

The Caspian Region
at a Crossroad

Challenges of a New Frontier
of Energy and Development

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Preface and Acknowledgments

For centuries, the Caspian region was the strategic crossroads for the different empires of Europe, Asia, and Africa. Control of vital land and water routes, particularly for trade in spices, assured great power and wealth; it also invited rivalry. As technological changes diminished the significance of these routes, the control of the region's rich hydrocarbon resources has become the focus of international business and political players. During the cold war, the area remained in the crossfire of different interests, as a fault line of East-West struggle.

The demise of the Soviet Union since the late 1980s once again changed the regional dynamics. A power vacuum was created, with lines of control less certain. Notwithstanding lesser hegemonic control, there has been no corresponding abatement of interest. Approximately 70 percent of the world's known oil reserves and 40 percent of its gas reserves are found in a sphere stretching from southern Russia in the north to Saudi Arabia in the south. With a growing dependence on this resource, the region has once again become a frontier. Those who sense a loss of control in the area, those who want to protect newly acquired interest and power, and those who want to gain a foothold and expand their interest in the area jostle for position and influence.

It is, however, a frontier vastly different from that of the past. At a time when the hegemonic powers and influences of the United States and Russia appear to be diminishing, other powers are emerging. The area is inviting new external interest, particularly from the oil-thirsty East Asia and Western oil companies. The Soviet collapse led to the formation of fifteen independent nation-states in the region. Today, the area is home to some 300 million people, predominantly young, many of them poor, and it is under severe environmental stress. In past scrambles, the needs of citizens and the quality of their environment were often forgotten. This can

no longer be the case; the aspirations of the people and the demand for a precautionary approach to the environment cannot be wished away. The new frontier contains more—and increasingly varied—interests than ever before.

Old and new players are engaged in various interest-seeking games, under different banners, with different agendas. What dominates these games is gross shortsightedness, a state of affairs that can exacerbate the brutal circle of power, money, and corruption evident in the region, and is sure to become a recipe for disaster. For example, the Russian energy sector seeks to secure partnerships in investments made in the oil and gas industry of the newly independent states; these states themselves seek to break structural dependence on Russia; and Western oil, gas, and engineering companies seek major contracts. A mixture of myth and reality, arrogance and humility, despair and hope characterizes this engagement. The people and environment do not always figure high on the agendas of the players, and reflection on the long-term future of the region is sacrificed for immediate gains. Problems are confronted on the basis of existing practice and approaches, often from afar and in a manner ill suited to the new and rapidly changing context. Behavior is rationalized in terms of past metaphors and rhetoric, born under different circumstances. Yet, the forces of transformation have created a labyrinth in the region, affecting all actors and sectors. Both newcomers and those who have been around for centuries have to adjust to the new realities of the Caspian frontier; no one escapes the impact, whether good or bad.

The forces of transformation emerge from larger processes of global change and circumstances internal to the region, as well as from specific countries and sectors. The United States is subject to a two-fold adjustment: it is a relative newcomer to the area and a self-promoted sole superpower, following the demise of the cold war bipolar world order. As such, it has to learn “new rules of doing” in an unfamiliar area, at a time of growing Third World reassertion, rising strength of nations and regions, declining American economic power, and diminishing utility of offensive force.¹ As U.S. National Security Adviser Samuel R. Berger remarked after an Iraqi-U.S. standoff: “We have a strong tradition of non-engagement and self-reliance in the world; yet here we are in a position where other countries look to us to lead. But if we lead with too heavy a hand, they resent it.”² At the time of the renewed crisis over the Iraqi weapons of mass destruction early in 1989, some senior American politicians were dismayed at Kofi Annan for “calling the shots” in defusing a very volatile situation.

Russia has to come to terms with the fact that their old republics are now independent and cannot be engaged in the games of the past. It also has to manage significant conservative and retrogressive forces within its cadre, seeking a mindless re-unification of the Soviet Union. Iran is faced

by a new set of neighbors along its northern borders. Internally, it is negotiating a difficult transition from an early pan-Islamic position to an eventual pan-Iranism. Its revolution is still an incomplete project. The new republics in the Caucasus and Central Asia face a daunting task: a transformation from being merely a supply house to Moscow to generating internal development and nation building. For most, independence came unexpectedly. These countries are experiencing the problems associated with a “collusion” between a fixation with elements of the old system and a desire to find a “third way,” integrating certain traditional values with those that are emerging or subdued for many years. Multinationals are trying to do business in an environment in which economic sense and political reality are often at odds and institutional frameworks are lacking or evolving. The fundamental transformation from centralized control to independence creates loopholes and vacuums, inviting corruption and other criminal activities.

The transformation is also manifested in unsettling shifts between exclusionary and inclusionary politics, between the sovereignty of nation-states and regionalism, between ethnocentrism and pluralism, between integration and self-centered development, between sectoral and holistic growth, between anthropocentric and environmental development, and between traditional and emerging values. History teaches us that new frontiers bring significant dangers and risks for all involved. In the Caspian region, the mixture of global change and the rapid opening of a new frontier have created a particularly volatile situation as values clash. The presence of rich and strategically significant hydrocarbon resources, the gradual slipping of Soviet control over its “near-abroad,” and the rising aspirations of citizens are all among contributing factors to this situation. The clash is reflected in numerous conflicts and postures, military and non-military, which continue to beset the region. How these will be managed represents a new challenge for the Caspian Region. The potential is rich: overall there could be a transformation from a contested and exploited region to one that is stable and sustainable, from broken and strained relationships to mended and new solidarity. Thus, from a region in the crossfire, the Caspian could emerge as a bastion of security for energy and development in the twenty-first century. The key challenge is how to engage and direct the vast potential that can be released if new thinking and collective action can be adopted.

This book attempts to bring some order to the current environment of disorder in the study of the region, indicating commonalities and threats, as well as suggesting ways in which existing and emerging challenges could be addressed. It aims at stimulating thinking about the challenges of the region and facilitating the constructive engagement of all players. The overall message of the book is that there is a need for reflection prior to action in the area, reflection aimed not only at the specific context, but

also at the nature of the relationships between the larger world and the frontier area. To achieve this, the book focuses on five major themes: the people and resources, development and environment, pipelines and outlets, security and geopolitics, and legal regimes of the Caspian Sea. These are themes that are currently either too hastily explained or their study is focused on serving particular players or interests. A rich analysis of the themes emerges in this book as the contributors, who come from different backgrounds, present different perspectives and prospects. There has been no attempt to impose methodological, ideological, or stylistic uniformity and orthodoxy on the contributors—it is believed that a more prosperous and secure future for the region can only be achieved through airing and respecting the contrasting perspectives of all actors involved.

The book does, however, have an Iranian focus. Iran has emerged as a major regional player from the U.S.-Iraq conflict. In the region, Iran is also one of the "oldest" and, arguably, the most politically stable country; it possesses considerable resources and skills and enjoys a unique geographic position. Despite the "dual containment" policy of the United States, Iran has maintained a strong influence in the region. In the recent past, it has also displayed pragmatism in regional policy and manifested increasing political maturity. There is little doubt that Iran will play a significant if not pivotal role in future regional politics and development. This, however, does detract from a primary conclusion of all the contributors, namely that regional cooperation is the key for future stability and prosperity in the Caspian region. Indeed, Iran, and particularly the nature of its relations with the United States, may be considered the key in achieving such cooperation. The Iranian focus of the book also follows from the editor's long-standing relation with the region. Born and raised on the southern shore of the Caspian Sea, he grew up enjoying the natural beauty of the Talish region in Iran's Gilan Province. His hope is that the Caspian's environment will be preserved for the enjoyment of future generations.

Organized into five parts, an introduction, and sixteen chapters, the book provides the most up-to-date statement currently available about the emerging Caspian frontier. In the introduction, the editor ties together the many disparate aspects of the new frontier in an attempt to offer a more conceptual and holistic understanding of its challenges and prospects. In the first chapter of Part I, on people and resources, Schoeberlein and Ilkhamov explore the region's geographical and population diversity, as well as the origins of national identities and their role in current politics. In the following chapter, Skagen analyzes the extent of the Caspian region's oil and gas reserves and the potential of different countries to become significant producers. Focusing on Iran, Khajepour-Khouei in the next chapter discusses the significance of non-petroleum

resources and other forms of economic activity in the Caspian Sea area, an aspect often ignored in the scramble for oil and gas.

Part II, on development and environment, begins with Mostashari's contribution, in which she explores the history of the Azerbaijan's early oil industry with a view to draw parallels with current approaches. The author suggests that unwise policies today may contain in them the seeds of social and political instability, similar to that which gripped Baku at the turn of the century. In his chapter, Seznec warns that the export focus of the region's hydrocarbon industry will not necessarily make a significant contribution to the welfare of the Caucasus and Central Asia. Other, more sustainable development options warrant consideration, particularly using oil and gas resources to fuel the region's industrialization and the development of value-added economic activities. In their respective chapters, Namazi and Goodarzy discuss the varied environmental challenges and concomitant management initiatives of the Caspian Sea—the focal area of international hydrocarbon interest.

The countries of the Caucasus and Central Asia are landlocked. They must therefore rely on expensive pipelines through other countries to transport their oil and gas to maritime terminals and foreign markets. Part III, on pipelines and outlets, analyzes the pros and cons of the varied pipeline proposals devised to facilitate the export of oil and gas from the region. In his chapter, Ghorban analyzes the economic reasons why Iran provides the best possible option as the conduit for oil and gas from the Caucasus and Central Asia. He emphasizes the significance of swap arrangements with Iran as an economic alternative to more conventional pipeline proposals. Kovalev makes the case for Russia as being the most expedient route for exporting Caspian oil and gas. In the last chapter of this part, Amirahmadi gives an overview of pipeline politics and suggests that pros and cons of various lines call for a multiple pipeline approach where most nations in the region will benefit from the economic and strategic advantages that new oil and gas pipelines offer.

In the first chapter of Part IV, on security and geopolitics, Mojtahed-Zadeh provides a general perspective on the geopolitical factors that have been influencing international relations in the Caspian region. In particular, he discusses the role of Iran in any regional alignment as a matter of geo-economic and strategic necessity. In their chapter, McGuin and Meshahi examine the United States' drive for influence in the region and the role that Turkey and Azerbaijan have played in that effort. In the last chapter of this part, Ansari examines the potential for military conflict in the region, given a new environment of economic and resource competition in the post-Soviet era.

The challenges of coexistence in a competitive environment will demand Caspian countries to adopt national laws and international regula-

lations to govern their relations in areas such as overlapping resource exploitation, fishing, sanitation, pollution control, contraband, immigration, taxation, and so on. This struggle is illustrated in the search for an appropriate legal regime for the Caspian Sea. In Part V, on legal perspectives, chapters by Mirfendereski, Horton and Mamedov, and Movahed present a broad framework for developing a legal regime for the Caspian Sea, as well as the different perspectives of Azerbaijan and Iran on the issue. Russia's perspective is covered in the chapter by Kovalev.

In editing this book, the editor has received encouragement and support from many of his students, colleagues, and friends. Among them, Dr. Guive Mirfendereski and Stephen Boshoff deserve special mention. Guive's contribution was especially important as he helped rewrite and edit the chapters, while Stephen helped in the research and drafting of the introduction. I am also indebted to Siamak Namazi for helping with the initial setup of the project, particularly in communicating with the key contributors to the book. Caspian Associates, Inc., a strategic research and consulting firm specializing in the Caspian region, provided administrative support and sponsorship for the project. Needless to say, the individual authors and the editor remain accountable for any shortcomings and errors of the volume.

Hooshang Amirahmadi
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Notes

1. See Hooshang Amirahmadi, "Global Restructuring, the Persian Gulf War, and the U.S. Quest for World Leadership," in *The United States and the Middle East: A Search for New Perspectives* (Albany: State University of New York Press, 1993).
2. See Steven Erlanger, "America, the Lone Wolf with a Following," *New York Times* (March 1, 1998).

INTRODUCTION

Challenges of the Caspian Region

Hooshang Amirahmadi

The purpose of this introduction is to tie together the issues raised in the present volume and to project these concerns into a possible scenario for the region in the next decade. Most writings on the area deal with specific and isolated topics, such as oil and gas reserves, pipelines, the Caspian Sea legal regime, and U.S.-Iranian relations. Although these issues are individually important, there is a need to analyze their common basis. Once this is done, it will be easier to better understand the current circumstances and speculate about the future trajectories of the region.

It will be argued that the Caspian region suffers from a primitive state of research and analysis, a fictional perspective of its problems and prospects, a partial view of its development requirements, and a dominance of global interests over local needs. Similarly troubling is the dominance of rhetoric, obliviousness to history, the zero-sum mindset of most major regional players, deep-rooted sources of regional instability, insensibility to the need for regional cooperation, and the entrenched leadership of the largely undemocratic personalities.

For the Caspian region to prosper, these problems have to be addressed in a substantive manner. This will require developing new academic programs, educational facilities, and research institutions. Leaders must realize the need for development of open societies and public participation. But the most important change has to be initiated at the international policy level. The Caspian players must come together in common purpose and for the good of the region's people as well as for their own private self-interests. Regional cooperation must be the guiding principle for these players to reconstruct their relations on a sustainable basis. Much can be learned from history and experiences elsewhere in the world.

The Caspian Region Defined

Notwithstanding the increasing recognition of its significance, there is no clear definition of what constitutes the Caspian region. Does it comprise the newly independent states, the littoral states, states within the catchment area of the Caspian Sea, states with noteworthy hydrocarbon reserves, or states that contain the primary network of hydrocarbon reserves and routes to transport oil and gas? Despite the changing configuration of empires in the region, significant population movement over time, and the focus of activity around the Caspian Sea, the area is not viewed as an integrated whole, but rather as a collection of isolated geographic fragments. A more robust methodological approach to defining the region is of primary importance for preparing a regional vision and for planning and policy formulation in individual countries.

The new emphasis on the Caspian Sea area results from its regional development potentials. Few countries, perhaps with the exception of Iran, can hope to achieve much development without regional cooperation. Most are landlocked and depend on other countries to transport oil and gas to world markets. Also, given their long history of exploitation, most are devoid of sufficient infrastructure, modern technology, appropriate expertise, consumer products, and domestic markets. Such a state of affairs does not fare well with a world where economic forces dominate international relations.

The accumulation of capital, agglomeration of production, and expansion of marketing opportunities is important for autonomy of the new Caspian economies. In today's world, regions form because of the need for transnational synergy and the concomitant prospect for development. This is different from the past, when regions were defined on the basis of religion, culture, colonial legacy, and like criteria. While economic institutions are key to regional development, non-economic networks are also needed for managing challenges that may threaten balance and growth.

The Caspian region may be defined as comprising Iran, Afghanistan, Pakistan, Turkey, Georgia, part of the Russian Federation, Armenia, Azerbaijan, Turkmenistan, Uzbekistan, Tajikistan, Kyrgyzstan, and Kazakhstan. This excludes India and the Arab world. Both political and economic factors underlie this proposed grouping of countries.¹ Even though the Caspian region is predominantly Muslim, Islam is not viewed as an important political force in the area. Rather, the proposed constellation "constitute(s) an economically viable assemblage of states with common developmental interests and an awareness of their potential for development synergy."²

Three interrelated bases for the development potential of the region may be identified: capital, transportation, and economic reciprocity. Growing world demand for hydrocarbon fuel guarantees capital, which

could be distributed among all countries to an extent because of the landlocked nature of most littoral states and the need for pipelines that traverse several countries. Rail networks could be expanded to link countries in the region and the network could be integrated with other transport systems to facilitate interaction, particularly via maritime access. As most economies are in a state of sectoral imbalance, though not in the same way, significant potential for intra-regional trade exists. Iran, Turkey, Russia, and China form a ring of outlets to the rest of the world for the region.

The functioning of the Economic Cooperation Organization (ECO), established to facilitate economic affiliation and cooperation in the region, has been inhibited because it has not been formed with a clear regional focus. Turkey, for example, has tended to subordinate ECO to its ambition to join the European Union (EU) and to its relationship with the United States, Israel, and Azerbaijan. On the other hand, the Caspian focus of the Organization for Regional Cooperation of the Caspian States (ORCS) may be too narrow to represent the varied interdependencies of countries in the region.

There are also political obstacles to regional cooperation. For example, Pakistan is not on good terms with India, while Russia has tenuous relations with the countries in its "near abroad." Similarly, the current policy of the United States toward the Caspian region and its so-called East-West directional strategy excludes Iran as a player in the region. Instead, the United States emphasizes relations with certain so-called pivotal states, particularly Turkey, Azerbaijan, Georgia, and Armenia, which are not economically linked or politically allied. The U.S. view of the region negates the important development interdependencies that exist between Iran and its northern neighbors. It is not also conducive to regional stability, which is a prerequisite for development in the region.

Within the larger region, there are other definitional issues. For example, in relation to the environment, how should the region be defined? Does it only include the Caspian Sea area and the rivers that feed it, or also the Black Sea, which will have to carry the risk of acting as conduit for Caspian oil? Apart from concerns about the adequacy of present navigational systems, the Turkish government, in particular, is concerned about the environmental risk to Istanbul owing to increased tanker traffic through the straits of Bosphorus and the Dardanelles. With this in mind, how should the Caspian Sea legal regime be resolved? For example, a legal regime based on the so-called donut principle of common resource use opens the opportunity for joint development while a division of the sea will reduce such possibility. From an environmental perspective, the first option is certainly more desirable, as it increases the chance for a region-wide management of resource extraction and pollution control.

Russia's role in the region should not be underestimated. It is a littoral state controlling a significant stretch of the Caspian shore. For example,

it is difficult to envisage how the Caspian Sea legal regime can be resolved without Russia's cooperation, not to mention meeting its challenges of resource management and environmental protection. Further, Russia cannot be ignored as an outlet for some oil and gas from the region, and as a partner in intra-regional oil and gas swaps, transport, and trade. Sidelineing Russia in regional developmental programs could also unleash its considerable "spoiling" potential, illustrated by its control of pipeline access for Central Asian oil and gas. It will also strengthen the hand of conservative and retrogressive elements within Russia's as yet fragile new power structure.

The Primitive State of Caspian Studies

There is a dearth of empirical study of the Caspian region, a factor that underlies the significant misunderstanding of the area's resources, problems, and needs. For example, despite severe stress on the Caspian's natural environment, relevant information in the field is scarce. As a consequence, aspects of the environmental regime are poorly understood. In recent years, a significant rise in sea level has caused loss of life, damage to infrastructure, and an increase in pollution. What causes the rise in Caspian's water level? A generally acceptable answer is yet to be formulated.

More empirical studies are required for theory building and conceptualization if a deeper, more analytical understanding of the region as a whole and in terms of its various building blocks is to be achieved. The initiative of Iran and Russia to establish a center for Caspian studies in Moscow in 1992 was aimed at addressing the need for environmental data collection and analysis. Unfortunately, inadequate resources and cooperation have inhibited this venture. Furthermore, disagreement over the legal regime of the Caspian Sea represents a major impediment to regional studies. For example, current debate on the issue focuses largely on past legal arrangements and understandings of use rights. What explicit implications the legal regime of the Caspian Sea would have for the environment, for example, remains copiously devoid of study because certain states do not wish to entertain the idea.

There is no doubt that the Caspian basin contains significant hydrocarbon resources. However, estimates of the region's oil and gas reserves vary, owing to a lack of reliable information. In particular, individual governments, desperate to attract foreign investment and to manage their own fragility in the face of high expectations and socio-economic hardship, tend to present a rosy picture of the extent of resources. Analysts and consultants, hoping to secure contracts, fuel this optimistic and romantic image of the area's riches. Western companies stand to benefit from exaggerating the extent of the region's reserves, as they seek favorable trading conditions with oil producers in and outside the region. The U.S. Gov-

ernment has also tended to ignore the problem because such exaggerations serve to justify its growing involvement in the region. Yet, in order to secure the socio-economic and political stability of the Caspian frontier, realistic rather than fictitious estimates of its resources are required.

More significantly, we are reminded that judgement is still out as to whether the oil and gas reserves of the region, and particularly the export of such resources, will make a significant contribution to the welfare of the Caucasian and Central Asian states and their inhabitants. As compared to the Persian Gulf, the oil and gas export industry in these countries face severe inhibiting factors. For example, gas from the Caspian region may not be as easy to be placed on world markets as many would like to believe. No doubt, more thorough studies are required about how best to utilize the Caspian's hydrocarbon resources for sustainable long-term socio-economic development.

At a more general level, the lack of empirical studies is also illustrated in external actors' perceptions and views of the Caspian Region as a whole. It is unfortunate that the Caspian Region, home to one of the world's oldest civilizations, and an ethnically diverse community, continues to be seen in the West in terms of certain stereotypes, namely hydrocarbon wealth, geopolitical importance, internal conflicts, and Islamic fundamentalism. The concomitant diplomacy and policies of the Western players toward the area are Anglo-centric and chauvinistic, ignoring the new reality of a world where different worldviews and cultural forces are being reasserted.

The need to change these outdated stereotypes forms the basis for future positive engagement in the region by the outside players. For example, it should be recognized that Islam and Islamic fundamentalism are not of similar significance as cultural and political forces throughout the Caspian region. Besides, as Ali Mazrui remarks: "against Western claims that Islamic 'fundamentalism' feeds terrorism, one powerful paradox of the twentieth century is often overlooked. While Islam may generate more political violence than Western culture, Western culture generates more street crime than Islam. . . . Western liberal democracy has enabled societies to enjoy openness, government accountability, popular participation, and high economic productivity, but Western pluralism has also been a breeding ground for racism, fascism, exploitation, and genocide. If history is to end in arrival at the ultimate political order, it will require more than the West's message on how to maximize the best in human nature."³

Students in Western elementary and high schools learn very little about the geography, cultures, or history of the Caspian area. At the same time, centers of Caspian studies at U.S. universities largely function as isolated enclaves, divorced from the internal dynamism and policy processes of the Caspian region. No wonder that this educational system

should mold the current misunderstanding of the area, particularly in the United States.

The Dominance of Fictional Prospects

The dismal state of Caspian studies has produced more fiction than fact about the region, negatively effecting a more realistic assessment of regional problems and prospects. For example, current and projected medium-term production of hydrocarbon resources in the Caucasus and Central Asia is relatively meager. Yet, governments keen on attracting foreign investment and assisted by analysts in search of short-term opportunities often inflate estimates of resources. This could lead to an unrealistic estimation of the extent to which oil exports can boost development, guarantee foreign assistance, and improve the stability of governments for managing national affairs.

A more balanced view of resources and constraints to extraction would facilitate a deeper understanding of the interdependence of countries, as well as the interconnectedness of different facets of development. It would also temper the regional hegemonic aspirations of some countries. For example, inflation of Caspian resources and the consequent increase in U.S. activities there gives an outward expression of increasingly deeper American involvement in the region. Yet, it is not for certain that the United States, given the real size of regional resources, the likelihood of reaction from Moscow, and the minimal investments by the West thus far in the area, will engage in the long-term "hegemonic management" of the area.

Fictional notions also underlie popular geopolitical and developmental strategies for the region, particularly those originating in the West. The so-called New Silk Road proposal aimed at a western-oriented infrastructure and pipeline corridor stretching from Central Asia to Turkey to markets in the West is a case in point. It fails to consider the significance of Russian and Iranian political interests in the region, as well as their capacity to assist in its development. Further, it is oblivious to the underdevelopment of the Caucasus and Central Asia as a market for Western goods and to the structural dependence of these countries on its northern and southern neighbors. Ignored are also the serious geographic and political constraints that could impede the viability of a Western-oriented development corridor and the limited extent of the European market as an outlet for Caspian hydrocarbon resources. Worse still, it probably underestimates the tenacity of Caspian countries to resist any form of new hegemonic control and integration.

Simplistic Notions of a Complex Reality

Simplistic notions of a complex and interconnected phenomena such as the Caspian region abound. Views of both external and internal actors suffer from this problem. One reason why the complexity is overlooked is that commercial interests in the region preceded academic research. This relates to the rapid opening up of the region, expectations of its resource riches, and the work of consultants relating to the exploration of these resources. Generally, the area is viewed as a good piece of real estate—up for grabs by the toughest and highest bidder. Very little attention is focused on the people and environment of the place, and its long-term socio-economic and political stability. This mindset has led to the neglect by the littoral states to properly define their national interests. Leaders have been concerned primarily with securing the best deal in relation to the selling of hydrocarbon resources.

As an example, there is an almost reckless inattention to the legal regime of the Caspian Sea, while at the same time, international contract after contract is secured for the exploration and extraction of its oil and gas. The issue of delimitation of the Caspian Sea persists. It impedes implementation of development projects. The debate on the Caspian Sea legal regime is largely restricted to legal issues, instead of including important environmental and development imperatives. Legal perspectives can serve as a resource for determining an appropriate legal regime, but they cannot serve as the point of departure for regional development. The political and environmental context has changed significantly since the standing legal regime was introduced. Not only has the number of littoral states increased, but so has the extent of pressure on the Caspian Sea as a natural resource, both as a container of pollutants and a source of development and livelihood.

Simplistic notions of inherently complex phenomena also prevail in relation to perceptions of the internal dynamics of countries. For example, studies of post-revolutionary Iran have focused on the Islamic government, largely ignoring the non-state sector. As a consequence, the understanding of Iran has been largely reduced to one of the regime in power.⁴ What is ignored is, for example, that with the republican revolution, Iranians entered the political scene en masse as participants. It was they who overthrew the Shah; it was they who fought Saddam Hussein while his war machine was backed by the West and the wealthy Persian Gulf monarchies; and it was they who forced the Islamic system to retreat from many restrictive cultural and social policies. If there is anything that the Iranian clergy are concerned with, it is not the United States or Israel, but the latent power of their own people.

Expediency versus Historical Perspective

Policy and action in the region show a dearth of historically based reflection. Life and governance in the Caspian region has been intertwined with the exploitation of oil for centuries. A richly textured history exists for individual places and for the region as a whole. This represents an important source of experience and knowledge, often forgotten in the rapidly changing development context of today, where decisions have to be made quickly, and time spent on reflection is not viewed as an asset. For newly independent states, history is often associated with times best forgotten, opposed to being viewed as a source of guidance and insight for the future. There is an ill-informed belief that the events of the past will not be repeated.

Perhaps, now more than ever, there is a need for reflection, and a view of history as a means to make sense of today's increasingly complex world. The scale and nature of the Caspian problematic is vastly different to what it once was. There are many more actors involved, more people with pressing needs to be met, and governments with less power to act unilaterally and no longer able to rely on force to achieve their aims. They are so more dependent on external sources of finance. Although the present situation is substantially more complex than before, we have the benefit of history to teach us precedent, to serve as both a guiding light and a warning.

Despite the curtailment of state powers today, many facets of the role played by the state in earlier times are important. First, the state's view of a valuable natural resource as a means to increase government revenue is more than one that forms the basis for more sustainable development that warrants careful consideration. Second, the state's intense internal delays in decision making impeded the potential constructive development of the oil industry. Recent developments to consolidate the various ministries engaged in energy matters in the newly independent states should be welcomed in this regard. Also important is the kind of support the state provides in resources over which it has substantial control, from infrastructure to education, to allow for a more beneficial exploitation of the resource.

Finally, the state has a role to play in protecting the interests of smaller industries so that opportunities associated with hydrocarbon resources can be spread more widely. The state should not favor foreign capital to the detriment of local development. Instead, it has a responsibility to establish rules or conditions for foreign investment, which further support rather than inhibit local opportunities. Less dependence on foreign capital and a few multinationals would reduce dependency on the whims and woes of the international market. We are reminded of the harmful consequences of over-dependence by the incidents of the Baku oil crisis in

the early twentieth century, and the control of transportation routes by first the Noble and later the Rothschild companies.

History offers important lessons for foreign companies. Even today, the tides can turn unexpectedly. Companies should not contribute to the vulnerability of governments through exploitative practices. When the tide turns, as it did in the Baku crisis, they cannot necessarily rely on the support of the state, and may lose everything. The institutional impasse, which was previously a result of a lack of coordination among government departments, could now conceivably occur between nation-states. The impasse leads to problems that currently relate to fundamental developmental and environmental issues.

History also suggests the wisdom of stronger states bearing responsibility, when possible, to secure against the perils faced by weaker states in the region. States could gain from respecting and assisting each other in developing their comparative advantages. In a region where the advantages of interdependence are prominent, focusing primarily on competitive advantage is inappropriate. The approach should be to gauge the competitive advantage of the region as a whole, and within that, to address the comparative advantage of its parts. The interdependent destinies of the Caspian region and the oil industry means that both will suffer if problems are addressed unilaterally. Regional cooperation is necessary not only for environmental management, but also for the installation of pipelines, among other development projects.

There are, however, contradictions in the extent to which history determines present-day action. The past may be forgotten in adherence to an export-driven development view, but it has been revived in shaping the foreign policy and the worldviews of key actors in the region. U.S. sanctions against Iran is a case in point, based on historic events and premises that may no longer be relevant. Current pipeline preferences have tended to take current U.S.-Iran relations as a given, not recognizing that much can change within the period of construction of these pipelines. Perhaps more time should be spent defining the preconditions for viable pipeline routes rather than speculating about routes within an uncertain context. The future development of the Caspian region is too grand a topic to be viewed through the lens of the current U.S. administration, the leaders of the Islamic Republic, or of present U.S.-Iran relations. Long after the current political players have left the scene, there still will be two great regions that must one day mend their fences and make the world a better place for posterity.

The Need for Comprehensive Development

Development perspectives for the area are partial rather than comprehensive. The governments of the newly independent states generally define

national development in terms of the energy sector, and particularly one aspect of this sector: the export of hydrocarbon resources. People, the environment, and exactly how hydrocarbon wealth will relate to development, appear to feature relatively low on their agendas. The personal involvement by leaders of littoral states in energy matters clearly illustrates this point. In Azerbaijan, Turkmenistan, and Kazakhstan, leaders personally negotiate, ratify and sign contracts with foreign oil consortia.

Nowhere is the partial approach to development in the Caspian region better illustrated than in the response to the environment. The potential for environmental disaster is often forgotten, as consultants, analysts, leaders, and multinationals focus on the hydrocarbon resources and related commercial opportunity. This occurs despite the environmental devastation of the nearby Aral Sea, representing a stark reminder of the consequences of such inattention. Worse yet, environmental issues are allowed to become a part of political disputes or perspectives. A conference on the Caspian environment in March 1999 in Vienna, sponsored by NATO, did not permit Iran's participation.

The Caspian Sea is an apt metaphor for the development dynamics of the region. The physiographic and ecological characteristics of the Caspian as a natural system are clearly at odds with present political boundaries and institutions. Its proper workings and protection demand a management response different from the individual responsibilities of littoral states. Yet, no legal and institutional structures that reflect the essence of the natural system exist. Attempts to create such structures have not been successful, lacking funding, cooperation, and reliable information. At the same time, significant funding is poured into hydrocarbon exploration.

International institutions are also ill equipped to deal with the Caspian's environmental problems. This is partly due to their global focus and procedural characteristics. They are also handicapped in helping the region financially. Moreover, none has as yet developed a region-wide cooperative scheme for environmental protection. Funding and procedural difficulties have already neutralized one major initiative: the Caspian Sea Environmental Initiative, established in 1993 by the United Nations Development Program, the United Nations Environmental Program, and the World Bank. The Initiative was to arrest the deteriorating state of the Caspian Sea environment, but experienced funding problems because not all littoral states were members of the Global Environmental Facility, the funding agency of the United Nations Environmental Programs.

Rampant poverty in the region, augmented by a lack of appropriate laws and capacity for enforcement, make the unsustainable exploitation of the Caspian's natural resources a very real threat to a unique ecology. The rise of the Caspian Sea water level contributes not only to economic loss

by damaging agricultural land, infrastructure, and buildings, but also increases pollution as some of the most polluted lands of the former Soviet Union are in the immediate vicinity. Thus far the causes of the high pollution levels of the Caspian waters have been industrial wastes and untreated sewerage poured into the sea. The extensive development of hydrocarbon resources promises greater problems, particularly as production moves increasingly offshore.

The economic impact of environmental degradation should not be underestimated, particularly because the Caspian shores offer significant non-oil economic potential. For example, although oil exports constitute Iran's major source of foreign exchange, agriculture leads all sectors with a 25 percent contribution to GDP, followed by oil with 15.5 percent. Iran's Caspian region, occupying only 4 percent of the country's land area, is responsible for 40 percent of the country's agricultural activity. As the government is emphasizing self-sufficiency in the food sector, the region's role in agriculture could increase. Throughout the region, in the Iranian and Russian sides, in particular, more people make their living by fishing and caviar production than by any other means. Moreover, the Caspian shores are a major attraction for tourists from all over the region, an industry that has grown significantly since the collapse of the Soviet Union.

Given the large and rapidly growing population of the Caspian region, it can ill afford to neglect any one of its resources offering potential for growth and development. Thus, it is not clear whether the hydrocarbon riches of the Caspian, and particularly an emphasis on its export, is a blessing or a curse to the region's newly independent states. It can also be argued that within the energy sector, there is an overriding emphasis on oil. This perspective underplays the significance of gas as an important fuel in the twenty-first century and is oblivious to the fact that oil fields require massive investments to keep them going. For example, Iran, which holds the second largest gas reserves in the world, is an importer of gas. To date, despite the availability of the required technology, it has not significantly explored the conversion of gas to liquid fuel, a strategy that overcomes the problems endemic to the gas industry such as the need for fixed outlets and long-term contracts.

Global Interests and Local Needs

Global interests in relation to geo-political strategy and the security of hydrocarbon resources, rather than local developmental needs, appear to drive engagement in the Caspian region. The conflicts between these forces represent a major impediment to future regional prosperity. At this stage, American corporations are by far the lead players in the business development debate of the Caspian region. How to get oil out of the

region, in the quickest way possible, is their key interest. Governments will have to devise frameworks to engage these actors while also providing for the fulfillment of local needs.

The current emphasis on the extraction and export of Caspian oil and gas may not be in the long-term economic and social interest of the littoral states. In terms of proven reserves of hydrocarbon resources, the Caucasus and Central Asia are not as significant as the Persian Gulf or even Iran alone. Further, the Gulf benefits from the lowest marginal cost of production in the world for pumping crude, as well as low transit costs since the required pipelines to export terminals are short. Geographic and political factors impede the competitiveness of the Caspian oil and gas industry.

The required length of pipelines and demanding physical terrain will result in high capital and maintenance costs. Further, transit fees have to be paid to countries traversed by pipelines as well as management fees at maritime terminals. Added to these costs are the royalties and management costs to be paid to foreign companies responsible for financing and developing the oilfields and pipelines. All of these factors will reduce the share of the Caspian Sea countries to one third of the actual sale price of their crude oil. Under these circumstances, a lower crude price can have detrimental effects on the prospects of oil and gas development in the region.

Since hydrocarbon resources are not renewable, their export could compel governments to diversify rapidly and engage in not-so-viable industrialization programs. An influx of foreign exchange from oil exports can lead to over-valued local currencies, and a preference for the importation of goods and labor, thereby inhibiting the development of local industries and employment—a problem already faced by the Persian Gulf oil-exporting states. Thus, alternatives should be sought to development based on the export of oil and gas. However, given that the littoral states will depend on their oil and gas reserves for some time, any alternative must utilize and benefit from these natural resources.

One such alternative is development of energy-intensive industries such as the production of petrochemicals, aluminum, and direct reduction steel, which could be easily transported via a variety of routes to Europe and the Far East. Although these industries also demand considerable investment, it can be argued that returns on such investment could be three to four times higher than revenues from the export of oil and gas. Such a development focus has the added advantage of increasing the range of sources for foreign funding, thereby creating a more favorable and competitive investment environment. Substantial value could be added to a non-renewable resource, more jobs could be created, and economic independence can increase as countries become less reliant on the goodwill of adjoining states for the transit of resources. In the long term, more diverse

economies would facilitate social and political stability as well as the containment of environmental degradation.

Zero-Sum and Win-Win Strategies

Zero-sum, as opposed to win-win, strategies characterize engagement by different actors in the region. The "great game" metaphor may be too simplistic a notion to describe the dynamics of the Caspian region. Yet elements of it remain in the policies of the United States and Russia, particularly viewed as the main players in the region. To a lesser extent perhaps, the involvement of multi-national oil, and non-oil, companies also exhibit elements of a game. The difference is, while the former actors are largely interested in strategic positioning of their interests, the latter are focused on economic matters.

The United States, in wanting to integrate Russia into Western oriented market and security arrangements, clearly illustrates a hegemonic tendency. A similar tendency motivates the U.S. policy to contain and exclude Iranian interests in the Caspian region. Similarly, Russia's "near abroad" policy toward the Caucasus and Central Asia is an assertion of its past hegemonic control. In contrast, Iran has followed a far more pragmatic strategy toward its new neighbors to the north, focusing on economic issues and underplaying ideological differences. The next major player, Turkey, has yet to strike a balance between its pragmatic interests in the region and Turkish nationalism.

Within the littoral states themselves, it is important to remember that the composition of the population is extremely varied. In only a few countries are members of the "titular" nationality—the group for which a particular territory was "designed"—a significant majority. Therefore, a major challenge of the region is to devise systems of inclusionary governance, which provide for meaningful participation of minorities. It is especially at this national level that the countries in the region need to devise win-win strategies and then coordinate them with similar approaches to international relations.

Rhetoric versus Reality

Rhetoric abounds in relations between actors engaged in the Caspian region. U.S.-Iran relations since the 1979 revolution illustrate this point. The Islamic regime has viewed the United States as "the Great Satan," the origin of all evil intentions. The United States has been equally guilty of inflammatory rhetoric that describes Iran as a "rogue" or "outlaw" state, and "the world's leading sponsor of terrorism." Rhetoric is to a large extent a relic of the region's past, its geo-political dynamics and power relations. It is also a product of the determinants of political and eco-

conomic influences and control predating the collapse of the Soviet Union. But the post-Soviet era has witnessed a new form of rhetoric, one designed to demonize and incriminate the adverse party.

Today, rhetoric is sustained because players have not internalized the limits of what they can practically achieve individually in the current world order, as well as the extent to which development of the region is dependent on regional cooperation. For example, regional realities have made it difficult for U.S. policy and rhetoric to effectively influence their targets. In early 1998, the mismatch between rhetoric and practical action was illustrated by the United States conceding to limited swap arrangements for oil and gas between Iran and Central Asia. The gap was again demonstrated when the United States relaxed ILSA (secondary, extraterritorial sanctions against foreign firms) in relation to Iran's oil investment deal with Total, Gazprom, and Petronas companies. The failed "dual containment" policy was another instance of mismatch between rhetoric and reality.

Capitalizing on the potential of the Caspian for energy utilization and development in the twenty-first century will largely depend on regional cooperation. In this environment, hostile rhetoric confuses issues and destroys the atmosphere of mutual respect and understanding required for achieving cooperation. At the same time, it can represent a positive force. The deep-seated origins of rhetorical issues should not be underestimated. Rhetoric can serve to prevent societal change and changing relations from erupting in the face of those who promote change. All the players in the Caspian Region have to contend with conservative and retrogressive forces within their midst, forces that are sensitive to runaway change.

Sources of Regional Instability

Different actors with different priorities are playing different roles in the region. The emphasis on the export of hydrocarbon resources could be attributed in part to the central role that multinational oil companies, analysts, financiers, and consultants play in the region. Newly independent states have spared no effort to create favorable investment environments for these actors, though what constitutes such an environment over the long term is not always fully understood. This is not to say that these actors should not play a prominent role. Rather, there should be a clear understanding of their specific role as opposed to those of others. As long as oil companies' interests dominate in the region, more sustainable development scenarios will not be actively pursued.

This lopsided emphasis on a single sector could be attributed also to the legacy of centralized planning and lack of political development in these countries. Moreover, as the collapse of the Soviet Union was not

inevitable, Central Asia and the Caucasus were caught off guard; they were clearly not prepared to deal with unexpected independence and the challenges of nation-building. Thus, the realities of structural interdependence between Russia and its "near abroad" cut through the economic and political domains, as well as through the areas of security and socialization. In short, the legacy of the Soviet era pervasively survives and should not be underestimated.

The policies of major players in the region, notably Russia and the United States, do not always facilitate a more rational understanding and development of the roles and involvement of different actors. For example, Moscow views its "near abroad" in Central Asia and the Caucasus as a primary area of historical influence and interest, demanding a foreign policy distinct from that of Russia's interstate relations with the rest of the world. It is an area where Russians want to be the sole guarantor of security and a key arbiter of major geopolitical shifts. Importantly, this view is broadly shared among various political groups in Russia, and the Russian government has in various occasions illustrated its ability and commitment to protecting its interests in the region.

The declared interest of the United States in the area similarly impedes a broader understanding and respect for the roles of different actors. Its East-West orientation, hegemonic tendency, and preoccupation with the "Islamic threat" exclude key players in the region. The shared interests of the Russians and Americans in the area, built around nuclear non-proliferation and containment of Islam, is likely to come under increasing pressure from other major regional or extra-regional players as competition for resources grows. Clearly, a return to the "cold war" mentality could further impede the engagement of all actors in the development process of the region.

The Caspian region is signified by a catalog of sources of tension and security issues. Existing conflicts include the Karabagh War between Armenia and Azerbaijan, the Chechen conflict involving Chechnya and Russia, the Turko-Kurdish hostility, and the war in Afghanistan. Potential sources of conflict also exist between Azerbaijan and Iran, as well as in Lezgin and Dagestan. Current conflicts, some longstanding and largely unresolved, have inhibited implementation of development proposals, drained resources, and exacerbated poor relations among the regional states and nationalities. The devastating impact of the Karabagh conflict on the economies of Armenia and Azerbaijan is illustrative of the kind of negative consequences that such conflicts have on regional development.

Moreover, low-intensity warfare by various ethnic and sectarian militias represents a threat to the long-term stability of the Caspian region. Although these are likely to originate more from intra-state instability than inter-state rivalries, the potential for conflicts to spill over political boundaries and draw in external actors cannot be ruled out. Most of these

Conflicts will not simply disappear as deep-rooted grievances and legitimate demands or claims fuel them. It is thus critical that they are recognized and drawn into nation-building and regional cooperation and development schemes.

The Need for Regional Cooperation

Regional cooperation on a range of issues is crucial to overcome the challenges and unlock the development potential of the Caspian. Yet most countries emphasize self-interest over communal interests, seriously impeding regional cooperation and development prospects. The states in the Caucasus and Central Asia are landlocked, requiring cooperation with their neighbors for pipeline outlets for their hydrocarbon exports. The significance of pipelines in Caspian oil production needs no emphasis, it is now a global issue. Caspian oil production can reach five million barrels per day (mbls/d) by the year 2010. Domestic consumption could surpass one mbls/d by the same year. However, existing pipeline capacity some 400,000 bls/d, only sufficient to carry the so-called early oil.

Self-interest and the battle for power and political influence are most evident in the rivalry for the routes of these pipelines required for transporting "big oil" from the region. Pipelines provide investment, jobs, royalties, long-term access to energy sources and, critically, considerable political and economic leverage. Russia hopes to maintain its traditional control and influence by advocating oil and gas export through its own territory. On the other hand, the newly independent states are eager to shed their dependence on Russia and consider other options through Georgia, Turkey, and Iran. The international oil companies are also eager to find the most economical export outlets to ensure profitability of their ventures. Yet, owing to U.S. sanctions against Iran, the most attractive route through that country are not fully explored, thereby depriving the regional states of maximizing their oil revenues. Iran's option is particularly attractive in an environment of declining oil prices. The exclusion of Iran has made other alternatives so untenable that the United States has been forced to propose and defend pipeline routes across the Caspian Sea, an alternative that is environmentally hazardous given that the sea is earthquake prone.

The large size of some Caspian countries and the wide distribution of hydrocarbon resources, refineries, and population demand regional cooperation as a prerequisite for development. For example, owing to the distance between Kazakhstan's Tengiz oil field in the west and its main consumption centers in the north and southeastern parts of the country, crude has been exported to and via Russia, while Russian crude is exported to refineries in the east. In addition, under Soviet rule the function of the Caucasus and Central Asia was seen only in relation to that of

Moscow: each country was assigned a role in relation to serving the overall Russian economy. As a result, the economies, infrastructure, services, and facilities of the new republics are in a state of imbalance. Cooperation between states is simply the fastest and cheapest way to overcome the consequences of this imbalance.

Given the enormous cost of new pipelines, swap arrangements with Iran is a viable and economically practical alternative for exporting some oil from the Caucasus and Central Asia. The pipeline network and port infrastructure on the Caspian coast are largely in place or can be provided at reasonable cost and time, to carry both "early oil" and some later production. Iran's existing refineries at Tabriz, Teheran, Arak, and Isfahan could receive oil from the north rather than from the Persian Gulf. Other advantages of this arrangement would be the bypassing of politically unstable areas, avoiding environmental and navigational concerns related to the Caspian Sea and the Bosphorus, and promoting better exposure to the dynamic and growing Eastern markets.

The newly independent states lack money for investment in infrastructure required for development. However, much could be achieved through regional cooperation. One example of what could be done is Iranian-Turkmen cooperation on gas exports, where Iran is financing pipeline infrastructure while Turkmenistan pays back its share in-kind with gas. Further examples of expanded regional cooperation include Iran's ambitious project to construct a canal linking the Caspian Sea with the Persian Gulf. Obviously, constructing the canal will require international cooperation, but if constructed, it would significantly reduce the transport cost of oil and other commodities from the Caspian Sea to Southeast Asia. It would also allow the possibility of Iran making available one of its Persian Gulf ports to the countries of the Caucasus and Central Asia.

The need for regional cooperation is not restricted solely to the transport of hydrocarbon resources. Equally significant is the cooperation over the unresolved legal regime of the Caspian Sea, an issue that threatens regional development and environmental management. In the absence of a definite legal regime, information about the environmental status of the Caspian, the nature of threats to the environment, and a joint management response remain fragmented. This includes the threat of rising sea levels, pollution, and exploitation of marine resources—notably sturgeon and seal. The ambiguity regarding the legal status of the Caspian has not deterred international investment in exploration and exploitation of oil and gas reserves. However, one must warn against ignoring the differences in character between contracts with predominantly political rather than practical economic purposes.

Different players are establishing a presence in the region rather than pumping large sums of money into the area. The extent of investment required is huge, given the aging state of existing facilities and infra-

structure. A stable legal regime agreed to by all countries is necessary for such investment to occur. Claims by Turkmenistan on some Azeri oil fields in the sea illustrate the uncertainty and risks associated with the Caspian investment environment. The Caspian Sea is also very important for intra-regional transport. Without regional cooperation, a comprehensive transport strategy cannot be developed. This, in turn, demands a definite legal regime for the sea. The median-line delineation proposal for the Caspian is exclusively driven by commercial self-interest, one that will certainly inhibit regional cooperation.

Regional cooperation is further required to maintain security in the region. Current conflicts, although dispersed, have had a destabilizing influence on the region. Events in Chechnya, Karabagh, Turkey, and Afghanistan have impeded finalization of pipeline proposals and have delayed investment. These and other conflicts can also potentially spill over borders, thereby drawing in external actors and leading to a more complex development environment. More players will inevitably impede or complicate regional cooperation. Grouping selected regional countries into offense or military alliances is counterproductive. One such example is the pact being formed between the United States, Turkey, Azerbaijan, and Israel.

Entrenched Old Leadership Practices

Independence has not necessarily brought new and more appropriate practices of governance and commerce to the Caucasus and Central Asia. Heavy-handedness, autocracy, police power, nepotism, and corruption have increased with renewed interest in the area, albeit to different degrees in the different states. Almost all of the newly independent states are governed by former Soviet politicians and "strong men" socialized in a context of obtaining and maintaining centralized power. These former chief custodians of communism became, overnight, its primary opponents, adopting a new schema of belief and practice. In reality, they were people left without belief, deserted by their most treasured ideals. At the same time, their ambition and ego, and centralist and despotic culture, found a match in the drive of foreign companies, governments, and opportunists for the region's resources and markets. The result is a dangerous mix of reinforced egos, narrow-mindedness, short-term deal making, and favoritism.

Autocratic leadership is also prevalent elsewhere in the larger Middle East and Persian Gulf. It has not necessarily hindered social and economic development. There are, however, major differences between the oil-rich states of the Persian Gulf and those of the Caucasus and Central Asia. As noted above, even the most optimistic estimates of the newly independent states' hydrocarbon resources do not remotely compare with

those of the Persian Gulf. Further, production and transit costs associated with Caspian oil and gas is much higher than in the Persian Gulf. Consequently, the hydrocarbon wealth of the Caspian region is not sufficient to allow for significant pilfering by the elite and their intermediaries as well as to provide broad socio-economic benefits to the larger populace.

Overcoming the power of this handful of strong individuals and their allies—and building robust and broad-based political, economic, and social institutions—represents a major challenge and a prerequisite for sustainable long-term development of the region as a whole and of individual states. The Caspian region requires development of a strong civil society to restrict abuses by the state. But a healthy civil society needs an open society of politics and markets. Unfettered private and public participation and competition is a prerequisite for such a development.

Imagining the Future

Given the issues identified above, what does the future hold? Can the Caspian region overcome its challenges and become a strategic frontier for energy and development in the twenty-first century? Focusing on certain themes that I believe form the basis for a better understanding of the Caspian region, this section explores future prospects.

The inhabitants and environment of the Caspian region have not always featured prominently in the renewed interest in the area. It is unlikely that this state of affairs will persist. The needs of people, including their engagement in political decision making, as well as the condition of the environment, will receive increasing attention in the future.

In recent decades, nationalist agendas have played a prominent role in the politics of the Caspian region, illustrated by the Iranian revolution and numerous conflicts, including those in Chechnya and the Karabagh. In most states of the region, ethnic diversity is the rule, and the populations for which particular states were "designed" do not necessarily constitute substantial majorities. A careful balance of the interests of pre-dominant groups with those of the various minorities represents a major challenge to forging national integration of states, and, ultimately, development and growth. At the same time, inadequate progress in broad-based development would inevitably lead to a resurgence of as yet latent nationalist identities throughout the region.

People hold real power for potential change in the region. Social transformation is critical for development in the region. Poverty increases the vulnerability of states and provides impetus to fundamentalist movements. Often forgotten is the fact that the Iranian revolution had as much to do with the socio-economic expectations of people and their struggle for access to resources as it had with ideological considerations. The same applies to the various conflicts currently plaguing the region.

The emphasis of newly independent states on oil and gas exports is a risky strategy for overcoming structural underdevelopment. It could inhibit the development of local industry and job creation. Countries should strive for more diverse and robust economies, recognizing the impediments to oil and gas export in the Caspian Region. They need to devise options for more sustainable long-term growth and development, including investment of oil revenues in productive capacities, manufacturing in particular.

There are prospects for political transformation. It is unlikely, however, that newly independent states will easily give up their newfound freedoms. They have tried, with varying degrees of success, to liberate themselves from structural dependence on Russia. This effort is reflected in their search for alternative pipeline routes, Western investment partners, establishment of national armed forces, and following independent foreign policies. There is also a general reluctance to engage in new partnerships that will result in new hegemonic relationships.

Increasingly, the stability of governments will depend on the extent to which they can accommodate the different interests within their domains. As indicated by the 1997 elections in Iran, the youth and women have an increasingly decisive impact on politics. An important factor in political and social development is the extent to which the new states can integrate ethnic differences in their emerging nations. Prolonged conflicts have drained resources and seriously impeded development.

Iran plays an important role in the political transformation of the region. It is moving toward increasing political maturity, and as the country's commercial linkages with its northern neighbors strengthen, it will have a positive impact on political freedoms in the neighboring states. Rather than exporting rogue "fundamentalism," Iran can assist in the export of constructive values and practices to neighboring countries. It certainly appears to be in a better position to do so than Turkey, where the military continues to remain the real power behind the fragile democracy.

The Caspian Sea environment must be protected. The sea represents a highly significant resource base for the region, offering hydrocarbon, sturgeon, and other valuable resources. It also supports an important and growing tourism industry. Yet, as a closed lake, it is particularly vulnerable. Since the collapse of the Soviet Union, economic hardship and concomitant over-exploitation has caused a serious threat to the Caspian's sturgeon resource. Rapid population increase in the region, as well as increased development, will increase pressure on the environment. Sound management arrangements are required, because resource depletion will result not only in loss of an important biome, but also in increased competition for resources; this could lead to inter-state tension and political instability. Without ecological sustainability there can be no economic sustainability in the region.

A number of positive initiatives to address the Caspian's environmental pressures and manage it as a resource have commenced in recent years. This includes the formation of the Organization for Regional Cooperation of Caspian States (ORCCS), the center for Caspian Studies, and the Iranian fisheries company's sturgeon management plan. A key challenge is to strengthen these initiatives. International agencies should support these local initiatives rather than forming new organizations. The littoral states have made a great deal of effort to consolidate different ministries related to the energy industry. The same initiative must also be made in relation to coordinating the work of ministries impacting on the environment.

The Caspian region has the potential to develop a strong regional economy. Geographically, it enjoys an envious position in relation to established and emerging world markets. It enjoys maritime access to major shipping routes and is blessed with significant hydrocarbon resources. It also has the benefit of other resources, ranging from the Caspian Sea's maritime riches to agricultural and mineral resources. Further, it has a large, young population that can form the basis of a strong internal market. Iran, in particular, possesses technical know how in a range of fields that can benefit the region as a whole.

Regional alliances are the key to meeting the challenges and capitalizing on the opportunities of the region. In terms of geography, capital, existing infrastructure, and technical resources, most countries are impeded in meeting their challenges, albeit to varying degrees. Most of the countries also suffer from a legacy of underdevelopment and structural dependence on Russia. The potential of the region is great, but so are its challenges, and overcoming them would involve investment beyond the means of any one country. Regional cooperation, planning, management, and foreign investment are essential to maximize human, financial, and physical resources.

Examples of regional cooperation abound, including the integration and expansion of rail networks and Caspian shipping, the extension of oil and gas pipelines, swap arrangements for oil and gas, and peace keeping in the contested Karabagh territory. A clearer definition of the Caspian economic region will bolster regional cooperation and the region's ability to manage hegemonic and monopolistic interests. It could also assist in refocusing the newly independent states toward internal development, rather than on emphasizing the export of hydrocarbon resources. Ironically, some of the delays in decisions on pipelines and the legal regime of the Caspian Sea have probably had the effect of enhancing the prospects for regional cooperation. Current intra-regional initiatives at infrastructure improvements and trade may eventually lead toward a regional energy plan.

The United States has had no qualms about its strategic interest in the Caspian region. Yet as Ian Bremmer has noted, its policies toward the

Caspian do not reflect the realities of the Caucasus and Central Asia. Rather they are reactions to what Iran, Turkey, and Russia might or might not do.⁵ The United States' attempt at containing Iran and integrating Russia into the West have fallen short of expectations. It has also overestimated Turkey's ability to expand Western interest in the region. U.S. Caspian policies are in need of serious overhauling.

For example, United States foreign policy toward Iran is based on a perception that the Persian Gulf is better secured through its existing alliances, and that American interests are protected as long as external threats to its allies can be contained. At one stage, it was the Shah of Iran, later Saddam Hussein, who served the United States' agenda; today, it is Saudi Arabia. What threatens these states now is their own internal tension; more specifically, their people's attempts to change the existing socio-economic order and power structures. How these governments will face this challenge will determine the security of the region and their ability to fund increases in oil production.

The United States' interest will be better served by less of a "single pillar" approach. It needs to focus more on the region as a whole and work with all relevant actors. This approach implies an understanding that the resources of the region should not be exploited by concentrating on a few countries alone. A "single pillar" approach will promote counter-alliances: for example, a Russia-Iran alliance. It will also provide a stronger foothold for Asian interests, a rather important market for the Caspian Region. To date, this approach in itself has played a part in inhibiting resource development. For example, United States' support for the Azeri position on the Caspian legal regime has prevented resolution of this very important issue, making many prospective investors hold back final decisions. A more inclusive approach to regional development is a better alternative.

Similarly, Russia's "near abroad" policy will not be a viable basis for future engagement with the area. The newly independent states do not favor prolonged hegemonic interest in the region, whether by Russia, the United States, Iran, or Turkey. Russia's current approach may strengthen the position of either the United States or Iran. Russia, however, faces a difficult task in overcoming authoritarian traditions and a collectivist culture. Given the country's institutional breakdown, widespread corruption, as well as antiquated infrastructure and investment bases, the potential for imperialist elite to attempt regaining lost "world power" status and regional influence through military means remains significant.

Iran has immense strategic significance in the Caspian region. Firstly, connecting the Persian Gulf to the Caspian Sea, Iran is the geographic and cultural nerve center of the two most energy-rich regions in the world. Iran itself possesses the world's fourth largest reservoir of oil and the second largest of natural gas. In the wake of the Soviet collapse, Iran now connects the Middle East, the Caucasus, and Central Asia. It pos-

esses over 400 miles of the Caspian shore, 750 miles of the Persian Gulf's shore, and overlooks the Strait of Hormuz, through which over 11 million barrels of oil pass every day. For these reasons alone, Iran is a critical player in development of the region.

The second element in Iran's strategic significance is political Islam, which will remain a formidable force in Turkey, Egypt, Algeria, and the occupied territories. Political Islam cannot be overturned; it can only be accommodated. Iran's integration into the economic and strategic formations of the region provides it with the opportunity to use its experience to contain and moderate the potentially disruptive effects of militancy. Russia's uncertain future is another reason for Iran's increased strategic significance. Iran is well equipped to assist the newly independent states seeking structural independence from Russia.

Previous descriptions of Iran as a "rogue" or "outlaw" state are no longer valid, although periodic Iranian rhetoric may support this view. Iran is a state increasingly in pursuit of its own national interest, as illustrated by its policies in relation to Chechnya and other regional conflicts. What is important in Iran's stance is that it shows the way for engagement in the future, particularly in drawing the distinction between common and private issues, in mediating between independence and interdependence, and stimulating the latter without giving up the former.

China is likely to become a significant actor in future development of the Caspian Region. The economic, as opposed to political, orientation of the Caspian states invites greater involvement by China. China would not be challenged by Caspian states on issues of democratization, human rights, and international arms control, since the region itself encompasses states of great political diversity and minimal regard for the ideological or moral agenda of the West. Closer ties make economic sense to China. Xinjiang, the resource-rich northwestern province, is too far from the Chinese ports for optimum development and could be integrated instead with the Caspian rail system and export outlets. China is already showing significant interest in the oil and gas resources of Central Asia and the Caucasus. The Chinese National Oil Company has arrived at an agreement with Kazakhstan to build a pipeline and engage in oil exploration.

Turkey is another important player in the Caspian theater, even though it is not a Caspian state. Russia's reduced control over the newly independent states and the expansion of United States commercial interest in the Caspian has provided Turkey with an opportunity to project its influence in the region. Pipeline proposals to Ceyhan and Supsa is the manifestation of this interest. Over the long term, these proposals should show their political bases, rather than economic and practical viability. This western-oriented approach to pipeline building underestimates both the significance of the East as a market for Caspian oil and gas, as well as the geographic and political impediments to the Turkish-based pipeline

proposals. Turkey cannot base its engagement in the area on its Western alliances, as these may change. In particular, a change in United States-Iranian relations would diminish Turkey's influence in the region.

The stability and development prospects of the Caucasian and Central Asian states will be largely determined by how they manage relations between external investors and the growing expectations of their residents. Foreign investment is a prerequisite for development, but the benefits of development will have to be distributed widely. Also important is accommodation of the legitimate fears and expectations of ethnic groups for political and socio-economic participation. The states need to diversify their interest and focus from hydrocarbon, and work hard for regional cooperation.

Conclusion

Pressure for development in the Caspian region will inevitably mount. Should the governments of the newly independent states wish to remain in power, they will be compelled to democratize their societies and cooperate with each other. These countries also realize that nations do not have permanent allies, they have permanent interests. The newly independent states will exploit the opportunity for United States' investment, and support it to the full. At the same time, however, they will not be blind to the influence and opportunities for development that can be gained by establishing good relations with Iran and Russia. It is therefore likely that the United States will in the future have to engage in the region more in relation to local conditions rather than in terms of its own agenda.

A major challenge for future regional alliances is to disassociate different nationalist sentiments and tensions from economic interests. Exploiting ethnic and religious differences for self-interest or allowing internal ethnic strife to spill over international boundaries can seriously inhibit fragile economic alliances. Equally unproductive is competing on ideological or nationalistic ground. A case in point is the post-Soviet relations between Iran and Turkey. Partly by their own design and partly because of the way outside forces projected their interests in the region, these states were made to represent a "reference society" for other states. This development has hardly been conducive to regional cooperation and development, as exemplified by the problems facing the Economic Cooperation Organization.

It is unlikely that the current impasse on the Caspian Sea legal regime will persist, simply because the subject is critical to regional development. In the case of Iran, some form of line to indicate an area of exclusive sovereignty would have had to be invented, had it not existed already as a legal necessity, enabling it to deal with issues such as navigation, resource exploitation, and immigration. This applies in principle to all

countries. At the same time, what is important about the "donut" principle is that it implies regional cooperation in resource extraction. A commitment to joint resource development should facilitate holistic management of the Caspian Sea as a natural resource. The primary motivating factor for median-line delineation, on the other hand, is a "separatist" approach to resource development. This delineation approach has far-reaching implications for the environment.

The Caspian region could once again become a strategic crossroads of the world. Its reopening as a frontier for energy and development is, however, associated with serious challenges, imposed by the varied interests of different players and their own internal transformations in a new world order. The potential for growth and development is rich, but so is the prospect for serious impediments of a political-economic and strategic nature. Past metaphors and understandings for engaging the area in world affairs will not realize its substantial potential. A fundamental prerequisite for development and stability is mutual respect by the different players for each other's inter-dependent interests and needs.

A new approach to Caspian studies is fundamental to establishing such respect and overcoming other developmental challenges in the region. This includes formulating a clear definition of the region, a clear understanding of what constitutes appropriate development in the area, and of the roles that different actors could and should play in the development process. Such an education should also overcome fictional and simplistic notions of the region's development potential and challenges. It must address the destructive pursuit of self-interest so evident in the region today. The new approach to Caspian study needs to underscore the heavy-handed leadership, corruption, and nepotism that prevails in the political sphere. It has to revisit the prevalence of hollow rhetoric, the focus on global as opposed to local needs, and the zero-sum attitudes toward engagement.

Finally, the new approach to the Caspian challenges should foster historic reflection, realizing that the Caspian region has been at historic crossroads before, and that decisions made at different stages have affected its development prospects for many years thereafter. An environment of mutual respect and understanding would facilitate the strengthening of regional institutions and is critical in stimulating regional cooperation and development. This broader regional framework would assist individual countries to follow their own policies in relation to social and political development, depending on their own history and developmental contexts.

Notes

1. Richard Bulliet, in an unpublished article entitled "NIRA: A World Region Emerges," excludes Russia as well.
2. Ibid.
3. See Ali A. Mazrui, "Islamic and Western Values," *Foreign Affairs*, September/October 1997, pp. 118-132.
4. See Hooshang Amirahmadi, "Adopt a Longer-Term Perspective on Iran," paper presented at *Iran in Transition: An Economic, Political and Energy Conference*, Institute for the Study of Earth and Man at Southern Methodist University (Dallas), May 1996.
5. See Ian Bremmer, "Oil Politics: America and the Riches of the Caspian Basin," *World Policy Journal*, Spring 1998, pp. 27-35.

Part I

Peoples and Resources