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U.S. Foreign Policy in the Post-Soviet Caspian States

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THE FLORIDA STATE UNIVERSITY

COLLEGE OF SOCIAL SCIENCES

U.S. FOREIGN POLICY IN THE POST-SOVIET CASPIAN STATES

By

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This thesis is dedicated to my son Austin, without whom I would never have accomplished so much.

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LIST OF ABBREVIATIONS

ACG	Azeri-Chirag-Guneshli Pipeline
ADB	Asian Development Bank
AIOC	Azeri International Oil Corporation
BTC	Baku-Tblisi-Ceyhan
CIS	Commonwealth of Independent States
CNOOC	China National Offshore Oil Corporation
CPC	Caspian Pipeline Consortium
EBRD	European Bank for Reconstruction and Development
FSA	Freedom Support Act
HRW	Human Rights Watch
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
INOGATE	Interstate Oil and Gas Transport to Europe
MNC	Multinational Corporation
NGO	Non-Governmental Organization
NIS	Newly Independent States
PSA	Product Sharing Agreement
SEED	Support for European Democracy
SOCAR	State Oil Company of Azerbaijan
TRACECA	Transport Corridor Europe-Caucasus-Asia
UNDP	United Nations Development Programme
UN NGO IRENE	United Nations NGO Informal Region Network
UNPAN	United Nations Public Administration Network
USAID	U.S. Agency for International Development

ABSTRACT

The end of the Cold War forced the United States to formulate a new foreign policy that was no longer defined by the ideological struggle that dominated the latter half of the twentieth century. Although post-Cold War foreign policy represented a move away from ideologically motivated policy, traditional notions of Realism and Liberalism prevailed. This thesis argues that throughout the 1990s U.S. foreign policy became more practical in nature as relations were based on changing political and economic relations. The post-Soviet Caspian states are the focus of this thesis, as they represent a region with which the United States has managed to establish bilateral political and economic relationship since their independence. This thesis argues that there has been a reorientation of U.S. foreign policy following the attacks of September 11, 2001. Articulated in the current administration's foreign policy agenda, this shift represents a departure from established international relations theory. .

Once a theoretical and practical understanding of post-Soviet U.S. foreign policy in the region has been established, this thesis will outline the internal political and economic situation in the Caspian states of Azerbaijan, Kazakhstan and Turkmenistan. There is also an examination of international interest in the Caspian region, looking at both state and non-state actors. Through examining the nature of prior U.S. foreign policy in the Caspian states as well as that of all parties involved, this thesis will show how the current direction of American involvement in the region threatens to undermine both broader U.S. foreign policy as well as that of other interests.

INTRODUCTION

Just as the Cold War determined the trajectory of U.S. foreign policy for almost half a century, the recent terror attacks against the United States have led to a reprioritization of U.S. interests. Although the ideological underpinnings that supported this change have been present in academic and policy-making circles for decades, the “war on terror” as a result of September 11, 2001 has fueled a departure from a nuanced and practical foreign policy to one that is based on an overarching ideology. It is the central argument of this thesis that this shift in foreign policy goals sacrifices recently established relationships based on political and economic ties for more narrowly defined strategic needs. Furthermore, this shift is based on adherence to an ideological framework which contains contradictory elements. Although this characterizes much of current U.S. foreign policy, this thesis focuses on the post-Soviet Caspian states because they represent valuable but relatively new post-Cold War alliances that could become a casualty of U.S. strategic interests.

There is decreasing emphasis on sustained political and economic relations with the Caspian states themselves, and an increased focus on their role in achieving the strategic goals of U.S. foreign policy. Although it is too soon to tell whether this change in focus will be sustained, its negative impact is already affecting U.S. foreign relations with its traditional allies, and can be seen in places like the Caspian region where an American presence is still relatively new. Traditional Western alliances are based on shared history and ideals that have weathered much worse. Alliances like those in the post-Soviet Caspian states are much more asymmetrical and are overshadowed by traditional ties with states that, historically, represent American rivals. Given these circumstances, changes

in the nature of U.S. relations with the Caspian states run the risk of alienating these countries.

Although the Caspian states were of limited interest prior to 9/11, economic and political relations were the focus of that interest. Given the fact that there was no direct relationship between the United States and these former Soviet republics prior to the early 1990s, there is a well established starting point for this analysis of the issues that have motivated U.S. foreign policy before and after 9/11. U.S. foreign policy in the Caspian states has centered on developing the energy sector as part of its political and economic reform agenda. Azerbaijan and Kazakhstan have been involved with the United States economically and through political reform initiatives since 1991. They represent positive gains for U.S. foreign policy in the region. Turkmenistan has remained largely isolated from the United States throughout the 1990s both politically and economically due to its adherence to the traditional Soviet model. Its increased involvement with the United States for strategic purposes has focused attention away from political and economic reforms, warranting its inclusion in this thesis. Although the Caspian region as a whole has become a significant focus of U.S. foreign policy, it is important to demonstrate that these states are dealt with on a bilateral basis as well. In addition there are other states to be considered.

The success of U.S. foreign policy goals in the Caspian region throughout the decade following the Cold War depended on alliances with regional and international actors like Georgia, Ukraine and the EU. At the same time it has faced rivalries with countries like Russia, China and Iran, who also have a political, economic and strategic interest in the Caspian states. With the recent shift of focus in U.S. foreign policy, these regional and international powers have also shifted their priorities. This has led to rapprochement in some cases while threatening to heighten already existing rivalries. Given the importance of the

Caspian states to so many regional and international powers, the recent changes in U.S. foreign policy could have much larger implications

Chapter 1 provides an overview of the major theoretical influences on post-Cold War U.S. foreign policy in an effort to increase understanding of the motivations behind policy decisions. Once this is established, Chapter 2 details actual U.S. foreign policy with regards to the Caspian states, in an effort to show how much economic and political issues have dominated U.S. foreign relations with this region throughout the 1990s. The nature of the regimes that control these states is central to the success or failure of U.S. foreign policy in the Caspian region. The recent shift in foreign policy priorities can also be observed by the shift in foreign aid that is discussed in this chapter. The Caspian states themselves are also a major focus in order to provide an understanding of their internal situation. Chapter 3 outlines the internal situation in the Caspian states, from regional issues that affect all of the states to individual overviews of each state.

The focus of this thesis is U.S. foreign policy, but the foreign policies of other state actors as well as non-state actors is emphasized in order to provide a more comprehensive picture of the international environment. Chapter 4 examines foreign policy in the EU, Georgia and Ukraine, who are both allied with the United States with regards to foreign policy in the Caspian and major consumers of Caspian as well as Russian oil and gas. Chapter 5 details Russian foreign policy in the Caspian region as it is historically the most influential actor, and continues to be the most prominent rival for U.S. influence. China and Iran are covered in Chapter 6, as each nation sees and is seen by the United States as a rival, whether it be in the political or economic sphere. Chapter 7 explores non-state actors like international energy corporations and NGOs, as they are increasingly central to developing states like those in the Caspian region.

It must be stressed that this thesis is not based on an empirical analysis of U.S. foreign policy. Instead it focuses on examining the applicability of various theoretical concepts to real-world foreign policy decisions. The central argument in this thesis is put forth to demonstrate that ideological and theoretical frameworks provide a useful tool in determining the general direction of ones foreign policy, but those ideas are not universally applicable. It is demonstrated in this thesis that policy-makers have promoted the arguments of several competing international relations theories at different times according to the circumstances. However, it is when the incompatible elements of these theories are combined and applied universally that they lose their utility. This theoretical puzzle forms the basis of a discussion of current U.S. foreign policy in a region where adherence to a flawed marriage of ideology and theoretical justification threatens real-world foreign policy.

CHAPTER 1

U.S. FOREIGN POLICY: A THEORETICAL PERSPECTIVE

This thesis is focused on U.S. foreign policy in a small group of states in the former Soviet Union. Nevertheless, decisions that affect the Caspian region are made within the framework of a much broader foreign policy agenda. The collapse of the Soviet Union has had a profound impact on the whole of U.S. foreign policy, not just its interaction with Russia and the NIS. Only by examining it in a more general sense can U.S. policy in the Caspian be understood. Ideology has played a varied role in the formulation of official U.S. policy. Whether a policy maker is easily identifiable with a particular theoretical school or less apt to conform to one framework, most are informed by a few basic tenets of international politics. An examination of relevant international relations theory is the focus of this chapter.

U.S. foreign policy has been dominated by several major schools of thought regarding what should be its primary aims and objectives. Realism is a theoretical framework which stresses the primary importance of states in international relations. According to realist theory, states are unitary and rational actors whose primary concern is self preservation of the state, primarily through focusing on national security rather than other areas of international relations like economics.¹ This school of thought was influenced by academics like Hans J. Morgenthau, who believed that morality had no place in foreign policy, and that national interest should guide decision making.² Others like George Kennan and

¹ Viotti, Paul R., Mark Kauppi. Ed, *International Relations Theory: Realism, Pluralism, Globalism and Beyond*, Allyn & Bacon, (Boston: 1999), pp. 55-57

² Morgenthau, Hans J. *International Politics: Enduring Concepts and Contemporary Issues*, Robert J. Art and Robert Jervis, ed. Pearson Longman, (New York: 2005)

Henry Kissinger advanced containment of Communism and *realpolitik* to deal with Cold War issues, which were adapted to official policy during the Truman and Nixon administrations respectively.³ During the Cold War, policy makers and academics alike promoted the realist view that stressed national security and military power above all other political spheres.⁴ The Cold War fit the realist theoretical model quite well, with fears of Soviet capabilities leading to a nuclear arms race that many viewed as a deterrent rather than a danger. However, with the collapse of the Soviet Union this theory is no longer sufficient.

The other major school of international relations theory that has influenced U.S. foreign policy is Liberalism. According to the proponents of this theory, the state is not a unitary actor, nor is it the primary actor in the international community. Not only are states composed of competing interests that impact international relations, international organizations and other non-state actors are also prominent participants. According to liberalist theory, states do not always act rationally, and foreign policy is concerned with a wide variety of issues that are not always subordinate to national security.⁵ Economic and political ties have subordinated power politics to considerations that realist theory is not equipped to handle.

There is a widely held view among liberals and conservative American politicians that the United States should promote Western democracy and free market economics. Justification for this view ranges from the ideas of democratic peace put forth by theorists from Emmanuel Kant's liberal internationalism to Joseph Schumpeter and liberal pacifism, whose theories have had increased

³ Merry, Robert W. *Sands of Empire*, Simon & Schuster, (New York: 2005) pp. 39-45

⁴ Viotti & Kauppi) p. 21

⁵ Viotti & Kauppi, pp. 199-200

influence in academia as well as U.S. foreign policy-making circles.⁶ Robert Keohane and Joseph Nye promoted complex interdependence as a more nuanced foreign policy than has been offered in realist theory, arguing that linking various policies between states will decrease the need for violent confrontation.⁷ While in theory the post-Cold War era seems to be more compatible with liberalism than realist theory, it has had mixed success. Instead U.S. foreign policy has fluctuated depending on the leadership. While foreign policy was not uniform during the Cold War, the lack of a unifying theme in its aftermath has led to varied and often contradictory foreign policies. Although goals like democracy promotion and economic aid have remained central themes throughout, they have been promoted in different ways.

With the end of the Cold War the United States could no longer define its foreign relations in the context of a bipolar world. It had to reorient its foreign relations to stress economic and political ties with its allies as well as with the Soviet Union. Some political theorists hailed the “end of history” and the triumph of Western democracy, but the Soviet collapse led to the resurgence of ethnic tensions, and economic decline in areas such as the former Soviet Union became the focus of American foreign policy during the George H.W. Bush administration.⁸ Foreign policy during the immediate aftermath of the Soviet collapse has been characterized in some circles as “liberalist interventionism.”⁹ Although some foreign involvement like the first Gulf War can be viewed in terms of protecting U.S. interests, others like involvement in Somalia and the

⁶ Doyle, Michael, “Liberalism and World Politics,” *International Relations Theory: Realism, Pluralism, Globalism and Beyond*, Paul R. Viotti and Mark V. Kauppi, ed. Longman,(Boston: 1999) 233-245

⁷ Keohane, Robert, and Joseph Nye, “Realism and Complex Interdependence,” *International Relations Theory: Realism, Pluralism, Globalism and Beyond*, Paul R. Viotti and Mark V. Kauppi, ed. Longman,(Boston: 1999) pp. 307-318

⁸ Fukuyama, Francis, “The End of History?” *The National Interest*, 1989

⁹ Merry, 103

Balkans were viewed as stretching the limits of traditional American involvement. Realist criticism of the first Bush Administration contrasts his interventionist actions and international focus against the “conservative interventionist” policies that were pursued during the Cold War. Many have argued that while democracy promotion and economic aid were both components of U.S. foreign policy, they were subordinate to national security concerns. Although this argument paints George H.W. Bush’s foreign policy in the ideological context of his “new world order,” others viewed him as far more practical, and included the subsequent administration in that assessment.

While the Clinton Administration has been labeled by some as promoting an ideologically based foreign policy with his calls for “democratic enlargement,” there are others who view him much more pragmatic in his approach. One political theorist has characterized post-Cold War foreign policy as a “Triumph of Wilsonism.”¹⁰ Robert W. Merry’s assessment of post-Cold War policy pits the proponents of a progressive world view against those who see foreign policy through a cyclical lens. In an argument that strongly supports the “Clash of Civilizations” thesis of Samuel Huntington, Merry is critical of post-Cold War policy almost from start to finish.¹¹ He regards Clinton as a “liberal interventionist much as he does George H.W. Bush.”¹² He argued that it was Clinton’s indecisiveness in Bosnia that led to a deepening of the crisis. Rather than choose between intervention and the national interest, he argues that Clinton half-heartedly chose sanctions and threats instead. Clinton’s foreign policy in the Balkans is described as moralistic, although selectively so in light of

¹⁰ Merry, p. 97

¹¹ See Samuel P. Huntington’s “Clash of Civilizations?” *International Politics: Enduring Concepts and Contemporary Issues*, Robert J. Art and Robert Jervis, ed. Pearson Longman, (New York: 2005) pp. 415-430

¹² Merry, p. 139

other conflicts in which it chose not to involve itself.¹³ This same reluctance to involve America in other conflicts has led other analysts to see the 1990s as an era of pragmatism.

Rather than see post-Cold War U.S. foreign policy in the context of liberal democratic ideology, some theorists see it as a shift away from ideological foreign policy altogether.¹⁴ Both George H.W. Bush and Bill Clinton were faced with the rise of globalization, which necessitated a more open policy toward international trading partners. Many of the policy initiatives supported by either President were concerned with economic issues like free trade and market reforms. While both the first Bush administration and the Clinton administration promoted “democratic enlargement” and a “new world order” based on democratic institutions, these were goals that were not part of a sustained policy agenda.¹⁵ One commonly cited example was the refusal of George H.W. Bush to topple Saddam Hussein following his expulsion from Kuwait. Although there were many who argued that America should have “finished the job”, Bush considered it outside of the realm of U.S. national interests. Although Clinton accused George H.W. Bush of “coddling dictators” when it came to democracy promotion, he displayed the same selectiveness once he was in office.¹⁶ Clinton argued that there were times when economic and security interests would compromise the commitment to democracy and human rights.¹⁷ Examples of this approach include relations with China and Russia. It appears that despite the ideological leanings of Bush Sr. and Clinton, they adjusted their foreign policy

¹³ Merry, p. 139

¹⁴ Cox, Michael, “Wilsonianism Resurgent? The Clinton Administration and the Promotion of Democracy,” *American Democracy Promotion*, Michael Cox, John Ikenberry, and Takashi Inoguchi, Promotion, ed. Oxford University Press, (Oxford: 2000) p. 221

¹⁵ Cox, pp.223-224

¹⁶ Cox, p. 228

¹⁷ Cox, p. 228

goals to account for practical expectations of national interest when it was necessary.

While there is an active debate concerning the nature of U.S. foreign policy in the decade following the Soviet collapse, ideological motivations seem to have been secondary to that of national interests. Post-Cold War presidents displayed liberalist tendencies, but they were tempered by recognition that the national interest was paramount in some instances. Despite claims of “grand schemes” for U.S. foreign policy, pragmatism appears to have won out. The Cold War resulted in a drastic shift in U.S. foreign policy away from realism to a great extent, the struggle against terror that has dominated U.S. foreign policy since September 11, 2001 threatens to undermine liberalist foreign policy.

Rather than a return to traditional power politics in the last few years, policy-makers and some academics have promoted a school of thought that has been described as a combination of “Will to Power imperialism of Theodore Roosevelt with the humanitarian impulse of Woodrow Wilson.”¹⁸ This foreign policy framework has been traced back to the 1970s, but it was not until the collapse of Communism that neoconservative theory began to take its current form. Francis Fukuyama, in his essay entitled “The End of History?” put forth the controversial argument that American democracy had triumphed over all other political frameworks, representing the ultimate form of government.¹⁹ This infuses the neoconservative vision of American primacy with a sense of ideological superiority. Neoconservative thought weds realist arguments about interest defined as power with liberal ideological justifications. Neoconservatives attempt to combine the attributes of realism and liberalism that make them incompatible. This stems in part from the fact that neoconservative thought has

¹⁸ Merry, p. 153.

¹⁹ Fukuyama, 1989

always floated between the two more traditional schools of thought in international relations.

The neoconservative movement has its roots in the liberalist movement of the nineteen sixties. While they were involved in the mainstream liberal movement, some of the more radical liberal views about appeasing Communism drove neoconservatives back towards the right.²⁰ According to Mark Gerson, the main elements of neoconservative thought stressed the evil tendencies of human nature, reliance on established institutions, subordination of the individual to the community and the protection of liberal values.²¹ Over the years the major arguments of the neoconservative movement have shifted from attacking moralistic foreign policy in the late nineteen seventies to fully supporting those ideals only twenty years later. Whereas Irving Kristol and Jeanne Kirkpatrick warned against democracy promotion as a moral imperative during the Reagan administration, Leo Strauss and William Kristol supported the idea of advancing American hegemony that has become so prevalent in the Bush administration.²² While this allows adherents to shift their justification according to their needs, it also makes for an easily assailable argument. Members of the Bush Administration are paradoxical in their seeming inability to use any sound reasoning in formulating much of their foreign policy. When considering the history of neoconservative theory, this is no surprise.

This chapter has focused on the basic theories that influence U.S. foreign policy. The shift away from realist oriented policies of the Cold War era has allowed the United States to promote democratic reforms and economic involvement in the Caspian region as part of a liberal foreign policy. This has

²⁰ Merry, p. 155.

²¹ Gerson, Mark, *The Neoconservative Vision: From the Cold War to the Culture Wars*, Madison, (Lanham, 1996) pp. 16-19

²² Merry, 166-167

allowed the United States to promote democratic institutions while recognizing that they can not always be the primary concern. The strategic and imperialistic direction of current foreign policy threatens U.S. relations in the region by stressing power politics over concerns over long-term engagement. Democratic reforms cannot be forced, and should also not be ignored in favor of strategic alliances that are based on much narrower ties.

CHAPTER 2

US FOREIGN POLICY: SHIFTING PRIORITIES

U.S. foreign policy following the collapse of the Soviet Union had to evolve to reflect the drastic shift in the international community. The bipolar climate that previously determined US foreign policy no longer existed, forcing a reassessment of the United States' role in the world, particularly in the post-Soviet space. U.S. foreign policy in the NIS was largely reactionary in the decade following the Soviet collapse. Initially the focus was insuring the viability of Russia and the Newly Independent States (NIS) through political and economic reforms influenced by democratic and free-market ideals. As the Russian state became more stable and the NIS became more self-sufficient, U.S. foreign policy changed to reflect a bilateral relationship with the various states. The U.S. became more active in the post-Soviet space, particularly in the Caspian states. This characterized U.S. involvement for the remainder of the 1990s. Without an overarching goal like that which was present during the Cold War, the United States was able to adapt its foreign policy to reflect the situation at hand.

While at times the U.S. took a proactive approach to assure its economic position in Western leaning states like Azerbaijan, the overall tone of U.S. foreign policy was limited involvement. Multilateral initiatives aimed at democratic and economic reforms dominated U.S. involvement throughout the 1990s. When considered in combination with Russian foreign policy in the Caspian region, both nations continued to compete for influence, although energy rather than ideology was the focus of this competition. Initially the United States used political and economic reform initiatives to exert influence. When it became clear that the energy industry was an avenue for influence, U.S. foreign policy

accommodated those interests. As strategic interests outweighed others in the Caspian region, the United States used its position in the region to further its overarching security goals. The Caspian region evolved from an area of relatively minor concern to a more prominent focus of U.S. foreign policy.

Democracy and Energy Policy 1991-2000

Whether the U.S. won the Cold War actively or by default, it was the only remaining world power. The U.S. and its allies provided aid to the Russian state as well as that of the other Newly Independent States (NIS). U.S. foreign policy was dominated by the transition of Russia and the NIS from one centrally planned system to fifteen politically and economically viable states. This included promoting the democratic and market based institutions that represented major aspects of US foreign policy. Although the United States was involved both directly and as a member of intergovernmental institutions in Russia and the NIS, its involvement was limited in scope. The promotion of political and economic reforms was achieved through the UN, World Bank, International Monetary Fund (IMF) and the OSCE. The US participated with the EU in several programs to increase political and economic cooperation. The primary agency involved in the promotion of U.S. foreign policy is the USAID.

USAID is the development arm of the State Department. It is primarily tasked with promoting democratic and market reforms, and sustainable development. Through the Office of Democracy and Governance and the Office of Transition Initiatives, USAID assistance focused on supporting Caspian societies to help them become economically independent as well as more socially and politically active.²³ In Azerbaijan and Kazakhstan there are programs aimed

²³ USAID Democracy and Governance, Eurasia Regional Program, http://www.usaid.gov/our_work/democracy_and_governance/regions/ee/eur_reg.html

at improving civil society, increasing political participation and democratic political parties. Support to local NGOs and individuals in legal reform initiatives and human rights efforts are also part of USAID efforts. In Turkmenistan, USAID has focused all of its funding toward private organizations due to the refusal of the government to engage in political reforms.²⁴ The programs are focused on civil society development, small enterprise development and public health. Funding for the USAID and other programs was also an early focus of US foreign policy.²⁵

The US Congress passed the Freedom for Russia and Emerging Eurasian Democracies and Market Economies (FREEDOM) Support Act in 1992 (FSA). It provided transition assistance, including political, economic, educational and humanitarian aid. This act stressed the importance of liberal political and economic institutions. Although 80% of the investments in Azerbaijan's oil industry came from the US, it was excluded from receiving aid through the FSA Azerbaijan over its conflict with Armenia.²⁶ The act cited Azerbaijan's blockade of Nagorno-Karabakh that was preventing humanitarian assistance from reaching the region.²⁷ The FSA also included provisions for USAID, the Department of Commerce, and authorized the President to establish a Democracy Corps as a non-profit corporation to assist in the promotion of

²⁴ USAID, Office of Democracy and Governance Data Sheets, Azerbaijan, Kazakhstan, Turkmenistan,

http://www.usaid.gov/our_work/democracy_and_governance/regions/ee/eur_reg.html

²⁵ Nichol, Jim, "Central Asia: Regional Developments and Implications for U.S. Interests," CRS Issue Brief for Congress, Foreign Affairs, Defense and Trade Division, Congressional Research Service, November 12, 2004

²⁶ Spatharou, Angeliki, "Geopolitics of Caspian Oil: The Role of the Integration of the Caspian Region into the World Economy in Maintaining Stability in the Caucasus," *The Politics of Caspian Oil*. Bulent Gokay, ed. Palgrave. (New York: 2001)

²⁷ FREEDOM Support Act of 1992, Public Law: 102-511 (10/24/92), <http://usinfo.state.gov/usa/infousa/laws/majorlaw/pl102-51.htm>

democratic institutions at the local level.²⁸ The U.S. also authorized the use of funds from its Support for East European Democracy (SEED) program as well.²⁹ Another key piece of legislation was the Silk Road Strategy Act of 1998, which focused assistance on Central Asia and the Caucasus in particular, excluding Armenia due to the inclusion of Azerbaijan.³⁰ While the Armenian lobby in the United States was instrumental in excluding Azerbaijan from the FSA, the provisions of the SEED program represent the increasing influence of the oil lobby on U.S. foreign policy in the Caspian.³¹ This last piece of legislation was also a result of a shift in US foreign policy in the Caspian that stressed bilateral relationships with the Caspian states over regional engagement. The primary reason for this shift was a change in the nature of Russian involvement in what it termed the “near abroad.”

During the decade following the Soviet breakup, U.S. involvement in the Caspian region mirrored that of Russia’s, reflecting old patterns of behavior. Just as Russia was primarily concerned with internal issues following the Soviet collapse, it was also the primary U.S. concern. As Russia began to involve itself more directly in the Caspian as a result of corporate interests from the West, the U.S. made the Caspian a more central focus of its own foreign policy. Toward the end of the decade, there were many analysts who predicted that Central Asia and the Caucasus was the most volatile area of US-Russian foreign policy since the end of the Cold War due to the strategic importance that it represented to both parties.³² To the US, the Caspian in particular represented energy diversity and gaining influence in a previously unattainable region. U.S. interests shifted

²⁸ FREEDOM Support Act

²⁹ FREEDOM Support Act

³⁰ Silk Road Strategy Act of 1998, Senate Report 105-394

³¹ Aydin, Mustafa, “Oil, Pipelines and Security, *The Caspian Region: A Re-Emerging Region*, Ed. Moshe Gammer, Routledge (London: 2004) p. 17-18

³² Cornell, 385-390.

to reflect the those of private interests which were already deeply involved with the Caspian NIS.

U.S. companies invested billions of dollars in the Caspian energy industry after the Soviet collapse. Chevron invested almost \$20 billion in the Tenghiz field in Kazakhstan, and a consortium of American companies provided almost half of the \$8 billion that was invested in the “Contract of the Century” in Azerbaijan.³³ These ventures were supported by the U.S. government in the form of risk insurance and legal assistance as well as diplomatic cooperation. The growing importance of the Caspian region to international energy corporations slowly began to translate into increased attention in Washington. Section 907 of the Freedom Support Act, which excluded Azerbaijan from a major source of U.S. assistance, was beginning to face pressure from government officials and energy lobbyists who felt that the U.S. industry was suffering from the lack of U.S. support in Azerbaijan. By 1997 there were open calls by members of the Clinton administration for the repeal of that provision of the FSA. Democratic as well as Republican Congressmen were involved in the push to have Section 907 reviewed, as well as the Azerbaijani President himself.³⁴ While still advocating democratic reforms, The Clinton Administration also put greater emphasis on the energy industry in its discussions of its Caspian foreign policy. This was best articulated by Strobe Talbott, Undersecretary of State in 1997.

If economic and political reform in the countries of Central Asia and the Caucasus does not succeed, if internal and cross-border conflicts simmer and flare, the region could become a breeding ground for terrorism, a hotbed of religious and political extremism and a battleground for outright war. It would matter profoundly to the United States if this were to happen in an area that sits

³³ Akiner, p. 9

³⁴ Macdougall, James, “ A New Stage in US Caspian-Sea Basin Relations,” *Central Asia*, n5 (11) 1997

on as much as 200 billion barrels of oil. That is yet another reason why conflict resolution must be job number one for U.S. policy in the region: it is both a prerequisite for and an accompaniment to energy development.³⁵

The United States pushed multiple pipeline routes as a way to ensure diversity of supply in the region. Early on experts cite evidence of the Clinton Administration's attempts to influence the flow of oil by convincing Azerbaijan to send oil through a pipeline to Novorossiisk on the Black Sea, despite an already existing route through Russia. The U.S. also lobbied Kazakhstan to abandon a southern route through Iran and negotiate a Caspian pipeline with Turkmenistan.³⁶ The most significant accomplishment in U.S. foreign policy in the energy sector has been the successful construction of the Baku-Tblisi-Ceyhan pipeline through Georgia and Turkey. The United States supported this route both diplomatically and financially, persuading private companies to build a longer pipeline that runs through historically hostile territory that is difficult to maintain.³⁷ In terms of U.S. interests, the Caspian energy industry provided an opportunity to strengthen US involvement in the Caspian region.

By the end of the 1990s the United States was entrenched in the Caspian both politically and economically. The energy sector was the most prominent focus of U.S. involvement. Nevertheless, the United States continued to fund bilateral and international efforts to promote political and economic reforms. Kazakhstan and Azerbaijan continued to show signs of economic improvement, although political reforms were lacking. Early hopes for the spread of democracy

³⁵ Talbott, Strobe, , "A Farewell to Flashman," Address at the Johns Hopkins School of Advanced International Studies, Baltimore, Maryland, July 21, 1997, <http://www.state.gov/www/regions/nis/970721talbott.html>

³⁶ Muller, Friedemann, " Energy Development and Transport Network Cooperation in Central Asia and the South Caucasus," *Building Security in the New States of Eurasia: Subregional Cooperation in the Former Soviet Space*, Eds. Renata Dwan and Oleksandr Pavliuk, EastWest Institute (Armonk: 2000) pp. 189-190

³⁷ Akiner, 366-367

and the rule of law were replaced by the realization that these states existed under various degrees of authoritarian rule, but efforts to promote these institutions continued.³⁸ U.S. involvement in the region more concerned competing for influence with regional powers like Russia and Iran for influence, but there was some room for compromise in the form of joint involvement with Russia in some energy deals.³⁹ Russia was still a priority in terms of overall U.S. foreign policy. Energy security was a higher priority in the latter part of the decade, but that did not rule out concerns over the political orientation of the Caspian states. Despite the pressure to repeal Section 907 of the FSA mentioned above, it remained in place. However, the nature of U.S. involvement in the Caspian region was about to undergo another change.

Strategic Reorientation 2001-2005

The terror attacks of September 11, 2001 have had a more profound impact on U.S. foreign policy than any event in over fifty years. The United States has stated a willingness to act unilaterally. In the 1990s many strategic U.S. foreign policy objectives were carried out through multilateral institutions in cases ranging from military intervention in the First Gulf War to NATO activities in the Balkans. Traditional long-term alliances have been replaced in some cases by ad-hoc coalitions, which the Bush administration has also made part of its official policy⁴⁰. A proactive stance concerning national security supports preemption as well. Democracy promotion is viewed as a way to further U.S. in strategic goals. Democracy promotion to further self-interest is not new in U.S.

³⁸ Olcott, Martha Brill, *Central Asia's Second Chance*, The Carnegie Endowment for International Peace, (New York: 2005) , pp. 69-71

³⁹ Atonenko, Oksana. "Russia's Policy in the Caspian Sea Region: Reconciling Economic and Security Agendas." *The Caspian: Politics, Energy and Security*. Shirin Akiner, ed. RoutledgeCurzon. (London: 2004) p. 255

⁴⁰ White House, "The National Security Strategy of the United States," (Washington D.C: 2002)

foreign policy. However, it is now articulated as part of a strategic agenda The United States has proclaimed itself the champion of democracy throughout the world by pledging to “make the world not just safer but better” in the struggle against terror.⁴¹

As strategic aims have become the primary focus of U.S foreign policy, the U.S. has demonstrated a willingness to assert itself where others powers have historically had the most influence. U.S. assistance to the Caspian states has increased by as much as 50% since 2001, focusing more on military assistance than before.⁴² International Military Education and Training (IMET) and Foreign Military Assistance (FMA) programs have nearly doubled on average in Kazakhstan, and are being provided to Azerbaijan for the first time.⁴³ Overall average US aid to the Caspian has increased by 40-50% compared to pre-9/11 levels.⁴⁴ Central Asia and the Caucasus are predominately Muslim, but due to Russian and Soviet domination, they are also ruled by secular regimes. Russia has become a strong supporter of the “war on terror. “ Increased military aid and training is intended to aid the struggle against terror, but in the NIS it has served to strengthen authoritarian regimes.⁴⁵ Similarly, from Azerbaijan to Uzbekistan the southern tier republics have embraced this policy as well, although not strictly in the interests of combating terrorism.

The United States has welcomed the assistance of Russia and the NIS in its struggle against extremist elements from intelligence and basing facilities to support personnel and even a small number of troops.⁴⁶ Central Asia is in the center of the current campaign due to its proximity to several fronts. In its

⁴¹ “National Security Strategy”

⁴² See Table 2 and 3.

⁴³ See Figure 3 and 4

⁴⁴ See Figure 2

⁴⁵ Olcott, pp. 17-19

⁴⁶ Nichol, pp. 10-11

eagerness to hunt down Islamic extremists, the United States is securing the cooperation of the NIS using increased financial and technical assistance. This included military equipment and training that, while it can be used to fight extremist elements, can also be used to strengthen the leadership of these authoritarian regimes⁴⁷ Some in the State Department have argued that increased military engagement in the region would help foster internal reforms by providing a sense of security for the regime, allowing them to become more tolerant.⁴⁸ So far this has not been the case.

By pursuing strategic aspects of the new foreign policy strategy despite its negative impact on democracy in the region, the United States is risking its future position in the Caspian states both politically and economically. The expectations for reform in the Caspian have been lowered in the official rhetoric, stating that the “enhanced engagement” that will lead to eventual success in matters of political and economic reform simply have not had time to work yet.⁴⁹ The record of internal reform in the Caspian states has not improved in some important areas, and has actually regressed in others. Despite the optimistic outlook that followed the brief period of “colored revolutions” in Ukraine and Kyrgyzstan, the Caspian states remain under the same regimes for the most part.

U.S. foreign policy has achieved mixed results throughout its period of limited engagement. Economic success has been tempered by political failures. However, increased engagement and assistance is increasingly tied to the struggle against terror, which is narrow in scope and takes precedence over other concerns. Despite Kazakhstan’s failure to implement substantial human rights

⁴⁷ Pascoe, B. Lynn, “The U.S. Role in Central Asia,” Testimony Before the Senate Foreign Relations Committee, Subcommittee on Central Asia and the South Caucasus, Washington D.C., June 27, 2002. <http://www.state.gov/p/eur/rls/rm/2002/11535.htm>

⁴⁸ U.S. Foreign Military Assistance, 2001-2006 www.fas.org

⁴⁹ Pascoe, B. Lynn

reforms, Secretary of State Condoleezza Rice waived restrictions to the Freedom Support Act in 2005, citing security concerns.⁵⁰ The danger in these types of measures is that the Caspian region's political and economic problems will continue to grow if they are subordinated to security concerns that may cease to focus in this region as the struggle against terror evolves to include other regions. The Caspian's position in the hierarchy of U.S. interests will decrease when it is no longer strategically significant, along with the level of financial and diplomatic interaction. In addition, progress in promoting democratic and economic reforms could suffer from a break in cooperation between the U.S. and its allies, which has already occurred in other areas of Central Asia. Private interests could suffer as well.

The increased technical and military assistance that the U.S. provides to the Caspian has been used to increase the security of pipeline routes as well as of the Caspian Sea itself.⁵¹ When the level of aid decreases this could also affect the security of private U.S. energy interests in the region. If the U.S. government has a parting of ways with that of the Caspian states, it could also affect the investment climate. The leverage that an energy producer has is that it has a number of potential buyers at any given time. Given that the energy industry is controlled by the state in the Caspian, political interests could easily interfere with those of economic importance. This was demonstrated by Russia throughout the 1990s when Russian energy contracts were canceled for political reasons, such as cutting LUKoil and Rosneft out of a lucrative deal with Azerbaijan in 1997. Russia also stayed out of the Baku-Tblisi-Ceyhan (BTC)

⁵⁰ Nichol, p. 10

⁵¹ Mevlut, Katik, "Militarisation of the Caspian Sea," *The Caspian: Politics, Energy and Security*. ed. Shirin Akiner. RoutledgeCurzon. (New York: 2004) p. 302

Pipeline deal for political reasons.⁵² The regimes in these states are still much closer to Russia in form and mindset than they are to Western influence. A shift in the level of U.S. interest could potentially lead to a return to regional influence like Russia or China. Any volatility in the Caspian energy industry may not affect U.S. supplies, but energy corporations supply energy worldwide, therefore they would be much more profoundly affected. Shareholder confidence could also be undermined, lowering the value of a company's stock. It has already been demonstrated that private energy interests and official policy are not always compatible in the Caspian region.

It is not necessary to look to possible scenarios to see the negative affects that a strategically centered foreign policy can have on long-term goals. None of the elections in the Caspian states have met international standards.⁵³ Rather than improve civil liberties, the various regimes have taken them away. The decreased emphasis on political accountability and the increase in military aid by the United States is only adding legitimacy to these regimes' practices. Despite the laws in Kazakhstan to allow for political opposition, the government placed unreasonable limits on membership in these groups to prevent them from being effective.⁵⁴ These states are using the struggle against terror to quash all political opposition to their policies, and any religious expression can be labeled as extremism. The U.S. has also faced criticism for its failure to view the Central Asian situation in a similar light with that of the Middle East

American policy in Central Asia would benefit from the kind of comprehensive approach undertaken toward the Middle East. Just 4 years ago, we were continuing a half-century of ignoring democracy and human rights in the Middle

⁵² Antonenko, pp. 246, 254

⁵³ OSCE, Office for Democratic Institutions and Human Rights, Election Reports, <http://www.osce.org/odihr-elections/eom.html>

⁵⁴ Pascoe, Lynn

East, believing such an approach guaranteed our security. Today, just a few short years later, our policy has already begun to have effect in terms of political openings and to pay dividends in terms of perceptions of America in the region. Our policy toward Central Asia, and, I would also say, the rest of the Muslim world from Nigeria to Indonesia, would benefit from a similarly top-down unambiguously enunciated policy.⁵⁵

While there are organized extremist movements in some of these countries, their governments' hard-line policies are being used to crush political dissent as much as religious extremism.⁵⁶ While the U.S. warns the Caspian states against taking this type of stance, it damages its credibility by continuing to support these regimes despite their failure to reform.

Summary

The United States has demonstrated a sustained effort to increase its influence in the Caspian states over the last fifteen years. Although U.S. assistance focused on political and economic programs throughout the 1990s, there has been a marked increase in military assistance since 2001. Democracy and the rule of law are now being promoted by the USAID while the U.S. simultaneously provided the means to suppress dissent. This view has been put forth by members of Congress as well as those in the academic community.⁵⁷ It appears that the State Department in many ways has become subordinate to the Defense Department in the conduct of foreign policy. Market reforms will suffer

⁵⁵ Craner, Lorne, President of the International Affairs Institute, "9/11 Recommendations Implementation Act Oversight, Part I: Oppressors Versus Reformers in the Middle East and Central Asia, "May 4, 2005 House of Representatives Subcommittee on the Middle East and Central Asia, Committee on International Relations, Washington, DC. From a prepared statement.

⁵⁶ Nichol, p. 9

⁵⁷ Ros-Lehtinen, Ileana, Chair of the House Subcommittee on the Middle East and Central Asia, "A U.S. Role in Central Asia," Op-Ed, Washington Post, 31 March, 2005 <http://www.washingtontimes.com/op-ed/20050330-102208-7699r.htm> . See Also, Martha Brill Olcott, Central Asia's Second Chance, The Carnegie Endowment for International Peace, (Boston: 2005).

as well because the major form of economic interaction at the moment involves state sectors of the economy. In terms of its effect on the energy sector, current foreign policy enables the continuation of state controlled energy because it makes it easier for the U.S. to deal with a central authority. Democracy and economic reforms will remain a priority after the current administration has ended, and after the struggle against terror has shifted either geographically or in response to the ambiguous nature of the overall threat. This does not require the U.S. to decrease its vigilance in combating terrorism, but it does require a multifaceted view of U.S. foreign policy. This requires an understanding of the region that takes into consideration its unique circumstances. The next chapter will give a more detailed picture of the regional issues that face the Caspian states as well as an individual assessment of their political and economic situation.

TABLE 2.1**U.S. GOVERNMENT AID ALLOCATION FY1995-2005 (IN MILLIONS OF U.S. DOLLARS)**

Country	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Budg.	FY 2004 Est.	FY 2005 Req.
Kazakhstan	47.2	33	35.4	40.3	50.5	44.8	71.5	81.6	100.4	41.6	40.2
Azerbaijan	25	11.0	22.0	31.5	31.5	33.5	39	46	90	67.5	70.5
Turkmenistan	5.4	4	5	5.3	11.3	6.2	12.2	16.4	11	8.6	9.3

Source: Olcott, Martha Brill, *Central Asia's Second Chance*, Carnegie Endowment for International Peace, (New York: 2005) p. 255. Original Source, Congressional Research Service. Data for Azerbaijan, U.S. Dept. of State, Bureau of European and Eurasian Affairs

TABLE 2.2

INTERNATIONAL MILITARY EDUCATION AND TRAINING

COUNTRIES	FY1999	FY2000	FY2001	FY2002	FY2003
Kazakhstan	383	567	583	800	1,000
Azerbaijan	0	0	0	400	750
Turkmenistan	261	813	258	450	450

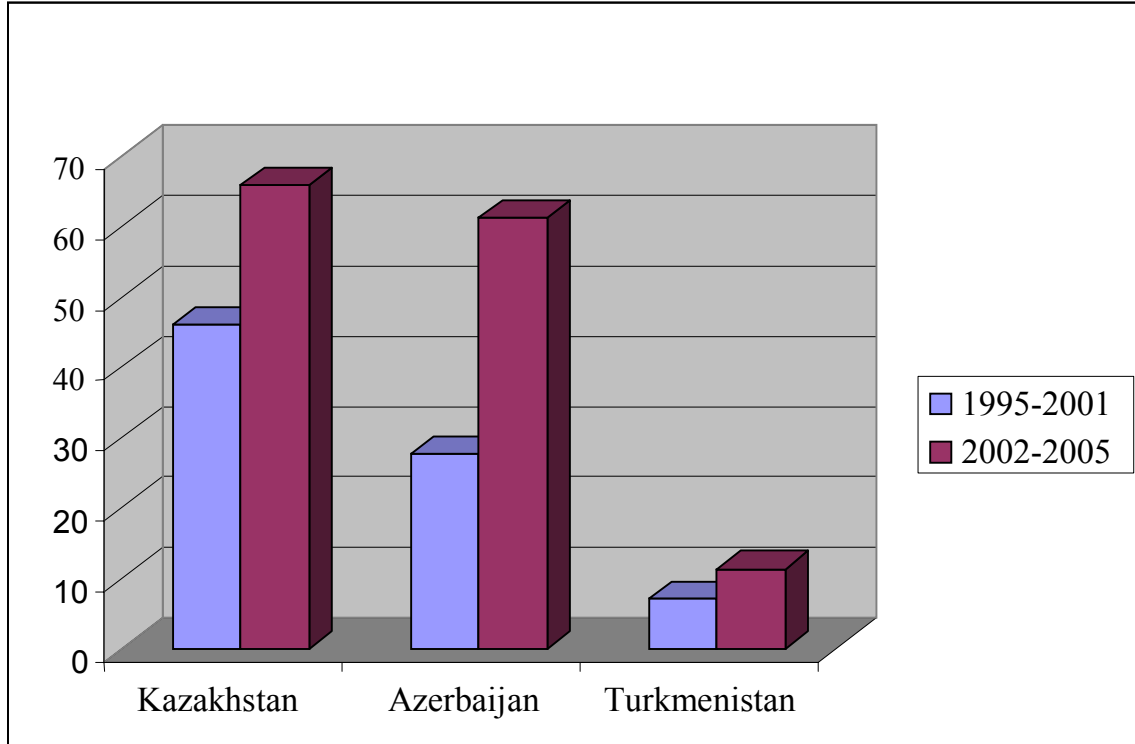
Source: Garcia, Victoria, "U.S. Foreign Military Training: A Shift in Focus," Center for Defense Information April 8, 2002,

TABLE 2.3

FOREIGN MILITARY FINANCING (FMF)

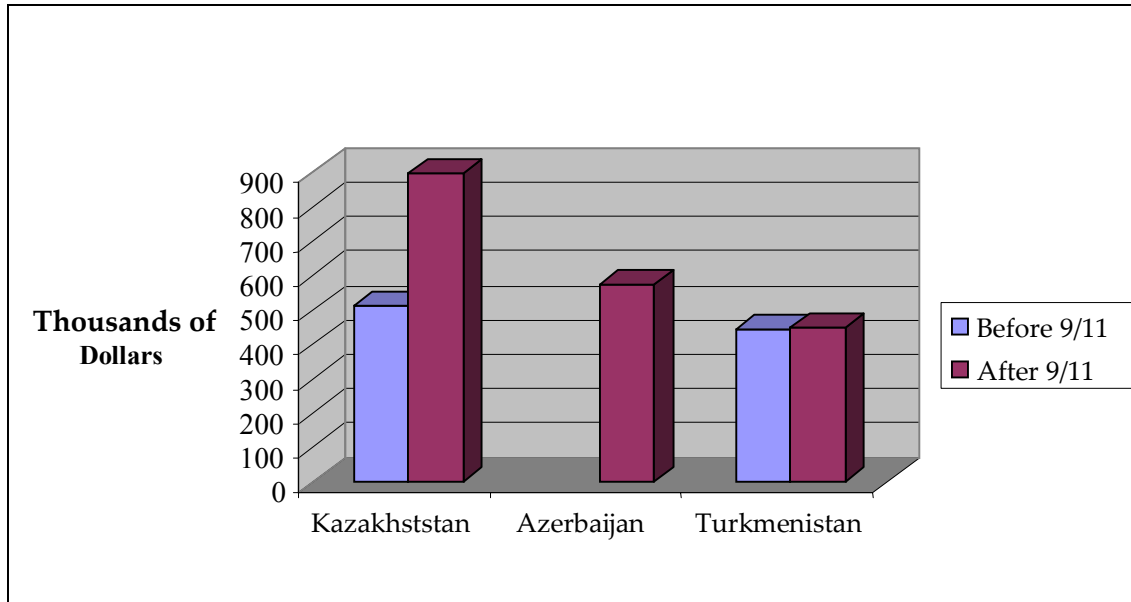
COUNTRIES	FY1999	FY2000	FY2001	FY2002
Kazakhstan	1,800	1,500	1,896	2,750
Azerbaijan				4,000
Turkmenistan	600	600	699	0

Source: Garcia, Victoria, "U.S. Foreign Military Training: A Shift in Focus," Center for Defense Information April 8, 2002,



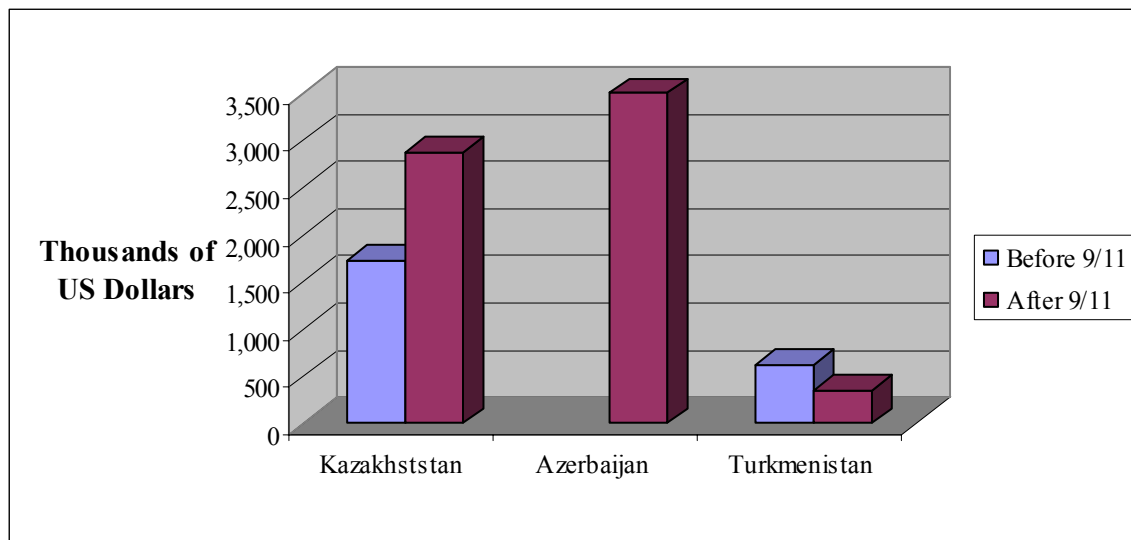
Source: Olcott, Martha Brill, *Central Asia's Second Chance*, Carnegie Endowment for International Peace, (New York: 2005) p. 255. Original Source, Congressional Research Service. Data for Azerbaijan, U.S. Dept. of State, Bureau of European and Eurasian Affairs

FIGURE 2.1 U.S. AID BEFORE AND AFTER 9/11 (AVERAGE)



Source: Garcia, Victoria, "U.S. Foreign Military Training: A Shift in Focus," Center for Defense Information April 8, 2002,

FIGURE 2.2 INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) (AVERAGE)



Source: Garcia, Victoria, "U.S. Foreign Military Training: A Shift in Focus," Center for Defense Information April 8, 2002,

FIGURE 2.3 FOREIGN MILITARY FINANCING (AVERAGE)

CHAPTER 3

POST-SOVIET CASPIAN STATES

Regional Issues

The successor states are generally as parts of defined regions based on such things as ethnicity, religion or geography. These divisions include the Baltics, the Slavic states, the Caucasus and Central Asia. The Caspian Region is unique in that it straddles some of these larger regional divides. The Caspian Sea is flanked by Russia to the North, the Caucasian state of Azerbaijan to the West, the Central Asian states of Kazakhstan and Turkmenistan to the East, and Iran to the South. All but Iran share a unified political and economic past, and for many the Caspian Sea represents their collective livelihood. This region faces a multitude of challenges, particularly the former Soviet states. These issues range from political and economic turmoil stemming from transition to issues of national identity and ethnic conflict brought on by years of existence under an imperial system. In addition, there are legal issues over the status of the Caspian Sea itself, which represents the primary source of revenue in many cases.⁵⁸ Before considering the individual states in this study it is necessary to examine the overarching regional issues that tie them together.

⁵⁸ See Shirin Akiner, ed. *The Caspian: Politics, Energy and Security*, RoutledgeCurzon. (London: 2004); *The Caspian Region: A Re-emerging Region*, Routledge. (London: 2004); Sally N. Cummings, ed. *Oil Transition and Security in Central Asia*, RoutledgeCurzon. (London: 2003), Svante Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, Curzon, (Surrey: 2001). All but Cornell's book are collections of essays on the various political, economic and legal issues confronting the Caspian states. They provide a historical context as well as discussions of current political, economic and cross-border issues such as the legal status of the Caspian sea and ethnic tensions.

The Caspian Sea is the largest inland body of water in the world, and is often characterized as a lake. It is as ecologically sensitive as it is economically vital to the surrounding region. While Russia and Iran have resources elsewhere on which to depend, Azerbaijan, Turkmenistan and Kazakhstan are largely dependant on the Caspian Sea for their livelihood which is mainly in the form of mineral resources. The sturgeon and caviar industries have also thrived here for years, providing 95% of the world's supply during the Soviet era.⁵⁹ Through a series of treaties dating back to the Treaty of Golestan of 1813 between Iran and Russia, the Caspian Sea has been divided between the two countries to a varying degree. These treaties favored Russia for the most part, and no other nations were granted navigation rights.⁶⁰ With the break-up of the Soviet Union things have become much more complicated. The newly independent state of the former Soviet Union agreed to abide by any existing Soviet treaties, but the interpretation of these treaties with regards to the Caspian Sea has been inconsistent.⁶¹ Although a committee was formed to deal with the legal status of the Caspian Sea, no progress was made toward an overall solution.⁶² While this lack of consensus has impacted the economic development of the Caspian region, the legal status affects more than just economics. The Caspian Sea has been misused over the years as a result of the oil industry, and it has become an environmental mess. While there are several rivers that flow into the sea, there are none flowing out of it. This means that it only cycles through evaporation.

⁵⁹ Akiner, Shirin, "Environmental Security in the Caspian Sea," *The Caspian: Politics, Energy and Security*, Shirin Akiner, ed RoutledgeCurzon (London: 2004) p.353

⁶⁰ Granmayeh, Ali, "Legal History of the Caspian Sea," *The Caspian: Politics, Energy and Security*, Shirin Akiner, ed. RoutledgeCurzon (London: 2004) p. 17

⁶¹ Heenan, Patrick, Monique Lamontagne, *The CIS Handbook*, Fitzroy Dearborn, (London, 1999) The Central Asian states joined the Commonwealth of Independent States at Alma Ata on December 21, 1991 where they signed an agreement that included recognition of existing treaties signed prior to independence.

⁶² Granmayeh, pp. 19-20

Flooding of the coastal regions has long been a problem.⁶³ Any attempts to mitigate the environmental degradation of this resource depend on reaching an agreement as to how it will be protected by the various Caspian states.

The turmoil that has plagued the Caspian is characteristic of Central Asia and the South Caucasus. Historically this region has been comprised of numerous ethnic groups that, while they have existed in the region for thousands of years in many cases, have never developed a strong sense of civic nationality. It was only under the Czarist and Soviet system that these groups were integrated into a single political entity, and even then they were often unwilling participants. In the aftermath of the Soviet collapse, these nations are faced with building a political and economic infrastructure, having no such experience outside of the centralized system under which they have existed for hundreds of years in most cases. Republic boundaries were drawn in a “divide and rule” strategy by the Soviet regime, and these have proved to be problematic during transition.⁶⁴ There are tensions between ethnic Russians and titular nationalities in many of these states that threaten their fragile political stability. There have been efforts by some states to legislate a sense of civic identity. The nationality issue is also exacerbated by outside intervention from Russia, who sees its citizens in the “near abroad” as its responsibility. The nationalities issue is a complex problem, but it has generally not resulted in violent conflict. The same cannot be said for ethnic tensions. While the nationalities issues are concerned with Russians that constitute a large minority in some Eurasian states, ethnic tensions generally exist among the various indigenous groups within these same states.

⁶³ Akiner, p. 345

⁶⁴ Cornell, p. 20

Although the majority of the Caspian nations have avoided open conflict following the breakup of the Soviet Union, there are some notable exceptions. Nagorno-Karabakh has been a major obstacle to both political and economic prosperity. This ethnically Armenian region of Azerbaijan attempted to separate in 1992, resulting in open conflict between Azerbaijan and the Armenia . While the conflict predates the Soviet collapse, it escalated without the constraining hand of the Soviet Union. This violent episode involved more than the conflicting sides. The humanitarian crisis that ensued involved the international community. In addition to the problems related to refugees, other more powerful nations became involved either politically or economically due to interests in the region or in maintaining peace. While few in the West could find these newly formed nations on a map, the United States and other state and non-state actors became involved in the struggle over Nagorno-Karabakh through imposing economic sanctions or providing humanitarian support on either side of the conflict. The ethnic tensions that plagued this region during transition were symptomatic of an overall political and economic decline in the region that was characteristic of the southern republics. The disputed region of Nagorno-Karabakh has received de-facto independence in recent years as no lasting agreement has been reached.⁶⁵

The political and economic survival of the states in the Caspian region has been the subject of much international attention. Following the collapse of the Communist system, Western nations stepped in to assure the NIS that they would aid their transition with the understanding that some key reforms were made. Constitutional reforms were among these provisions, which the Caspian

⁶⁵ For information on the conflict between Armenia and Azerbaijan over Nagorno-Karabakh, see Svante Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, Curzon, (Surrey: 2001)

nations promptly implemented.⁶⁶ Transition to a market economy was also a primary objective. In all cases it appears that the constitutional reforms were merely paper reforms that garnered needed international support, but were seldom implemented. Economic reform was implemented more readily, but without the rule of law to ensure the safety of both foreign and domestic ventures, there will be little sustained economic growth. As is the case with all former Soviet republics, the Caspian states must transform from a small part of an integrated political and economic system to separate entities with individual political and economic infrastructure. Their reliance on the energy sector as their main export must be decreased through the use of energy revenues to diversify their economies. The Caspian states are also in the complicated position of competing in the same markets while relying on one another to reach them. Increased cooperation could help ease some of these difficulties, but that will not come easy when self-preservation outweighs any willingness to work together. The political and economic climate in the post-Soviet Caspian states ranges from that of a Soviet style regime in Turkmenistan to tentative progress in Azerbaijan.

Turkmenistan

Turkmenistan has the resources to help itself out of a post-Soviet decline, but rather than opening up to the international community, it has retreated. Turkmenistan has become a Soviet style holdover from the Communist era. The political climate in Turkmenistan has discouraged development in the economic sector. The government has been labeled as a sultanistic regime by some analysts because political power is vested almost exclusively with President Saparmurat

⁶⁶ Tarnoff, Curt, Larry Nowels, "Foreign Aid: An Introductory Overview of U.S. Plans and Policy," *CRS Report to Congress*, Congressional Research Service, (April, 2004)

Niyazov.⁶⁷ Niyazov is one of several former Communist leaders who have retained power through transition in the region. Turkmenistan's constitution guarantees such democratic provisions as a division of power between three branches of government, freedom of assembly, the right to form political parties, and freedom of the press.⁶⁸ Nevertheless, Niyazov denounced Western style democracy as incompatible with the popular mentality of the Central Asian people. In 1999, he extended his rule for life. He rules by decree and controls the energy industry as well.⁶⁹ He frequently mentions the prospect of elections, but they seem to apply only to those who may come after him, as there has been no specific date mentioned.⁷⁰ In addition to political centralization, Turkmenistan's economy remains centralized and lacks the safeguards that other Caspian nations have put in place in order to attract foreign investment. This lack of transparency or a solid legal framework for investors has prevented the large-scale development of Turkmenistan's economy.

Turkmenistan has the world's fourth largest supply of natural gas, as well as substantial oil reserves.⁷¹ As for other resources, there is little arable land in Turkmenistan, so irrigation is necessary for the agricultural industry, which has declined in recent years.⁷² Turkmenistan is also the most geographically remote

⁶⁷ Bohr, Annette, "Independent Turkmenistan: From Post-Communism to Sultanism." *Oil, Transition and Security in Central Asia*. Sally Cummings, ed. RoutledgeCurzon. (London: 2003) pp.9-24. See also

⁶⁸ Geiss, Paul Georg, "The Problem of Political Order in Contemporary Kazakhstan and Turkmenistan," *The Caspian Region: A Re-Emerging Region*, Ed. Moshe Gammer, Routledge, (2004: London) pp. 206-207

⁶⁹ Bohr, p. 10. See also Germana Canzi, "Turkmenistan's Caspian Resources," *The Caspian: Politics, Energy and Security*, Shirin Akiner, ed., RoutledgeCurzon (London: 2004) pp. 185-187, for a discussion of the negative impact that Niyazov's control has had on the energy industry.

⁷⁰ "Niyazov Calls for Presidential Election," Wednesday, 02 February, 2005, RFE/RL/ITAR-TASS/AP

⁷¹ IMF, "Turkmenistan, Recent Economic Developments," IMF Staff Country Report 99/140, 1999, p. 13

⁷² CIA World Factbook

of the Caspian states. The only route to the world energy market after independence remains through Russia. Unfair pricing, high transportation costs, and difficulties receiving payment have limited the profitability of Turkmen gas. Exports to Ukraine have been halted several times over the past decade due to its failure to pay.⁷³ There have been negotiations with Western energy corporations to build alternative routes, including a Caspian pipeline, a route through Iran and Turkey and a third option through Afghanistan and Pakistan.⁷⁴ Regional instabilities in relation to Afghanistan, Russian and Iranian opposition to Caspian pipelines, and U.S. sanctions against Iran have hindered progress on most pipeline projects. In addition, Azerbaijan's recent discovery of substantial quantities of natural gas has cooled its interest in connecting Turkmenistan to its own gas pipelines.⁷⁵ Turkmenistan is surrounded by competitors and crippled by the nature of Niyazov's government from receiving economic development assistance to the extent that is needed to improve Turkmenistan's prospects.

Due to its heavy reliance on the energy industry and lack of political reforms necessary to attract foreign capital, Turkmenistan will continue to lag behind the other Caspian states both politically and economically. Although Turkmenistan reports strong economic growth, lack of outside access to its economic data casts doubt on these claims.⁷⁶ Foreign investment is relatively low in Turkmenistan, and it still retains many of the economic policies that characterized the Soviet Union, such as government subsidies for many basic

⁷³ IMF, 99/140, p. 7

⁷⁴ Olcott, Martha Brill, "International Gas Trade In Central Asia: Turkmenistan, Iran, Russia and Afghanistan," Geopolitics of Gas Working Paper Series, #28, James A. Baker III Institute for Public Policy Energy Forum, May 2004, http://www.rice.edu/energy/publications/docs/GAS_InternationalGasTradeinCentralAsia.pdf

⁷⁵ Canzi, p. 188

⁷⁶ Saidazimova, Gulnoza, "Central Asia: Authorities Cite Uzbek, Turkmen Economic Growth, But Living Standards Still Low," Friday, 14 January, 2005, RFL/RE

services and an administratively controlled financial sector.⁷⁷ As there has effectively been little transition in Turkmenistan since the Soviet collapse, there is little prospect for positive change in the near future.

In terms of U.S. foreign policy, Turkmenistan has had the least interaction with the United States as a result of its political and economic orientation. Attempts at investment in its energy sector have failed, as detailed above. Political involvement is relegated largely to NGOs. Nevertheless, since 2001 Turkmenistan has increased its cooperation with the United States strategically despite its “permanent neutrality”. Funding for IMET and FMF programs is still small compared to other Caspian countries, but it has still increased along with overall funding.⁷⁸ Although Turkmenistan has placed itself firmly within Russia’s influence, there are too many volatile issues at play in the Caspian region for the U.S. to ignore Turkmenistan’s political and economic development. U.S. foreign policy in other Caspian states has much more influence.

Kazakhstan

Kazakhstan’s post-Soviet experience has been a balancing act in several respects. While it has been open economically its political situation has been increasingly centralized. It has remained closely tied with Russia while at the same time increasing its international ties. The United States has been active in Kazakhstan both in terms of its economic and political development. Private interests have dominated involvement since 1991, although strategic interests are prevailing over the past few years. In addition, a major U.S. concern in Kazakhstan has been the safe handling of the Soviet nuclear materials that were

⁷⁷ European Bank for Reconstruction and Development. EBRD Activities in Turkmenistan, 2005

⁷⁸ See Figures 2.2 and 2.3

housed within its borders. U.S. foreign policy in Kazakhstan has clashed with Russian interests in Kazakhstan due to competition for control of its energy market, but there have also been signs that Kazakhstan can offer opportunities for cooperation in the private sector as well. Most recently Kazakhstan has become a strategic ally of the United States, receiving substantial increases in U.S. assistance. U.S. presence right across from the Russian border could prove to be a problem if it proves to be a sustained presence.

In addition to political and economic transition, Kazakhstan is balancing the traditional clan based structure of its society with the desire to create a civic identity that includes a large Russian minority. While Kazakhstan is only a fraction of the former Soviet Union, it is a large nation in its own right. With a land mass roughly four times the size of Texas, Kazakhstan is the ninth largest nation in the world. It borders two international powers and holds a majority of Caspian oil and gas reserves. It consists largely of desert and semi-desert, as it suffers from the effects of Soviet era agricultural projects.⁷⁹ During the Soviet era, Kazakhstan was also the site of several nuclear testing facilities which have left their mark on its land and its people. The post independence political development of Kazakhstan began much the same as most other post-Soviet republics.

Nursultan Nazarbaev, the Communist leader of the Kazakh SSR, became President of Kazakhstan in 1992. Unlike many others, however, Nazarbaev retained the Kazakh Communist Party. Constitutional reforms followed, including a two term limit for the Presidency, separation of powers, and a legislature that had budgetary powers. Despite these democratic reforms, including the existence of opposition parties and a relatively free press, most real

⁷⁹ CIA World Factbook

power remained in the executive. As with other newly independent republics, problems arose over power-sharing between the executive and legislative arms of the Kazakh government. In 1993, Parliament was invited to dissolve itself, granting Nazarbaev extended Presidential powers until new elections could be called, which was a violation of the Constitution. When the new elections were held in 1995, they were invalidated by the government on the grounds of a single irregularity complaint. Nazarbaev retained his extended Presidential powers and extended his term by referendum until 2000. In the years that have followed, Nazarbaev has further consolidated the state structure. He has restricted the freedom of the press and extended his Presidential term from five to seven years. He has defended his actions by claiming that Kazakhstan must have a centrally strong government to survive the political and economic turmoil that has plagued his country since independence.⁸⁰

A major source of political and economic tension in Kazakhstan relates to its historically close ties with Russia. A large ethnic Russian population in the North of the country has complicated relations between the two nations. The capital was moved from Almaty in the South to Astana in the North in 1998. This move achieved several goals, but key among them was to position the seat of the Kazakh government in a largely Russian region as a show of national unity.⁸¹ There has been a push to increase a sense of civic Kazakh identity that includes Russians in order to lessen tensions. Although Kazakh is the national language, Russia is the state language. However, other measures have contradicted these efforts. The Kazakh language was made the official language in 1995, which must be used in all official proceedings and taught in schools despite the fact that a

⁸⁰ Cummings, Sally. "Independent Kazakhstan: Managing Heterogeneity." *Oil, Transition and Security in Central Asia*. Sally Cummings, ed. RoutledgeCurzon. (London: 2003) pp. 25-35

⁸¹ Cummings, p. 27

majority of Kazaks are more familiar with Russian.⁸² There has also been a return to traditional tribal ties within regions, which threatens the unity of the national government by promoting a return to clan based society. Economically, the agricultural sector has suffered while the energy sector has thrived, increasing the differences among respective regions.⁸³ The governmental issues relating to Nazarbaev's leadership as well as the volatility of Kazakh society are impediments to national prosperity. While Kazakhstan has seen little real political reform, its economic reform program has been sweeping in comparison.

Kazakhstan began its economic reforms almost immediately after independence. It implemented a voucher privatization program for its small and medium sized firms, as well as its agricultural sector. Foreign companies including those from the West were allowed to purchase Kazakh enterprises. As a major oil producing region of the Soviet Union, Kazakhstan was involved in negotiations with foreign oil companies as part of *perestroika*. After the collapse of the Soviet Union, Kazakhstan continued these negotiations as an independent nation. The most significant of these deals with Chevron garnered an 80% share for the Kazakh government, which was substantially greater than would have previously been possible.⁸⁴ When problems arose between Kazakh officials and foreign companies over the terms of these deals, Nazarbaev stepped in and replaced these officials with new ones who would sign contracts with Western companies.⁸⁵ At the same time he pressured these foreign investors to use domestic workers and to utilize other sectors of the Kazakh economy like food

⁸² Kolsto, Paul, "Nation Building and Language in Kazakhstan" *Oil Transition and Security in Central Asia*, Ed. Sally Cummings, RoutledgeCurzon, (London: 2004) p.123-124

⁸³ Cummings, p. 27

⁸⁴ "Kazakh President Concludes Deal With Chevron Corporation," May 21, 1992, *ITARTASS*, BBC Summary of World Broadcasts, LexisNexus Academic

⁸⁵ Cummings, p. 32

and construction rather than supplying them from abroad.⁸⁶ Kazakhstan was at the forefront of the former Soviet states in terms of developing a modern banking system and tax system, Western stock exchange and introduction of a convertible currency.⁸⁷ While there are many who criticize Nazarbaev's lack of political reforms, he has strengthened Kazakhstan's economic position in relation to many other former Soviet republics.

Despite early declines, Kazakhstan has experienced substantial growth due to its willingness to implement economic reform. Between 1991 and 1998, GDP alternated between steep periods of growth and decline, but has grown steadily since 1999.⁸⁸ Between 1993 and 2001 Kazakhstan has attracted almost \$17 billion in FDI.⁸⁹ There has also been increased revenue and development in the social sector, such as training for the unemployed, pension reorganization and help for the needy.⁹⁰ Kazakhstan has experienced superficial political liberalization, but its economic performance has provided it with some praise from the international community. For a country that was so closely tied to Russia both ethnically and economically, it has done comparatively well. While there is plenty of room for improvement, economic prosperity and increased growth in the non-oil sector could help bring about political reform in the long run.

Since September 11, 2001, Kazakhstan has provided limited landing rights to the United States at three of its airfields, and it participates in the IMET and

⁸⁶ Cummings, p. 32

⁸⁷ Olcott, Martha Brill, *Central Asia's Second Chance*, Carnegie Endowment for International Peace, (Washington D.C.: 2005) p. 31

⁸⁸ See Table 3.1

⁸⁹ UNDP, "The Republic of Kazakhstan: 10-Year Progress Report on Agenda 21 Implementation in Kazakhstan," 2002

⁹⁰ IMF, Republic of Kazakhstan: 2005 Article IV Consultation-Staff Report; and Public Information Notice of the Executive Board Discussion, Country Report 05/244

FMF programs that are funded by the United States.⁹¹ The drug trafficking problem in Central Asia that is a problem in and of itself as well as a contributing factor to the struggle against terror has led to additional assistance from the United States, especially given Kazakhstan's long and porous border. Unfortunately, as is the case throughout the region, U.S. military assistance has made it difficult for other types of aid.⁹² There is still little in the way of political reform, but as has been discussed earlier, an increased U.S. presence in the region has exacerbated the issue. Kazakhstan is in the best position economically, but it remains to be seen if that will translate to political reform.

Azerbaijan

Azerbaijan faced the most volatile political situation of the Caspian Sea region following the Soviet collapse. The military conflict with Armenia over Nagorno Karabakh and Russian intervention in that conflict exacerbated an already difficult situation. The United States involved itself politically by imposing sanctions, but its private sector became a major presence. The political leadership in Azerbaijan changed several times in the first few years of independence, making foreign relations more difficult as these leaders alternated between Western engagement and rapprochement with Russia.⁹³ Ayaz Mutalibov, the first post-Soviet leader, cowed to Russian pressure, bringing Azerbaijan into the CIS in 1991 largely as a result of Russian coercion. Continued military encroachment by Russian troops led to the resignation of Mutalibov in 1992. Abulfaz Elchibey, the second leader in as many years, was democratically elected, but he was also unable to sustain a defense against Russian intervention

⁹¹ See Tables 2.2 and 2.3

⁹² Olcott, 240

⁹³ Aydin, p. 17

in his government. He stepped down in 1993 “in order to prevent a civil war” that was instigated by Russian support among the various ethnic groups in Azerbaijan. His successor, Haidar Aliev, made concessions to Russia in order to ease the tension. When this did not appease Russia, Aliev turned sharply toward the West. After Haidar Aliev’s health had been deteriorating for some time, he appointed his son, Ilham Aliev, as his party candidate in what few considered an open and fair election.⁹⁴ Winning by a large majority, Ilham Aliev became the President of Azerbaijan. His victory perpetuated the trend of centralized government in the post-Soviet Caspian states. However, economic reforms in Azerbaijan have produced a more positive result.

Azerbaijan has been the most attractive of all Caspian states in terms of foreign investment, which has boosted its economy substantially, despite the first few years of economic decline. Azerbaijan’s GDP fell by approximately 50% from 1991 to 1994, but since 1996 it has increased steadily since that time.⁹⁵ Despite issues of continued corruption that are widespread in the former Soviet states, Azerbaijan has implemented favorable legal and fiscal reforms aimed at ensuring the viability of foreign investments in the energy sector. In 1994 Azerbaijan established a National Oil Fund to mitigate fears that dependence on oil would have a negative long term impact on the economy. The purpose of this fund is to divert a substantial amount of oil revenues to developing the non-energy sector of the economy. Using Norway as a model, the Azerbaijani government hopes to avoid the fate of a large majority of underdeveloped oil producing countries.⁹⁶ While there is no shortage of programs and promises in place to boost

⁹⁴ See the OSCE Report on the 2003 Azerbaijan Presidential Election published by The Office for Democratic Institutions and Human Rights. 2004
http://www.osce.org/documents/odihr/2003/11/1151_en.pdf

⁹⁵ See Table 3.1

⁹⁶ Olsen, Willy, “The Role of Oil in the Development of Azerbaijan.” *The Caspian: Politics, Energy and Security*. Shirin Akiner, ed. RoutledgeCurzon. (London: 2004, p. 139

Azerbaijan's economic outlook, it still faces many challenges outside of the energy sector.

Outside of the energy sector, Azerbaijan has historically relied on agriculture. In 1994 agriculture represented approximately 40% of GDP.⁹⁷ Since that time a combination of political instability, ethnic conflict and environmental degradation has reduced agricultural production to less than 15% of GDP by 2002.⁹⁸ In addition, according to estimates by the UNDP and the World Bank, over half of Azerbaijan's population lives in poverty.⁹⁹ As a result, poverty reduction has become a major component of the various economic recovery plans outlined by International Financial Institutions like the IMF and the World Bank. The Poverty Reduction and Growth Facility (PRGF) is one example of a lending mechanism that is tied to the reduction of poverty in Azerbaijan. In the Poverty Reduction Strategy Paper published by the Fund in 2003, there was evidence of growth in the non-oil sector, a rise in real wages, increased domestic as well as foreign investment, and an increase in the percentage of government expenditures for social programs. Overall there has also been an increase in the service sector of the economy, accompanied by less reliance on the industrial sector that characterized the planned economy.¹⁰⁰ While there is still much to be done in terms of improving the overall economic situation in Azerbaijan, there are clearly positive signs.

Due to the strategic shift in U.S. foreign policy following 9/11, Azerbaijan gained substantial U.S. aid that was denied previously due to economic sanctions. As did other states, Azerbaijan also gained from military assistance

⁹⁷ Rivlin, Paul, "Oil and Gas in the Caspian Region," *The Caspian Region: A Re-emerging Region*. Moshe Gammer. Ed. Routledge. (London: 2004) p. 36

⁹⁸ CIA World Factbook

⁹⁹ Olsen, pp. 140-141

¹⁰⁰ Gregory, Paul R., Robert C. Stuart, *Russian and Soviet Economic Performance and Structure*, Addison Wesley, (Boston:2000)

through IMET and FMF.¹⁰¹ The BTC pipeline project in Azerbaijan represented the most prominent evidence of increased U.S. influence in the Caspian, which was as potentially valuable politically as it was economically. Although Azerbaijan has benefited in some sense from the strategic presence in the Caspian region, the presence of a primary energy pipeline within its borders puts it at risk as well.

Summary

The former Soviet republics of the Caspian region have faced many challenges since their independence. Although the process of establishing separate political and economic institutions has been framed within the context of transition, in reality these nations have had to start from scratch. The Central Asian republics as a whole were far more dependent on Moscow for their livelihood and were therefore not as prepared to separate as the more prosperous republics that possessed a sense of civic identity apart from that of the Soviet Union. Many of the political reforms that were promoted heavily by the United States to bring democracy to the region have yet to be fulfilled. The economic potential of the region requires a political regime that is far more mature than what exists.

As the United States has become a major political and economic presence in the region, it must continue to fill that role or risk alienating the Caspian states. Many are beginning to question whether it is realistic to expect democracy and free-market capitalism to flourish in a region that has no experience with these institutions.¹⁰² Some studies suggest that the effect of democracy on economic liberalization depends on whether it is considered in the short or long

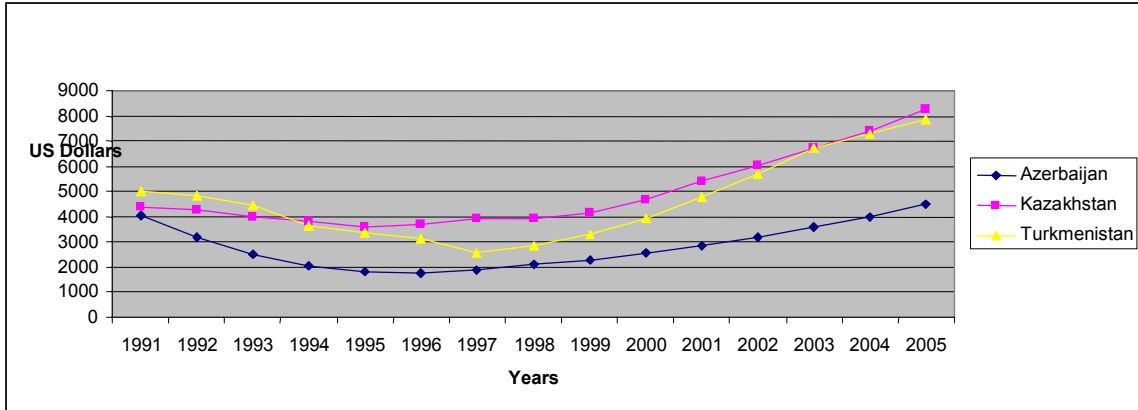
¹⁰¹ See Tables 2.2 and 2.3

¹⁰² Blank, Stephen, "Democratic Prospects in Central Asia," *World Affairs*, (Winter 2004), v166 n3, pp. 133-147

term. If democratization has this sort of mixed effect, it could simply be too soon to see definitive results.¹⁰³ The Caspian region's dependence on oil and natural gas threatens to jeopardize any economic progress if the proper measures are not put into place to use these revenues wisely. This points to the importance of continued involvement by the international community in the political and economic development of the Caspian states. For better or worse, market forces are at work in the region and the necessary infrastructure must be put in place to ensure that the majority of the population is not left in poverty.

This chapter has demonstrated the complexity of the issues facing the Caspian region as well as the individual states. In terms of U.S foreign policy, the political, economic and ethnic problems that the Caspian states are facing could also threaten its public as well as its private interests. As will be discussed in Chapter 5, the United States has invested in democratic and economic reform programs that have had limited success. While this has been supported largely by limited involvement, the recent increase in the American presence has brought more attention to the lack of reforms. Whether or not the United States actively pressures for increased reforms, or sacrifices democratic institutions for strategic interests will determine the future U.S. position in the region.

¹⁰³ Fidrmuc, Jan, "Economic Reform, Democracy and Growth During Post-Communist Transition," *European Journal of Political Economy*," (Summer 2003) v19 n3 pp.583-604.



Source: International Monetary Fund, World Economic Outlook, April 2005

Figure 3.1 GDP Based on PPP Per Capita

CHAPTER 4

CONVERGING INTERESTS

U.S. foreign policy in the Caspian states has been pursued alongside traditional Western allies like the European Union. Political and economic reforms have been implemented through several multilateral initiatives. In addition to its European allies, the United States has gained the cooperation of several others in the region including Turkey, Georgia and Ukraine, largely due to their position as transport corridors for Caspian energy. While the former Soviet states are motivated by a need to counterbalance Russian influence in their political and economic affairs, Turkey seeks closer alliance with Western states as a way to increase its regional influence. All stand to gain from increased political and economic involvement in the Caspian region.

This chapter outlines the major interests of those states which are generally allied with the United States, either for reasons of shared political interests or economic gain. By examining the interests of these states it is clear that the majority of U.S. allies support sustained political and economic assistance. Allies like the EU are generally opposed to U.S. strategic foreign policy in recent years due to its unilateralist nature. States like Georgia and Ukraine are eager to ally themselves with the United States strategically as a counterweight to Russian influence. This has potentially volatile consequences in and of itself as it complicates relations between Russia and the United States. Overall, this chapter demonstrates the impact that U.S. foreign policy has on the international community, and the importance of a multilateral framework for achieving foreign policy goals.

The European Union

The European Union (EU) has become the collective voice of an expanding majority of Western and Eastern European nations. Each member nation retains its sovereignty, but the EU takes precedence in most economic issues and a growing number of security concerns. The EU has engaged the former Soviet states within this framework. The Caspian region is the beneficiary of several programs targeted at individualized assistance as well as in the context of larger post-Soviet foreign policy. While security concerns are dealt with through NATO and the UN, the EU has concerned itself with the economic and political recovery of the Caspian region. The EU not only offers assistance and cooperation through its own institutions, it also brings together the NIS and International Financial Institutions (IFIs) like the European Bank for Reconstruction and Development (EBRD). The EU sees the Caspian region as one link in a larger East-West trade corridor and seeks political liberalization as well. Understanding European foreign policy in the Caspian region can best be accomplished by examining the various programs, some of which are aimed at overall reform and others of which are industry specific.

According to the European Commission, the EU's demand for oil imports will increase by as much as 90% and gas by as much as 70% within the next few decades.¹⁰⁴ Given the proximity of the Caspian, this makes the EU's involvement as much a strategic matter as one of economics. Azerbaijan represents Europe's main trading partner in the Caucasus, and Kazakhstan's trade with the EU

¹⁰⁴ European Commission, Green Paper, *"Towards a European Strategy for the Security of Energy Supply,"* Brussels, 29 November 2000.

surpasses all other Central Asian and Caucasian states combined.¹⁰⁵ Trade with Turkmenistan consists mainly of gas, which has been inconsistent due to its internal political and economic difficulties.¹⁰⁶ The majority of EU trade with the Caspian states is in energy and some agriculture. The Caspian region is important to the EU politically as well. It has acted as an intermediary between the Caspian states themselves as well as with the wider international community. The major programs through which the EU supports its foreign policy include the EU Tacis, Interstate Oil and Gas Transport to Europe (INOGATE), and Transport Corridor Europe, Caucasus Asia, (TRACECA). These organizations facilitate political and economic development in the Caspian and offer the best examples of Europe's role in the region.

The EU Tacis program was initiated in 1991 as a technical assistance program for the twelve states of the former Soviet Union, including the Caspian states. The Tacis was concerned with drafting assessments of each individual country's needs as well as regional issues and those related to nuclear security. The Tacis program has dealt with issues ranging from humanitarian assistance to infrastructure reform. In addition to providing assistance during the initial phases of transition, the organization has drafted Partnership and Cooperation Agreements (PCAs) tailored to the needs of each nation. Agreements entered into force with Kazakhstan and Azerbaijan in 1999. Turkmenistan signed an agreement in 1998, but it has yet to be implemented. These PCAs promote open trade relations with the EU, the establishment of political, economic, and cultural

¹⁰⁵ EU Country Profile: Kazakhstan,
http://europa.eu.int/comm/external_relations/kazakhstan/intro/index.htm

¹⁰⁶ European Commission, Country Profile, Turkmenistan,
http://europa.eu.int/comm/external_relations/turkmenistan/intro/index.htm

cooperation, and the observance of human rights and democracy.¹⁰⁷ While the EU Tacis provides country specific assistance, it also works closely with other EU and international organizations to improve the economic and political prospects for the Caspian. From 1991 to 1999 the EU committed €4.2 million through the Tacis framework that ranged from technical assistance in the early stages to its current role as an “instrument of cooperation” among various institutions.¹⁰⁸ This is an example of a European institution that has a very broad mandate, but there are several others whose purpose is targeted specifically to the issues concerning the Caspian region.

The European Union supports the development of oil and gas transport routes between the NIS and Western Europe through organizations such as Interstate Oil and Gas Transport to Europe (INOGATE).¹⁰⁹ INOGATE was established by the European Commission to promote the security and viability of pipeline routes in the NIS by providing technical assistance to modernize their energy infrastructure. Funded through the EU Tacis program, INOGATE provides technical and managerial training so that the former Soviet states can effectively manage the pipeline systems that they inherited from the Soviet Union. By applying the latest technological advancements and expertise, the INOGATE member nations can attract foreign investments and have a more secure supply route. The newly independent Caspian states signed the original agreement in Kiev in 1999 and continue to participate in the INOGATE project. The EU has important investments in the Caspian and has a vested interest in the viability of these routes for the sake of private investment as well as its own energy needs. The INOGATE program also deals with the legality, security and

¹⁰⁷ EU Tacis “The EU and the NIS,”

http://www.eu.int/comm/external_relations/ceeca/publication/tacis_1.pdf

¹⁰⁸ EU Tacis

¹⁰⁹ INOGATE, Interstate Oil and Gas Transport to Europe, <http://www.inogate.org/>

profitability of the member states' energy industries in the hopes of establishing an integrated transportation system. While INOGATE is limited by the willingness of the Caspian states to cooperate within this organization, this framework demonstrates that the European Union plays a central role in negotiating the complicated relationships between these states. It is necessary for these states to see themselves as more than just competitors if there is to be a transnational pipeline route from East to West as an alternative to existing routes. The EU sees this East-West orientation as part of a larger trade corridor that it is working to create along the same route.

The Transport Corridor Europe Caucasus Asia (TRACECA) is a major effort by the EU to resurrect the ancient "Silk Road" trade route from Western Europe to the Far East. TRACECA operates as an intergovernmental body that provides for preferential trade practices as well as secure and legally binding agreements among its members. There is a permanent secretariat as well as an intergovernmental commission that sets rules and procedures.¹¹⁰ However, several signatories required exemptions from various annexes of the agreement, such as those pertaining to rail transport. Azerbaijan refused to cooperate in any part of the agreement with regards to Armenia. With the Caspian region's position at the center of this route, TRACECA is essential to EU-Caspian relations. While the EU is careful to couch this program in terms of establishing "complementary routes" to those that already exist both north and south, its path explicitly excludes Russia and the Middle East. TRACECA provides links to IFIs like the World Bank and the Asian Development Bank for the financing of projects aimed at improving transportation routes of all kinds, including the INOGATE projects mentioned above. Unlike most Western involvement in the

¹¹⁰ TRACECA, "Basic Agreement on International Transport for the Development of the Europe-the Caucasus-Asia Corridor"

Caspian region, TRACECA emphasizes the entire transport infrastructure, including bridges roads and railways as well as energy pipelines.¹¹¹ Since 2000, TRACECA programs have totaled over €41 million. Although Russia remains the EU's largest trading partner among the former Soviet states, it is clear that the Caspian region is also important to the European economy.

Experts agree that the Caspian region cannot prosper without focusing on the non-energy sector of the economy and reforming political institutions. The EU has the most comprehensive approach to achieving this goal through assistance programs. These programs emphasize the important role that economic stability plays in the political viability of this region. Unfortunately, the EU is also known for its massive and often ineffective bureaucracy. There is also a growing reluctance on the part of EU member nations to open up their markets to increased trade with the developing world. The stronger nations in the EU like France and the United Kingdom have the most economic interest in the Caspian, but are often at odds due to these interests. The private energy industry in the UK has been one of the major investors in the Caspian, which puts pressure on the government to protect its interests. These issues must be dealt with if the EU is to survive as a supranational leader in the international community. The success of political and economic reform in the Caspian region will depend heavily on the continued willingness of more powerful nations like those in the EU to support the reforms that they have implemented. With Europe's focus on economic ties and diplomacy to achieve its foreign policy goals, it is in the best position to affect change in the Caspian region. Although the EU represents the most influential U.S. ally in the Caspian region, it has also gained several non-traditional allies.

¹¹¹ TRACECA, <http://www.traceca-org.org/default.php>

Turkey

Turkey has become an ally to the U.S. both politically and economically.¹¹² Many of its citizens share the same ethnic and religious background with the former Soviet republics, although these are largely distant ties. Over the last century the Caspian region became part of the Soviet Union and Turkey gravitated toward Europe. A secular government has increased its attractiveness as a Western ally, although it is still predominantly a Muslim nation. Turkey has been striving to become a part of the European Union for decades. The construction of the major Caspian oil and gas pipeline that connects Baku to Ceyhan provides Turkey with the opportunity to serve as a bridge to the Caspian region and boost its own economic prospects. It is as an ally of the United States that Turkey has become most influential in the Caspian.

Throughout the 1990s Turkey rivaled Russia as a major pipeline route for Azerbaijan. Although a route through Turkey was not as economically feasible as routes through Russia and even Iran, it has nonetheless become the preferred route. Iran is essentially off limits due to U.S. sanctions, routes through Afghanistan are impossible due to the current conflict.¹¹³ Northern routes through Russia are opposed by the United States due in part to old rivalries as well as Russia's tendency to use its position to intimidate the Caspian nations it once controlled. In addition to the added revenue that pipeline routes can provide to the Turkish economy, easing congestion through the Bosphorus Straits is a matter of international economic and environmental concern. According to one estimate by the Turkish Maritime Pilots Association, between 4250 and 5500 tankers per year travel through this outlet from the Black Sea, increasing the risk

¹¹² Aydin, pp. 14-15

¹¹³ Roberts, p. 82

of a major oil spill that would be detrimental to the region.¹¹⁴ The construction of the BTC Pipeline from Baku to Ceyhan is the most significant evidence of Turkey's position in the Caspian region. Despite all of the negative forecasts and delays in construction, the oil pipeline became operational in May of 2005 and a deal has recently been completed to ship Kazaks oil through the same lines. Azerbaijan's recent discovery of a large gas deposit resulted in the construction of a gas pipeline that runs parallel to the BTC line to Ezerum, also in Turkey. As this route was heavily lobbied and subsidized by the United States, it is a prime example of the political as well as the economic benefits for Turkey in the Caspian region.¹¹⁵ Turkey's economic successes have also been shared by others in the region.

Georgia

Along with Turkey, Georgia is another key transport country for Caspian energy. Georgia is a former Soviet republic that has expressed an active desire to separate itself from Russia's sphere of influence.¹¹⁶ Its Caspian foreign policy goals are a result of this ongoing struggle with Russia. In addition to the economic benefits of providing a Western transport route, Caspian pipelines provide Georgia with additional leverage in the international community, increasing its ability to resist Russia's continued meddling in its domestic issues. Georgia's internal ethnic troubles threaten its future as the major route for Caspian oil, but it is also the recipient of a large amount of political and financial support from the United States to ensure these routes remain open. In addition, Georgia has gravitated toward Europe in terms of NATO involvement and has

¹¹⁴ Adams, Neal. *Terrorism and Oil*. PennWell. (Tulsa: 2003)

¹¹⁵ Aydin, p. 21

¹¹⁶ Nassibli, Nassib, " Azerbaijan: Policy Priorities Toward the Caspian Sea," *The Caspian: Politics, Energy and Security*, Ed. Shirin Akiner, (New York: 2004) p. 168

become a primary Western ally in the region.¹¹⁷ Georgia's geographic position between the Caspian and Black Sea has proven to be its most valuable foreign policy tool.

Given Georgia's volatile domestic situation, the Caspian energy industry is responsible for a great deal of its income. Unrest in several autonomous republics within Georgia has further disrupted its economy.¹¹⁸ The revenues from the BTC pipeline are between \$200-250 million annually.¹¹⁹ Georgia is primarily an agricultural economy, which has suffered from decline and civic unrest. With no domestic oil supply and little gas, the Caspian also allows Georgia to avoid the fate of other post-Soviet republics which still rely on Russian supplies. Georgia's closest Caspian relations are with its neighbor, Azerbaijan. In addition to providing a major Western pipeline route, Georgia is also a transit country for a Baku-Novorossiisk pipeline to Russia. Georgia has used its geographic position to establish an independent foreign policy and take advantage of Western demand for energy markets.¹²⁰ While Georgia's internal troubles have not been given adequate attention in the international community, Georgia's importance to Western investments may increase its profile in the future.

Ukraine

Ukraine, like Georgia, is an important link between the Caspian states and the West. It links Eurasia with Western Europe via oil and gas pipelines, and to the United States through its foreign policy. Next to Russia, Ukraine is the largest

¹¹⁷ Nassibli, p. 169

¹¹⁸ For a detailed account of the situation in Georgian autonomous republics such as Abkhazia, see Svante Cornell's *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, Curzon, (Surrey: 2001) pp. 142-195

¹¹⁹ Nassibli, Nassib, p. 169

¹²⁰ Cornell, p. 389

of the Newly Independent States and one that it still economically and ethnically tied to Russia more than most others. Ukraine was in a better position than many other republics after 1991. Although it was merely an extra vote for the Soviet Union, Ukraine has been a member of the United Nations since its inception. Like many other former republics, Ukraine has turned to the West politically and economically to strengthen its independence and remove itself from the Russian sphere of influence. While there has been a great deal of Western interest in Ukraine, it has been unsuccessful economically, and remains politically fragile.

Ukraine is an agriculturally based economy that is forced to use its surplus to pay its debts to Russia.¹²¹ This in turn prevents Ukraine from selling grain on the world market. This cycle benefits Russia because Ukraine is a major transport route to Europe for Russian oil and gas.¹²² Kazakhstan and Turkmenistan have negotiated with Ukraine to transport their resources through Russian lines. Up to 80% of Turkmen oil traveled through Ukraine, but when Ukraine failed to pay its debts, Turkmenistan suspended the deal.¹²³ With its developed infrastructure and relatively diverse economy, Ukraine could potentially avoid the dangers that come with energy dependence and become a truly independent state.¹²⁴ Ukraine has made some economic progress in recent years; it still falls far short of initial expectations. Despite Ukraine's elevated political position, it was still part of the same highly integrated system that affected the economic viability of the southern tier republics.¹²⁵ Although there

¹²¹ Armstrong, John A, "Ukraine: Evolving Foreign Policy in a New State," *World Affairs*, (Summer: 2004) v167 n1 pp. 31-39

¹²² International Energy Agency, Ukraine Country Analysis Brief, January 2005.

<http://www.eia.doe.gov/emeu/cabs/ukraine.html>

¹²³ Canzi, Germana, "Turkmenistan's Caspian Resources and its International Political Economy," *The Caspian: Politics, Energy and Security*, Ed. Shirin Akiner, (New York: 2004) p. 194

¹²⁴ Armstrong

¹²⁵ Armstrong

are some oil deposits in the Sea of Azov, they are unexplored due to a lack of foreign investment mentioned above. In 1996 Turkmenistan and Ukraine entered into negotiations for a Grand Trunk Line for gas between the two nations, but that deal fell through.¹²⁶ Ukraine is also struggling with political turmoil that makes economic progress difficult.

A Caspian pipeline route that includes Ukraine in its path would serve its internal energy needs and increase its regional influence. However, with the BTC pipeline as the major Western route for Caspian oil and gas, it is debatable whether it would be feasible to build another long and expensive route without a substantial increase in the size of the Caspian oil supply. In any case, the Caspian region offers the best chance for Ukraine to increase its access to energy, because all other sources require transport through Russia, which is becoming a more contentious issue by the day. Ukraine's lack of a viable domestic energy supply makes it an important participant in the Caspian energy debate. In the meantime, the Caspian region is becoming attractive to a wider range of energy exporters in the region. Ukraine faces increasing competition from an ever expanding field of participants.

Summary

The United States has developed a series of valuable political and economic alliances. The EU provides a larger and some ways more influential ally than during the Cold War, encompassing twenty-five countries and vast resources. The EU has developed close economic ties that benefit the United States in terms of increased opportunities for economic involvement through joint initiatives with programs such as the ones outlined above. It also provides a

¹²⁶ Roberts, John, 2004, p.96

valuable diplomatic asset that could compliment the U.S. efforts. Other more recently cultivated alliances like Turkey, Georgia and Ukraine are developing economic ties with the Caspian states that make them vital to future U.S. involvement.

The nature of U.S. relations with these countries stresses economic and political discourse rather than strategic interests that depend on the needs of the moment. The EU provides a good model for comprehensive long term engagement that the United States could both greatly influence and benefit from. However, several of these states are also subject to influence from other states if the U.S. does not foster mutually beneficial relations. While many EU members have a long tradition of democratic institutions, the other allies that are vital to U.S.-Caspian relations are still vulnerable to the same economic and political turmoil as the Caspian states, especially given their proximity to those states with which the U.S. has more volatile relations, which will be discussed in the next two chapters.

CHAPTER 5

RUSSIA'S CHANGING ROLE IN THE CASPIAN

Since the breakup of the Soviet Union, Russia's foreign policy has been plagued by contradictions and indecision. With the end of the Cold War and the collapse of the bipolar international system, Russia has had to become accustomed to its new role as a nation that has seen its power as well as its size diminish substantially. There is a long-standing struggle in Russian society between Eurasianists and Westernizers that has taken on new life in the context of post-Soviet foreign policy. Advocates of Westernism see rapprochement with the West as the most practical path for Russia, while Eurasianists see this as a threat to Russia's position in the international community.¹²⁷ Russia is not only in the midst of an economic and political transition, it is also experiencing a post-imperial transition that requires a re-examination of its role among the Newly Independent States (NIS) as well as the international community. IN terms of U.S. foreign policy, Russia has been the dominant factor in the region since 1991, with economic and political rivalries taking the place of old Cold War antagonisms. With recent strategic concerns in the region, Russia has once again become central to overall strategic U.S. policy, but as an ally of convenience rather than an enemy.

The Caspian region, which contains three of the fifteen former Soviet republics, is a test of Russia's ability to achieve the transition from the leader of a highly integrated union to establishing a new relationship with fourteen sovereign nations. The major goals of Russian foreign policy in the Caspian included securing Russia's southern borders, establishing relations with China in

¹²⁷ Kubicek, Paul, "Russian Energy Policy in the Caspian Region," *World Affairs*, Spring 2004, Vol. 166, No. 4, p. 207

the context of transition, countering the growing political and economic influence of the United States and to a lesser extent, dealing with Turkey and Iran.¹²⁸ This chapter examines Russia's foreign policy in the Caspian region in the context of its post-Soviet transition and the shifting international environment.

Much of the literature concerning Russian foreign policy following the breakup of the Soviet Union divides this period into stages.¹²⁹ While there is some variation, these stages are generally described as an initial period of neglect, followed by an attempt to reassert Russian hegemony over the Caspian states. As it became evident that coercion was ineffective given the introduction of new actors in the region, Russia began to cooperate economically and politically with the international community. Finally, the appointment and subsequent election of Vladimir Putin has ushered in a new phase in Russian foreign policy that is much more centralized and based on a more pragmatic view of Russia's role in the international community. The change in administration from that of Boris Yeltsin to that of Vladimir Putin has also marked a shift in Russian foreign policy in terms of orientation toward the West, as opposed to the prevailing Eurasianist view that characterized Yeltsin's post-coup presidency.¹³⁰ September 11, 2001 has offered the opportunity for further East-West rapprochement, but also the danger of decreased cooperation given the shift in the balance of power in Central Asia. This characterization of Russian foreign policy into distinct stages is a useful tool in understanding its evolution from 1991 to the present.

¹²⁸ Cornell, Svante, *Small Nations & Great Powers: A Study of Ethnopolitical Conflict in the Caucasus*, Curzon, (Richmond: 2001) p. 365

¹²⁹ Cornell, p. 334. See also Lena Jonson, *Vladimir Putin and Central Asia: The Shaping of Russian Foreign Policy*, I.B. Tauris & Co. Ltd., (London: 2004) pp. 43-45, and Paul Kubicek, "Russian Energy Policy in the Caspian Basin, *World Affairs*, Spring 2004, Vol. 166, No. 4, p. 207

¹³⁰ Jonson, pp. 43-45

Along with Russia's changing position within the international community, there has been a shift concerning the direction from which Russia faces the most immediate threat. In the turmoil of the final days of Soviet power, the southern republics were seen as unneeded weight and were urged by Boris Yeltsin to "take as much sovereignty as you can swallow."¹³¹ This resulted in a resurgence of ethnic nationalism and religious expression that had been repressed for decades. Due to heightened tensions that have accompanied independence, Russia has reoriented its view of potential national security threats from that of an East-West orientation to a North-South view.¹³² Separatist movements in the North Caucasus and Islamist movements throughout Central Asia are major security concerns for a weakened Russian state. With the evolution of Western involvement in Russia's former territories from economic to strategic concerns, there has been a convergence of economic and strategic foreign policy issues that manifests itself most clearly in the Caspian states. More recently, terrorism has become a major priority as well. It is in this context that Russia and other successor states sought to deal with transition in the form of an intergovernmental organization.

Post-Soviet Confusion

As the Soviet Union was falling apart, several successor states agreed to form the Commonwealth of Independent States (CIS). The CIS originally consisted of Russia, Ukraine, and Belarus as a political and economic union of independent nations. The rationale for this union was based on the idea that the Soviet Union could transition more easily as part of an economic and political

¹³¹ Cornell, p. 334

¹³² Trenin, Dmitri, "Southern Watch: Russia's Policy in Central Asia," *Journal of International Affairs*, (Spring 2003) v56 n2, p. 119

bloc similar to the European Union. The Baltic and southern tier republics were notably absent.¹³³ Nevertheless, the remaining republics were admitted into the CIS following a joint petition for membership less than a month later. Since the formation of the CIS, various members have entered into a series of economic unions, but these have been ineffective. This is due to an inability on the part of the various member states to implement agreements and the fact that none of these treaties have been unanimous.

Despite several economic agreements among the various members, military matters dominated relations between Russia and its former republics through the CIS. Russia used its status as the only military power among the post-Soviet states when states like Georgia and Azerbaijan expressed a desire to separate themselves from Russia and move closer to the West, Russia offered financial and even open military support to the Armenians in Nagorno-Karabakh and had a hand in the coup against Abulfaz Elchibey in an attempt to coerce the Azerbaijani leadership back into its sphere of influence.¹³⁴ Frequent clashes in some Georgian republics such as Abkhazia and North Ossetia often involved Russian troops, partially in an effort to force Georgia into the CIS.¹³⁵ The Collective Security Treaty, signed in 1992, was an attempt to confer the status of a CIS security force on what was almost exclusively a Russian army. Russia also requested that NATO recognize its military force as the sole peacekeepers in the former Soviet states, a request which was denied.¹³⁶ Some experts have labeled the CIS as an ineffective organization that may have eased the process of the

¹³³ The Baltic republics desired to become more of a part of Europe, while the other republics were not invited with the exception of Georgia. It showed no interest in joining the CIS.

¹³⁴ Kubicek, p. 207

¹³⁵ Cornell, 165-174

¹³⁶ Sabov, Dmitri, "A Stiffer Voice From Moscow, *Moscow News*, December 10, 1993.

Soviet breakup, but has no real power as an intergovernmental organization.¹³⁷ Russia was in no position economically or politically to be the leader of an international organization made up of suspicious former republics. This is clearly illustrated by the behavior of the Caspian states toward Russia after the breakup.

Russia's abandonment of the Caspian, which began in some respects before the break-up of the Soviet Union, led the Caspian states to seek economic support elsewhere. International energy corporations and International Financial Institutions stepped in to help rebuild these countries. While Russia was willing to insert itself strategically into Caspian affairs, this was not the case economically. Reasons for this include Russia's lack of understanding of the complexities of such a diverse region, the overall lack of coherence in Russian foreign policy, and the lack of economic resources to compete for influence.¹³⁸ Russia's only strength, its military, was incapable of influencing the Caspian states now that they were no longer obligated to obey the Russian leadership. Russia's involvement in the conflict with Armenia over Nagorno-Karabakh only pushed Azerbaijan further toward the United States. By coercing Georgia into the CIS using the same tactics, Russia only succeeded in pushing Georgia to become a closer ally to the United States, allowing NATO to encroach on former Soviet territory.¹³⁹ The most visible evidence of a loss of Russian influence was in the energy sector.

The Caspian states increasingly searched for alternatives to Russia's economic domination. Newly discovered oil and gas deposits made the newly

¹³⁷ See Gregory Gleason, "Interstate Cooperation from the CIS to the Shanghai Forum," *Europe-Asia Studies*, (November 2001) v53 n7, pp. 1077-1095; See also, Anders Aslund, Martha Brill Olcott, Sherman W. Garnett, "Getting it Wrong: Regional Cooperation and the Commonwealth of Independent States," *The Carnegie Endowment for International Peace*,

¹³⁸ Antonenko, Oksana, "Russia's Policy in the Caspian Sea Region: Reconciling Economic and Security Agendas," *The Caspian: Politics, Energy and Security*, Shirin Akiner, ed. Routledge (New York: 2004) p. 245

¹³⁹ Cornell, p. 343

independent states more attractive to outside investment as their governments began to implement safeguards for potential investors. Russia's control over export routes was compromised by plans for Western routes through the Caucasus and Turkey. In the early 1990s all Caspian oil and gas still traveled through Russian pipelines. As competitors in the energy sector, Azerbaijan, Kazakhstan and Turkmenistan were at Russia's mercy when it came to the terms of trade. Kazakhstan began negotiations with Chevron to form the Caspian Pipeline Consortium. While this pipeline traveled through Russia, it was owned by a multinational group of corporations with Russian firms as majority shareholders to ensure better terms. Turkmenistan was also in negotiations with Western gas companies to build a Trans-Caspian pipeline to Azerbaijan, but Saparmurat Niyazov proved too demanding for potential investors, and therefore Turkmenistan remains tied to Russia for its gas exports. Azerbaijan went the furthest in its swing toward the West, with the construction of the Baku-Tblisi-Ceyhan pipeline through Georgia and Turkey. Recently Kazakhstan has also completed a deal to join the BTC pipeline as well as a pipeline to China. Given the realities of the situation, Russia had no choice at this point but to shift its foreign policy or risk losing out in the potential economic gain from these lucrative energy deals.¹⁴⁰ In doing so Russia also had to shift its policy in relation to other countries in the region. Iran and Russia were united both in their opposition to Western development of Caspian oil, and the general idea of dividing the Caspian Sea between the five littoral states. Russia soon began to benefit from its change of policy.

Since Russia has become involved in Caspian energy development, it has acquired a majority share in the Caspian Pipeline Consortium (CPC). This is the

¹⁴⁰ Antonenko, p. 246

major Western route for Kazakhstan's oil that runs from Kazakhstan to Novorossiisk on the Black Sea. It also modified the existing Baku-Novorossiisk pipeline that transports Azerbaijan's oil so that it bypasses Chechnya.¹⁴¹ While Russian involvement in the Caspian energy industry has led to some cooperation with other states and international energy companies, Russia has not ceased its efforts to control its former republics. Turkmenistan is virtually under Russia's control due to its lack of alternative markets for natural gas. As Russia becomes more economically viable, its giant energy corporations like Gazprom are gaining a larger share of the market. Russia has become the major gas supplier to the European Union and still controls the industry in the Slavic republics.¹⁴² Where Russia was once unable to compete with the West for economic influence, it has now regained some of its dominance. Just as the former Caspian republics have used their energy revenues to support their economies and their political regimes, so has Russia. It is still capable in some cases of using its control of its energy supply to control its neighbors like Ukraine. This is a consequence of the latter phase of Russian foreign policy in the Caspian that stresses economic and political pragmatism. This shift is primarily the responsibility of Russia's current President, Vladimir Putin.

Russian Policy Under Vladimir Putin

Russian foreign policy over the last fifteen years may be divided into phases prior to 1999, but most agree that the election of Vladimir Putin marks the major turning point in post-Soviet politics. Putin was the last in a line of acting Prime Ministers appointed by Boris Yeltsin prior to his own resignation. While Putin's predecessors were largely unremarkable, he has been described as a

¹⁴¹ Antonenko, pp. 245-246

¹⁴² Antonenko, pp. 253-254

strong and charismatic leader who has taken control of the Russian government like no one since Stalin. The traditional weaknesses of Russian foreign policy had mainly to do with the lack of a unified message. This has changed since Putin was appointed PM and subsequently elected President in his own right in 2000. Putin's shift from a fragmented and uncertain foreign agenda to one that is much more unified and practical can be seen clearly in his Caspian policy. Rather than viewing the Caspian region as an ideological remnant of the Russian Empire, Putin sees it in practical economic terms. It is clear that the Caspian region has great economic potential if its resources are managed wisely, and Russia seems interested in amending its neo-imperialist image. However, recent events have threatened to pull Russia back into the Cold War mentality that if the West succeeds then Russia will falter. Russia's handling of the shift in importance in the Caspian region will have perhaps the greatest impact on the future of these states.

With the change in leadership from Boris Yeltsin to Vladimir Putin, Russian policy toward the Caspian region focused on reforming the economic and security sector. Both have been shaped in large part by U.S. involvement in the region, particularly since September 11, 2001. How Russia has reacted toward the U.S. presence in the larger Central Asian region and how it will react in the future has led to a joining of Russia's Western and CIS policies. Where there was previously a series of inconsistent agendas put forth by competing ministries, foreign policy is now primarily articulated by Putin himself.¹⁴³ He was handed the reins of government amid the turmoil of the Chechen conflict and made his mark as a strong and decisive leader. Many of Putin's ministers were pro-Western in orientation like Anatoly Chubais and Alexei Kudrin. His Minister of

¹⁴³ Lo, Bobo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, Blackwell, (London: 2003) p.40

Defense, Sergei Ivanov, is a long time acquaintance who shares a similar background and is trusted by Putin.¹⁴⁴ This combination of tough security policy and practical economic reforms has characterized his administration. The Caspian region has become increasingly important in both spheres of Russian policy under Vladimir Putin.

The security situation in the latter half of the 1990s in Russia was dominated by fears of extremist violence, separatism and organized crime. The Chechen conflict spilled into neighboring Dagestan in 1999, leading to Putin's appointment and a shift in emphasis to terrorism as the major security threat to Russia.¹⁴⁵ Instability in Russia's border territories, Tajikistan, and fears of spillover from Afghanistan were concerns of all members of the Collective Security Treaty. However, most CIS members considered Russia's desire for increased military presence in Central Asia as dangerous as any religious extremism they might face. Some analysts argue that "Putin exploited the terrorist issue in order to legitimize Russia's urge for military integration in the CIS area as a whole."¹⁴⁶ By focusing in on terrorism as the primary policy issue concerning the CIS, Putin abandoned the notion that Central Asia was no longer a vital aspect of Russian foreign policy. The Caspian region is literally and figuratively in the center of that renewed focus because it is surrounded by an Islamic and ethnically unstable Caucasus on one side and the weak Central Asian states on the other. The events of September 11, 2001 erased any doubts about Putin's emphasis on security in the southern regions.

Although there was some vocal opposition among members of the Russian government, others argued that terrorism was one major policy issue on

¹⁴⁴ Lo, p. 43

¹⁴⁵ Jonson, p. 63

¹⁴⁶ Jonson, p. 70

which the U.S. and Russia could agree.¹⁴⁷ In the meantime it seems that the United States has lessened its criticism of Russia's hard-line domestic policies as well as its human rights record in places like Chechnya.¹⁴⁸ Another advantage for Russia is that the United States' more adequately equipped military toppled the Taliban and relieved Russia of a major source of instability. For the first time in at least fifty years, the United States and Russia seem to be fighting the same enemy. By backing the United States in many of its strategic decisions, Putin is proving to be a pragmatist in terms of foreign policy. Russia appears to be a staunch ally in the "war on terror" by providing support and intelligence, allowing Russia to use the same rhetoric. The turmoil in the North Caucasus is classified as another front in the war against radical Islam rather than an ongoing struggle against ethnic separatists. Just as the Bush Administration has been accused of creating a self-fulfilling prophecy by radicalizing Muslims, there are those who argue that the Chechen conflict has been radicalized by Wahhabis from outside the region as a consequence rather than a cause of the Russo-Chechen conflict.¹⁴⁹

As a result of Putin's support for U.S. military presence in the region following September 11th, Russia has the opportunity to regain both its regional and international status. Russia risked being sidelined if it had objected to U.S. involvement in the region, especially given the willingness of so many nations to accommodate the American military presence. The United States has assured Russia as well as its hosts in Central Asia that any military presence is

¹⁴⁷ "Russia and USA Have Common Key Interests, Believe Russian Senators," September 11, 2002, RIA Novosti, LexisNexis.

¹⁴⁸ Trenin, Dmitri, "The Forgotten War, "Chechnya and Russia's Future," Policy Brief, The Carnegie Endowment for International Peace, Washington D.C, (November 2003) p. 6

¹⁴⁹ Cornell, p. 247; see also Dmitri Trenin, *The End of Eurasia: Russia on the Border Between Geopolitics and Globalization*, The Carnegie Endowment for International Peace, (Washington D.C.: 2003) p. 174; Alexei Malashenko, "The Islamic Factor in Russia," The Carnegie Endowment for International Peace, (Moscow: 2004)

temporary, and some like Uzbekistan have already given the United States a date for withdrawal. It remains to be seen whether this rapprochement between Russia and the United States over its presence in the region will last. From Putin's actions thus far it seems as if Russia will cooperate with the West, particularly the United States, as long as it suits Russia's strategic interests to do so. This appears to be the case in the economic realm as well.

The shift in Russian foreign policy toward the Caspian region has taken place most notably in the economic sphere. Energy is a security concern for most of the international actors involved in the Caspian region, but Russia sees it as a form of leverage. While nations like the EU, China and the United States expend vast resources to ensure the continued flow of energy, Russia has the second largest supply in the world. The main benefits for Russia are economic gain and influence over other neighboring states, as well as those who need the oil and gas they provide. The energy sector also provides a secure source of revenue for the government through taxation, which is more difficult in other sectors of the economy due to lack of information.¹⁵⁰ Given these facts, it is more practical to look after the energy industry more closely. Russian foreign policy in the Caspian has often been at odds with the private energy sector, and decisions have often been made for political reasons at its expense.¹⁵¹ By appointing a Representative of the President in the Caspian region, Putin sought to reconcile these issues as well as lingering legal questions about the status of the Caspian Sea.¹⁵² Since this shift in the importance of the Caspian region to Russian foreign policy, Putin has had varied success in securing closer relations with the former Soviet states.

¹⁵⁰ Gregory

¹⁵¹ Aydin, p. 14

¹⁵² Jonson, pp. 100-101

Turkmenistan has remained within Russia's sphere of influence, partially by choice and partially due to its lack of a relationship with any other influential nation. In 2003 Putin was able to complete a favorable gas deal with Niyazov that guaranteed Russian purchase of Turkmen gas for 25 years, as well as transport and development rights. Although there have been some difficulties with Russian-Turkmen relations, the two nations have arranged a Russian-Turkmen Intergovernmental Economic Commission to explore further cooperation.¹⁵³ Russia has signed agreements with Kazakhstan and Azerbaijan to develop the Caspian Sea within their territories, increasing the prospects of an overall agreement in the future.¹⁵⁴ While most energy ventures are still in the planning stages, cooperation between Russia and the other Caspian states as well as Western corporations signals a more practical attitude on the part of the Russian state toward economic development. Rather than viewing the Caspian as simply territory to be defended, Putin has ensured that Russia benefits both strategically and economically from the Caspian region.

Summary

In the long run, Russia as well as the other regional powers will shape their foreign policy around that of the United States due to its increased presence in the region. Whether the United States is engaged in the region strategically for a short time or long-term, it has become a major presence in the Caspian region through political and economic involvement as well. Too many regional and international powers have interests in Central Asia for this region to return exclusively Russian influence. Partially as a result of more practical leadership

¹⁵³ Jonson, pp. 104-107

¹⁵⁴ Valovaya, Tatyana, "The Post-Soviet Space in the Era of Pragmatism," *Russia in Global Affairs*, (April-June 2005) n2

and partially due to America's strategic interests following September 11th, the United States and Russia have found themselves on the same side of the terror issue. However, this chapter has demonstrated that economic and political issues have dominated U.S.-Russian relations since the end of the Cold War, and they are unlikely to go away because of any strategic rapprochement. Russia's foreign policy of late has demonstrated an appreciation for what is necessary, which could shift again given different circumstances. While Russia can be counted among those states with which the United States has a tenuous alliance, the next chapter will consider states with interests in the Caspian that run counter to U.S. foreign policy.

CHAPTER 6

REGIONAL RIVALS

The abundance of Caspian resources has attracted the attention of several states, not all of which are amenable to U.S. foreign policy goals. While the Caspian energy industry provides some diversity for world oil supply, U.S. involvement in the region is as much about politics as it is about economic gain and energy diversity. Although Russia represents a major concern in the region, China has become the most prominent international rival. Although there is a debate as to the nature of the challenge that China poses to U.S. dominance, there is agreement about the speed at which China is growing economically. Its energy needs are second only to the United States. Although it is not entrenched in the Caspian region, its geographic proximity is another factor that makes it a primary concern for U.S. foreign policy as well. Along with China, Iran remains a main motivator for U.S. foreign policy in the Caspian. Next to Russia, Iran has been the major concern for U.S. involvement in the Caspian since the collapse of the Soviet Union. Unlike the situation between the U.S. and Russia, there has been no real sign of rapprochement with Iran, and the current strategic situation does not bode well for future relations. This chapter will explore the interests of China and Iran in the Caspian region and how they impact and in turn are impacted by U.S. foreign policy.

China

Since 1991 interest in the Caspian region has increased in the East as well as the West. Several Asian nations, such as Japan, India and Malaysia, have become involved in the region through multinational energy contracts. In terms

of overall involvement, China has become the most prominent Asian nation. Since 1991 China has become a major trading partner with Kazakhstan and other Central Asian nations.¹⁵⁵ China's major foreign policy goals in the Caspian region include increasing energy imports, easing ethnic unrest near the Kazakh, Chinese border, and countering U.S. influence in the region. It has sought to accomplish these goals through engaging the newly independent Caspian nations bilaterally as well as through intergovernmental organizations. As the world's second largest consumer of oil as well as a neighboring power, China has a political as well as an economic interest in the viability of the Caspian states. Due to U.S. dominance of other energy markets like the Middle East, China also has a strategic interest in countering U.S. involvement in the region.¹⁵⁶ Like Russia, China is a global actor as well as a dominant regional power. But where Russia has declined in influence in recent years, China's influence is increasing.

China's most pressing interest in the Caspian region is energy. Although it has a substantial domestic energy market, China has been a net importer of oil since 1993.¹⁵⁷ The Caspian Sea states, particularly Kazakhstan, provide China with a direct source of oil and natural gas that does not require intermediate transport as is necessary for resources in Africa or the Middle East. While China has not had the success as some Western firms in bidding for contracts in the Caspian, it has completed deals with Azerbaijan and Kazakhstan in the last decade, including the Pirsaat oil field south of Baku.¹⁵⁸ In 1997 the value of Sino-Kazakh oil contracts totaled ten billion dollars. In 1998 the Chinese National Petroleum Company bought a 60% share in Kazakhstan's Aktyu oil field worth

¹⁵⁵ Andrews-Speed, Phillip, Sergei Vinogradov, "China's Involvement in Central Asian Petroleum: Convergent or Divergent Interests?," *Asian Survey*, (March-April 2000) , v40, n2 p. 380

¹⁵⁶ Akiner, Shirin, "Achievements, New Concerns, Future Prospects," *The Caspian: Politics, Energy and Security*, Shirin Akiner, ed. (New York: 2004) p. 390

¹⁵⁷ Akiner, p. 390

¹⁵⁸ Akiner, p. 390

approximately \$325 million.¹⁵⁹ In addition to development of oil fields, China has recently completed an oil pipeline that runs from Kazakhstan to China, and plans to build a gas pipeline as well.¹⁶⁰ The energy hungry nation has also been active in the international energy market through acquisition of Western companies that have been involved in the region. It recently purchased KazMunaiGaz from its Canadian parent company and sold it to the Kazakh government. There was a high profile negotiation between China's CNOOC and the American company Unocal in 2005, but due to U.S. government objections, the deal fell through. This is a prime example of how China's energy goals, like those of other energy consumers, have become as much about politics as economics. While there is debate over whether the United States and China should be considered economic rivals, when it comes to Caspian energy there is little doubt that they are competitors for influence. Just as the U.S. backed the expensive BTC pipeline for political reasons, China sees expensive pipelines to Kazakhstan as necessary to avoid markets that are already dominated by the U.S.¹⁶¹ In addition to securing energy supplies, China's engagement with Caspian states also involves internal security issues.

Kazakhstan borders China's western Xinjiang province. This region is populated by Uighurs, who are ethnically Turkic and Muslim.¹⁶² There are also substantial numbers of ethnic Kazakhs. There have been several uprisings in the past decade, and the Chinese have implemented a campaign to quell religious extremism that could jeopardize the lucrative oil and gas trade.¹⁶³ Historically,

¹⁵⁹ Ehteshami, Anoushiravan, "Geopolitics of Hydrocarbons in Central and Western Asia," *The Caspian: Politics, Energy and Security*, Ed. Shirin Akiner, (New York: 2004) p. 70

¹⁶⁰ "Kazakhstan to Start Pumping Gas to China in Mid-2006," Astana, December 13, 2005, RFE/RL

¹⁶¹ Akiner, p. 391

¹⁶² Jafar, Majid, "Oil, Politics, and the New Great Game," *The Caspian: Politics, Energy and Security*, Shirin Akiner, ed., (New York: 2004)

¹⁶³ "China's Far West, Under the Thumb," *The Economist*, December 1, 2005

the border regions between China and Russia have been disputed, and clashes have involved Russian and Chinese troops continuing into the Soviet era.¹⁶⁴ The Shanghai Cooperation Organization is an intergovernmental group chartered in 2002 that includes Russia, China, Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan.¹⁶⁵ China has used this organization most recently as a forum to address the issue of Uighur separatist sentiments. Couched in the rhetoric of anti-terrorist policy, China argues that it is a victim of Islamic extremism in these border areas and has made this issue a key component of its relations with Kazakhstan.¹⁶⁶ Whether Kazakhstan supports China in its attempts to subdue these separatist movements will have a definite impact on political relations as well as prospects for energy cooperation.

China's relations with the Caspian region increasingly center on Kazakhstan both politically and economically. Unlike Azerbaijan and Turkmenistan, Kazakhstan faces increased pressure because it is surrounded by two powerful states that possess the ability to control its destiny to a great extent. While the United States and other Western nations have become more involved in the Caspian, China and Russia have a sustained interest in these states due to geographic proximity as well as economic and political concerns. China is limited in its ability to influence its neighbors because it is surrounded by relatively powerful nations like Japan, India and Russia. Central Asia is as much a potential victim of rivalry between Asian powers as it is between East and West, and the overall motives of Chinese foreign policy in the region are unclear as of yet.

¹⁶⁴ "China's Far West, Under the Thumb,"

¹⁶⁵ Formerly known as the "Shanghai Five" from its beginnings in 1996 until it signed the official charter in 2002, shortly after Uzbekistan joined.

<http://www.fmprc.gov.cn/eng/topics/sco/t57970.htm>

¹⁶⁶ The Shanghai Cooperation Organization: Suppression, China, Oil, *The Economist*, July 7, 2005

Since the collapse of the Soviet Union, prospects for the Caspian republics have become more optimistic, and they have also become more complicated. With an abundance of a resource that is both necessary and scarce in some of the world's most powerful nations, the Newly Independent States of the Caspian have traded one superpower for several others. Regional involvement ranges from that of transport states like Georgia and Ukraine who see the Caspian as their ticket to prosperity, to Turkey and Iran who strive to become regional political powers as well as economic participants in the growing Caspian energy industry. The EU and China are energy dependent states as well as international powers that can help the Caspian succeed or contribute to its decline. Many of these nations have the same basic foreign policy goals; energy security and political strength. These nations must eventually find ways to work together to ensure the viability of the Caspian region because, unlike other international actors, they are tied to this region geographically and will be directly affected by its success or failure.

This discussion of regional and international actors outside of Russia and the United States provides an understanding of just how drastically the political landscape has changed since the collapse of the Soviet Union. Not only does the United States have to be concerned with Russia's position, it is also faced with the involvement of allies as well as rivals. Although the EU and other former Soviet republics are involved alongside the United States in most cases, China represents a potential rival in the region. Whether or not the oil supply in the Caspian is vital to the U.S., control of the pipelines in the region certainly is. China has a more immediate interest than the U.S. in many ways given its geography as well as its growing need for energy. Although China is rising as a political and economic power, Iran is still a primary nation in the region in terms of U.S. interests.

Iran

Iran is the only Caspian littoral state that was not part of the Soviet Union. Prior to 1991, the legal status of the Caspian Sea was established through a series of treaties between Iran and Russia spanning over two hundred years. With the addition of four new states, these agreements were no longer secure. This issue compounded Iran's already fragile political and economic standing in the region. Nevertheless, Iran saw the power shift in the Caspian as an opportunity to advance its position as a bridge between the Caspian and the Middle East as well as a stronger regional power. It shares ethnic ties to other Caspian nations and a common religion. Iran also offers the shortest route to the world market for Caspian oil and gas. Unfortunately, Iran's economic advantage is outweighed by its political liabilities.¹⁶⁷ As for relations with other Caspian states, Iran has had some tense moments, but overall has demonstrated a desire to cooperate with its neighbors concerning their mutual interests in the Caspian Sea.¹⁶⁸ Despite this fact, Iran's most powerful opposition comes from the United States.

Since the 1970s, US foreign policy toward Iran has been focused on preventing any increase in Iran's international influence. Concerns over Iran's support of Islamist extremism and its nuclear ambitions have prevented it from taking a leading role in the Caspian region. Despite the slight warming of relations during the Clinton administration, there has been a resurgence of hostile rhetoric between Iran and the United States.¹⁶⁹ Given the influence of so

¹⁶⁷ Page, Carter, "U.S. Involvement in the Caspian Sea Region," *The Caspian: Politics. Energy and Security*, Shirin Akiner, ed., RoutledgeCurzon, (London: 2004), p. 268-269

¹⁶⁸ Akiner, 369

¹⁶⁹Page, p. 267

many states in the Caspian region, Iran's position among influential state actors will continue to complicate its position with regards to other Caspian states.

Iran's foreign policy goals with relation to the other Caspian states are dominated by satisfactory legal partitioning of the Caspian Sea, the search for alternative markets for its oil, and mitigating American influence, particularly in terms of the militarization of the Caspian Sea.¹⁷⁰ These goals run counter to those of the United States. Since 1996 the U.S. has imposed sanctions against any foreign company that does more than a minimal amount of business with Iran's energy sector and prohibits U.S. involvement in Iran, although there are some exceptions.¹⁷¹ Any nation wishing to trade with the United States must abide by these sanctions. Given the importance of Western and, more specifically, U.S. investment in the Caspian energy sector, this severely cripples Iran's economic prospects. Aside from some oil swapping agreements with Kazakhstan and a pipeline to Turkmenistan for natural gas, Iran is not significantly involved in developing its Caspian sector.¹⁷² The recent conservative shift in Iranian leadership does not bode well for rapprochement in the near future.

Summary

Since the collapse of the Soviet Union, prospects for the Caspian republics have become more optimistic, and they have also become more complicated. With an abundance of a resource that is both necessary and scarce in some of the world's most powerful nations, the Newly Independent States of the Caspian have traded one superpower for several others. China is an energy dependent

¹⁷⁰ Namazi, Siamak, Farshid Farzin, Division of the Caspian Sea: Iranian Policies and Concerns, *The Caspian: Politics, Energy and Security*, Shirin Akiner, ed., RoutledgeCurzon, (London: 2004), pp. 230-243

¹⁷¹ Iran-Libya Sanctions Act of 1996, H.R. 3107.

http://www.fas.org/irp/congress/1996_cr/h960618b.htm

¹⁷² Aydin, p. 7

state as well as international power that can help the Caspian succeed or contribute to its decline. Current U.S. relations with Iran threaten to further destabilize the region due to its open hostility to the U.S. presence in Iraq as well as the growing controversy over Iran's nuclear plans. Unlike other international actors, China and Iran are tied to this region geographically and must be dealt with in the context of U.S. foreign policy towards the Caspian states as well as their wider significance. As these states are political and economic rivals to the United States, they are particularly impacted by the recent changes in U.S. foreign policy. China is already considered an economic rival to the United States, and competition for energy resources makes the Caspian states a potential source of contention.

As for Iran, the United States has included it among the countries included in the axis of evil. More than any other Caspian state, Iran is a focus of the 'war on terror' for its anti-American and anti-Israeli rhetoric as well as its support of known terrorist groups. Although Russia has continued to ally itself with Iran concerning Caspian Sea issues, strategic concerns related to nuclear proliferation and concern for terrorism have pushed Russia more towards the U.S. with regards to Iran.¹⁷³ The proximity of Iran to the post-Soviet Caspian states increases the likelihood they will remain strategically important and susceptible to destabilization.

¹⁷³ Antonenko, p. 257

CHAPTER 7

NON-STATE ACTORS

Non-state actors are an integral part of Caspian development. They can act as valuable partners to states that have political and economic interests in the region. Nations often use these non-state actors as foreign policy tools. These entities can also counteract foreign policy, making it difficult for states to pursue their own interests in the region. Multinational corporations (MNCs) provide the technology and infrastructure for the modern energy industry, which is the primary source of revenue for Azerbaijan, Kazakhstan and Turkmenistan. International Financial Institutions (IFIs) provide the security for foreign direct investment that is vital to the Caspian's economic survival. There are also several intergovernmental entities that provide support for political as well as economic development in these former Soviet states.

While several nations provide financial assistance to the Caspian region, non-state entities such as these have the ability to achieve what would be impractical or impossible through traditional state-based foreign policy. Due to reasons such as competing national interests or internal political opposition, states are often unable to act in some areas. Although these corporations and non-governmental organizations (NGOs) are not always effective and sometimes have competing interests, they often work together to achieve a better political and economic future for the Caspian region. These non-state actors are also becoming more central to U.S. foreign policy in the region. Although multinational corporations have been active in Caspian policy for some time, IFIs and non-profit organizations that provide an alternative to official foreign policy

are increasingly vocal concerning the effects of American involvement in the region.

Multinational Energy Corporations

Multinational energy corporations have played a central role in the economies of the Caspian states since before the Soviet collapse. As part of Gorbachev's *perestroika*, Western investors were invited to the Caspian republics in order to lend their technological and financial resources to the modernization of the energy industry. Since that time several multinational energy corporations have invested billions of dollars in the search for oil and gas in and around the Caspian Sea. Private companies have partnered with the state-owned enterprises of the former Soviet republics primarily through Product Sharing Agreements (PSAs). These agreements provide a guarantee for the foreign investors to a share of the oil revenues in exchange for taking on all of the risk and expense associated with developing, extracting and transporting energy.¹⁷⁴ Since the breakup of the Soviet Union the energy sector has been the focus of the vast majority of economic investment. Given the weak political and economic infrastructure in Azerbaijan, Kazakhstan and Turkmenistan following independence, there are several political and economic risks inherent in reliance on oil and gas. Developing nations that are resource rich tend to lag behind in development of the non-energy sector of the economy as well as political reforms.¹⁷⁵ Unfortunately, oil and gas represent the only commodities which attract enough foreign investment. Given this reality, multinational corporations

¹⁷⁴ Karayianni, Marika, "Product Sharing Agreements and National Oil Funds," *The Caspian: Politics, Energy and Security*, Ed. Shirin Akiner, RoutledgeCurzon, (New York: 2004) pp. 149-150

¹⁷⁵ See George Philip's *The Political Economy of International Oil*, Edinburgh University Press, (Edinburgh: 1994), for a study of the effects of the dependence on energy exports in less developed countries. See also Michael Ross's "Does Oil Hinder Democracy," *World Politics*, (September 2003), v53.

have become a major part of a combined international effort to mitigate the negative consequences of the energy industry on the Caspian region.

The world's largest energy companies make up the list of those involved in the Caspian region. The international energy industry was dominated for much of the twentieth century by the Seven Sisters. This exclusive group of energy corporations included Amoco, Exxon, Mobil, Gulf, Chevron and Texaco; the American companies which were the offspring of Standard Oil. British Petroleum and Royal Dutch Shell were the only two European sisters. In recent years, BP acquired Amoco, Exxon became ExxonMobil, and Chevron is now ChevronTexaco, while Gulf was absorbed by several corporations.¹⁷⁶ This consolidated and more powerful group comprised the core Caspian investors. The Caspian region is difficult to explore and drill in addition to its remote location and volatile political environment. Along with the major Russian companies as well as some other European and Asian interests, these Western corporations have entered into dozens of contracts with the Caspian states.¹⁷⁷ Although there has been varied levels of privatization in the Caspian, energy remains under state control, complicating the process. The energy industry has faced as much political maneuvering from their respective governments as well as state-owned Caspian counterparts. Although, as a result, MNCs have become as much a part of the political process as any other international actor.

PSAs guarantee a share of the final production to secure sufficient returns on the massive investments that are required by energy corporations, usually as consortiums.¹⁷⁸ The first of these consortiums, the Azerbaijan International Operating Company, (AIOC), was formed in 1994. The agreement was called the

¹⁷⁶ "Trustbusters: A History Lesson," BBC news, 15 March, 2005 www.bbc.co.uk

¹⁷⁷ Karayianni, pp. 149-150

¹⁷⁸ Karayianni, Marika, p. 149

“The Contract of the Century.” The State Oil Company of Azerbaijan (SOCAR) and ten oil companies headed by BP are developing the Azeri, Chirag and Deepwater Gunashli fields. Azerbaijan has signed over twenty PSAs since 1991.¹⁷⁹ In Kazakhstan the PSAs include the TengizChevroil consortium to develop the giant Tengiz and Karachaganak fields.¹⁸⁰ Turkmenistan is the only former Caspian republic that has not benefited from large foreign investments due to its political climate, but the prospect of a future Caspian pipeline linking it to Western routes may still be possible sometime in the future. Pipeline ventures represent the most politically charged of the PSAs and have involved more politics than business.

The choice of pipeline routes has been dominated by political maneuvering due to their strategic implications, but the MNCs see this aspect of the industry in terms of investment risk. A large part of what makes Caspian oil so expensive is its remote location in relation to world markets. The possible routes are plagued by ethnic unrest and rough terrain. The necessity of transversing multiple international borders adds additional risk. The shortest and cheapest route is often impossible due to politics. “In public debates about Caspian pipelines at both regional and international levels, the commercial interests of companies investing in the actual energy production were sidelined and often seemed strangely secondary or marginal to other considerations.”¹⁸¹ Iran represents one major example of political considerations clashing with business concerns. The Iran-Libya Sanctions Act has prevented several American and European companies from choosing what is the cheapest and often most

¹⁷⁹ Karayianni, p. 150

¹⁸⁰ Adams, Terence, ‘Caspian Energy Development,’ *The Caspian: Politics, Energy and Security*, Ed. Shirin Akiner, RoutledgeCurzon, (New York: 2004), p. 91

¹⁸¹ Hill, Fiona, “Pipelines in the Caspian: Catalyst or Cure-All?,” *Georgetown Journal of International Affairs*, Winter/Spring 2004, pg. 19

preferred route for Caspian oil. Despite several attempts to negotiate around these restrictions, MNCs are restricted from constructing a southern pipeline route through Iran. The uncertainty of Caspian investment also rests in the relative cost of extraction compared to other areas such as the Persian Gulf where the cost is negligible. As a result, the price of oil must remain higher in order to sustain the viability of the Caspian energy industry.¹⁸² There are also concerns as to whether there is enough oil and gas in the Caspian to maintain the minimum capacity required for the construction of new pipelines, regardless of the political advantages. This has recently become an issue for the BTC pipeline, which is the most expensive and politically charged of all Caspian pipelines. Kazakhstan has recently provided additional supplies in order to maintain a minimum capacity.¹⁸³ While these are examples of the financial concerns that dominate the MNCs involvement in the Caspian region, they are also involved with other entities to promote the sustainable development of the region.

There are varied efforts on the part of corporations like BP and Chevron to include sustainable development programs in their country strategies throughout the Caspian region and the neighboring transport countries. According to BP's numbers, it has invested \$8 million in Community Investment Projects for improved health, social and agricultural and social programs in Azerbaijan alone, in partnership with several non-governmental organizations (NGOs).¹⁸⁴ BP claims that no relocations were necessary as a result of the BTC Pipeline Project, and that it was largely buried to avoid disrupting agriculture. While the BTC pipeline project was not without criticism, it demonstrates the degree to which multinationals have considered the concerns of the international

¹⁸² Ehteshami, Anoushiravan, pg. 70

¹⁸³ "Backing Baku," *Petroleum Economist*, pg. 24, October 20, 2005, LexisNexis.

¹⁸⁴ Caspian Export and Development, People and Environment, Investing in Azerbaijan, <http://www.caspiandevelopmentandexport.com/ASP/PeopleAndEnvironmentAze.asp>

community with regards to their actions in the Caspian region. The BTC project has provided documentation for public scrutiny by NGOs and the International Financial Institutions (IFIs) and has also considered their recommendations for better handling of its environmental and social impact.¹⁸⁵ ChevronTexaco, which is involved in the CPC project in Kazakhstan among others, publishes a Corporate Responsibility Report in which it details its efforts at socioeconomic development assistance. This includes nearly \$6 million in interest free loans for small businesses through TengizChevroil, its Kazakh-based corporation.¹⁸⁶ These programs represent a small fraction of what is necessary to reform the Caspian economies. However, these international corporations have shown a willingness to partner with International Financial Institutions as well in an effort to promote long-term growth

International Financial Institutions

The economic and political reforms that have been implemented in the Caspian region since the collapse of the Soviet Union have primarily been the result of International Financial Institutions. The IMF and the World Bank are the largest and most active IFIs in the region. In the years immediately following independence, they aided the transition from a single command economy to separate states within a framework that encouraged commitment to democratic liberalization and market style reforms. The Caspian states did not follow the Russian path that was characterized by massive political upheaval and “shock therapy” style transition. Instead, most reforms in the Caspian states have been concerned with improving the investment climate. All three of the Caspian NIS

¹⁸⁵ International Finance Corporation, “BTC Pipeline and ACG Phase 1 Projects Environmental and Social Documentation,” October 27, 2003

¹⁸⁶ ChevronTexaco Corporate Responsibility Report, 2003

have been members of the IMF since 1992, receiving technical and financial assistance to improve their economies. However, after initially overoptimistic expectations concerning the ability of the Caspian states to recover, the IMF drafted a series of modified plans for these countries. Under the original plans, external debt to international financial institutions grew to unsustainable levels, with almost 50% owed to the IMF and World Bank alone.¹⁸⁷ Nevertheless, several other IFIs are active in the Caspian region.

The EBRD has been involved in the Caspian primarily in the energy sector, with recent lending increases in Azerbaijan as a result of Ilham Aliev's commitment to a more transparent energy sector.¹⁸⁸ However, the EBRD has invested in the financial sector as well as projects to improve infrastructure and small business. EBRD investments in Azerbaijan total over €740 million, with over half of these funds going to private enterprise.¹⁸⁹ In Kazakhstan the EBRD invests 70% of its funds in the private sector, out of a total commitment of €1.2 billion. While energy is a large part of EBRD investments in Kazakhstan as in other Caspian states, the financial sector represents over half of the total financial commitment, with oil and gas coming in second. The EBRD also has a Small and Medium Enterprise initiative that has been relatively successful and there are also plans to promote agri-business as well.¹⁹⁰ In Turkmenistan there is understandably less involvement in any sector of the economy due to the lack of reform in any significant sense. The EBRD has a series of three reform plans depending on extent to which it is permitted to act in Turkmenistan. Total investment to date is approximately €131 million, primarily in the marginal

¹⁸⁷ IMF/World Bank, "Poverty Reduction, Growth, and Debt Sustainability in Low-Income CIS Countries," February 2002, p. 32

¹⁸⁸ EBRD, Strategy for Azerbaijan, 2005

¹⁸⁹ EBRD, Azerbaijan Fact Sheet

¹⁹⁰ EBRD Kazakhstan Fact Sheet

private sector.¹⁹¹ While there are several Western IFIs involved in economic reform in the Caspian, there are some notable exceptions.

The Asian Development Bank represents the main avenue for foreign investment from the East. Whereas many IFIs in the Caspian are concerned to a large degree with the energy sector, the ADB provides assistance for more underdeveloped sectors of the economy and infrastructure. In Azerbaijan the ADB has recently allocated \$30 million for water and sanitation projects. Other areas of focus include humanitarian assistance and agricultural development. Altogether ADB funds total over \$50 million as of 2004.¹⁹² In Kazakhstan the ADB has concentrated on developing Kazakhstan's lagging rural sector, including improvements in the transportation infrastructure and agriculture. The ADB has also committed funds to the financial sector in terms of reforming accounting practices. Kazakhstan has received over \$500 million dollars from the ADB.¹⁹³ As with other IFIs, the ADB has contributed a negligible amount to Turkmenistan due to a lack of cooperation on the part of the government.¹⁹⁴

These IFIs represent just a few of the institutions that are involved in the Caspian region. While some like the IMF and the EBRD concentrate on large projects aimed at increasing the performance of dominant sectors of the economy, others like the ADB concentrate on developing the infrastructure. These differences can perhaps be attributed to the differences in the overall interests between a large organization whose main contacts in the region are concerned with commerce and trade, whereas other IFIs are comprised of neighboring countries who are more likely to be affected by the failure of these states to strengthen their infrastructure in terms of water access, transportation

¹⁹¹ EBRD, Turkmenistan Fact Sheet, 2005

¹⁹² Asian Development Bank, Azerbaijan Fact Sheet

¹⁹³ ADB, Kazakhstan Fact Sheet

¹⁹⁴ ADB, Turkmenistan Fact Sheet

and humanitarian concerns. There is a shared concern on the part of these IFIs that the political situation in the Caspian region is not receiving the same attention as the economic sector.¹⁹⁵ There must be a shift in focus at some point toward preventing these governments from becoming more centralized, or there is a risk that the economic gains will not benefit the majority of the population. For now the political and social development of the Caspian region is being championed for the most part by intergovernmental organizations and NGOs.

Intergovernmental Organizations and NGOs

In addition to the multinational corporate interests and financial institutions, NGOs and intergovernmental bodies play an important role in the Caspian region. These organizations focus on the political, social and environmental situation in the Caspian states. The United Nations is the most high profile intergovernmental body, with several branches of its organization involved in all aspects of development. There are also several NGOs that deal with more specific aspects of development, such as Freedom House, Human Rights Watch and various environmental groups. These organizations often influence energy corporations and governments to adhere to stricter standards. Unlike the financial institutions and corporate interests, these organizations are often non-profit entities without the same biases. Many of these organizations have used their influence to impact foreign policy and raise awareness in the international community.

¹⁹⁵ See IMF/World Bank Report, "Recent Policies and Performance of the Low-Income CIS Countries: An Update of the CIS-7 Initiative," (April 2004); See also, ECOSOC, "10 Year Progress Report on Agenda 21 Implementation in Kazakhstan, 2002"; Stanislaw Gomulka, "Macroeconomic Policies and Achievements in Transition Economies 1989-1999," *Economic Survey of Europe*, (2000) n2/3

Among the myriad of programs which the United Nations has implemented for the purpose of social, political and environmental development is the UN-NGO-IRENE program. This program brings together the United Nations and several international and regional NGOs throughout the world for the purpose of increasing their effectiveness. This includes the drafting of strategic action plans for cooperation that cover everything from gender issues and education to health and the environment.¹⁹⁶ This is an informal networking tool that provides a more organized environment. Azerbaijan is the most active participant in this endeavor, but there is also some Kazakh participation. The UNDP is another important branch of the UN that monitors development data such as life expectancy, educational access and economic well-being. By publishing these findings in an annual report that ranks nations in terms of these criteria, the UN plays an important part in improving conditions. Azerbaijan, Kazakhstan and Turkmenistan have ranked near the bottom of this list since their independence, but there has been some improvement. More recently, the UNDP has linked progress in the Caspian region to the Millennium Development Goals, which concentrates on health and environmental and social issues as well as economic development.¹⁹⁷ While intergovernmental entities are influential in developing regions, they are often aided by vigilant private organizations.

NGOs are influential organizations that often influence foreign policy decisions through their advocacy of political, social and environmental justice around the world. These organizations use the power of public awareness to affect change, especially in the developing world where issues of social justice, human rights and the environment often escape attention. Human Rights Watch

¹⁹⁶ UNPAN, Strategic Action Plan for the Caspian Region,

¹⁹⁷ UN Millennium Development Goals, <http://www.un.org/millenniumgoals/index.html>

(HRW) is one of the most influential of these organizations, publishing reports on rights abuses and bringing them to the attention of states that can influence international conduct. It was originally founded in order to monitor activities in the former Soviet Union, and has become an important advocate for change in the post-Soviet states.

In the Caspian and greater Central Asian region, HRW has reported on human rights abuses in Turkmenistan, Kazakhstan and Azerbaijan. Turkmenistan has been cited for human rights abuses mostly in relation to its lack of political freedoms. There have been reports of inhumane prison conditions and even death for political prisoners. There are also complaints of mistreatment of ethnic Russian who are denied basic services like education and employment while also being denied the opportunity to emigrate.¹⁹⁸ It has also been critical of the political processes elsewhere in the Caspian, denouncing Azerbaijan's elections since independence and reporting episodes of intimidation and torture by officials. The massive human crisis that has resulted from the violence in Nagorno-Karabakh has received a great deal of attention from HRW as well. The organization has published reports on issues ranging from displaced person and landmines to reports of child soldiers. HRW argued that there are massive violations on all sides of the conflict. The organization is critical of international, and particularly US reactions to the situation in Azerbaijan.¹⁹⁹

The most recent reports on Kazakhstan acknowledge that there have been some steps toward increased political tolerance through the signing of agreements guaranteeing freedom of assembly and political opposition, but

¹⁹⁸ Human Rights Watch "Democratization and Human Rights in Turkmenistan," Committee on Security and Cooperation in Europe of the United States House of Representatives Hearing, March 21, 2000

¹⁹⁹ "Crushing Dissent: Repression, Violence and Azerbaijan's Elections," Human Rights Watch, January 2004. Vol. 16, No. 1(D)

HRW is still critical of Kazakhstan's behavior in recent elections, passing laws that make it more difficult for the opposition, particularly its most vocal opponents in the Democratic Choice of Kazakhstan movement.²⁰⁰ Overall, HRW and others like it have been instrumental in providing evidence that the Caspian states have far to go when it comes to political reforms and they have ensured that this fact remains a central part of the debate.

State and private interests are often quick to overlook the negative when they are trying to obtain trade and security agreements or contracts. NGOs sometimes offer the only dissenting voice in these debates. Many of these groups are highly respected in the international community and have come to be relied upon for their expertise and advocacy. The ranking that one receives from these human rights agencies is also used to decide whether a country is eligible for assistance from other institutions like IFI and aid programs. The Caspian has shown some willingness to work with these groups, but NGOs often still have difficulty gaining entry due to the influence of their findings. The Caspian states have generally ranked near the bottom in terms of political, social and environmental reforms. As NGOs increase their international influence, the Caspian and other developing regions will increasingly need to rely on them as alternatives to state assistance. Already in U.S. foreign policy it is becoming more prevalent to see funding of non-profit NGOs for the purpose of political and economic aid through agencies like USAID. In terms of requirements for participation, NGOs are less likely to be swayed by ulterior motives such as those that dominate official state foreign policies. Concrete signs of compliance with aid requirements may become necessary for continued engagement.

²⁰⁰ Human Rights Watch, "Political Freedoms in Kazakhstan," (April 2004) v16 n3

Summary

This chapter has demonstrated that, regardless of the continued domination of state actors in many aspects of international politics, non-state actors are becoming increasingly central to the foreign policy debate. Particularly in developing nations like the post-Soviet Caspian states, non-state actors are fulfilling roles that can not or will not be provided by other states. Although the major theoretical frameworks that influence U.S. foreign policy were discussed in Chapter 1, globalism is another theoretical construct that is particularly relevant in this discussion. A general belief that international entities and multinational corporations are becoming as relevant as traditional states a part of this theory as well as that of liberalism. Although U.S. foreign policy is still dominated by state-centered foreign policy. Nevertheless, these non-state actors are becoming increasingly vital to U.S. foreign policy despite its move toward a more unilateral foreign policy stance.

CONCLUSION

The situation in the Caspian states has changed dramatically in the fifteen years since independence. In terms of economic development, all three countries have to some degree reaped the benefits of their resource wealth and are at various stages of economic diversification. Politically, the leaders of Azerbaijan, Kazakhstan and Turkmenistan have demonstrated only a strong desire to hold on to centralized control of their countries. There are signs of political discontent within these states, but their efforts at reform have been merely a disturbance at best. There are hopes that continued political pressure on the existing regimes, as well as support for the opposition, will produce results.²⁰¹ Other experts have argued that continued economic growth within these countries will foster political change through economic necessity. By increasing ties with the wider world through the transportation of goods and services and communication, political change will become inevitable.²⁰² This approach envisions a regional rather than state-centered orientation for Central Asia. In terms of strategic possibilities, international involvement looms large and produces much less optimistic predictions.

The geographic and strategic orientation of the Caspian states, according to some predictions, has the potential to destabilize the region more than political unrest or economic trouble. According to this argument, the presence of so many different interests in the Caspian states aggravates existing tensions and creates new ones. Above all, the destabilization of these weak states in the

²⁰¹ Olcott, p. 244

²⁰² Starr, Frederick, "Central Asia, The Way Forward" *Foreign Policy*, (September-October 2004), i144, p.51-6

vicinity of increased conflict has the most wide ranging consequences for the international community, particularly the United States. Stemming from their alliances with NATO and the U.S., Azerbaijan and Georgia could increase tensions with Russia and Iran by providing bases for troops.²⁰³ In addition, there are fears in some circles that the U.S. could try to foster discontent among the large Azeri population in Iran.²⁰⁴ While these are hypothetical scenarios, they are plausible given the current situation with regards to the “war on terror” and the more recent heightening of tensions with Iran.

The prospects for conflict in the Caspian region are high when one considers the contributing factors. There is a still unresolved conflict over Nagorno-Karabakh in Azerbaijan and continuing unrest in Georgia.²⁰⁵ Political opposition has been suppressed in the Caspian states and is fueled by continued economic hardship among a large portion of the population. The governments in these states are taking advantage of increased military aid as discussed in Chapter Two for the purpose of suppressing dissent.²⁰⁶ When all these factors are considered along with struggle against terror, which has been brought to the doorstep of the Caspian states, it is difficult to see a positive outcome for strategic U.S. involvement in the region.

As for future prospects for U.S. foreign policy in the Caspian states, it is too early to tell whether there will be a sustained strategic interest in the region. Furthermore, it will be difficult to revert to a pre-9/11 stance of limited involvement in the political and economic reform, no matter how mixed the success of these efforts has been. One thing is widely accepted is the positive

²⁰³ Akiner, p. 385

²⁰⁴ Akiner, p. 385

²⁰⁵ “Karabakh Territory Talks at ‘Dead End’: Azerbaijani President,” Agence France Press, March 1, 2006

²⁰⁶ “Pace President Condemns Baku Police Action,” RFE/RL, November 5, 2005

long-term effects of democracy for economic prosperity, despite the ambiguity of the immediate impact.²⁰⁷ Economic involvement has proven to be the most successful aspect of U.S. relations with the Caspian states. When considering the best use of American influence in the region, the economic realm shows the most promise and should be carefully considered alongside strategic concerns. The United States, along with its European allies, has spent substantial time and money establishing and strengthening economic relations with the Caspian states, demonstrating the importance of economic ties. This also strengthens the argument for practical foreign policy that does not elevate a single aspect above all others.

This discussion of U.S. foreign relations in the Caspian states goes to the heart of the theoretical foreign policy debate outlined in Chapter One. Realist foreign policy that stresses national security and self interest above all else has been used in times of conflict during and after the Cold War. In the aftermath of the Cold War, realist theory characterized some policy decisions, but not an overall policy agenda. Liberalist theory was also evident in post Cold War foreign policy, as economic and political ties were established and strengthened between the United States and the international community. The Caspian states play an important strategic role in current foreign policy, but given their importance in terms of economic and political influence in the region, these states must be seen as part of a more multifaceted agenda. The introduction of neoconservative ideals into official policy threatens to undermine America's role in the Caspian states.

The purpose of this thesis has been to demonstrate that the re-orientation of U.S. foreign policy that gives priority to strategic concerns actually

²⁰⁷ See Jan Fidrmuc, *Economic Reform, Democracy and Growth During Post-Communist Transition*, *European Journal of Political Economy*, v19, 2003.

undermines the nation's broader foreign policy goals. By examining the theoretical underpinnings of U.S. foreign policy and contrasting them with the ideological basis for recent changes in orientation, it is clear that pragmatism has given way to a policy of advancing supposedly superior "democratic" ideals in a decidedly undemocratic policy of proactive and unilateral action. The United States has increased military support for the Caspian states, hence strengthening the undemocratic regimes. In doing so it reduces the effectiveness of the economic and political programs that it still supports, albeit to a lesser degree. The application of U.S. foreign policy in the Caspian states provides evidence of the incoherence that characterizes narrowly based foreign policy. The Caspian states have looked to the United States to counterbalance regional powers economically, but to presume a dominant role militarily underestimates the strength of traditional ties among Eurasian states.

The 9/11 Commission warned against this possibility in its assessment of the events leading up to the attacks that triggered this shift in U.S. foreign policy when it argued that "Too often, short-term gains in cooperating with the most repressive and brutal regimes were too often outweighed by long term setbacks to America's stature and interest."²⁰⁸ U.S. foreign policy in the Caspian following the Soviet collapse, whether driven by realist or liberalist goals, was based on a multifaceted view of U.S. interests. The U.S. presence in the region must remain so in order to maintain current relations throughout the region and foster future engagement.

²⁰⁸ Ackerman, Gary L. House of Representatives, Committee on International Relations, Subcommittee on the Middle East and Central Asia, , *9/11 Recommendations Implementation Act Oversight, Part I: Oppressors Versus Reformers in the Middle East and Central Asia*, "May 4, 2005 Washington, DC

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