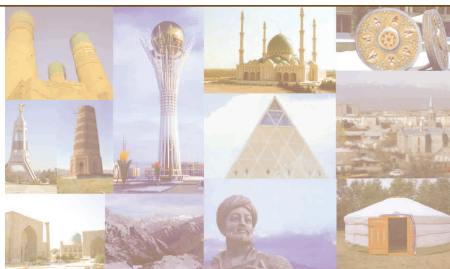


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CASA ASIA



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KYRGYZSTAN

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## Highlights

On the first anniversary of the April 2010 events, Kyrgyzstan offers relative public and political stability. Unresolved socioeconomic issues exacerbated by food price hikes have remained the primary problems for the government.

A controversial public response was triggered by the government's decision to join the Customs Union and the Unified Economic Space dictated by political rather than economic reasons. Independent media pointed at Russia's geopolitical ambitions and the need for taking them into consideration in anticipation of the presidential elections in the Kyrgyz Republic in autumn 2011.

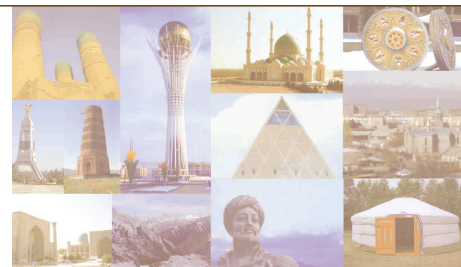
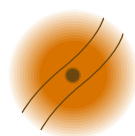
## Internal affairs

In March and April 2011, the coalition of the three political parties that created the parliamentary majority and the government was put to a serious test. On 15 March, one of the three coalition parliamentary factions submitted to prime minister Almazbek Atambayev a proposal to change the coalition agreement. The proposed changes included the creation of a coalition council, the incorporation of members of other political parties in the government, a review of strategic issues not only in the government but also by the coalition council, the introduction of elections for a selection of mayors of the largest cities in the country, and the current prime minister stepping down within 10 days following the announcement of the date of the presidential election were he to decide to run for office. On 22 March, the prime minister sent an official letter to the leader of the Ata Jurt faction in which he agreed to accept the proposal for the creation of a coalition council albeit disregarding

the most significant changes proposed. On the same day, the Ata Jurt political faction held a closed-doors meeting to discuss the possibility of quitting the coalition but never resolved to take decisive measures. Political analysts assessed this as a sign of intra-party differences of opinion since Ata Jurt is not so much a political party as an association of the southern elite circles, and that marked a victory for Almazbek Atambayev, the leader of the Social Democratic Party of Kyrgyzstan (SDPK) political party and prime minister of the country, who was able to successfully negotiate with a certain faction of the Ata Jurt membership.

The next round of the struggle around the coalition took place in April when ten members of parliament who were members of the opposition party Ar Namys declared that they had joined the ruling coalition. This blow, agreed with the leader of the SDPK party, was aimed at both the parliamentary opposition and part of the Ata Jurt party headed by Kamchibek Tashiyev who was taught a lesson to the effect that if he were to withdraw his faction from the coalition, the latter would not fold or result in a change of government. This so-called "accession" by ten members of parliament sparked numerous debates among politicians and lawyers since, inter alia, such a move required an interpretation of the Constitution that covered issues of parliamentary coalitions. Both opposition parties, Ar Namys and Ata Meken, heavily criticized the ten breakaway members of Parliament, assessing their actions as "illegitimate" and calling for the ruling coalition to preclude such actions by individual members of parliament in the future. Nevertheless, Akhmatbek Keldibekov, one of the most prominent and influential members of the Ata Jurt party and the Speaker in parliament, welcomed the step taken by the "defectors" contrary to the opinion of the other part of Ata Jurt's membership.

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Thus, the second round was also won by prime minister Atambayev while the dissent and split within the Ata Jurt and Ar Namys political parties clearly demonstrated the weakness and vulnerability of parties founded in a hasty manner for participation in the election.

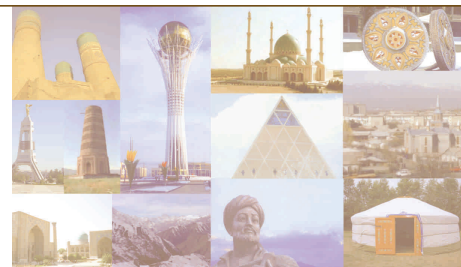
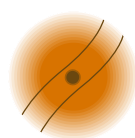
The coalition-related conflicts resulted in a fistfight in the parliamentary building between two “allies” in the parliamentary coalition – Kamchibek Tashiyev, the Ata Jurt leader, and Altynbek Sulaymanov, a member of Respublika party. Since the fistfight attracted the protagonists’ supporters, including armed ones, the building (which also accommodates the president’s office) was quickly taken by special units of the national security service. It should be noted that after the incident, the building now sports a sign warning that “it is strictly prohibited to bring firearms into this administrative building.”

March and April turned out to be fruitful months for the leakage of compromising materials to the general public. Primary actors in the new public scandal included Kubatbek Baybolov, acting prosecutor general, famous for fighting the regimes of the two previously ousted presidents, and Omurbek Babanov, first vice-prime minister and leader of Respublika. The “war of damaging information” was triggered by the dispute around shares in the MegaCom cellular operator which was covered in the previous overview report. The stand between the prosecutor general’s office and state bodies subordinated to the first vice-prime minister in the MegaCom case resulted in the dismissal of the acting prosecutor general signed by President Otunbayeva referring to unethical actions by Kubatbek Baybolov. However, parliamentary opposition provided a soapbox for the disgraced former acting prosecutor general and created a commission to investigate the information he voiced in parliament with respect to Omurbek Babanov. The Ata Jurt political faction officially issued a vote

of no confidence to the first vice-prime minister and was supported in this action by the Ata Meken political party. The most serious allegations voiced by the former acting prosecutor general included the charge that the first vice-prime minister was involved in the corporate raiding of MegaCom, the charge that the head of the state service for national security was illegally wiretapping the phones of members of parliament and other public officials, the charge of stealing equipment from a public enterprise to fund the ruling party, and President Otunbayeva’s interest in terminating the investigation of the mess with MegaCom. Succumbing to pressure from members of parliament and the media, as well as having visited Moscow, the first vice-prime minister Omurbek Babanov asked the prime minister to temporarily relieve him of his duties until 14 May 2011. The request was granted.

On 6-7 April, activities commemorating the sad anniversary of the April 2010 events took place. A commemoration rally was held in suburbs of the country’s capital where the deceased participants of the last year’s protest were buried. In one of the capital’s housing districts, relatives of the deceased received keys to apartments in some newly built residential buildings. A march to commemorate the events of 7 April took place along the central streets of Bishkek headed by the President, prime minister, speaker of Jogorku Kenesh (parliament), and members of the former provisional government of the Kyrgyz Republic. Commemorative activities were also held in the country’s regions: in Talas, where on 6 April 2010 mass protests originated, and in the Chui and Naryn provinces as well as in the south of the country.

Among international reactions to the anniversary of the April events in Kyrgyzstan, there is call to highlight a special statement by Catherine Ashton, the EU’s high representative for foreign affairs and security policy, who assessed the changes that occurred in Kyrgyzstan as dramatic events that had led to the



establishment of a democratic constitutional regime. Ms. Ashton stressed that the EU had been supporting Kyrgyzstan for the entire year and hoped for further commitment to building democracy.

Speaking of the results of the first year after the revolution, experts and politicians noted the presence of political freedom in Kyrgyzstan, including the restoration of freedom of speech and press, freedom of rallies and associations, the presence of prospects for the development of democratic institutions, higher openness of state bodies before the public and the media, political pluralism and accountability of state bodies before civil society. Nevertheless, the social problems suffered by most of the public remain unresolved and have indeed become worse owing to food price hikes and the government's failure to compensate the public for increases in the cost of living. The past year was also unprofitable for most Kyrgyz businesses which suffered from the political turmoil and their consequences.

## Foreign and international policy

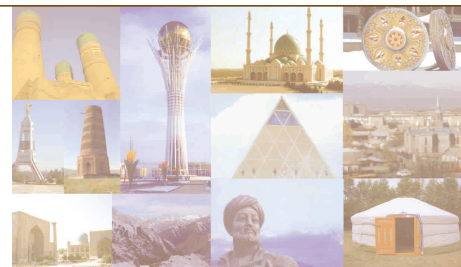
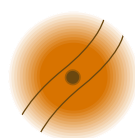
In early March, President Roza Otunbayeva received an International Women of Courage Award in Washington, having become the second Kyrgyz citizen thus honoured. The award was made in the presence of Michelle Obama by U.S. state secretary Hillary Clinton. During the award ceremony, Ms. Clinton underscored that the United States welcomed the democratic transformation underway in Kyrgyzstan and would support the further development of democratic institutions. President Otunbayeva, in turn, assured the dignitaries present that Kyrgyzstan was making every effort to establish and advance the first central Asian democracy.

Concurrently with Roza Otunbayeva, the award was given to Mutabar Tajibayeva, an Uzbek human rights activist who spent two years in prison in Uzbekistan and was forced to seek political asylum in Europe. In her interview to the Uzbek editors of Radio Free

Europe/ Radio Liberty, the human rights activist stated that she had decided to reject the award since she disagreed with the choice of Roza Otunbayeva as co-award holder saying that in her capacity as President of the Kyrgyz Republic, she had failed to stop the bloody interethnic conflict in June 2010 in the south of Kyrgyzstan in which about 400 people perished.

Prime minister Almazbek Atambayev made an important pre-election visit to Moscow that was assessed in Kyrgyzstan as being geared to obtaining official Kremlin consent to support his candidacy in the upcoming presidential election. During the official inter-governmental negotiation, Vladimir Putin noted the progress in the implementation of previous Russian-Kyrgyz agreements and voiced Russia's intention to continue supporting the Kyrgyz government and people. In the course of its Moscow visit, the Kyrgyz delegation also discussed issues of jointly fighting illegal Afghan drug trafficking since the Kyrgyz Republic is one of the transit states for the estimated \$20 billion drug traffic. The discussions also covered issues of labour migration from Kyrgyzstan to Russia with the latter having become the single largest destination of Kyrgyz labour migrants whose total numbers have officially reached 300,000 and twice as many unofficially. The negotiations also touched on the issue of Kyrgyzstan repaying the Russian loan, Russia supporting Kyrgyzstan's application to the anti-crisis fund of the Eurasian Economic Cooperation for a privileged loan, and the traditional request by the Kyrgyz government for duty-free supplies of Russian light petroleum products.

The Russian side was satisfied with the results of the March visit since the Kyrgyz government signed an agreement to transfer 75% of shares of the Kyrgyz gas monopoly to the Russian oil and gas giant Gazprom and committed itself to giving Russia a 48% stake in the defence sector plant "Dastan" as well as building the Russian Federation Trade



Representation in the centre of the Kyrgyz capital. In May, a Russian company RusGidro is to commence construction works to erect a hydro power plant on the Naryn River in Kyrgyzstan.

Unlike his Russian visit, prime minister Almazbek Atambayev's visit to Turkey pursued economic goals which yielded results. Thus, Turkey wrote off a Kyrgyz loan of \$51 million and promised to issue another \$10 million in the form of a grant to help Kyrgyzstan resolve some of its socioeconomic problems. The parties agreed to extend the visa-free mode of stay for citizens of both countries to 90 days. In addition, a communiqué creating a Kyrgyz-Turkish inter-state council was signed.

### **Economy and business enterprise**

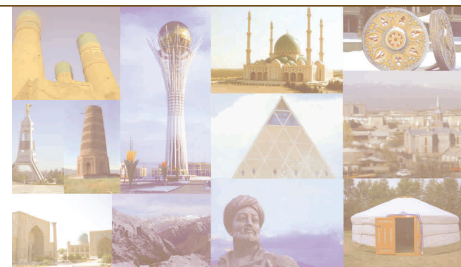
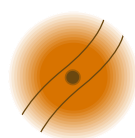
March 30 marked the passing of 100 days of work of the government formed by the coalition of the Social Democratic Party, Ata Jurt and Respublika. Government-published materials contained a series of indicators demonstrating the executive branch's efforts to enhance economic stability, support businesses and resolve social problems of the public.

The government's priorities include agricultural producers for whose needs the government extended loans at Kyrgyzstan's record-low rates – 9% for a total amount of KGS 1 billion (EUR 1 = KGS 69). On average, annual rates for loans in the Kyrgyz Republic are 22-24%. For the purposes of sowing, farmers were given 7.5,000 tons of diesel fuel at a privileged price of KGS 25 per litre, and KGS 190 million to procure seeds. The government also made efforts to reduce state pressure on businesses; in particular, it curbed the powers of the financial police to control businesses, repealed the most corrupt method of privatization in the form of no-starting bid auctions, and drafted a new law on governmental procurements.

While solving the issue of tax revenues, the government prepared for the privatization of some government property and improved the collection of customs duties, and taxes. The government expects to receive an extra KGS 1.33 billion in revenue as a result of energy exports to neighbouring Kazakhstan. It should be noted that the government managed to increase the prices of Kyrgyz energy by 10% in the current year.

Government outlays continued to exceed government receipts, and the budget deficit continued to grow due to pay raises for teachers, doctors and other low-income strata of the society: the salaries of officers of state cultural institutions, for example, rose from KGS 3,000 to KGS 8,000. Overall, the government allocated an additional KGS 500 million to support vulnerable layers of society, and gave away flour and other staple foodstuffs.

Nevertheless, the staple food price increases that continued for already four months in a row virtually negated the government's efforts. Most notably, price increases affected cereals, flour, meat and dairy products, vegetable and tallow oil, vegetables, fruit and sugar. In March, inflation reached 5%. Unfortunately, Kyrgyzstan was not the only country of the region to see food prices rise rapidly and significantly. Thus, in March, Kazakhstan sustained an inflation of 4%, the same as in Tajikistan. The primary factor responsible for the food price increases in Kyrgyzstan was the economy's dependence on imports of foodstuffs from Russia and Kazakhstan accounting for 60% of food imports, and imports of energy materials such as natural gas and gasoline. In late April, the government was forced to take a counter-market measure and approve price regulations for a number of products. The list in question includes staple foodstuffs like flour, bread, vegetable oil and butter, meat, sugar, rice and tea.



On 11 April, prime minister Almazbek Atambayev voiced the government's decision to accede to the Customs Union of Russia, Kazakhstan and Belarus. This decision was preceded by Atambayev's March visit to Moscow, the visit to Bishkek by the secretary of the commission of the Customs Union Sergey Glazyev and a series of "contract journalistic reports" in Russian and Kyrgyz media about how the Kyrgyz economy stands to benefit from joining the Customs Union. According to the head of the government, joining the Customs Union is in the country's best interest since it will promote the integration of the Kyrgyz economy with its post-Soviet Union partners, which is a priority. At the same time, Kyrgyzstan would retain its membership of the World Trade Organization (WTO), to which member states of the Customs Union are not party. The need for prospective accession was also founded on the basis that member states of the Customs Union account for 44.9% of Kyrgyz total foreign trade.

Not all experts and politicians in Kyrgyzstan concurred with the government's viewpoint. Arguments against joining the Customs Union included such facts as Kyrgyzstan losing, in such a case, its major advantage in the regional trade that is based on low customs tariffs for Chinese goods and the weight-basis method for levying and assessing customs duties. Membership of the Customs Union would cause customs duties at Kyrgyz borders to rise 1.5–2 times at least and Kyrgyzstan would lose its appeal as a transit country for Chinese goods. Prices of Chinese goods for Kyrgyz citizens would increase, mainly being clothing, footwear, household and domestic appliances, tools and machinery, cars, buses, computers, consumer electronics, etc. Kyrgyzstan would also have to pay WTO about \$1.5 billion for the deterioration of access to its domestic market for WTO member states. In addition, it is possible that Kyrgyzstan, should it finally decide to join the Customs Union, will have to reinitiate the procedure to obtain WTO membership. The only advantage of joining the

Customs Union for Kyrgyzstan is the improved access for Kyrgyz exports to Kazakh and Russian markets. However, Kyrgyzstan has no export industry to speak of whereas agricultural produce is already competitive thanks to lower manufacturing costs. Independent experts agree that the main component of the government's decision to join the Customs Union is to secure the Kremlin's support in advance of the presidential election in Kyrgyzstan. Russia, in turn, would advance its intent to firmly establish economic control over the Central Asian countries of the former Soviet Union via administrative methods because if it does come to free competition, the advantage is repeatedly claimed and maintained by China.

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