



Highlights

The infighting within the unstable four-party ruling coalition that existed for just eight months resulted in the resignation of the government led by prime minister Omurbek Babanov. The governmental crisis was provoked by controversies among leaders of the political parties in the coalition and the attempts of the President to consolidate his position within the executive branch of the government.

The change of government during this period of consistently deteriorating economic indicators (January-August 2012) has engendered additional difficulties as well as delaying the resolution of problems associated with increases in staple food prices, securing government revenues and the timely receipt of international assistance aimed at covering the budget deficit.

Internal affairs

Early this summer steps were taken in an attempt to discredit the leader of the Respublika party and now former premier Babanov. Like the campaign against the former Speaker of parliament, these efforts were initiated and led by the Ata-Meken party which charged the disgraced prime minister with corruption. Babanov was accused of corrupt connections with a Turkish company subcontracted to build a flight control tower at Manas international airport with funds from the Transit Centre at Manas. Ata Meken MPs claimed that Babanov awarded the contract to a Turkish company in exchange for a lavish graft purportedly in excess of \$1 million. The former prime minister was also accused of corrupt connections with suppliers of aircraft fuel to the Transit Centre. Efforts to explain the situation and refute the charges levied against the former

head of government embroiled not only the management of the state enterprise Kyrgyzaeronavigatsia and the Turkish company SERKA, but also the US Embassy that disseminated the information about the US Congress having allocated \$30 million to construct the control tower and modernize the overall aeronautic system in the Kyrgyz Republic.

As recently as 10 August, Babanov confidently stated that the issue of his government's resignation would not be raised until the start of the regular session of parliament in September. There were reasons for such optimism since initiators of the extraordinary parliamentary session and the government's resignation failed to secure sufficient votes in parliament. However, he and his cabinet did not foresee another scenario, namely the collapse of the majority coalition which must be followed by the resignation of the cabinet, the option pursued by Ata-Meken and Ar-Namys with the support of SDPK. By 13 August, SDPK's political council, perpetually led by President Atambayev, passed a no-confidence vote signalling the beginning of the end of Babanov's stint as premier. His fellow party members accused members of Ata-Meken of marauding during the events of April 2010 and thus delaying the demise of their party head. However, this scenario did not sit well with the head of SDPK who apparently strived for an even bigger concentration of power.

On 24 August, President Atambayev signed a decree on the resignation of the government and only three days later instructed his political party to form a new majority coalition without the participation of the outgoing prime minister's party, Respublika.

During its almost eight-month stint in power, the government initiated a series of major



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KYRGYZSTAN

Bimonthly article

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reforms, effectively enhancing the efficiency of public governance. For example, the number of licences and permits issued by state bodies fell by 72, and the number of state bodies empowered to inspect businesses also decreased significantly. The number of state services was whittled down from 20,000 to 386, enabling non-state companies to occupy the vacated business space. An electronic system of governmental procurements was created whose operation could have significantly reduced the level of corruption observed in the course of procurements. The outgoing government also introduced visa-free treatment for citizens of 44 countries visiting Kyrgyzstan for a period of 60 days. Technical inspections of 280,000 cars were repealed, saving car-owners KGS 140 million. The government also started the construction of the Datka-Kemin overhead power lines, enabling Kyrgyzstan to save a total of \$14 million and manage its own energy since this infrastructural initiative means that it would no longer be necessary to transport energy via the territory of neighbouring Uzbekistan. Other abortive initiatives undertaken by Babanov's government include the reform of the internal affairs ministry and the abolition of its most corrupt component, the State Road Inspectorate, plus the adoption of several anti-corruption laws including the law on the right to wiretap politicians and senior officials.

The government and outgoing prime minister clearly failed to take prompt and adequate measures to improve the economic situation in the country, although they have never been reproached for this. A much greater grievance was triggered by Babanov's statements to the effect that Kyrgyzstan had become a social state where governmental expenditure outlays were unjustifiably high. Such careless statements in a country with such a highly paternalistic public

awareness did not find favour with the public. A survey of 1,000 citizens nonetheless showed that 70% of respondents were against the resignation of the government and had not seen any substantive grounds for the change of cabinet, a fact that vividly demonstrates the artificial nature of the government crisis provoked by a very narrow group of individuals for purely political ends.

SDPK, Ata-Meken and Ar-Namys formed a new majority coalition in parliament with the nominal position of coalition leader going to Ar-Namys head Feliks Kulov and SDPK nominating its candidate, President Atambayev's chief of staff Jantoro Satybaldiyev, for the post of prime minister. Such developments will result in the absolute superiority of one political party in the sphere of politics and governance in Kyrgyzstan insofar as President, speaker and prime minister all represent the same political party. Bearing in mind that the party in question has the traits of a typical personality-based and leader-driven entity, one can confidently speak of an excessive concentration of power and managerial leverage in the hands of just one politician.

SDPK says it intends to form a "technical" government focused on resolving exclusively economic problems, one that has not been substantiated by the candidate for the post of prime minister, whose programme contains measures geared to strengthening the executive chain of command, reducing political positions, implementing administrative and territorial reforms and reforming the law enforcement system. The candidate in question also proposes the creation of an anti-corruption body reporting to the President. Of the 21 people in the list of candidates for government positions, 13 have been nominated by SDPK, seven are nominees of Ata-Meken and Ar-Namys, and one is a member of opposition Ata-Jurt.

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Against a backdrop of swiftly dwindling SDPK opposition within political institutions, former close associates of President Atambayev from the post-revolution interim government have intensified their presence and activity. For instance, former prosecutor general Azimbek Beknazarov told the media that he intended to oppose SDPK and join the public movement calling for the dissolution of parliament and the holding of snap elections. Beknazarov also published information about corrupt schemes during the stint of the first President of Kyrgyzstan, notably in relation with the rehabilitation of the Bishkek-Osh highway, a process implemented under the leadership of the country's transport ministry then led by the current candidate for the post of prime minister Jantoro Satybaldiyev and causing the State to sustain damages of \$200 million.

Foreign and international policy

July and August turned out to be an active period for Kyrgyz-Russian relations. On 11 July, defence minister Taalaybek Omuraliyev, in an interview with a Russian newswire, stated that Kyrgyzstan intends to increase the fee for the lease of three of the five Russian sites located in Kyrgyz territory. This statement was construed as yet another move by Kyrgyzstan in the difficult negotiations revolving around the creation of a unified Russian military base and, most importantly, with respect to two key issues: the period of effect of the treaty on Russian military sites in the Kyrgyz Republic and the status of Russian servicemen. Russia has been trying to extend the treaty for 49 years and its servicemen have been given the status of technical officers of its embassy.

During a visit to Moscow, on 24 July the prime minister was adamantly advised by his Russian counterpart Dmitry Medvedev to resolve the issue concerning the \$500 million debt

Kyrgyzstan has run up with the Russian Federation, adding that this did not correspond to "specific individuals but rather the state of Kyrgyzstan." In Bishkek the media recalled the source of the debt, with \$132 million emerging during Kyrgyzstan's presence in the Soviet rouble zone and \$300 million being funnelled by Moscow to support Bakiyev's regime.

In mid August, an official Russian delegation headed by vice prime minister Igor Shuvalov visited Bishkek in preparation for the September visit by the Russian President Vladimir Putin. On 14 August the Russian delegation was met by President Atambayev. During the meeting with the Kyrgyz President, Shuvalov stressed that Putin had tasked him to return to Moscow "with agreed upon decisions that would underlie the treaty or with several joint treaties that would open a new chapter in Russian-Kyrgyz relations." The negotiations held in the resort town of Cholpon-Ata resulted in the agreement on the Russian side's involvement in the construction of the Upper Naryn Cascade of Hydro Power Plants and the Kambarata Hydro Power Plant 1, as well as a 15-year presence of the unified Russian military base in the Kyrgyz Republic with a subsequent 5-year extension option. The lease fee remains the same and totals about \$3.4 million. The issue of the payment for utilities services in the amount of around \$1 million a year, currently covered by the Kyrgyz taxpayers, remains unresolved. The agreements regarding the unified military base, should they be signed, will enter into effect in 2017 after the expiry of the current treaties between the Kyrgyz Republic and the Russian Federation. As analysts in Bishkek fairly noted, these agreements do not differ in principle from the 2008 treaties between Bakiyev and Putin that focused on investments and foreign debt write-offs in exchange for the withdrawal of the US military base from Manas international airport.



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In August the President of Kazakhstan Nursultan Nazarbayev made a state visit to Kyrgyzstan, which became a sort of a continuation of the official visit to Astana by President Atambayev back in May when a set of issues was postponed until the visit by the Kazakh 'leader of nation' to neighbouring Bishkek. The visit was preceded by the launch of the joint Kyrgyz-Kazakh investment fund, the increase of trade turnover between the two countries and the ratification of a treaty on the procedure and status of stays of citizens of the two countries in each other's territories for a period of up to 90 days. The agenda included the issues of prices of supplies of Kazakh natural gas for the Kyrgyz Republic, the issue of supplies of Kyrgyz electricity to Kazakhstan and the issue of ownership of certain assets that fell under the redistribution of property after the events of April 2010. The host side's critical issues included the construction of the Kemin-Almaty energy power lines and supplies of Kazakh petroleum to the petroleum processing plants under construction in Kyrgyzstan.

In his appraisal of the visit, the President stated that the two countries no longer had any unresolved issues to deal with and thanked Nursultan Nazarbayev for his personal support. The primary results of the visit include Kazakhstan's decision to allocate 200,000 tons of grain to Kyrgyzstan under deferred payments, the sale of 100 million cubic meters of natural gas, the provision of grants for Kyrgyz students wishing to study in Kazakh universities, the construction of two schools personally funded by the President of Kazakhstan, the decision to commence the construction of the Kemin-Almaty overhead electrical power lines, and the plan to bring the trade turnover between the two countries to \$1 billion a year. Additionally, Kazakhstan intends to render active support to Kyrgyzstan in its efforts to join the Customs Union.

August also saw an escalating diplomatic scandal between Kyrgyzstan and Belarus caused by the latter sheltering a brother of former President Bakiyev, Janysh Bakiyev, who has been put on the Interpol's wanted list. Symbolically, the photo of Janysh Bakiyev exiting a café in Minsk was posted on YouTube by a Belarusian opposition activist. The following day, public organizations and relatives of victims of the April 2010 events rallied in front of the Belarusian embassy in Bishkek. The foreign affairs ministry disseminated a statement expressing its bewilderment and concern with regard to the position of the Belarusian authorities. On 24 August Bishkek recalled its Ambassador from Belarus. Later, Mikhail Pashkevich, the Belarusian opposition activist who had posted Janysh Bakiyev's photo on the web, posted on his Facebook account that he had received a note written on behalf of Janysh Bakiyev, which he construes as a threat to his life. Knowing the gangster habits of the younger brother of the ousted Kyrgyz President and the former high-placed official, few people in Kyrgyzstan doubt the realistic nature of the danger in which the Belarusian opposition activist finds himself today.

Economy and business enterprise

The Kyrgyz economy continued to stagnate, and according to the data compiled by the finance ministry, the drop in GDP reached -5.6%. In addition, according to data compiled by the CIS Inter-State Statistical Committee, Kyrgyzstan was the only country in the post-Soviet space that registered an economic decline in the first half of 2012. At the same time, neighbouring Tajikistan, according to the very same CIS Inter-State Statistical Committee, registered GDP growth of 7.4%. The reduction in production was also the biggest in Kyrgyzstan and despite the fact other CIS countries did not

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manage to avoid a certain economic decline, their economic indicators were comparably better than those of Kyrgyzstan. Moldova, for instance, registered a production decline of just 0.4%, Azerbaijan – 3%, while in Kyrgyzstan this figure reached a whopping 31.6%.

Inflation in Kyrgyzstan in the first half of 2012 totalled 0.9%, ascribed to the growth of prices for staple food, primarily flour and bread. Negative trends in the dynamic of macroeconomic indicators over the past months were exacerbated by unpromising events in the area of investment attraction. The state petroleum company of Azerbaijan (SOCAR) rejected the Kyrgyz proposal for supplying petroleum to Kyrgyz petroleum processing plants under construction. The first auction to sell licences to develop 12 deposits conducted by Kyrgyzstan's state agency for geology and mineral resources live on the national public TV channel (OTRK) failed miserably. Investors applying to participate in the auction were forcibly taken out of the studio by rallying members of public organizations, who stormed the OTRK building yelling, "we will not allow the sale of subsoil of Kyrgyzstan!" During its subsequent briefing, the state agency informed local and foreign media that the losses caused by the disruption of the auction already totalled KGS 700,000 and that auction participants who paid auction fees sustained losses amounting to \$500,000, although the biggest loss was sustained by the Kyrgyz Republic itself in that it simply lost investors' trust.

Against this backdrop, some comfort can perhaps be taken from Iran's intentions voiced by its industries, mines and commerce minister Mehdi Ghazanfari during a meeting with the Kyrgyz delegation in Teheran. Ghazanfari says that Iran is willing to invest more than \$1 billion in short-term projects and more than \$10 billion in long-term projects. It is not the words of the Iranian senior official that trigger doubts, but rather the ability of the Kyrgyz bureaucracy to enable prospective investor intentions to materialize. Unfortunately, the history of foreign investment attraction during the period of Kyrgyzstan's independence is full of decidedly negative examples.

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