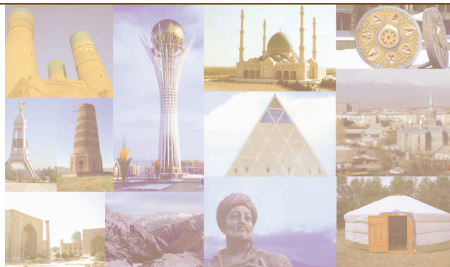


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KYRGYZSTAN

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Bimonthly article

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Highlights

The soap opera called “Manas Air Base”, premiered in February 2009, had drawn universal attention again, and, together with the upcoming presidential elections, became one of the highlights of May-June of this year.

On June 22 the Kyrgyz Foreign Minister and US Ambassador in Kyrgyzstan signed an agreement to establish a Transit Center in the Manas International Airport. This new agreement now formally replaces the agreement on use of Manas as a military base for coalition forces, which was denounced by Kyrgyz government in early February.

On June 18, the presidential election campaign officially started. There are six candidates running for the office. The major motifs of the domestic policy of the last few months were influenced by the upcoming elections, hence the explanation of recent populist activities of the current President and government - increasing pensions, supporting youth, devoting more attention to the problems of the largest group of believers - the Muslims, launching new factories during election tours.

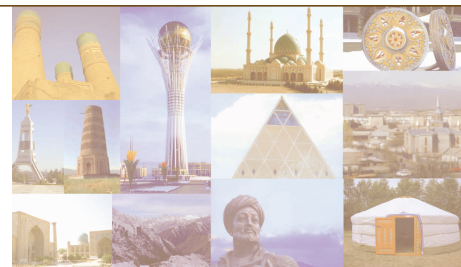
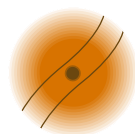
Internal affairs of the country

As it has been mentioned, Presidential elections are scheduled for July 23, which effectively reduces President Bakiev's first term by one year. The decision to hold elections in 2009 was made by the Constitutional Court, while the date of July 23 was selected by the Parliament. There is little doubt that the reason for the early elections is the desire of the current President to win another term, which (for many economic and political reasons) is much easier for him to accomplish in this year, than in 2010.

One of the populist actions of the government in May was to provide additional subsidies to senior citizens for their electrical bills and to promise a 50% pension increase starting July 1. The latter decision was justified by the head of the Social Fund by the growth of the national economy; this explanation, however, does not correspond to the statistical data published by the Ministry of Economic Development and Trade. The State Committee for Physical Education, Sports, Youth Affairs and Child Protection is now seeking proposals for projects for approximately 50 million KGS (more than \$USD 1 million.) that the President promised to allocate for youth projects in the 2010 National Budget. These projects, if implemented, will be the first instance of government funding for community initiatives.

Another element of pre-election domestic policy was establishment of the so-called Partnership Councils. Such Councils have been established under the auspices of the President's Administration and their purpose is to regulate public-private and public-NGO relations. While the establishment of the Business Partnership Council was a rather smooth affair, the public-NGO Partnership Council became a very controversial topic. Human rights organizations called for a meeting with President Bakiev, but later were forced to withdraw from planning the meeting with the President, because the President's staff insisted on excluding political rights and freedoms from the agenda of this event. Thus, the only NGOs that took part in the meeting of this Partnership Council and signed the Open Agreement were social service providers. This development follows similar patterns in Russia and Kazakhstan, where the government, in exchange for promise of loyalty, gave businesses and NGOs certain concessions, for example the right to hear the reports of the presidential team on the state of affairs in public-private and public-NGO sectors.

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With respect to business it should be noted that the seizing of assets using criminal methods is still a problem; the President, however, promised to introduce laws protecting business from such takeovers. In parallel with more promises to the most politically active groups of population, there is an ongoing harassment of political opponents of the current government, journalists and civil rights activist. In May the Council of Human Rights Organizations under the Ombudsman sent an open letter to the President stating that “an iron curtain” is falling over the country. This letter was sent after yet another group of human rights experts (fourth in recent months) was denied entry into the country, this time it was a delegation of Kazakhstani Social Democrats, who were described by the Russian media as political consultants trying to help Kyrgyz opposition in its election campaign.

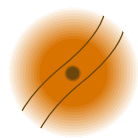
The sad statistics of attacks on journalists continued with two more attacks - May 7 attack on Yrysbek Omurzakov, Editor-in-Chief of the Tribuna newspaper and a June 5 attack on Abdyvakhb Moniev, Deputy Editor-in-Chief of the Achyk Sayasat (Open Politics) newspaper. The experts have two opinions regarding these continued attacks on journalists; both of the opinions are worrying. The first is that the government does not control the criminal situation in the country. Whereas in the past it was suspected that the relationship was on more of a "you scratch my back, I scratch yours, but we are not equal" basis, now there are serious concerns that the balance has shifted in this relationship and this shift has not been in the government's favor. Another opinion is that the government may benefit from this whipping-up of an atmosphere of fear in society, where people now will be more willing to vote for a “firm hand”. Milos Haraszti, OSCE Representative on Freedom of the Media has repeatedly called Kyrgyz authorities to stop the wave of attacks on journalists, but since earlier attacks have remained unsolved, any change in the situation seems unlikely. At the same time, on

May 12 Kyrgyzstan joined the UN Human Rights Council, which may, on the first sight appear bewildering, but, given that the members of the council include countries like China, Saudi Arabia, Cuba, and others countries with less than stellar records in human rights and freedoms, this is not that surprising.

Overall, there are 2.7 million registered voters in Kyrgyzstan, 2,333 election districts, with 49 located abroad. The initial funding for the election was, according to the Chairperson of the Central Election Committee (CEC) 172 million KGS, but the Commission was able to reduce it to 153 million by deciding to not use voter marking ink. With respect to international observers, the CEC had issued a decree specifically prohibiting Kyrgyz nationals from acting as international observers and also issued clarifications regulating the status of the observers of the Office for Democratic Institutions and Human Rights of the OSCE (ODIHR OSCE). The European Community expressed deep concern over some of the restrictions, especially with respect to maximum number of observers and composition requirements for ODIHR OSCE observers. The situation was improved only following a meeting between President Bakiev and Joao Soares, President of the OSCE Parliamentary Assembly, when President Bakiev promised to increase the observer quota two-fold. The original CEC decision was amended and now 300 European observers will participate in the elections. However, regardless of the number of observers and/or their origin, the name of the winner of the presidential race seems to be certain. It should also be noted that in May Bishkek City Court dismissed an action filed by one of Kyrgyz human-rights activists to require the CEC to officially publish the results of 2007 Parliamentary elections.

Foreign and International policy

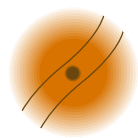
The coalition's base in Manas International Airport has been drawing attention ever since in early February the Kyrgyz government denounced the 2001



treaty. Kyrgyz authorities have repeatedly denied any negotiations with the Americans to extend the treaty, while international media always suspected that such negotiations were the most realistic situational development and even named specific amounts which were discussed between Kyrgyzstan and the United States. On May 12 the US Senate approved assistance worth \$30 million to upgrade air traffic control equipment at Manas. On June 2 Kyrgyz government received a letter from Afghani President Karzai, where he requested a meeting with President Bakiev to discuss humanitarian aid and the role of the military base at Manas. On June 11 President Bakiev received a message from the US President, where President Obama expressed hope for further cooperation between the two countries in various areas. On June 16, as part of the Yekaterinburg summit of the Shanghai Cooperation Organization (SOC), Bakiev met Mr. Karzai and President Karzai talked about the importance of the Manas airbase in solving Afghani problems. Finally, on June 22, this widely known secret was officially revealed – the Kyrgyz government signed an agreement with the US government whereby a Transit Center would be established in Manas Airport. The Americans agreed to pay Kyrgyzstan \$178.1 million, of which \$60 million will be a direct payment to the National Budget, \$36.6 million for the construction of hangars and warehouses, \$30 million for upgrading air traffic control equipment, \$21.5 million for anti-drug trafficking measures, \$10 million for counter-terrorism and \$20 million for a joint Kyrgyz-American economic development foundation. The agreement was signed for 1 year. Formally, the Coalition's base ceased to exist, while effectively nothing has changed, except for the rent, which increased three-fold. Some analysts believe that the fact that the agreement has only a one-year deal will allow Kyrgyz ruling group to repeat the maneuver again. Besides, this new agreement, as well as the \$450 million received from Russia, is considered to be one of the important selling points for the presidential campaign.

A meeting of the Collective Security Council of the Collective Security Treaty Organization took place in Moscow on June 14. The member countries agreed to establish collective rapid deployment forces, which President Medvedev described as an equivalent to NATO. Kyrgyzstan, together with other member countries, signed the treaty, which was ratified by the Parliament with remarkable speed on June 19. However, as it has been reported in the media, Belarus did not participate in the Moscow meeting and refused to sign the rapid deployment forces agreement, as did Uzbekistan, which President Medvedev described as “having some reservations”. Also, a meeting between President Bakiev and President Karimov of Uzbekistan took place in Moscow. It was hoped that this meeting would calm the tensions which rose between the countries in April and commence negotiations between the countries. A standoff in the village of Chek, explosions in Uzbekistani towns of Khanabad and Andizhan near Kyrgyz-Uzbek border on May 26, which caused Kyrgyz border guards to tighten security and Uzbeks to erect concrete walls and dig trenches along the border, June 7 killing of a 19-year old Kyrgyz citizen by Uzbekistani border guards and many other similar developments caused the media to describe the situation as a state of undeclared war between Uzbekistan and Kyrgyzstan. On June 23 a group of 5 militants (allegedly from the Islamic Movement of Uzbekistan - a prohibited terrorist group) were liquidated in the Jalal-Abad region of Kyrgyzstan. This fact indirectly supports Uzbek information that the explosions in Andizhan were the doing of the terrorists who infiltrated Uzbekistani territory from Kyrgyzstan. It should also be noted that Abdullo Rakhimov aka Muloo Abdullo, a former field commander of the United Tajik Opposition was spotted in May in North-Western Tajikistan (part of the troubled Ferghana Valley, where borders of three states - Kyrgyzstan, Uzbekistan and Tajikistan meet).

Other foreign policy developments include participation of President Bakiev in the SCO Summit



in Yekaterinburg, where the heads of states discussed global economic crisis, energy and food security and establishment of a fairer, equitable and comprehensive international finance system. SCO member countries expressed intent to increase cooperation in the area of reforming the UN and the UN Security Council. A separate item in the Final Declaration of the Summit was devoted to the situation in Afghanistan and threats resulting from narcotics, terrorism and cross-border crime. Also, at the end of May Turkish president Abdullah Gul and members of the French National Assembly visited Kyrgyzstan. The latter expressed particular interest in cooperating in hydro-energy sector and tourism. On March 22 a special Representative of the French Republic for Afghanistan and Pakistan met President Bakiev in Bishkek and expressed hope for further cooperation in establishing security and stability in Afghanistan and increasing bilateral cooperation. As part of these efforts, France intends to open its embassy in Bishkek.

Economy and business enterprise

Kyrgyz Ministry of Finance published data on foreign and domestic debt, which amounted to \$2.468 billion and \$170 million, respectively. Thus, Kyrgyzstan's foreign debt amounts to approximately 60% of the 2008 GDP, and given that the International Monetary Fund forecasts a 1% growth for Kyrgyzstan, the situation with debt is not going to change significantly.

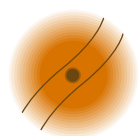
The Ministry of Economic Development and Trade, after analyzing data on underground economy, estimates its size at \$3.255 billion, which exceeds all Kyrgyz debt, and, according to some independent experts, is a very accurate estimate. Experts of the Ministry also estimated that Kyrgyz GDP decreased by 0.9 % during January-May 2009, which is different from the data published by the National Statistics Committee, which published a growth of 0.1%. Also, according to the Ministry's data, the net

outflow of investment in the finance industry amounted to \$239 million. The National Bank immediately issued a statement refuting this claim of the Minister Japarov. As for other data of the National Statistics Committee, industrial production amounted only to 79.8% of the previous year's, with a slowing growth in the retail trade; the service industry, however, grew by 3.4%, with average nominal wage increasing by 18.8% (3% inflation-adjusted).

According to the data of the Russian Central Bank wire transfers from individuals in Russia to Kyrgyzstan reduced from \$205 million to \$152 million, which indicates a reduction in remittances of 30%.

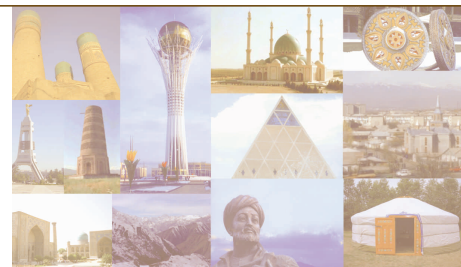
The IMF pledged additional support to the Kyrgyz Budget, promising \$100 million, while the European Union Monitoring Mission recommended the European Council to allocate 3 million euro of grants to Kyrgyz budget.

In mid-June Kyrgyz Parliament was discussing two major privatization projects, which caused great controversy and debate. The Government announced its intent to privatize Kambarata-2 hydroelectric power plant and sell 67% government share in Kyrgyzgaz. Opposition MPs voiced their disagreement with privatization of Kambarata-2, describing it as "the last slice of a pie". The pro-presidential majority decided that the power plant will cease to be a state enterprise, and will be corporatised with the government owning 100% of shares (as opposed to 83.5% as originally planned). In parallel to this, parliamentary committees started issuing approvals for signing of an agreement between Kyrgyz and Russian governments, whereby 67% of Kyrgyzgaz will be sold to Gazprom. Kyrgyz Government believes that the change in ownership will not only improve Kyrgyz-Russian cooperation (which seems to be the primary motif), but will also improve the overall situation in the gas industry.



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