities towards the EU will not appear as credible to the EU.
While it is too early to anticipate whether the April framework agreement between Iran and the six world powers will lead to a permanent deal, Baku expects business ties between the neighbors to grow after international sanctions on Iran are lifted.

On April 3, Azerbaijan’s Foreign Ministry expressed its belief that “this political framework will provide an opportunity in furthering the peace, security and stability in the region and beyond.”

Fikret Sadykhov, a political analyst, believes the Lausanne agreements with Iran will be beneficial for Baku, which was always against a military settlement of the conflict. “Over recent years, Azerbaijan has been affected by the military rhetoric of both the West and Iran as well as blamed for becoming a so-called platform for military attacks against Iran, all this had a negative impact on bilateral relations between Baku and Tehran,” said Sadykhov.

Rasim Musabekov, a member of parliament, told Vestnik Kavkaza that agreements will have a long-term effect not only on bilateral relations between Baku and Tehran, but also in the region. “If anti-Iranian sanctions are lifted, there are several projects that can be implemented between Iran and Azerbaijan. Trade turnover and economic contacts with Iran will develop in a better way. The project of constructing the North-South Railway will be fulfilled intensively. So, there are prospects for improvement in the trade and economic sphere.”

According to Ilham Shaban, head of the Center for Oil Studies, in 2010 trade turnover between the countries was about US$ 600 million, while in 2014 it was only US$ 220 million, as a result of sanctions.

Baku and Ankara have already expressed their interest in developing economic ties between the three countries, especially in transporting Iranian oil and gas through their territories. The Iranian, Turkish and Azerbaijani Foreign Ministers will soon hold a trilateral meeting in Tehran.

Rovnag Abdullayev President of Azerbaijan’s State oil company SOCAR, claimed that Tehran was interested in the Trans-Anatolian Gas Pipeline (TANAP) project, which will carry gas from Azerbaijan to Europe via Turkey. He noted that Iran closely monitors the TANAP project. Speaking to the Azeri press, Abdullayev said Iran wants to purchase a share of TANAP, and that SOCAR, which is the principal stakeholder in the project, intends to sell shares if they receive a “proper” offer. Underlining that Iran’s need for this project will increase, Abdullayev said Tehran will produce more natural gas and it has no other alternatives to TANAP to carry it to Europe.
“It will be possible for Iran to take a stake in the TANAP project as long as certain commercial conditions are fulfilled,” Turkish Energy Minister Taner Yıldız said on April 9. He added that other countries also want a stake in the project, following a signing ceremony in Ankara between Turkish and Georgian authorities on energy.

According to plans, TANAP will connect to the Trans-Adriatic Pipeline (TAP) to bring the gas into Europe. The cost of building TANAP is estimated to between US$ 10 and 11 billion. SOCAR owns 58 percent of the project, Turkey’s Botas 30 percent, and BP owns the remaining 12 percent. EU officials also support the idea of Iran joining to the project, which has the potential to diversify energy supplies and decreasing Europe’s dependence on Russian gas.

“TAP is open to new shareholders, which can add strategic value to the project,” Lisa Givert, TAP’s communication head, told reporters in Baku, commenting on the possible interest from Iran. The pipeline aims to start transportation of gas from Azerbaijan’s Shah Deniz II field in the Caspian Sea, one of the world’s largest gas fields, in 2018-2019. The 870 kilometer (545 mile) pipeline will connect to TANAP near the Turkish-Greek border at Kipoi, and cross Greece, Albania and the Adriatic Sea before reaching southern Italy. “For any additional volumes that come on stream, TAP will comply with the EU regulation and relevant sanctions,” Givert said. Azerbaijan aims to transport 16 billion cubic meters (bcm) of gas a year from its Shah Deniz II field in the Caspian Sea to Turkey and on to Europe.

Economic analyst Ilham Shaban believes the decision to transit Iranian gas through TANAP will be political rather than commercial. “TANAP might be used only for some small volume of Iranian gas as the pipeline is not designed for transit of huge resources. If we share capacity with Iran, then what happens to export of gas from fields like Absheron, Umid-Babak and the deep-water section of Azeri-Chirag-Gunesli (ACG) to the European market in the future? Are we going to build another export pipeline? ... I think the issue of transit of Iranian gas through Turkey will be discussed only within the political context.”

Iran’s gas resources are impressive. According to BP’s review, the country has the world’s largest proven gas reserves at 33.8 trillion cubic meters (tcm). Russia’s reserves are marginally lower at 31.3 tcm. Shaban believes that Iran will need to use alternative routes to transport its gas to Europe. “The Nabucco-West pipeline with a capacity of transporting 20 billion cubic meters of gas could be such an opportunity,” the analyst said.

However, Tehran has already signaled through Deputy Oil Minister Ali Majedi that it is ready to supply gas to Europe through Nabucco. Majedi stated that Iran was prepared to sign on as a supplier and added that “two visiting European delegations” had discussed potential routes to bring Iranian gas to Europe.
Iranian President Hassan Rouhani brought up the offer in a meeting with his Austrian counterpart Heinz Fischer in September on the sidelines of the UN General Assembly. Rouhani told Fischer that “the Islamic Republic can be a reliable supplier of energy for Europe” and mentioned the Nabucco pipeline.
KYRGYZSTAN MARKS FIFTH ANNIVERSARY OF REVOLUTION
Arslan Sabyrbekov

On April 7, Kyrgyzstan commemorated the fifth anniversary of its popular revolution that put an end to the highly corrupt, criminalized and authoritarian regime of the ousted President Kurmanbek Bakiev. Alongside a number of high-ranking state officials, President Almazbek Atambayev took part in a solemn ceremony in Bishkek’s Central Square Ala-Too, at the site where nearly 100 demonstrators were shot dead by snipers on April 7, 2010.

In his emotional speech to the participants of the ceremony, President Atambayev stated once again that his predecessor established a highly corrupt regime, which robbed the whole country and described the system of the day as “monstrous,” referring to a number of killings of politicians, journalists and businessmen during Bakiev’s reign. The president went on to state that unlike a number of Arab countries and most recently Ukraine, which have all toppled similar regimes, Kyrgyzstan has in a short time managed to recover and is “currently on the right track of enhancing its democratic institutions, establishing justice and fighting corruption.”

Despite Atambayev’s positive remarks, the ideals of the April 2010 Revolution are very far from being met. Even after the president’s speech, dozens of participants of the ceremony demonstrated in front of the White House accusing the regime of failing to bring the perpetrators of bloodshed to justice, to systematically tackle corruption and bring back the assets stolen from the country. Indeed, none of the high-ranking officials of the Bakiev regime accused of direct involvement in the killings during the revolution are serving prison sentences. All are sentenced in absentia, including the former President himself, who is now residing in Belarus and leading a comfortable life. His son Maxim Bakiev, who has embezzled millions of state funds, now resides in London. According to a recent journalistic investigation by Global Witness, the son of the ousted President has purchased a house worth 3.5 million GBP. Kyrgyzstan’s continuous demand for their extradition has not been successful.

The revolution’s anniversary was also met with other critical comments from political and expert circles. In the words of Edil Baysalov, former Minister for Social Development and an active participant of the April 2010 events, “after 5 years, the country’s ruling political elite have failed to keep their promises; the country still suffers from widespread corruption, socio-economic challenges are growing, commitments to establish parliamentary democracy with a multiparty system have all been discredited.” Recent developments in the country tend to speak in favor of these remarks. None of the political parties, as driving forces behind a
parliamentarian form of government, have managed to evolve as formal institutions and continue to represent informal unions of individuals guided by personal interests.

Furthermore, the commitment to address widespread corruption in the aftermath of the April 2010 events features a selective rather than a systematic approach. Despite the arrest of a number of high-ranking officials, corruption remains present at all levels and the latest Corruption Perception Index of Transparency International clearly demonstrates this fact.

Commenting on the anniversary of the April Revolution, the leader of the United Opposition Movement and MP Ravshan Jeenbekov noted that instead of carrying out democratic reforms, the country has on the contrary taken a big step back by adopting two controversial laws; one banning “gay propaganda;” another labelling foreign funded organizations as “foreign agents.” Both initiatives severely limit civil liberties and put the further development of civil society into great jeopardy. According to local civil society activists, this process of increasing authoritarianism is likely to flourish after Kyrgyzstan becomes a full-fledged member of the Moscow-led Eurasian integration project.

Indeed, each anniversary of the April 2010 events generates public debate on whether the country has reached its ideals and where it is moving further. So far, one can name the downfall of family rule, prevention of a large-scale ethnic conflict and the overall socio-political stability as major achievements of the past 5 years and the upcoming parliamentary elections in the autumn will be a key test for the country’s further stability.

The author writes in his personal capacity. The views expressed are his own and do not represent the views of the organization for which he works.