

CIS

Armenia

Political

Armenian politics were seriously affected by the re-election of President Robert Kocharian in March 2003, where opposition parties claimed that the polls were rigged. Anti-Kocharian protests erupted in spring 2004 and were put down by security forces and mass arrests. Since then the opposition parties have boycotted parliament and have tried to have Kocharian impeached. Foreign investment into, and trade with, Armenia is hampered by the 11-year trade blockade imposed on the country by its neighbours Turkey and Azerbaijan, due to the dispute over the Nagorno-Karabakh. Better relations between Armenia and Turkey have historically hinged on Armenia's requirement that Turkey recognize the deaths of 1.5 million Armenians during the First World War by Ottomans (precursor to modern Turkey) was a "genocide". France, Germany and Poland have called on Turkey to recognize the claims. However, Kocharian recently announced that Armenia would not insist on Turkey's admission of genocide for talks on Nagorno-Karabakh to proceed.

Economic

Armenia is reaping the benefits of a decade of reforms. Real economic growth has averaged 9% over the past six years in a low inflation environment, and real per capita income stand now at more than twice its 1997 level. Armenia's strong macroeconomic performance continued in 2004, despite a reduction in external private grants, fuelled by increases in agricultural production, housing construction and services. Poverty and income inequality have been falling, but they still remain high. Banking sector confidence has improved, especially during the last year. Armenia, under its current IMF programme, needs to continue with its reform effort to sustain high growth rates and reduce poverty. These reforms include improving fiscal transparency, raising financial intermediation, and tackling corruption more forcefully.

Azerbaijan

Political

October 2003's election of Ilham Aliyev to the presidency was plagued by vote-rigging, intimidation, police violence and the absence of some opposition names from the ballot. Street demonstrations resulted that were reportedly the worst political violence in ten years. Former president Heydar Aliyev, who had brought an authoritarian stability to the country, withdrew his candidacy after falling critically ill, but lived long enough to install his son Ilham into the presidency. (Heydar died in December 2003). There is the good possibility that the opposition will use the upcoming parliamentary elections in November 2005 to mount a political revolution akin to the recent revolutions in Georgia, Ukraine and Kyrgyzstan. The opposition have stated that they will follow a policy of non-aggression in their response to the parliamentary elections but international attention on Azerbaijan probably would have meant that a heavy-handed security response to any protests would have been rounded denounced by the West anyway.

Economic

Azerbaijan has grown by an average 10.7% annually over the past five years. In 2004 growth remained consistent coming in at 10.2%. Progress in foreign capital investments in the oil and gas sector – namely the Baku-Tbilisi-Ceyhan oil pipeline, the Azeri-Chirag-Gunashili oil fields, and the Shah-Deniz gas field and pipeline – provided the stimulus for the overall outcome. Industry grew by 12.2%, accounting for 62% of the increase, with construction expanding by 42%. The government has taken several important steps in reforming the financial sector. In January 2004, it adopted the Banking System Law that is consistent with the Basle Core Principles. And in December 2004, the National Bank Law was enacted. This gives the central bank considerable independence to pursue monetary policy, but it also holds it accountable for results.

Georgia

Political

President Eduard Shevardnadze resigned after massive protests over the flawed election results of the November 2003 general elections. In the presidential election (January 2004) and the parliamentary elections (March 2004), both Mikhail Saakashvili, one of the leaders of the "Rose Revolution", and Saakashvili's National Movement-Democrats and partner parties, won with major landslides. Many analysts were surprised that Saakashvili quickly pursued reengagement with the breakaway states of Adjara, South Ossetia and Abkhazia. Saakashvili's actions resulted in a military standoff in Adjara, a confrontation with Russia over South Ossetia and the concern of many that he was reigniting old conflicts. In February 2005, Saakashvili's Prime Minister Zurab Zhvania suddenly died after apparently being poisoned by gas from a faulty heater. Zhvania was the main figure driving the reform process in Georgia and it is still unclear how reform will proceed without him at the helm.

Economic

Real GDP growth in 2004 was 8.4%. The central driver of this growth was the Baku-Supsa-Ceyhan (BTC) pipeline construction, which had a positive impact on the development of construction and service sectors in Georgia. The BTC project also increased employment, which substantially increased the income of the population and pushed the demand of the domestic economy. The government, in close consultation with international organizations and donor countries, has committed to economic and social reforms in order to alleviate current poverty, improve governance, and enhance the business climate.

Kyrgyzstan

Political

President Askar Akayev's regime was thoroughly undermined by a popular revolt in March 2005 which resulted in Akayev fleeing the country and opposition figures taking control over the government. Akayev had led the country since Independence and had been re-elected in 2000 in polls widely considered flawed. The regime of Akayev had slid towards greater authoritarianism as it used more and more pressure to suppress opposition groups and individuals critical of the regime. The acting President and Prime Minister is Kurmanbek Bakiev, former Vice President to Akayev; he has promised new presidential elections in July. The parliament elected under the flawed polls will stay in place, as the interim government decided it would be too destabilizing not to honour the flawed poll results. Analysts are watching the situation closely as the current post-revolution stability is seen as somewhat tenuous.

Economic

Kyrgyzstan's economy grew very rapidly in 2004, by 7.1%, underpinned by strong external demand and prudent macroeconomic policies. Despite a setback to gold production, which has a 45% weight in industrial production, the industry sector grew by 3.5%. Of greatest importance was the services sector – with a 32% share of GDP it saw a large 11.7% expansion. Private investment also witnessed an increase. Structural reforms in 2004 focussed on two areas – strengthening governance in both public and private sectors to create a conducive business climate, and improving resource management. Over the medium term, the country needs to align its production and exports with the evolving demand of its neighbouring countries, particularly China, Kazakhstan and Russia.

Moldova

Political

President Vladimir Voronin's Communist party won a reduced majority in the country's March 2005 election, nonetheless, the newly pro-Western party re-elected Voronin with support from the Christian Democrat party, which supports closer ties to the European Union. Unlike earlier years, Voronin and the Communist Party have pledged to pursue integration with the EU and Voronin has, seemingly, turned away from Russia, Moldova's longtime ally, and toward the West. The party is apparently now Communist in name only but it will take a while before skeptics will fully believe in Voronin's turnaround. The relationship with the unrecognized breakaway republic of Transnistria, which declared itself independent in 1993, remains problematic. The relationship hit new lows in 2004 with a row over privatizations by the Transnistrian government of Moldovan state assets and Transnistria's closure of Moldovan-language schools.

Economic

The economy grew by 7.0% in 2004 after growth of 6.3% in 2003. However, the economy has become increasingly dependent on workers' remittances, which have helped to finance growing imports and fuel short-term growth. Notwithstanding the present recovery, Moldova is lagging considerably behind its neighbours, partly as a result of the Transnistria conflict. It is Europe's poorest country, with per capita gross national disposable income of \$700. Without an acceleration in structural reforms leading to a clear improvement in the business environment, economic recovery is likely to be short-lived.

Turkmenistan

Political

President Saparmurad Niyazov, the self-dubbed "Turkmenbashi" (father of the Turkmen) exercises absolute power and promotes a cult of personality. The failure of an assassination attempt against Niyazov in late 2003 increased speculation of disaffection among the ranks of the elite surrounding the president, especially among the security services. It is plausible, however, that Niyazov staged the assassination attempt as a pretext for a major clampdown on his opponents. Niyazov has imprisoned or exiled his main political rivals. In essence, Niyazov dictates Turkmenistan's policies and in 1999 the country's 'parliament' elected Niyazov as president for life; however, he has vowed to hold a presidential election in 2008. In 2004, the European Bank of Reconstruction and Development (EBRD) warned that assistance could be cut off if Turkmenistan did not move forward with critical democratic and market reforms. However, the country has considerable natural gas reserves and may not consider the EBRD's funding essential. The population revolutions of Ukraine, Georgia and Kyrgyzstan are likely causing the already-paranoid Niyazov to be concerned for his own leadership.

Economic

According to official statistics, GDP grew by 21% IN 2004, only slightly down from 23% in 2003. However, the IMF estimated growth to have been a much more realistic 7.5%. As such, official statistics remain notoriously unreliable. Central planning and management persist. Production targets, mandatory state procurement, directed bank credits, foreign exchange restrictions, and intergovernment trade arrangements continue to be used by the government. In terms of energy policy, the existing long-term intergovernment agreement on gas shipments to Ukraine was renegotiated in January 2005. Gas prices, previously fixed at \$44 per 1,000 cubic metres and 50:50 barter/cash transactions were increased to \$58 per 1,000 cubic metres.

Uzbekistan

Political

The political system is dominated by President Islam Karimov, the former Uzbek Communist Party leader who governs in a highly authoritarian and repressive manner. Karimov's regime has little regard for human rights. Although the defeat of the Taliban regime in Afghanistan removed the immediate threat from Islamic Movement of Uzbekistan (IMU) guerillas, the underlying social and political grievances that gave rise to the movement will continue to threaten stability in Uzbekistan. There are rumours that Karimov's own personal security has been at risk in the past, with speculation both about his health and the loyalty of his cadre. Despite being a partner in the American "War on Terror", the lack of political and economic reform in Uzbekistan resulted in the US State Department freezing aid to the country. Additionally, the European Bank for Reconstruction and Development (EBRD) curtailed its loans for most public sector projects and the International Monetary Fund (IMF) has decreased its representation.

Economic

Uzbekistan's economy grew at its highest rate since independence, by 7.7% in 2004. Growth was led by the agriculture sector – the contribution of private farms to crop production doubled in 2004. The acceleration in industrial growth was driven by the resource sectors, particularly fuel and ferrous metals, and machine building, especially the automotive and aircraft industries. The budget balance posted a small surplus. However, sustaining the growth rate achieved in 2004 will not be easy. World oversupply of cotton will decrease prices for cotton fibre exports and gold prices are expected to fall from the record high seen in 2004.