

Highlights

The need for state budget cuts announced by the government in mid-October was inevitable in the light of the economic situation, which had been deteriorating since early 2012. The prime minister said these cuts would affect all industries of the national economy, the main objective being to guarantee the so-called “protected items” of the state budget aimed at paying salaries of teachers, doctors and employees of state culture and art agencies.

While the government’s main problem in recent months was the huge hole in the budget, the opposition, which had earlier lost seats in the government, sustained a new and rather palpable blow to its political positions after three of its members were arrested by the State National Security Committee (SNSC) and charged with attempting to violently overthrow the government.

Internal affairs

On 3 October, the leaders of opposition party Ata-Jurt organized a protest rally in front of parliament in Bishkek. The 400 rally participants were demanding the nationalization of the largest gold mining company in the country in violation of agreements previously signed by the government with the Canadian company Centerra Gold on the mining and processing of gold at the Kumtor gold deposit.

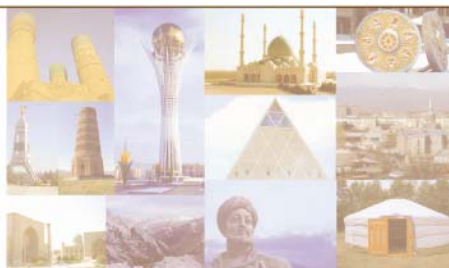
During the rally, a group of protesters led by Ata-Jurt leader Kamchybek Tashiyev attempted to storm parliament, drawing the attention of local TV channels, while his rallying calls of “take the White House” were seen on television screens all over the country.

The attempt to capture the building, which houses both parliament and the president’s office, was prevented by law enforcement bodies. Some rally participants and rally organizers were arrested including three Ata-Jurt parliamentarians: Sadyr Japarov, Talant Mamytov and Tashiyev himself.

On 5 October, a Bishkek district court ordered the isolation of the three men in the SNSC’s investigation facility for two months. Tashiyev, Mamytov, Japarov and General Kubatbek Kojonaliyev, allegedly one of the rally organizers, were charged with publicly calling for the violent overthrow of the government and a violent change of the constitutional order, as per Article 297 of the Criminal Code.

In Tashiyev’s hometown of Jalal-Abad, his relatives and supporters organized a rally demanding his release and the punishment of the individuals responsible for the June 2010 events, when Kyrgyz-Uzbek clashes claimed the lives of over 400 people. Members of Ata-Jurt and the leader of Butun Kyrgyzstan addressed the rally participants whose numbers were estimated at between 1,000 and 3,000. Deputy prime minister Kamila Taliyeva arrived in Jalal-Abad and promised to bring the rally participants’ demands to the attention of the Kyrgyz authorities.

Tashiyev and his colleagues are not the first Ata-Jurt parliamentarians to have been taken into custody and sent to the SNSC investigation isolating facility. Earlier, another Ata-Jurt member, Nariman Tyuleyev, was also taken into custody on charges of corruption in connection with the purchase of garbage trucks for the country’s capital and the illegal sale of a kindergarten building.



Members of Ata Meken, including their leader, also found themselves under threat of prosecution on charges of looting during the April 2010 events that resulted in the change of power in Kyrgyzstan. An aide to Tologonov, representing Ata Meken, also a son of Turatbek Madylbekov, another Ata Meken parliamentarian, was charged with the illegal appropriation and subsequent sale of former president Bakiyev's property. This situation is particularly significant since the detainee is an officer of the city prosecutor's office while his father heads the parliamentary committee to fight corruption.

The investigation of the illegal appropriation of Bakiyev's property also led to the arrest of the former minister of state property and his deputy who were charged with breach of power during the privatization of the ousted president's property.

In October, former minister of social development Ravshan Sabirov, representing Ata Meken, once again found himself in the media and public spotlight after the state prosecutor asked a court to sentence the disgraced former minister to 15 years in high-security prison. Sabirov and his aide were charged with extortion of international adoption companies.

The nationwide anti-corruption campaign has been gaining momentum with the prosecutor-general's agency preparing to publicize new materials in connection with parliamentarians, who have compared these actions with Stalin's purges and reprisals in the 1930s. "Nowhere in the world are people sentenced prior to a trial. In other countries, guilt must first be proved. In our country, people are sentenced first," said parliamentarian Omurbek Abdrakhmanov.

Foreign and international policy

President Vladimir Putin paid an official visit to the Kyrgyz Republic on 20 September. Although rather short, this visit was seen as playing a major role in promoting Russian interests in Kyrgyzstan and Central Asia as a whole.

During the visit, Kyrgyzstan and Russia signed an agreement on the construction and operation of the Upper Naryn Chain of Hydro Electrical Plants. Pursuant to this agreement, the Construction of Phase 1 Hydro Electrical Plants Upstream of River Naryn Project will be implemented within five years thanks to Russian state

investments. The Project provides for the construction of four hydro-electrical plants, Narynskaya-1, Narynskaya-2, Narynskaya-3 and Akbulunskaya, after which Kyrgyzstan will see an increase in the generation of electrical energy, improvements in electricity supply and a growth of the electricity market thanks to exports of electricity. In addition, the sides signed an agreement on Kambaratinskaya GES-1 (Kambarata Hydro Electrical Plant 1), with capacity of 1.9 GW, which is the largest site of the entire chain of hydro-electrical plants in the middle reaches of River Naryn. The construction of this hydro-electrical plant will enable the country to generate about 5 billion kW/h of electrical energy annually and cover the growing needs of its population and economy.

It should be noted that ousted president Bakiyev signed the initial agreement on the construction of these hydro-electrical plants in 2009, at which time the government announced that Russia would lend Kyrgyzstan \$1.7 billion for the construction of hydro-electrical plants. To implement this agreement, a Russian-Kyrgyz company "Kambaratinskaya GES-1" was founded, with 50% of shares belonging to "Inter RAO EAS," (*Inter Russian Joint-Stock Company "Unified Energy Systems"*), and construction put into the hands of a Russian company "RusGidro." This project never materialized.

Putin expressed satisfaction with the agreements reached and said the future cooperation of the two countries in the energy field represented a new direction of development. President Atambayev attempted to dispel Uzbek doubts concerning both Kyrgyzstan and Tajikistan's hydro-electrical projects, saying that the Kambaratinskaya Hydro-Electrical Plant's water reservoir would be used in summer for the irrigation of agricultural crops in Uzbekistan and Kazakhstan and that under no circumstances would it be used as leverage in relation to Kyrgyzstan's neighbours located downstream on the Syrdarya river.

In addition to joint hydro-electrical projects, Putin and Atambayev discussed Russian military installations in Kyrgyzstan. The agreements signed in the course of the visit further solidified Russian military presence in the country. Thus, the joint Russian military base comprising the airbase in the town of Kant, the testing base for antisubmarine armaments, the communications node of the Russian Navy, radio-seismic laboratory and seismic



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In addition to the economic decline and deficit of the state budget, Kyrgyzstan is experiencing a full-blown problem with exports of products and investments.

In October, neighbouring Kazakhstan introduced restrictions on imports of milk and dairy products from Kyrgyzstan which adversely affected major Kyrgyz dairy companies whose operations are mainly geared towards exports to the Kazakh market. Kazakhstan's agriculture ministry justified this decision on the grounds that the Kyrgyz veterinary service had failed to provide full disclosure on the epizootic situation in Kyrgyzstan. This would appear to be a replay of what took place in October 2011 when the Kazakh authorities banned imports of meat and milk from Kyrgyzstan fearing the penetration of their country by strains of foot-and-mouth disease.

In September 2012, the Supreme Court of Ontario announced its decision in relation with a dispute between Kyrgyzstan and a Turkish hotel operator for the alleged takeover of one of its hotels by a group of armed men during the 2005 revolution. The court ruled in favour of the hotel operator and froze the Kyrgyz-owned shares in Canada's Centerra Gold Inc. The market value of Kyrgyzstan's four million Centerra shares on the Toronto stock exchange on 17 October totalled \$49 million. The loss of this amount, easily comparable to the aid Kyrgyzstan receives from international organizations to sustain its budget, will doubtless have a major impact.

In the meantime, Li Deming, Chairman of the Chinese Chamber of Commerce in Kyrgyzstan, published an article in the Chinese party press on the mining business in Kyrgyzstan whose peculiarities, according to the author, include low investment appeal. Along with a poor investment climate, the Chinese businessman noted weak legislative and executive branches in Kyrgyzstan as well as rampant corruption that hindered an already complex process of investment in such an industry as mining. "The

political heritage of the country, nationalism, legitimacy of the government and its administrative

capacity, social conflict and imbalance of power capabilities among interests groups, as well as the various interests of these groups, all affect the security of investors in this country."

One of the few positive examples of the attitude toward foreign investors over the past months is the ruling of the Inter-District Court of Bishkek that returned 71% of BTA Bank, Closed Joint-Stock Company's shares to Kazakh investors. Previously, under pressure from Bakiyev's family, shares of this bank were auctioned off with the auction in question looking like a corporate raid rather than a voluntary business deal.

Amidst the ever-growing negative trends in the economy, parliament is trying to increase government revenues by amending tax legislation. In mid October, parliament supported a government initiative to pass a law "On Amendments to the Tax Code of the Kyrgyz Republic." Pursuant to the amendments proposed, parliament intends to raise taxes for small and medium businesses, particularly dental clinics, hairdressing shops, and beauty and care shops. Receipts from these businesses are unlikely to make a marked impact on budget revenues, unlike contributions from the Central Asia's largest market, Dordoï, located in Bishkek, which could have generated far bigger inflows. According to the World Bank, the annual turnover of this market totals \$2.84 billion and, more importantly, the lion's share of transactions performed in that market are "in the shade," ie, they are not taxed.

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