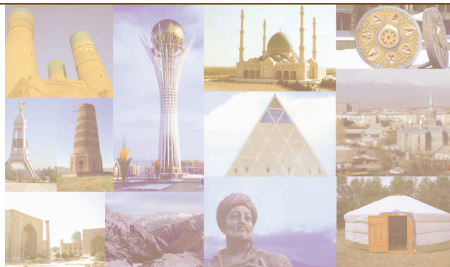


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KYRGYZSTAN

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Highlights

The leading story in the period January-February 2009 -and probably for the whole year- was Kyrgyzstan's denunciation of the treaty on the Manas Air Base, which since December 2001 has been used as a hub by anti-terror coalition forces to support operations in Afghanistan.

Another development that had negative consequences for Kyrgyzstan's small and medium businesses was the introduction of a new Tax Code, plus the increase in patent fees and the reduction in the number of entrepreneurial activities that can be carried out on a basis of a patent¹.

This period also marked the start of the Presidential election campaign and a continuing deterioration of the situation concerning human rights and individual freedoms in the country.

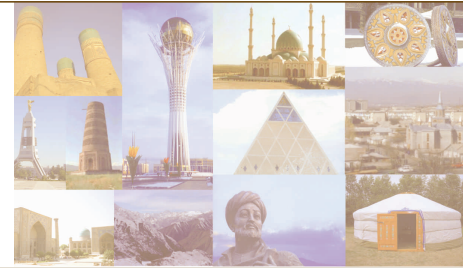
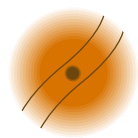
Internal affairs of the country

In its annual report released on 14 January, Human Rights Watch described the situation in Kyrgyzstan as follows (this opinion is also shared by the US State Department and the Kyrgyz Ombudsman): "Pluralism and fundamental freedoms that facilitate public scrutiny of government are increasingly at risk in Kyrgyzstan. Legislative changes passed or pending in 2008 curbed freedom of assembly and threatened to restrict religious freedoms. The government is failing to meet its obligations to prevent and investigate torture and domestic violence. Harassment of journalists and NGO activists intensified, and arbitrary suspensions and terminations of asylum-seeker certificates exposed flaws in Kyrgyzstan's refugee protection system".

Unfortunately these trends only intensified in the first two months of 2009. In January, President Bakiyev approved a law on Freedom of Religion, which was immediately described by Kyrgyz human rights activists and EU representatives as restricting the rights of believers. On 19 February, the Ministry of Education and Science issued a decree banning the wearing of religious apparel, such as headscarves, in the country's educational institutions. A new law on compulsory military service was also passed, allowing the use of Kyrgyzstan's army to maintain order in the country. Human rights activists believe that the authorities will use this law to target peaceful rallies and demonstrations. One of the deputy speakers of the Kyrgyz Parliament, a representative of the Social-Democratic Party, believes that these modifications reflect the desire of the government to repress the opposition. This is further attested to by increased spending on the part of the law enforcement authorities, including procurement of special items such as surveillance equipment, water cannons and night vision devices.

In February, Parliament started discussions on a set of modifications to the law on non-commercial organizations and the law on registration of legal entities, proposed by the Communist Party. The proposed modifications introduce far stricter requirements for non-commercial organizations and propose banning the involvement of NGOs in political and election activities. Additional registration and reporting requirements are proposed for NGOs with foreign involvement. The new modifications allow the justice authorities to ban, in certain cases, foreign NGOs that provide funding for domestic beneficiaries. The proposed modifications drew sharp criticism from civil society and NGOs, which have initiated a campaign to defeat them, including a series of press conferences, appeals to Parliament the President, the Ombudsman

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and the Constitutional Court, public petitions and meetings with citizens. NGO representatives, forming the core of Kyrgyzstan's civil society, believe that these modifications are a threat to democracy and that they undermine civil rights and liberties.

The government is putting strong pressure on opposition parties, ie, members of the United People's Movement. The authorities have launched a series of criminal investigations targeting the leaders of these parties as well as their friends and relatives. Some of these investigations have concluded and the material is now being used in court against the opposition leaders. Law enforcement and local government authorities are also persecuting the Social-Democratic Party (SDP), even though it is represented in parliament. The SDP issued a report describing how the government –including the executive branch, police and attorney general– totally disregards the law. In early February several prominent public figures appealed to President Bakiyev asking him to halt persecution and negotiate with the opposition. Such talks are scheduled for early March of this year.

The authorities are also exerting strong pressure against human rights activists. On 24 March, the State Committee for National Security banned a prominent Russian civil rights activist from the Memorial Human Rights Centre from entering the country. Memorial had previously published a report on the arrest and conviction of 32 residents of the Nookat Raion of Osh Oblast, describing the use of torture by the investigators, their failure to adhere to basic principles of rule of law and their arbitrary choice of punishment. This was the second report of its kind in the space of only several months, causing Amnesty International to express concern that Kyrgyzstan may be included on the list of countries that significantly restrict human rights activism.

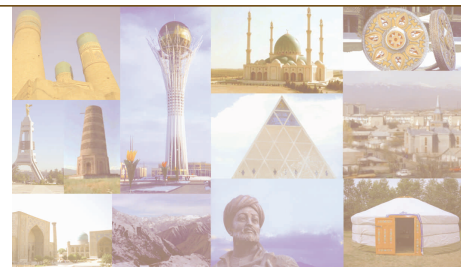
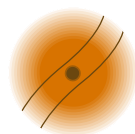
Another worrying signal is the apparent intent of the Kyrgyz government to control the internet, with the

decision to extend the requirements for traditional mass media to internet publications. Freedom House lawyers believe that it is highly likely that Kyrgyz web-publications and blogs –particularly the most popular ones– will be placed under government control. Further, the State Intellectual Property Agency is now planning to take over .kg domain registration, which has been in the hands of a private company since 1997. The Agency has justified this move on the grounds that the .kg domain is an object of intellectual property and should therefore be owned by the state. Business and civil community representatives believe that government control and administration of the .kg domain will result in the closing down of alternative sources of information.

The experts believe that this wide-scale offensive against civil rights and liberties can be ascribed to the upcoming elections and Bakiyev's recently announced intention to run for a second term. This explanation is further corroborated by the significant reshuffling of top-level government officials in January 2009. There is a debate underway as to when the next presidential elections should be held, the earliest option being autumn 2009. In all events, the exact date shall be set by the Constitutional Court.

Foreign and International policy

The President's announcement of Kyrgyzstan's unilateral withdrawal from the treaty on the use of the Manas Air Base by the International Security Assistance Force and coalition (ISAF) forces immediately caught headlines worldwide. The announcement was made on 3 February in Moscow during Bakiyev's official visit to Russia. Prior to the announcement, a number of agreements were signed whereby Kyrgyzstan's state debt to Russia was written-off. In exchange, Kyrgyzstan agreed to hand over shares in Dastan Joint-Stock Company² and a land parcel and a building in Bishkek. Moreover, Russia agreed to grant Kyrgyzstan a \$2bn loan on favourable terms and a grant of \$150m. Of this \$2bn,



\$1.7bn will be invested over a period of four years in the construction of “Kambar-Ata 1” hydroelectric power plant and \$300m will be used to fund the needs of the National Budget. Both Parliaments ratified the agreements with remarkable speed in the first half of February.

On 19 February 2009, the Kyrgyz Parliament approved the bill to close the Manas airbase. President Bakiyev signed the bill on the following day, on which an official note was sent from the Kyrgyz Government to the U.S. Ambassador in Bishkek. In early March similar treaties with eleven other coalition countries came under scrutiny. Military and civil personnel at Manas airbase now have until 18 August 2009 to leave Kyrgyzstan. There are presently 1,000 American, 70 Spanish and up to 50 French military personnel stationed in Manas, and 650 Kyrgyz nationals employed as contractor personnel. Manas airbase hosts the 376th Air Expeditionary Wing and serves as the premier air mobility hub for ISAF military operations in Afghanistan. The wing's around-the-clock missions include aerial refuelling, combat airlift and airdrop, aeromedical evacuation and strategic airlift operations. The base also provides support for coalition personnel and cargo transiting in and out of Afghanistan. Coalition aircraft supporting the mission include U.S. KC-135s, Spanish C-130s and French C135FRs. Manas handles about 15,000 military passengers monthly.

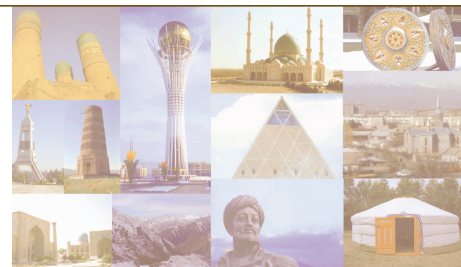
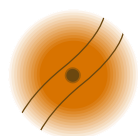
The US State Department expressed regret at the decision, but also made it clear that Kyrgyzstan is not the only country that can be used to support the coalition's operations in Afghanistan. In February Tajikistan and Uzbekistan (which hosted the Karshi-Khanabad airbase a few years ago) agreed to transits of NATO's non-military cargo to Afghanistan. European Parliament representatives and the EU foreign policy chief have underlined the value the EU has always placed on the military base in Kyrgyzstan and their hopes that Kyrgyzstan will

pursue constructive cooperation with the international community in matters concerning the maintenance of peace and stability in Afghanistan. On 20 February, the EU representative for Central Asia met the speaker of the Kyrgyz Parliament and discussed a broad range of matters relating to trade, investment, energy, water resources and security. The EU representative also expressed Europe's desire to continue the dialogue on the threats arising from Afghanistan and affecting both Kyrgyzstan and Europe, and mentioned that Kyrgyzstan's decision to cancel permission for the airbase had come as a surprise for the Europeans.

The official reason for this decision, as explained by President Bakiyev, was Kyrgyzstan's dissatisfaction with the compensation it was receiving for use of the airbase. However, most local, Russian, European and American experts and journalists believe that the decision is politically motivated. Russian media reported on this development before Bakiyev's visit to Russia. Even though this was expressly denied by Bakiyev's Administration, Russian journalists explained that the Kremlin had determined the closure of the U.S. airbase as a core requirement for loan and grant funding. The unpopular President Bakiyev can use the Russian funds to try and drum up popular support in the light of the presidential election campaign, which kicked off in late January. Some independent experts argue that the new Russian loans and grants will be a heavy burden for the country, especially if these resources are spent on budgetary needs rather than on high-yield investment projects.

Economy and business enterprise

In January, Kyrgyzstan adopted a new Tax Code, which halved the number of taxes and reduced VAT from 20% to 12%, thus easing the burden on big business. At the same time, the new Code introduced a sales tax and property tax that drew sharp criticism from small and medium businesses and associations



representing this sector. Furthermore, the Council of Ministers issued a decree reducing the number of patent business activities, while increasing patent fees for the remaining ones. Business associations appealed to Parliament and the Council of Ministers, requesting the repeal or modification of certain articles of the new Tax Code and patent decree. Businesses believe that these modifications not only fail to promote small and medium enterprises, but that they will bring Kyrgyz businesses to the brink of bankruptcy and will drive them into the shadow economy. Businesses predict that the new Tax Code will engender an emigration of businesses, with companies moving to countries with a more favourable environment, such as Russia and Kazakhstan. A source of additional uproar among these businesses was the additional pressure being exerted on small and medium businesses in the rapidly deteriorating global economic climate. The efforts of business associations have been successful in that they have elicited an agreement by the Council of Ministers and Parliament to develop and adopt a series of modifications to the new Tax Code.

In January and February, a report was published on activities aimed at improving Kyrgyzstan's ranking in the World Bank's Ease of Doing Business Index. On 19 February, Parliament approved seven bills designed to improve the business regulatory environment and, as Prime Minister Chudinov hopes, to nudge Kyrgyzstan into third place in the list of top reformer countries for 2010.

Kyrgyzstan's economy is slowing, evidenced by the data published by the National Statistics Committee. Industrial output in the first two months of the year amounted to only 85.4% of the previous year's performance. A decline has been recorded in almost all industries – food, textile, clothing, mining, processing, electronics, electric power, construction materials production, etc. Retail sales and services have also shrunk. For example, retail sales in January plummeted by 45.9% in comparison with December

2008. GDP grew 3.7% in January, 4.5% less than in January 2008. Prices for goods and services are growing, with the highest increase recorded in natural gas prices - 80% in January alone. The consumer price index or the inflation rate in January was 19.9% as opposed to January 2008.

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¹ Patent - a simplified form of taxation which exempts an entity from virtually all types of tax reporting and replaces all entities' taxes with a flat monthly patent fee.

² Dastan produces various types of equipment, including naval equipment, in particular, control and guidance systems for the VA-111 Shkval, a supercavitating torpedo developed by the Soviet Union and used by the Russian Navy.

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